August 20, 2018

# PRE-ELECTION REPORT

## ON THE STATE OF QUÉBEC'S PUBLIC FINANCES

- The economic forecasts
- The financial framework
- Revenue and expenditure
- The debt
- Provisions and reserves

Québec

August 20, 2018

# PRE-ELECTION REPORT

## ON THE STATE OF QUÉBEC'S PUBLIC FINANCES

Finances Québec

Pre-Election Report on the State of Québec's Public Finances – August 2018

Ministère des Finances

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# PRE-ELECTION REPORT ON THE STATE OF QUÉBEC'S PUBLIC FINANCES – AUGUST 2018

In June 2014, at the time of Budget Speech 2014-2015, the government announced that it would publish a report on the state of public finances prior to fixed-date general elections.

In April 2015, the National Assembly passed legislative provisions[1] mandating the Minister of Finance to publish the pre-election report.

In accordance with its commitments and legal obligations, the government is publishing the *Pre-election Report on the State of Québec's Public Finances – August 2018*.

The pre-election report includes:

— a **foreword**, containing a message from the Minister of Finance, a statement concerning the responsibility of the Ministère des Finances and the Auditor General of Québec's assurance report;

— **section A**, containing the main tables from the **financial framework** that stems from the pre-election report;

— **section B**, containing a **detailed report prepared in accordance with legislative provisions**;

— **appendices**, which include additional information concerning the government's financial framework.

[1] The *Act respecting the Ministère des Finances* (CQLR, chapter M-24.01) and the *Auditor General Act* (CQLR, chapter V-5.01).

# PRE-ELECTION REPORT ON THE STATE OF QUÉBEC'S PUBLIC FINANCES – AUGUST 2018

# FOREWORD

# MESSAGE FROM THE MINISTER OF FINANCE

Mr. Jacques Chagnon
President of the National Assembly
Hôtel du Parlement
Québec (Québec)  G1A 1A4

Dear Mr. Chagnon:

I am pleased to send you the *Pre-election Report on the State of Québec's Public Finances – August 2018*, in accordance with the *Act respecting the Ministère des Finances*. The report provides a picture of Québec's public finances based on data available as at July 10, 2018. It also takes into account the budgetary impact of the economic support measures announced in August 2018.

The *Pre-election Report on the State of Québec's Public Finances – August 2018* stems from the government's commitment to publish a report on the state of Québec's public finances prior to fixed-date general elections.

— In April 2015, the National Assembly passed legislative provisions mandating the Minister of Finance to publish a pre-election report on the state of public finances.

— The *Auditor General Act* mandates the Auditor General of Québec to prepare a report giving its opinion on the plausibility of the forecasts and assumptions in the pre-election report published by the Minister of Finance. The Auditor General may include in the report any comments it considers appropriate in connection with its work involving the pre-election report. The Auditor General's conclusion, which is provided herewith, is based on data available as at August 13, 2018.

The *Pre-election Report on the State of Québec's Public Finances – August 2018* is based on the financial framework of the March 2018 Québec Economic Plan, to which the necessary adjustments were made to take into account the most recent information, available as at July 10, 2018. The financial framework also takes into account the budgetary impact of the economic support measures announced in August 2018.

Like the March 2018 Québec Economic Plan, this report provides for the maintenance of a balanced budget in 2018-2019 for a fourth consecutive year. These results were made possible thanks to sound management of public finances and the strong performance of the Québec economy.

The financial framework includes both the initiatives announced in the March 2018 Québec Economic Plan to stimulate economic growth and strengthen the funding of public services and the economic stimulation measures announced in August 2018.

The financial framework takes into account:

— maintenance of a balanced budget until 2022-2023, that is, over the period covered by the financial framework;

— a personal income tax reduction reaching $3 billion per year;

— additional investments to increase educational success and improve health services;

— funding of measures to support economic growth and the transformation of the economy;

— maintenance of a high level of public capital investment;

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

For 2018-2019 to 2022-2023, the updated financial framework provides for $950 million in improvements annually, compared to the March 2018 Québec Economic Plan.

As outlined in the highlights of the pre-election report, growth forecasts for revenues reflect Québec's good economic health. The forecasts are prudent and take into account the anticipated slowdown of the global economy associated with monetary tightening and demographic changes. Funding corresponds to the cost of services being announced. Debt reduction objectives are met and the debt is controlled. Margins for prudence have been established to properly manage risks and uncertainties.

The document concerning the budgetary process, which supports the pre-election report, discusses the initiatives taken by the government to ensure that the setting of the budget is a transparent, rigorous, prudent and flexible exercise.

The *Pre-election Report on the State of Québec's Public Finances – August 2018* reflects the government's desire to make available to Quebecers a financial framework presenting the government's choices and commitments coherently in their entirety. The financial framework is also a reference and common ground as the next election draws near.

Sincerely,

Carlos Leitão
Minister of Finance
Québec, August 2018

# STATEMENT CONCERNING THE RESPONSIBILITY OF THE MINISTÈRE DES FINANCES

The *Pre-election Report on the State of Québec's Public Finances – August 2018* was prepared by the Ministère des Finances pursuant to the *Act respecting the Ministère des Finances*. The financial framework in the report is based on the data published in the March 2018 Québec Economic Plan and takes into account the most recent financial data—available as at July 10, 2018[1]—particularly for fiscal 2017-2018. The financial framework also takes into account the budgetary impact of the economic support measures announced in August 2018.

The Ministère des Finances is responsible for the information in the report. As required under the *Act respecting the Ministère des Finances*, the report includes:

- the economic forecasts and assumptions;
- the projected components of the government's financial framework;
- the expenditure forecasts broken down by field of State activity;
- the reports required under section 15 of the *Balanced Budget Act* and section 11 of the *Act to reduce the debt and establish the Generations Fund*.

The economic and revenue forecasts were made by the Ministère des Finances. The expenditure forecasts were made by the Ministère des Finances, in collaboration with the Secrétariat du Conseil du trésor, in accordance with the government's policy directions.

- The economic forecasts take into account a number of factors external to Québec, such as the economic situation of Québec's main trading partners, and internal factors, like Québec's domestic demand.
- The revenue and expenditure forecasts are based, in particular, on assumptions pertaining to the evolution of the Québec economy, the change in federal transfer revenues and the cost of government services.

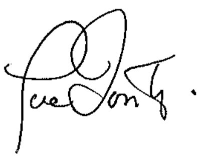
These forecasts include the measures and programs that are to be implemented by the government.

1 Unless otherwise indicated, this document is based on data available as at July 10, 2018 and takes into account the economic stimulation measures announced in August 2018. In addition, the budgetary data for fiscal 2017-2018 are preliminary estimates; those for subsequent years are forecasts.

The financial forecasts in this report were established in accordance with the Canadian public sector accounting standards. The budgetary balance and debt data are established based on the definitions in the *Balanced Budget Act* and the *Act to reduce the debt and establish the Generations Fund*. The accounting policies are the same as those used by the Ministère des Finances to prepare the Québec government's consolidated financial statements.

The forecasts presented in the report are underpinned by reasonable, plausible assumptions. Québec's budgetary practices are drawn from the best international practices, particularly those recommended by the Organisation for Economic Co-operation and Development (OECD).

The budgetary process document supporting the pre-election report also illustrates the efforts made by the government in recent years to define a budgetary process that meets the expectations of Quebecers and parliamentarians.



Luc Monty
Deputy Minister of Finance
Québec, August 2018

**ASSURANCE REPORT OF THE AUDITOR GENERAL OF QUÉBEC ON THE 2018 PRE-ELECTION REPORT**

National Assembly of Québec

I have performed an assurance review engagement on the plausibility of the assumptions and forecasts presented in the attached pre-election report, prepared by the Minister of Finance. My work involved examining, in all material respects, the assumptions made and financial framework forecasts for the following three fiscal years: 2018-2019, 2019-2020 and 2020-2021. My work did not include expressing a conclusion on the appendices to the report. The data from the 2017-2018 fiscal year presented in the pre-election report have not been audited.

*Responsibility of the Ministère des Finances*

Under the *Act respecting the Ministère des Finances,* the Minister must prepare and publish, prior to the general election that follows the expiry of a Legislature, a pre-election report on the state of Québec's public finances. This responsibility includes making assumptions and forecasts that are deemed plausible.

*Responsibility of the Auditor General*

My responsibility is to review the plausibility of the assumptions and forecasts presented in the pre-election report based on the procedures I have implemented and the audit evidence I have obtained with regard to the objective and criteria I have deemed suitable. This objective and these criteria are provided below. I must also indicate whether I received all the information and documents requested. I conducted the engagement in accordance with the Canadian Standards on Assurance Engagements (CSAE) set out in the *CPA Canada Handbook – Assurance,* including the standard on direct engagements (CSAE 3001). This standard requires me to plan and perform the engagement so as to obtain assurance that is meaningful in the circumstances.

| Objective | Assessment criteria |
|---|---|
| Determine whether the assumptions made and budget forecasts related to the financial framework and debt contained in the pre-election report are plausible. | • The assumptions used are justified and constitute a reasonable basis for establishing forecasts.<br>• The forecasts reflect the selected assumptions.<br>• The assumptions and forecasts take into account the most recent financial information and the latest orientations and decisions of the government.<br>• The forecasts are established according to the accounting policies used by the government to prepare its consolidated financial statements. |

Because of the purpose of the review engagement, which focuses on forecasts, the nature of the implemented procedures is different from what is done in audit engagements, and the level of assurance obtained is thus lower.

The implemented procedures therefore rely on my judgment. These include, to the extent deemed appropriate, analysis of the budget process, requests for information, cross-referencing of documents or reconciliation with supporting evidence, analytical procedures, assessment of the estimation methods used and the Ministère des Finances's economic forecasting models, review of sensitivity calculations and analyses, and consultation of public finance specialists and economists, including econometric analysts.

*The Auditor General's independence and quality control*

The Auditor General complied with the relevant ethical requirements and code of ethics that are applicable to the practice of public accounting and related to assurance engagements, that is, those set out by CPA Canada and by the Auditor General of Québec, which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The Auditor General applies Canadian Standard on Quality Control (CSQC 1) and accordingly maintains a comprehensive quality control system that includes documented policies and procedures for compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Conclusion of the Auditor General's review*

Based on the procedures implemented and the audit evidence obtained, as of August 13, the assumptions made and forecasts related to the financial framework and debt for the fiscal years ending March 31, 2019, 2020 and 2021 are plausible, in all material respects and according to the objective and the criteria set by the Auditor General.

Since the forecasts are based on assumptions about future events, the actual results will be different from the information presented in the pre-election report, and the differences could be significant. In fact, the further in the future the periods covered are, the higher the degree of uncertainty with respect to assumptions and forecasts.

In accordance with the *Auditor General Act,* I report that I have received all the information, reports and explanations requested to express my conclusion.

*Other points*

The government's current application of the standard for government transfers is not appropriate according to Canadian public sector accounting standards, which has given rise to a qualified opinion in the Auditor General's independent auditor's reports on the government's consolidated financial statements since the 2012-2013 fiscal year. Thus, if the government changed its accounting application to comply with this standard, the forecasts would have to be reviewed, particularly regarding debt representing accumulated deficit, which would increase significantly.

In addition, I have prepared a report entitled *Résultats détaillés des travaux du Vérificateur général du Québec sur le rapport préélectoral 2018,* in which I explain my work and the bases for my conclusion in detail, and present the additional information that a reader must know to fully assess the assumptions and forecasts contained in the pre-election report. This detailed report also contains various comments arising from my work in relation to the budget process and the presentation of information in the pre-election report, in addition to the objectives and criteria used for this. It will be available on the Auditor General's website. The findings and additional information presented in the detailed report are not intended to detract from my conclusion.

Guylaine Leclerc, FCPA auditor, FCA
Auditor General of Québec
Québec, August 13, 2018

SECTION A

# Financial Framework

for the State of
Québec's Public Finances

# Section A

## FINANCIAL FRAMEWORK FOR THE STATE OF QUÉBEC'S PUBLIC FINANCES[1]



[1] Unaudited 2017-2018 data.

# FINANCIAL FRAMEWORK

TABLE A.1

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

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|
| **Consolidated revenue** | | | | | | |
| Personal income tax | 29 398 | 31 005 | 32 385 | 33 713 | 35 112 | 36 486 |
| Contributions for health services | 6 224 | 6 022 | 6 187 | 6 336 | 6 491 | 6 649 |
| Corporate taxes | 8 142 | 8 326 | 8 311 | 8 405 | 8 600 | 8 795 |
| School property tax | 2 243 | 1 817 | 1 706 | 1 779 | 1 863 | 1 948 |
| Consumption taxes | 20 215 | 21 022 | 21 578 | 22 065 | 22 593 | 23 236 |
| Duties and permits | 3 966 | 3 907 | 4 089 | 4 227 | 4 325 | 4 475 |
| Miscellaneous revenue | 10 438 | 10 411 | 10 802 | 11 235 | 11 701 | 12 070 |
| Government enterprises | 5 092 | 4 339 | 4 463 | 4 779 | 5 014 | 5 257 |
| **Own-source revenue** | **85 718** | **86 849** | **89 521** | **92 539** | **95 699** | **98 916** |
| ***% change*** | ***3.6*** | ***1.3*** | ***3.1*** | ***3.4*** | ***3.4*** | ***3.4*** |
| Federal transfers | 22 367 | 23 670 | 24 344 | 25 034 | 25 251 | 25 586 |
| *% change* | *10.8* | *5.8* | *2.8* | *2.8* | *0.9* | *1.3* |
| **Total consolidated revenue** | **108 085** | **110 519** | **113 865** | **117 573** | **120 950** | **124 502** |
| ***% change*** | ***5.0*** | ***2.3*** | ***3.0*** | ***3.3*** | ***2.9*** | ***2.9*** |
| **Consolidated expenditure** | | | | | | |
| Mission expenditures | –94 249 | –99 379 | –101 762 | –104 670 | –107 301 | –110 606 |
| *% change* | *5.9* | *5.4* | *2.4* | *2.9* | *2.5* | *3.1* |
| Debt service | –9 240 | –9 286 | –9 282 | –9 341 | –9 334 | –9 344 |
| *% change* | *–3.0* | *0.5* | *–0.0* | *0.6* | *–0.1* | *0.1* |
| **Total consolidated expenditure** | **–103 489** | **–108 665** | **–111 044** | **–114 011** | **–116 635** | **–119 950** |
| ***% change*** | ***5.0*** | ***5.0*** | ***2.2*** | ***2.7*** | ***2.3*** | ***2.8*** |
| Contingency reserve | — | — | –100 | –100 | –100 | –100 |
| **SURPLUS (DEFICIT)** | **4 596** | **1 854** | **2 721** | **3 462** | **4 215** | **4 452** |
| ***BALANCED BUDGET ACT*** | | | | | | |
| Deposits of dedicated revenues in the Generations Fund | –2 293 | –2 491 | –2 707 | –2 991 | –3 265 | –3 502 |
| Use of the stabilization reserve | — | 637 | — | — | — | — |
| **BUDGETARY BALANCE(1)** | **2 303** | **—** | **14** | **471** | **950** | **950** |

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

TABLE A.2

## Consolidated revenue from 2017-2018 to 2022-2023

(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|
| Personal income tax | 29 398 | 31 005 | 32 385 | 33 713 | 35 112 | 36 486 |
| *% change* | *0.6* | *5.5* | *4.5* | *4.1* | *4.1* | *3.9* |
| Contributions for health services | 6 224 | 6 022 | 6 187 | 6 336 | 6 491 | 6 649 |
| *% change* | *4.3* | *–3.2* | *2.7* | *2.4* | *2.4* | *2.4* |
| Corporate taxes | 8 142 | 8 326 | 8 311 | 8 405 | 8 600 | 8 795 |
| *% change* | *8.9* | *2.3* | *–0.2* | *1.1* | *2.3* | *2.3* |
| School property tax | 2 243 | 1 817 | 1 706 | 1 779 | 1 863 | 1 948 |
| *% change* | *3.4* | *–19.0* | *–6.1* | *4.3* | *4.7* | *4.6* |
| Consumption taxes | 20 215 | 21 022 | 21 578 | 22 065 | 22 593 | 23 236 |
| *% change* | *4.8* | *4.0* | *2.6* | *2.3* | *2.4* | *2.8* |
| Duties and permits | 3 966 | 3 907 | 4 089 | 4 227 | 4 325 | 4 475 |
| *% change* | *20.3* | *–1.5* | *4.7* | *3.4* | *2.3* | *3.5* |
| Miscellaneous revenue | 10 438 | 10 411 | 10 802 | 11 235 | 11 701 | 12 070 |
| *% change* | *0.5* | *–0.3* | *3.8* | *4.0* | *4.1* | *3.2* |
| Government enterprises | 5 092 | 4 339 | 4 463 | 4 779 | 5 014 | 5 257 |
| *% change* | *3.9* | *–14.8* | *2.9* | *7.1* | *4.9* | *4.8* |
| **Own-source revenue** | **85 718** | **86 849** | **89 521** | **92 539** | **95 699** | **98 916** |
| ***% change*** | ***3.6*** | ***1.3*** | ***3.1*** | ***3.4*** | ***3.4*** | ***3.4*** |
| Federal transfers | 22 367 | 23 670 | 24 344 | 25 034 | 25 251 | 25 586 |
| *% change* | *10.8* | *5.8* | *2.8* | *2.8* | *0.9* | *1.3* |
| **TOTAL** | **108 085** | **110 519** | **113 865** | **117 573** | **120 950** | **124 502** |
| ***% change*** | ***5.0*** | ***2.3*** | ***3.0*** | ***3.3*** | ***2.9*** | ***2.9*** |

TABLE A.3

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

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Health and Social services | 40 213 | 42 020 | 43 571 | 45 398 |
| *% change* | *3.8* | *4.5*(1) | *3.7* | *4.2* |
| Education and Culture | 22 785 | 23 907 | 24 655 | 25 517 |
| *% change* | *5.3* | *4.5*(1) | *3.1* | *3.5* |
| Economy and Environment | 14 309 | 15 044 | 15 035 | 14 487 |
| *% change* | *16.0* | *5.1* | *–0.1* | *–1.3* |
| Support for Individuals and Families | 9 816 | 10 166 | 10 251 | 10 481 |
| *% change* | *2.4* | *4.4*(1) | *0.8* | *2.2* |
| Administration and Justice | 7 126 | 7 883 | 7 950 | 8 127 |
| *% change* | *6.2* | *10.6* | *0.8* | *2.2* |
| Contingency Fund reserve | — | 359 | 300 | 300 |
| **TOTAL** | **94 249** | **99 379** | **101 762** | **104 670** |
| ***% change*** | ***5.9*** | ***5.4*** | ***2.4*** | ***2.9*** |

Note: See Appendix 4 for mission expenditures from 2017-2018 to 2020-2021.
(1) To assess growth in 2018-2019 according to spending levels determined on a comparable basis, the percentage changes for that year were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission ($12 million) and the Support for Individuals and Families mission ($75 million), and including them in the 2017-2018 expenditures of the Education and Culture mission.

TABLE A.4

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

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **Output** | | | | | | |
| Real gross domestic product | 3.0 | 2.1 | 1.7 | 1.5 | 1.3 | 1.3 |
| Nominal gross domestic product | 5.1 | 4.1 | 3.3 | 3.2 | 3.0 | 3.0 |
| Nominal gross domestic product ($billion) | 414.9 | 431.8 | 446.2 | 460.3 | 473.9 | 488.0 |
| **Components of GDP** (in real terms) | | | | | | |
| Final domestic demand | 3.4 | 2.9 | 1.5 | 1.3 | 1.1 | 1.1 |
| – Household consumption | 3.2 | 2.4 | 1.8 | 1.5 | 1.4 | 1.3 |
| – Government spending and investment | 2.6 | 2.7 | 1.1 | 0.6 | 0.3 | 0.6 |
| – Residential investment | 7.2 | 5.2 | –1.4 | 0.0 | 0.2 | 0.2 |
| – Non-residential business investment | 4.8 | 5.8 | 3.0 | 2.4 | 2.2 | 2.1 |
| Exports | 1.8 | 2.1 | 2.1 | 2.2 | 2.1 | 1.9 |
| Imports | 4.0 | 2.1 | 1.5 | 1.6 | 1.6 | 1.6 |
| **Labour market** | | | | | | |
| Population (thousands) | 8 394.0 | 8 458.3 | 8 521.8 | 8 584.5 | 8 646.3 | 8 707.0 |
| Population aged 15 and over (thousands) | 6 931.9 | 6 977.0 | 7 019.5 | 7 061.6 | 7 106.2 | 7 153.5 |
| Jobs (thousands) | 4 223.3 | 4 282.5 | 4 313.0 | 4 336.5 | 4 356.7 | 4 376.7 |
| Job creation (thousands) | 90.2 | 59.2 | 30.5 | 23.5 | 20.1 | 20.0 |
| Unemployment rate (%) | 6.1 | 5.4 | 5.3 | 5.3 | 5.3 | 5.2 |
| **Other economic indicators** (in nominal terms) | | | | | | |
| Household consumption | 4.3 | 3.9 | 3.3 | 3.1 | 3.0 | 3.0 |
| – Excluding food products and housing | 4.7 | 4.2 | 3.3 | 3.0 | 2.8 | 2.8 |
| Housing starts (thousands of units) | 46.5 | 47.1 | 40.8 | 39.1 | 37.7 | 36.3 |
| Residential investment | 9.7 | 9.0 | 0.6 | 2.1 | 2.2 | 2.3 |
| Non-residential business investment | 5.0 | 6.5 | 4.6 | 3.9 | 3.6 | 3.6 |
| Wages and salaries | 4.7 | 4.7 | 3.2 | 3.0 | 3.0 | 3.0 |
| Household income | 4.4 | 4.5 | 3.2 | 3.1 | 3.1 | 3.1 |
| Net operating surplus of corporations | 12.5 | 4.8 | 4.7 | 4.3 | 3.5 | 3.5 |
| Consumer price index | 1.0 | 1.7 | 1.8 | 1.9 | 2.0 | 2.0 |
| GDP per capita ($) | 49 422 | 51 052 | 52 354 | 53 623 | 54 811 | 56 043 |
| Disposable income per capita ($) | 29 061 | 30 175 | 30 895 | 31 604 | 32 313 | 33 035 |

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

TABLE A.5

**Main assumptions of Québec's financial framework**

| | Assumptions |
|---|---|
| **ECONOMIC GROWTH** | – Moderation of domestic demand, including:<br>▪ deceleration in growth of household consumption<br>▪ maintenance of the growth of non-residential business investment<br>▪ slowdown in residential investments<br>▪ maintenance of a high level of investment by governments<br>– Labour market remains robust<br>– Faster growth in exports supported by the increase in world trade<br>– Additional hike in key rate in Canada by the end of 2018<br>– Gradual rise in U.S. and Canadian bond yields<br>– Canadian dollar remains near current levels<br>– Rise in oil prices in the medium term<br>– Moderation of growth in a number of advanced economies<br>**Tightening of global monetary policies** |
| | **Main variables considered:** |
| **REVENUE** | |
| **Own-source revenue excluding that from government enterprises** | |
| – Personal income tax | – Wages and salaries<br>– Pension income<br>– Self-employed income<br>– Capital gains<br>– Interest income |
| – Contributions for health services | – Wages and salaries |
| – Corporate taxes | – Net operating surplus of corporations |
| – Sales tax | – Household consumption excluding food products and housing<br>– Residential investment |
| – Specific taxes (fuel, tobacco products and alcoholic beverages) | – Per capita household disposable income<br>– Consumer price index<br>– Gas prices |
| **Own-source revenue from government enterprises** | |
| – Hydro-Québec | – Consumption by clients<br>– Electricity rates set by the Régie de l'énergie<br>– Price of energy on external markets |

TABLE A.5 (cont.)

## Main assumptions of Québec's financial framework (cont.)

| | Assumptions |
|---|---|
| | **Main variables considered:** |
| **Own-source revenue from government enterprises (cont.)** | |
| – Loto-Québec and Société des alcools du Québec | – Consumption patterns of customers |
| – Investissement Québec | – Economic situation<br>– Anticipated returns on investment projects |
| **Revenue from federal transfers** | |
| – Equalization | – Canada's nominal GDP<br>– Population of the provinces<br>– Basic federal income tax<br>– Taxable corporate income<br>– Revenues from natural resources |
| – Health transfers | – Canada's nominal GDP<br>– Population of the provinces<br>– Basic federal income tax |
| – Transfers for post-secondary education and social programs | – Population of the provinces<br>– Basic federal income tax |
| – Other programs | – Agreements with the federal government (e.g., labour market agreements and infrastructure agreements) |
| **EXPENDITURE** | – Budgetary policy directions<br>– Program renewal costs:<br>▪ demographics<br>▪ price (inflation, salary increases for government employees and increase in medical compensation) |
| **DEBT SERVICE** | – Debt level<br>– Interest rate |
| **DEBT** | – Budgetary balance<br>– Capital investments<br>– Investments, loans and advances<br>– Deposits made annually in the Generations Fund |
| **INFRASTRUCTURE** | – Québec Infrastructure Plan |

TABLE A.6

## Main risks to Québec's financial position and margins for prudence

| Margin for prudence | Risk | Estimated impact | Page ref. |
|---|---|---|---|
| **Financial framework** | | | |
| – Contingency reserve: | – Generalized global slowdown | | |
| ▪ $100 million a year from 2019-2020 to 2022-2023 | ▪ Change of 1 percentage point in Québec's GDP | – $700 million impact on own-source revenue | B.37 |
| | ▪ Typical recession (average) | – $8.5 billion impact on own-source revenue | 48[1] |
| – Stabilization reserve: | – Other economic risks | | |
| ▪ $8.6 billion as at March 31, 2023 | ▪ Faster-than-expected tightening of monetary policies around the world | | |
| | ▪ Unexpected oil price trends | | B.15 |
| | ▪ A more accentuated slowdown of Canada's residential sector | ▪ 0.1 GDP point | |
| | ▪ The end of NAFTA | ▪ 0.5 GDP point | |
| | ▪ Surtax on steel and aluminum | ▪ 0.3 GDP point | |
| | – Government enterprises | | B.39 |
| | ▪ Hydro-Québec (e.g., variation of 1˚C in winter temperatures compared to normal temperatures) | – Impact of nearly $50 million on Hydro-Québec's net earnings | |
| | – Federal transfers (evolution of Québec and Canada's populations) | – $110 million with a variation of 0.1 percentage point | B.44 |
| **Expenditures** | | | |
| – Contingency Fund reserve: | – Covers unforeseen expenditure under government programs | – Forthcoming | |
| ▪ $359 million in 2018-2019 | – Changes in target clienteles | – $580 million with a 1 percentage point variation in population | |
| ▪ $300 million from 2019-2020 to 2022-2023 | – Technological changes | – $235 million with 1.0% growth in costs related to technology in the health sector | B.61 to B.63 |
| | – Changes in general level of prices | – $280 million with a 1 percentage point variation in prices | |
| | – Environmental disasters | – Forthcoming | |
| | – Public capital investment completion rate for a given year (5% difference) | – $40 million impact on spending | |
| | – Shortfall to be offset | | B.27 |
| **Debt service** | | | |
| – Debt service reserve: | – Higher-than-anticipated increase in interest rates | – $250 million with a variation of 1 percentage point | B.65 |
| ▪ $50 million in 2018-2019 | – Lower-than-anticipated return on the RPSF | – $20 million with a variation of 1 percentage point | |
| ▪ $150-million from 2019-2020 to 2022-2023 | | | |

(1) See highlights of the pre-election report.

SECTION B

# Detailed Report

prepared in accordance with legislative provisions in the act

# Section B

## DETAILED REPORT PREPARED IN ACCORDANCE WITH PROVISIONS IN THE ACT[1]



[1] Unaudited 2017-2018 data.

# INTRODUCTION

Section B of the *Pre-election Report on the State of Québec's Public Finances – August 2018* has been prepared in accordance with provisions of the Act.

It presents the following information:

- economic assumptions and forecasts;
- five-year financial framework;
- detailed revenue and expenditure forecasts;
- projected change in the debt;
- reports on the application of the legislation respecting a balanced budget and the Generations Fund.

In addition, the main forecast assumptions, along with risks and sensitivity analyses, are presented for each of the budget items.

Moreover, this section presents the effects of decisions and information available since the publication of the March 2018 Québec Economic Plan that have had a fiscal impact on the government's financial framework, more specifically, the impact of taking into account the recent economic and budgetary situation, as well as the budgetary impact of economic support measures announced in August 2018.

# 1. ECONOMIC FORECASTS

## 1.1 Changes in the Québec's situation

Real gross domestic product (GDP) growth in Québec reached 3.0% in 2017, following an increase of 1.4% in 2016. This is the most significant expansion of economic activity since 2000.

- In 2017, economic growth in Québec was comparable to that in Canada (3.0%) and stronger than that in the United States (2.3%).

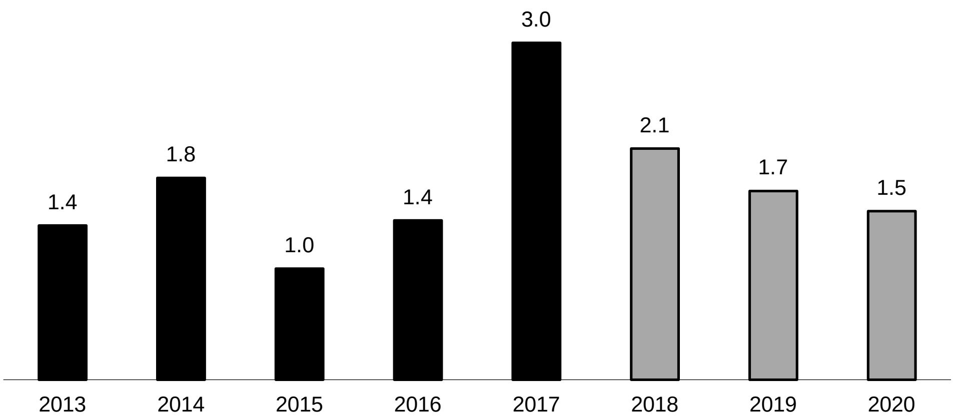
In 2017, economic activity was spurred by an acceleration in household consumption. Moreover, non-residential business investment increased for the second consecutive year.

The factors that drove economic growth in 2017 will remain in place in the coming years. Real GDP is expected to increase by 2.1% in 2018, 1.7% in 2019 and 1.5% in 2020.[2]

- Households will benefit from the robust labour market, wage growth and the tax cuts granted by the Québec government.
- Growth in investments will be supported by high business-owner confidence in Québec's economic outlook.
- Moreover, despite the increase in protectionism in a number of regions in recent months, exports will continue to grow, supported by the good economic performance of Québec's major trading partners.

CHART B.1

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




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

[2] With the exception of those for Québec, the economic forecasts are those published in the March 2018 Québec Economic Plan. For Québec, the economic forecasts hinge on statistics available on June 27, 2018.

## ❑ GDP growth

After increasing by 5.1% in 2017, nominal GDP growth is forecast at 4.1% in 2018, 3.3% in 2019 and 3.2% in 2020.

This nominal GDP growth will stem from the combined impact of the increase in real economic activity and the GDP deflator, which measures price changes in the overall economy.

- Real GDP is expected to increase by 2.1% in 2018, 1.7% in 2019 and 1.5% in 2020.
- The GDP deflator is projected to rise by 1.9% in 2018, 1.6% in 2019 and 1.7% in 2020.
  - Increased upward pressure on wages and the gradual rise in oil prices will spur sustained price growth.

TABLE B.1

**GDP growth in Québec**
(percentage change)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| **Real GDP** | **1.4** | **3.0** | **2.1** | **1.7** | **1.5** | **1.3** | **1.3** |
| Prices – GDP deflator | 1.2 | 2.0 | 1.9 | 1.6 | 1.7 | 1.7 | 1.7 |
| **NOMINAL GDP** | **2.7** | **5.1** | **4.1** | **3.3** | **3.2** | **3.0** | **3.0** |

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

## Summary of economic indicators

The following table presents a summary of the key economic indicators of the economic forecast.

TABLE B.2

**Economic outlook for Québec**
(percentage change, unless otherwise indicated)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **Output** | | | | | | |
| Real gross domestic product | 3.0 | 2.1 | 1.7 | 1.5 | 1.3 | 1.3 |
| Nominal gross domestic product | 5.1 | 4.1 | 3.3 | 3.2 | 3.0 | 3.0 |
| Nominal gross domestic product ($billion) | 414.9 | 431.8 | 446.2 | 460.3 | 473.9 | 488.0 |
| **Components of GDP** (in real terms) | | | | | | |
| Final domestic demand | 3.4 | 2.9 | 1.5 | 1.3 | 1.1 | 1.1 |
| – Household consumption | 3.2 | 2.4 | 1.8 | 1.5 | 1.4 | 1.3 |
| – Government spending and investment | 2.6 | 2.7 | 1.1 | 0.6 | 0.3 | 0.6 |
| – Residential investment | 7.2 | 5.2 | –1.4 | 0.0 | 0.2 | 0.2 |
| – Non-residential business investment | 4.8 | 5.8 | 3.0 | 2.4 | 2.2 | 2.1 |
| Exports | 1.8 | 2.1 | 2.1 | 2.2 | 2.1 | 1.9 |
| Imports | 4.0 | 2.1 | 1.5 | 1.6 | 1.6 | 1.6 |
| **Labour market** | | | | | | |
| Population (thousands) | 8 394.0 | 8 458.3 | 8 521.8 | 8 584.5 | 8 646.3 | 8 707.0 |
| Population aged 15 and over (thousands) | 6 931.9 | 6 977.0 | 7 019.5 | 7 061.6 | 7 106.2 | 7 153.5 |
| Jobs (thousands) | 4 223.3 | 4 282.5 | 4 313.0 | 4 336.5 | 4 356.7 | 4 376.7 |
| Job creation (thousands) | 90.2 | 59.2 | 30.5 | 23.5 | 20.1 | 20.0 |
| Unemployment rate (%) | 6.1 | 5.4 | 5.3 | 5.3 | 5.3 | 5.2 |
| **Other economic indicators** (in nominal terms) | | | | | | |
| Household consumption | 4.3 | 3.9 | 3.3 | 3.1 | 3.0 | 3.0 |
| – Excluding food products and housing | 4.7 | 4.2 | 3.3 | 3.0 | 2.8 | 2.8 |
| Housing starts (thousands of units) | 46.5 | 47.1 | 40.8 | 39.1 | 37.7 | 36.3 |
| Residential investment | 9.7 | 9.0 | 0.6 | 2.1 | 2.2 | 2.3 |
| Non-residential business investment | 5.0 | 6.5 | 4.6 | 3.9 | 3.6 | 3.6 |
| Wages and salaries | 4.7 | 4.7 | 3.2 | 3.0 | 3.0 | 3.0 |
| Household income | 4.4 | 4.5 | 3.2 | 3.1 | 3.1 | 3.1 |
| Net operating surplus of corporations | 12.5 | 4.8 | 4.7 | 4.3 | 3.5 | 3.5 |
| Consumer price index | 1.0 | 1.7 | 1.8 | 1.9 | 2.0 | 2.0 |
| GDP per capita ($) | 49 422 | 51 052 | 52 354 | 53 623 | 54 811 | 56 043 |
| Disposable income per capita ($) | 29 061 | 30 175 | 30 895 | 31 604 | 32 313 | 33 035 |

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

## ❑ Private sector five-year economic outlook

The five-year forecasts of the Ministère des Finances du Québec are similar to the average of those of the private sector with respect to real GDP growth, price inflation and nominal GDP growth.

— For real GDP, the Ministère des Finances du Québec forecasts average growth of 1.6% from 2018 to 2022, which is comparable to the average growth forecast by the private sector.

— For nominal GDP, the Ministère des Finances du Québec anticipates average growth of 3.3% from 2018 to 2022, which is slightly below the 3.5% average growth forecast by the private sector.

  — The difference is bigger in 2019, for which the private sector anticipates a nominal GDP growth of 3.8%, higher than that forecast by the Ministère des Finances (3.3%). The difference stems essentially from the sharper increase in prices forecast by the private sector.

  — In this respect, the Ministère des Finances' prices forecast for 2019 stems from the anticipated changes in the average wage (2.5% growth), inflation measured by the CPI (1.8% increase) and export prices (1.4% increase), all in a context of increased competition.

TABLE B.3

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

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Average 2018-2022 |
|---|---|---|---|---|---|---|---|
| **Real GDP** | | | | | | | |
| Ministère des Finances du Québec | 3.0 | 2.1 | 1.7 | 1.5 | 1.3 | 1.3 | 1.6 |
| Private sector average | — | 2.2 | 1.8 | 1.5 | 1.3 | 1.4 | 1.6 |
| **Prices – GDP deflator** | | | | | | | |
| Ministère des Finances du Québec | 2.0 | 1.9 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 |
| Private sector average | — | 1.8 | 2.0 | 1.9 | 1.8 | 1.8 | 1.9 |
| **Nominal GDP** | | | | | | | |
| Ministère des Finances du Québec | 5.1 | 4.1 | 3.3 | 3.2 | 3.0 | 3.0 | 3.3 |
| Private sector average | — | 4.0 | 3.8 | 3.4 | 3.1 | 3.2 | 3.5 |

Note: Totals may not add due to rounding.
Source: Ministère des Finances du Québec summary as at June 28, 2018, which includes the forecasts of 11 private sector institutions.

## ❑ Assumptions, risks and sensitivity analysis

### ■ Assumptions

The Ministère des Finances establishes the economic forecast taking into account a number of external and internal factors that influence Québec's economic outlook.

#### ▪ External factors

The assumptions of the Ministère des Finances forecast are based on various external factors, namely the change in:

— the economic situation of Québec's main trading partners;

— financial markets;

— oil prices.

#### ▪ *Economic situation of Québec's main trading partners*

The Québec economy is open to the world, so economic activity is affected by the economic situation of Québec's main trading partners.

— In Canada, economic growth is projected to reach 2.1% in 2018 and 1.7% per year in 2019 and 2020.

— In the United States, growth is forecast at 2.5% in 2018, 2.2% in 2019 and 2.0% in 2020.

— Global economic growth is expected to be 3.7% in 2018 and 3.6% in 2019 and 2020.

TABLE B.4

**Outlook for economic growth**
(real GDP, percentage change)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Québec | 3.0 | 2.1 | 1.7 | 1.5 | 1.3 | 1.3 |
| Canada | 3.0 | 2.1 | 1.7 | 1.7 | 1.7 | 1.6 |
| United States | 2.3 | 2.5 | 2.2 | 2.0 | 2.0 | 2.0 |
| World | 3.6 | 3.7 | 3.6 | 3.6 | 3.6 | 3.5 |

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

- ***Financial markets***

- ***Key rate in the United States and Canada***

The U.S. Federal Reserve raised its key rate by 25 basis points three times in 2017, moving it from the 0.50%-0.75% range to the 1.25%-1.50% range. Furthermore, the U.S. economy is growing near potential and at a sustained rate. The strength of the economy and the anticipated increase in inflation are expected to prompt the Federal Reserve to continue to gradually raise its key rate.

— The forecast provides for three 25-basis-point hikes, totalling 75 points, in 2018 and accumulated increases totalling 50 basis points in 2019.

The Bank of Canada raised its key rate by 50 basis points in 2017 and by 50 basis points until now in 2018. Its overnight target rate is currently at 1.50%.

— The sound performance of the Canadian economy and rising inflation are expected to prompt the Bank of Canada to again increase its key rate by 25 basis points by the end of 2018. It is expected to raise its key rate in 2019, by 50 basis points.

- ***Bond yields***

Since the beginning of 2018, 10-year bond yields have risen in the majority of advanced economies, particularly the United States and Canada.

U.S. and Canadian bond rates are projected to continue rising gradually over the next few quarters, while the U.S. Federal Reserve and the Bank of Canada will raise their key rate.

- ***The Canadian dollar***

Since the beginning of 2018, the Canadian dollar has fluctuated and is now approximately 80 U.S. cents. In the coming quarters, the forces driving the value of the Canadian dollar are expected to remain generally balanced and the loonie should remain near current levels.

— The Canadian dollar is expected to average 81.4 U.S. cents in 2018 and 80.4 U.S. cents in 2019.

- ***Oil prices***

Oil prices rose substantially in early 2018. This increase was driven by the continued efforts by the Organization of the Petroleum Exporting Countries (OPEC) and its partners to cut their production and by the stronger global demand for oil, spurred by the acceleration in global economic growth.

Brent crude oil is expected to average US$66 per barrel in 2018 and US$67 per barrel in 2019.

TABLE B.5

**External factors affecting the Québec economy**
(annual average as a percentage, unless otherwise indicated)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Overnight target rate | 0.7 | 1.5 | 2.0 | 2.5 | 2.8 | 2.8 |
| 3-month Treasury Bills | 0.7 | 1.4 | 2.1 | 2.6 | 2.8 | 2.8 |
| 10-year bonds | 1.8 | 2.5 | 2.9 | 3.3 | 3.6 | 3.7 |
| Canadian dollar (U.S. cents) | 77.1 | 81.4 | 80.4 | 80.0 | 80.0 | 80.0 |
| Brent crude oil (U.S. dollars per barrel) | 55 | 66 | 67 | 68 | 72 | 77 |
| WCS crude oil (U.S. dollars per barrel) | 38 | 39 | 43 | 47 | 51 | 57 |

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

- **Internal factors**

The economic forecast is based on the determination of the components of overall domestic demand and on growth in exports, which reflect the ability of Québec businesses to take advantage of demand from Québec's main trading partners.

- ***Domestic demand***

Domestic demand consists of the sum of the following components:

— household consumption expenditure;

— non-residential business investment;

— residential investment;

— expenditure on goods and services, and investment by public administrations.

Following a gain of 3.4% in real terms in 2017, domestic demand is forecast to grow by 2.9% in 2018 and 1.5% in 2019.

- ***Household spending***

Following a gain of 3.2% in real terms in 2017, household consumption expenditure is forecast to grow by 2.4% in 2018 and 1.8% in 2019.

Household consumption will be boosted by job creation, wage growth, tax cuts granted to Quebecers and high consumer confidence.

- ***Non-residential business investment***

Non-residential business investment rose for the second year in a row in 2017, with a growth rate of 4.8% in real terms.

Non-residential business investment will continue to increase in the coming years and its growth is expected to reach 5.8% in 2018 and 3.0% in 2019.

- ***Residential investment***

The faster pace of economic growth and job creation drove activity in the residential sector in 2017. Residential investment climbed by 7.2% in real terms.

The gradual rise in interest rates and the tighter mortgage rules will temper housing demand in the years to come.

Accordingly, residential investment is expected to rise by 5.2% in 2018 and decline slightly in 2019.

— Spending on renovations is forecast to grow by 2.9% in 2018 and 3.0% in 2019.

— Housing starts should exceed the 40 000 unit threshold in 2018 and 2019.

- ***Government investments***

Public administrations in Québec, in particular the Québec government, along with municipalities and the federal government, will maintain a high level of infrastructure investment.

— In 2017, the total value of investments by governments was $17.0 billion. It is expected to stand at $17.8 billion in 2018 and $18.6 billion in 2019.

More specifically, the Québec government will invest $100.4 billion under the 2018-2028 Québec Infrastructure Plan.[3]

Through their purchases of goods and services, governments will also contribute to the growth of economic activity.

[3] The 2018-2028 Québec Infrastructure Plan is presented in the March 2018 Québec Economic Plan.

- ***Job creation***

Mirroring the economic situation, the labour market performed well in 2017. On average, 90 200 more jobs were created in 2017, compared to 2016, with 65 400 of them being full-time jobs. In addition, the unemployment rate fell to 6.1%, an annual record since Statistics Canada began its Labour Force Survey in 1976.

The labour market is expected to remain robust. However, job creation will be influenced by demographic changes, which will result in a smaller pool of available workers.

— A total of 59 200 jobs will be created in 2018 (+1.4%) and 30 500 in 2019 (+0.7%).

— The unemployment rate should fall to 5.4% in 2018 and 5.3% in 2019.

- ***External demand***

Following an increase of 1.8% in 2017, exports are forecast to expand in real terms by 2.1% in 2018 and 2019.

— This acceleration is due to continued economic growth in Canada and the United States, and to the Canadian dollar exchange rate, which continues to boost international exports.

— However, the increase in protectionism in a number of regions poses a risk to Québec exports.

Following an increase of 4.0% in 2017, imports are projected to grow in real terms by 2.1% in 2018 and 1.5% in 2019.

— Household consumption will continue to drive import growth. Additionally, imports will get a boost from the expansion of exports and non-residential business investment.

## ■ Risks

The financial market and the economic forecasts used in the Québec Economic Plan are based on several assumptions. Associated with some of these are risks that could affect the global economic and financial scenario and the anticipated developments in the Québec economy.

The risks weighing on Québec's economy have changed little since March 2018. The risks, which were listed and documented in the March 2018 Québec Economic Plan, still remain.[4]

- Given that the Québec economy is wide open to trade, Québec's economic variables could be influenced by several external factors, such as:
  - a generalized global economic slowdown;
  - faster-than-expected tightening of monetary policy in the world;
  - an increase in international trade restrictions;
  - unexpected oil price trends;
  - a more accentuated slowdown of Canada's residential sector.
- Other risks or events are internal. They could lead to changes in certain economic variables in Québec that are different from what was anticipated.

4 The main risks that may influence the economic forecast scenario are presented in the March 2018 Québec Economic Plan, pp. E.59 to E.63.

## Sensitivity analysis

### Impacts of external variables on the Québec economy

The results of the sensitivity analysis[5] conducted on the basis of historical data show that a 1% variation 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.

Similarly, this analysis shows that a 1% variation in Ontario's real GDP gives rise on average to a change of 0.4% in Québec's real GDP.

— The maximum effect is measured 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 2014, exports to Ontario accounted for more than 57% of Québec's interprovincial exports.

TABLE B.6

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

| External shocks of 1% | Maturity(1) (quarters) | Impact on Québec's real GDP (percentage point) |
|---|---|---|
| U.S. real GDP | 2 | 0.5 |
| 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.

5 Details of the sensitivity analysis, conducted with a structural vector autoregression (VAR) model, are presented on page G.3 of the *Additional Information* document of the March 2018 Québec Economic Plan.

## 1.2 Main adjustments to the economic forecasts since March 2018

The economic forecast for the current year and subsequent years in the pre-election report is relatively unchanged in relation to the forecast in the March 2018 Québec Economic Plan.

— Economic growth in Québec is expected to reach 2.1% in 2018 and 1.7% in 2019, which are gains equal to those projected in the March 2018 Québec Economic Plan.

The Ministère des Finances' growth forecasts are equivalent to those of the private sector. In June 2018, the private sector's growth forecast remained relatively unchanged in relation to the March 2018 forecast.

— In June, private sector economists anticipated, on average, real GDP growth of 2.2% for 2018 overall, a forecast equivalent to what they anticipated when the March 2018 Québec Economic Plan was published.

  — This forecast is slightly higher than that of the Ministère des Finances du Québec (2.1%).

— For 2019, private sector economists anticipated, in June, real GDP growth of 1.8%, an upward adjustment of 0.1 percentage point in relation to what they anticipated in March 2018.

— The forecast is slightly higher than that of the Ministère des Finances (1.7%).

TABLE B.7

**Economic outlook according to the Ministère des Finances du Québec and the private sector**
(real GDP, percentage change)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **Ministère des Finances du Québec** | | | | | | |
| – March 2018 Québec Economic Plan | 3.0 | 2.1 | 1.7 | 1.5 | 1.3 | 1.3 |
| – 2018 pre-election report | 3.0 | 2.1 | 1.7 | 1.5 | 1.3 | 1.3 |
| **Private sector** | | | | | | |
| – March 2018(1) | 2.9 | 2.2 | 1.7 | 1.4 | 1.3 | 1.4 |
| – June 2018(2) | — | 2.2 | 1.8 | 1.5 | 1.3 | 1.4 |

(1) These data represent the Ministère des Finances du Québec summary, which includes the forecasts of 11 private sector institutions as at March 12, 2018.
(2) These data represent the Ministère des Finances du Québec summary, which includes the forecasts of 11 private sector institutions as at June 28, 2018.

# 2. FINANCIAL FRAMEWORK

The Québec government's financial framework, established for fiscal 2017-2018 to 2022-2023, provides for the maintenance of balanced budgets within the meaning of the *Balanced Budget Act*. It also provides for the reduction of the debt burden through deposits of dedicated revenues in the Generations Fund.

## 2.1 Five-year budgetary outlook

The financial framework provides for 2.9% average annual growth in consolidated revenue for the period from 2018-2019 to 2022-2023. This trend will be supported primarily by the projected growth in the Québec economy.

— Thus, revenue totals $110.5 billion in 2018-2019 and will reach $124.5 billion in 2022-2023.

The financial framework also provides for 3.0% average annual growth in consolidated expenditure for the next five years.

— Thus, spending stands at $108.7 billion in 2018-2019 and will amount to $120.0 billion in 2022-2023.

The change in revenue and expenditure takes into account the fiscal measures and budgetary initiatives implemented by the government that were announced as part of the March 2018 Québec Economic Plan as well as the economic support measures announced in August 2018.

The following margins for prudence are built into the financial framework to offset unforeseen events:

— a contingency reserve of $100 million annually from 2019-2020 to 2022-2023;

— a Contingency Fund reserve, included in the Expenditure Budget, of $359 million in 2018-2019 and $300 million starting in 2019-2020;

— a debt service reserve totalling $50 million in 2018-2019 and $150 million per year as of 2019-2020;

— a stabilization reserve of $8.6 billion as at March 31, 2023, in the absence of the use of the enhancements to the financial framework.

Consolidated revenue will be sufficient to fund the planned expenditure throughout the time period of the financial framework. What is more, consolidated revenue includes dedicated revenues for the Generations Fund, necessary to attain by 2025-2026 the debt reduction targets.

— In that regard, deposits in the Generations Fund total $2.5 billion in 2018-2019 and will increase to $3.5 billion in 2022-2023.

TABLE B.8

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

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|
| **Consolidated revenue** | | | | | | |
| Personal income tax | 29 398 | 31 005 | 32 385 | 33 713 | 35 112 | 36 486 |
| Contributions for health services | 6 224 | 6 022 | 6 187 | 6 336 | 6 491 | 6 649 |
| Corporate taxes | 8 142 | 8 326 | 8 311 | 8 405 | 8 600 | 8 795 |
| School property tax | 2 243 | 1 817 | 1 706 | 1 779 | 1 863 | 1 948 |
| Consumption taxes | 20 215 | 21 022 | 21 578 | 22 065 | 22 593 | 23 236 |
| Duties and permits | 3 966 | 3 907 | 4 089 | 4 227 | 4 325 | 4 475 |
| Miscellaneous revenue | 10 438 | 10 411 | 10 802 | 11 235 | 11 701 | 12 070 |
| Government enterprises | 5 092 | 4 339 | 4 463 | 4 779 | 5 014 | 5 257 |
| **Own-source revenue** | **85 718** | **86 849** | **89 521** | **92 539** | **95 699** | **98 916** |
| ***% change*** | ***3.6*** | ***1.3*** | ***3.1*** | ***3.4*** | ***3.4*** | ***3.4*** |
| Federal transfers | 22 367 | 23 670 | 24 344 | 25 034 | 25 251 | 25 586 |
| *% change* | *10.8* | *5.8* | *2.8* | *2.8* | *0.9* | *1.3* |
| **Total consolidated revenue** | **108 085** | **110 519** | **113 865** | **117 573** | **120 950** | **124 502** |
| ***% change*** | ***5.0*** | ***2.3*** | ***3.0*** | ***3.3*** | ***2.9*** | ***2.9*** |
| **Consolidated expenditure** | | | | | | |
| Mission expenditures | –94 249 | –99 379 | –101 762 | –104 670 | –107 301 | –110 606 |
| *% change* | *5.9* | *5.4* | *2.4* | *2.9* | *2.5* | *3.1* |
| Debt service | –9 240 | –9 286 | –9 282 | –9 341 | –9 334 | –9 344 |
| *% change* | *–3.0* | *0.5* | *–0.0* | *0.6* | *–0.1* | *0.1* |
| **Total consolidated expenditure** | **–103 489** | **–108 665** | **–111 044** | **–114 011** | **–116 635** | **–119 950** |
| ***% change*** | ***5.0*** | ***5.0*** | ***2.2*** | ***2.7*** | ***2.3*** | ***2.8*** |
| Contingency reserve | — | — | –100 | –100 | –100 | –100 |
| **SURPLUS (DEFICIT)** | **4 596** | **1 854** | **2 721** | **3 462** | **4 215** | **4 452** |
| ***BALANCED BUDGET ACT*** | | | | | | |
| Deposits of dedicated revenues in the Generations Fund | –2 293 | –2 491 | –2 707 | –2 991 | –3 265 | –3 502 |
| Use of the stabilization reserve | — | 637 | — | — | — | — |
| **BUDGETARY BALANCE(1)** | **2 303** | **—** | **14** | **471** | **950** | **950** |

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

## 2.2 Main adjustments to the financial framework since March 2018

This section summarizes the main revisions of the financial framework since the publication of the March 2018 Québec Economic Plan.

The economic growth observed in recent months is engendering positive revisions in the financial framework for 2017-2018 and subsequent years in relation to the March 2018 Québec Economic Plan.

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

Preliminary estimates for fiscal 2017-2018 show an improved budgetary balance of nearly $1.5 billion in relation to what was anticipated in March 2018. The adjustments stem from:

— a $834-million increase in own-source revenue excluding that from government enterprises due to the strong performance of the Québec economy, which translates to higher personal income tax and corporate tax revenues;

— a $357-million increase in revenue from government enterprises, a good portion of which is attributable to the results of Hydro-Québec because of colder-than-expected temperatures in the first months of 2018 and an increase in electricity exports;

— a downward adjustment of federal transfers by $302 million mainly due to a decrease in revenues from the Canada Health Transfer and the Canada Social Transfer that is attributable, in particular, to the most recent estimates of the population of the provinces from the 2016 Census;

— a difference of $568 million between planned expenditures and those incurred by bodies and special funds essentially resulting from more-gradual-than-expected expenditures, particularly by Société d'habitation du Québec and the Société de financement des infrastructures locales, as well as a revaluation of expenditures related to doubtful tax accounts.

Owing to the improvements, the preliminary estimates for 2017-2018 provide for a surplus of $2.3 billion.

TABLE B.9

## Adjustments in the financial framework since March 2018 – 2017-2018

(millions of dollars)

| | 2017-2018 | | |
|---|---|---|---|
| | March 2018 | Adjustments | August 2018[1] |
| Own-source revenue | | | |
| Tax revenue | 65 605 | 617 | 66 222 |
| Other revenue | 14 187 | 217 | 14 404 |
| Subtotal | 79 792 | 834 | 80 626 |
| *% change* | *2.5* | | *3.6* |
| Revenue from government enterprises | 4 735 | 357 | 5 092 |
| *% change* | *–3.3* | | *3.9* |
| Total – Own-source revenue | 84 527 | 1 191 | 85 718 |
| *% change* | *2.2* | | *3.6* |
| Federal transfers | 22 669 | –302 | 22 367 |
| *% change* | *12.3* | | *10.8* |
| **Consolidated revenue** | **107 196** | **889** | **108 085** |
| ***% change*** | ***4.2*** | | ***5.0*** |
| Program spending | –72 591 | 27 | –72 564 |
| *% change* | *4.6* | | *4.6* |
| Other expenditures for missions | –22 226 | 541 | –21 685 |
| *% change* | *13.2* | | *10.4* |
| Total – Mission expenditures | –94 817 | 568 | –94 249 |
| *% change* | *6.5* | | *5.9* |
| Debt service | –9 237 | –3 | –9 240 |
| *% change* | *–3.0* | | *–3.0* |
| **Consolidated expenditure** | **–104 054** | **565** | **–103 489** |
| ***% change*** | ***5.6*** | | ***5.0*** |
| **SURPLUS (DEFICIT)** | **3 142** | **1 454** | **4 596** |
| ***BALANCED BUDGET ACT*** | | | |
| Deposits of dedicated revenues in the Generations Fund | –2 292 | –1 | –2 293 |
| **BUDGETARY BALANCE[2] – AUGUST 2018** | **850** | **1 453** | **2 303** |

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

## ❑ Adjustments to the financial framework for 2018-2019 to 2020-2021

Acceleration of the economy and sound management of public finances are engendering positive revisions in the financial framework in relation to those anticipated in the March 2018 Québec Economic Plan.

### ■ Adjustments in the economic and budgetary situation

Overall, the adjustments related to the economic and budgetary situation total $950 million per year from 2018-2019 to 2020-2021. The adjustments are attributable to the following factors in particular:

- positive adjustments of approximately $1 billion a year from 2018-2019 to 2020-2021 to own-source revenue owing to the recurrence of higher-than-expected results in 2017-2018 stemming from the good performance of the economy;

- a decrease in federal transfers, by $4 million in 2018-2019, $420 million in 2019-2020 and $262 million in 2020-2021, essentially due to most recent estimates of the population of the provinces from the 2016 Census;

- a new evaluation of other consolidated expenditures attributable chiefly to the inclusion of:

  - reduced costs related to amortization expenses at school boards,

  - the agreement of March 21, 2018 concerning, in particular, the roles and responsibilities of the partners within the framework of managing and carrying out the Réseau express métropolitain (REM).

### ■ Economic support measures – August 2018

To support businesses affected by higher customs tariffs, the government recently implemented support measures that:

- allow businesses to release the cash resources necessary to maintain their activities;

- improve the competitiveness of businesses by fostering their investments and reducing the tax burden for small and medium-sized businesses;

- protect jobs through support for training.

The investments total $250 million in 2018-2019, $298 million in 2019-2020 and $177 million in 2020-2021.

TABLE B.10

## Adjustments in the financial framework since March 2018 from 2018-2019 to 2020-2021

(millions of dollars)

| | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|
| **BUDGETARY BALANCE[1] – MARCH 2018** | **—** | **—** | **—** |
| **ADJUSTMENTS TO THE ECONOMIC AND BUDGETARY SITUATION** | | | |
| Own-source revenue excluding that from government enterprises | | | |
| Personal income tax | 456 | 411 | 463 |
| Corporate taxes | 298 | 251 | 237 |
| Consumption taxes | 101 | 160 | 155 |
| Carbon market | 110 | 110 | 110 |
| Other revenue | 62 | 84 | 85 |
| Subtotal | 1 027 | 1 016 | 1 050 |
| Revenue from government enterprises | 7 | –7 | –7 |
| Federal transfers | –4 | –420 | –262 |
| Program spending | — | — | — |
| Debt service | 94 | 140 | 191 |
| Other consolidated expenditure | 76 | 519 | 155 |
| Economic support measures – August 2018 | –250 | –298 | –177 |
| **TOTAL** | **950** | **950** | **950** |
| Reduced use of the stabilization reserve | –950 | –936 | –479 |
| **BUDGETARY BALANCE[1] – AUGUST 2018** | **—** | **14** | **471** |

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

## 2.3 Risk and margins for prudence

The Ministère des Finances' forecasts rely on economic and budgetary assumptions. For example, the Québec real GDP forecast takes into account certain external factors, such as the economic growth of Québec's major trading partners, exchange rates and oil prices, and internal factors, such as domestic demand.

Certain risks are associated with taking these assumptions into account. Sensitivity analyses are carried out to evaluate their impact on the forecasts. They indicate the estimated repercussions of a variation in one of the assumptions used to establish the financial framework.

## ❑ Assumptions and risks

The following tables provide the assumptions related to the financial framework as well as the risks and their effects.

TABLE B.11

**Main assumptions of Québec's financial framework**

| | Assumptions |
|---|---|
| **ECONOMIC GROWTH** | – Moderation of domestic demand, including:<br>▪ deceleration in growth of household consumption<br>▪ maintenance of the growth of non-residential business investment<br>▪ slowdown in residential investments<br>▪ maintenance of a high level of investment by governments<br>– Labour market remains robust<br>– Faster growth in exports supported by the increase in world trade<br>– Additional hike in key rate in Canada by the end of 2018<br>– Gradual rise in U.S. and Canadian bond yields<br>– Canadian dollar remains near current levels<br>– Rise in oil prices in the medium term<br>– Moderation of growth in a number of advanced economies<br>**Tightening of global monetary policies** |
| | **Main variables considered:** |
| **REVENUE** | |
| **Own-source revenue excluding that from government enterprises** | |
| – Personal income tax | – Wages and salaries<br>– Pension income<br>– Self-employed income<br>– Capital gains<br>– Interest income |
| – Contributions for health services | – Wages and salaries |
| – Corporate taxes | – Net operating surplus of corporations |
| – Sales tax | – Household consumption excluding food products and housing<br>– Residential investment |
| – Specific taxes (fuel, tobacco products and alcoholic beverages) | – Per capita household disposable income<br>– Consumer price index<br>– Gas prices |
| **Own-source revenue from government enterprises** | |
| – Hydro-Québec | – Consumption by clients<br>– Electricity rates set by the Régie de l'énergie<br>– Price of energy on external markets |

TABLE B.11 (cont.)

## Main assumptions of Québec's financial framework (cont.)

| | Assumptions |
|---|---|
| | **Main variables considered:** |
| **Own-source revenue from government enterprises (cont.)** | |
| – Loto-Québec and Société des alcools du Québec | – Consumption patterns of customers |
| – Investissement Québec | – Economic situation<br>– Anticipated returns on investment projects |
| **Revenue from federal transfers** | |
| – Equalization | – Canada's nominal GDP<br>– Population of the provinces<br>– Basic federal income tax<br>– Taxable corporate income<br>– Revenues from natural resources |
| – Health transfers | – Canada's nominal GDP<br>– Population of the provinces<br>– Basic federal income tax |
| – Transfers for post-secondary education and social programs | – Population of the provinces<br>– Basic federal income tax |
| – Other programs | – Agreements with the federal government (e.g., labour market agreements and infrastructure agreements) |
| **EXPENDITURE** | – Budgetary policy directions<br>– Program renewal costs:<br>▪ demographics<br>▪ price (inflation, salary increases for government employees and increase in medical compensation) |
| **DEBT SERVICE** | – Debt level<br>– Interest rate |
| **DEBT** | – Budgetary balance<br>– Capital investments<br>– Investments, loans and advances<br>– Deposits made annually in the Generations Fund |
| **INFRASTRUCTURE** | – Québec Infrastructure Plan |

TABLE B.12

## Main risks to Québec's financial position and margins for prudence

| Margin for prudence | Risk | Estimated impact | Page ref. |
|---|---|---|---|
| **Financial framework** | | | |
| – Contingency reserve: | – Generalized global slowdown | | |
| ▪ $100 million a year from 2019-2020 to 2022-2023 | ▪ Change of 1 percentage point in Québec's GDP | – $700 million impact on own-source revenue | B.37 |
| | ▪ Typical recession (average) | – $8.5 billion impact on own-source revenue | 48(1) |
| – Stabilization reserve: | – Other economic risks | | B.15 |
| ▪ $8.6 billion as at March 31, 2023 | ▪ Faster-than-expected tightening of monetary policies around the world | | |
| | ▪ Unexpected oil price trends | | |
| | ▪ A more accentuated slowdown of Canada's residential sector | ▪ 0.1 GDP point | |
| | ▪ The end of NAFTA | ▪ 0.5 GDP point | |
| | ▪ Surtax on steel and aluminum | ▪ 0.3 GDP point | |
| | – Government enterprises | | B.39 |
| | ▪ Hydro-Québec (e.g., variation of 1˚C in winter temperatures compared to normal temperatures) | – Impact of nearly $50 million on Hydro-Québec's net earnings | |
| | – Federal transfers (evolution of Québec and Canada's populations) | – $110 million with a variation of 0.1 percentage point | B.44 |
| **Expenditures** | | | |
| – Contingency Fund reserve: | – Covers unforeseen expenditure under government programs | – Forthcoming | B.61 to B.63 |
| ▪ $359 million in 2018-2019 | – Changes in target clienteles | – $580 million with a 1 percentage point variation in population | |
| ▪ $300 million from 2019-2020 to 2022-2023 | – Technological changes | – $235 million with 1.0% growth in costs related to technology in the health sector | |
| | – Changes in general level of prices | – $280 million with a 1 percentage point variation in prices | |
| | – Environmental disasters | – Forthcoming | |
| | – Public capital investment completion rate for a given year (5% difference) | – $40 million impact on spending | |
| | – Shortfall to be offset | | B.27 |
| **Debt service** | | | |
| – Debt service reserve: | – Higher-than-anticipated increase in interest rates | – $250 million with a variation of 1 percentage point | B.65 |
| ▪ $50 million in 2018-2019 | – Lower-than-anticipated return on the RPSF | – $20 million with a variation of 1 percentage point | |
| ▪ $150 million from 2019-2020 to 2022-2023 | | | |

(1) See highlights of the pre-election report.

## Expenditures shortfall

The multi-year spending target is put into perspective with the cost of renewing government programs, in order to control the existing annual gap, if applicable.

If the multi-year spending target is below government program renewal costs, priorities must be established and choices involving measures to control spending, either by a reallocation or an increase in the spending target could be implemented to reduce, even eliminate, the shortfall to be offset.

Based on the financial framework of the March 2018 Québec Economic Plan and the adjustments that have been made, there is no gap between government program renewal costs and the spending target for 2018-2019.

The gap stands at $868 million in 2019-2020 and $739 million in 2020-2021, which is 0.8% from the average mission expenditure objective for those two years.

TABLE B.13

**Shortfall for mission expenditures**
(millions of dollars)

| | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|
| Cost of renewing government programs | 99 379 | 102 630(1) | 105 409(1),(2) |
| Mission expenditure objective | 99 379 | 101 762 | 104 670 |
| **SHORTFALL** | **—** | **868** | **739** |
| ***% mission expenditures*** | ***0.0*** | ***0.9*** | ***0.7*** |

(1) This amount includes an annual provision in the order of $200-million concerning the actuarial valuation of pension plans.
(2) This amount includes a $250-million provision for forecasting risk, which offsets the uncertainty of the cost of renewing programs in the final years of the financial framework.
Sources: Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

## ❑ Margins for prudence

The Québec government's prudence with respect to risks can be evaluated on the basis of the provisions included in the financial framework. The government generally uses a number of provisions when preparing the budget.[6] Such provisions are integrated into the financial framework in order to offset certain risks.

— The contingency reserve is designed to mitigate various risks arising out of economic situation or other events that affect the government's financial position.

— The Contingency Fund reserve is intended to cover unforeseen expenditures that may arise in government programs.

— The debt service reserve seeks to cover various contingencies, such as a bigger-than-anticipated increase in interest rates and sudden fluctuations on financial markets.

All told, the reserves included in the financial framework represent nearly $500 million annually.

In addition, 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 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.

As at March 31, 2023, the balance of the stabilization reserve will stand at $8.6 billion if the improvements in the financial framework are not used.

TABLE B.14

**Operations in the stabilization reserve if the improvements in the financial framework are not used**
(millions of dollars)

| | | | Uses | | |
|---|---|---|---|---|---|
| **Fiscal year** | **Balance, beginning of year** | **Allocations** | **Balanced budgets** | **Generations Fund** | **Balance, end of year** |
| 2015-2016 | — | 2 191 | — | — | 2 191 |
| 2016-2017 | 2 191 | 2 361 | — | — | 4 552 |
| 2017-2018 | 4 552 | 2 303 | — | — | 6 855 |
| 2018-2019 | 6 855 | — | –637 | — | 6 218 |
| 2019-2020 | 6 218 | 14 | — | — | 6 232 |
| 2020-2021 | 6 232 | 471 | — | — | 6 703 |
| 2021-2022 | 6 703 | 950 | — | — | 7 653 |
| 2022-2023 | 7 653 | 950 | — | — | 8 603 |

6 For further information, see the budget paper entitled *Budgetary Process and Documents: Public Financial Accountability*, published in March 2018.

Past experience shows that the government is at risk from events that could impact its financial framework, such as an economic downturn. In this regard, the provisions built into the financial framework and the stabilization reserve will allow the government to counter risks that could influence the financial framework and thus respond to either a decline in revenue or an increase in unexpected expenditure of $11.2 billion.

More specifically, these margins could offset the effects that a significant economic slowdown, or even a historically average recession,[7] would have on the budget.

TABLE B.15

**Margins for prudence**
(millions of dollars)

| | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | Total |
|---|---|---|---|---|---|---|
| Contingency reserve | — | 100 | 100 | 100 | 100 | 400 |
| Contingency Fund reserve | 359 | 300 | 300 | 300 | 300 | 1 559 |
| Debt service reserve | 50 | 150 | 150 | 150 | 150 | 650 |
| **Subtotal – Reserves** | **409** | **550** | **550** | **550** | **550** | **2 609** |
| Stabilization reserve(1) | | | | | | 8 603 |
| **TOTAL** | **409** | **550** | **550** | **550** | **550** | **11 212** |

(1) If the improvements in the financial framework are not used.

7 For further information, see page 48 of the highlights of the pre-election report.

# 3. REVENUE AND EXPENDITURE FORECASTS

## 3.1 Change in revenue

This section presents the government's consolidated revenue for 2017-2018 to 2020-2021.

Consolidated revenue totals $110.5 billion in 2018-2019, that is, $86.8 billion in own-source revenue and $23.7 billion in federal transfers.

— Revenue will total $113.9 billion for 2019-2020 and $117.6 billion for 2020-2021.

Revenue growth is forecast at 2.3% in 2018-2019, 3.0% in 2019-2020 and 3.3% in 2020-2021.

TABLE B.16

**Change in consolidated revenue**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| **Own-source revenue** | | | | |
| Own-source revenue excluding that from government enterprises | 80 626 | 82 510 | 85 058 | 87 760 |
| *% change* | *3.6* | *2.3* | *3.1* | *3.2* |
| Government enterprises | 5 092 | 4 339 | 4 463 | 4 779 |
| *% change* | *3.9* | *–14.8* | *2.9* | *7.1* |
| **Own-source revenue** | **85 718** | **86 849** | **89 521** | **92 539** |
| ***% change*** | ***3.6*** | ***1.3*** | ***3.1*** | ***3.4*** |
| Federal transfers | 22 367 | 23 670 | 24 344 | 25 034 |
| *% change* | *10.8* | *5.8* | *2.8* | *2.8* |
| **TOTAL** | **108 085** | **110 519** | **113 865** | **117 573** |
| ***% change*** | ***5.0*** | ***2.3*** | ***3.0*** | ***3.3*** |

### 3.1.1 Own-source revenue excluding that from government enterprises

Own-source revenue consists chiefly of tax revenue made up of personal income tax, contributions for health services, corporate taxes, school property tax and consumption taxes. Changes in own-source revenue are tied to economic activity and changes to the tax system.

Own-source revenue also includes revenue from other sources, that is, duties and permits and miscellaneous revenue, such as interest, the sale of property and services, as well as fines, forfeitures and recoveries.

Own-source revenue, excluding that from government enterprises, is expected to grow by 2.3% in 2018-2019 and will increase by 3.1% in 2019-2020 and 3.2% in 2020-2021.

TABLE B.17

**Change in own-source revenue excluding that from government enterprises**
(millions of dollars)

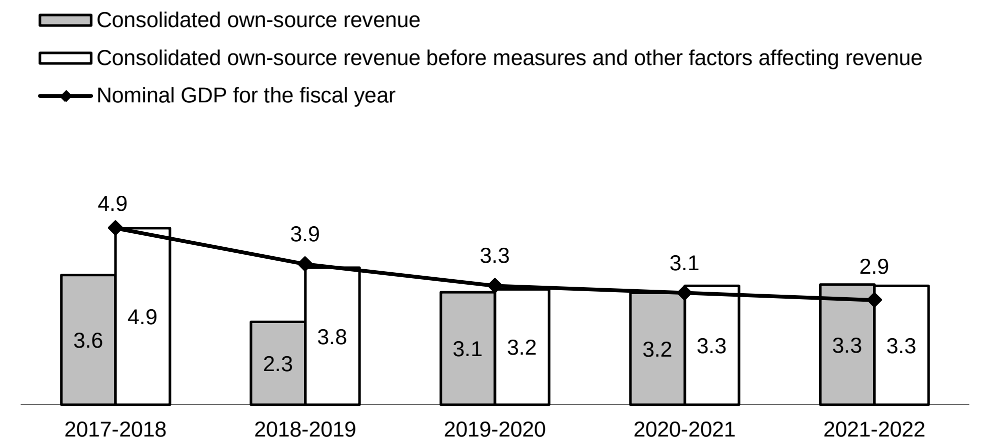
| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| **Tax revenue** | | | | |
| Personal income tax | 29 398 | 31 005 | 32 385 | 33 713 |
| *% change* | *0.6* | *5.5* | *4.5* | *4.1* |
| Contributions for health services | 6 224 | 6 022 | 6 187 | 6 336 |
| *% change* | *4.3* | *–3.2* | *2.7* | *2.4* |
| Corporate taxes | 8 142 | 8 326 | 8 311 | 8 405 |
| *% change* | *8.9* | *2.3* | *–0.2* | *1.1* |
| School property tax | 2 243 | 1 817 | 1 706 | 1 779 |
| *% change* | *3.4* | *–19.0* | *–6.1* | *4.3* |
| Consumption taxes | 20 215 | 21 022 | 21 578 | 22 065 |
| *% change* | *4.8* | *4.0* | *2.6* | *2.3* |
| **Subtotal – Tax revenue** | **66 222** | **68 192** | **70 167** | **72 298** |
| ***% change*** | ***3.2*** | ***3.0*** | ***2.9*** | ***3.0*** |
| **Other revenue** | | | | |
| Duties and permits | 3 966 | 3 907 | 4 089 | 4 227 |
| *% change* | *20.3* | *–1.5* | *4.7* | *3.4* |
| Miscellaneous revenue | 10 438 | 10 411 | 10 802 | 11 235 |
| *% change* | *0.5* | *–0.3* | *3.8* | *4.0* |
| **Subtotal – Other revenue** | **14 404** | **14 318** | **14 891** | **15 462** |
| ***% change*** | ***5.2*** | ***–0.6*** | ***4.0*** | ***3.8*** |
| **TOTAL** | **80 626** | **82 510** | **85 058** | **87 760** |
| ***% change*** | ***3.6*** | ***2.3*** | ***3.1*** | ***3.2*** |

The bulk of own-source revenue is deposited in the General Fund to finance the government's missions. The remainder of this revenue is paid primarily into special funds (to fund specific programs) and the Generations Fund (to reduce the debt), as well as into non-budget-funded bodies and the health and social services and education networks (to fund their activities).

— Growth in own-source revenue, before the measures already announced are taken into account, essentially reflects nominal GDP growth.[8]

CHART B.2

**Growth in consolidated own-source revenue excluding government enterprises**
(per cent)




[8] See page A.26 of the March 2018 Québec Economic Plan for more information on the measures announced.

## ❑ Tax revenue

Personal income tax, the government's largest revenue source, posts 5.5% growth in 2018-2019 and will increase by 4.5% in 2019-2020 and 4.1% in 2020-2021, settling at $31.0 billion, $32.4 billion and $33.7 billion, respectively.

- This change reflects, in particular, the growth of household income, including wages and salaries, as well as the indexation of the personal income tax system and the progressive nature of the tax system.
- It also reflects the contribution of pension income to the growth of income subject to tax, particularly income from private pension plans.
- In addition, it takes into account the impact of various tax measures announced in the March 2018 Québec Economic Plan, including the enhancement of the tax credit for experienced workers.

Contributions for health services post a decline of 3.2% in 2018-2019 and will rise by 2.7% in 2019-2020 and 2.4% in 2020-2021, settling at $6.0 billion, $6.2 billion and $6.3 billion, respectively.

- This change reflects the fact that wages and salaries are expected to grow by 4.7% in 2018, 3.2% in 2019 and 3.0% in 2020. It also takes into account the impact of the gradual reduction of the Health Services Fund (HSF) contribution rate for all Québec SMBs, as of the day following the March 2018 Budget Speech and enhanced in August 2018.

Revenue from corporate taxes shows growth of 2.3% in 2018-2019, then will vary by −0.2% in 2019-2020 and 1.1% in 2020-2021, attaining $8.3 billion 2018-2019 and in 2019-2020, and $8.4 billion in 2020-2021.

- This change essentially reflects the projected growth of the net operating surplus of corporations, established at 4.8% in 2018, 4.7% in 2019 and 4.3% in 2020.
- It also takes into account the measures implemented to ease the tax burden, including the gradual reduction of the general corporate income tax rate announced in the March 2015 Québec Economic Plan and the gradual reduction of the tax rate to 4% for all SMBs announced in the March 2018 Québec Economic Plan.

School property tax revenue declined by 19.0% in 2018-2019. It will decrease by 6.1% in 2019-2020 and rise by 4.3% in 2020-2021. The change in 2018-2019 and 2019-2020 essentially reflects the impact of the reform of the school tax system.

Revenue from consumption taxes posts growth of 4.0% in 2018-2019 and will increase by 2.6% in 2019-2020 and 2.3% in 2020-2021, reaching $21.0 billion, $21.6 billion and $22.1 billion, respectively.

— This increase mainly reflects growth in household consumption (excluding food products and housing) of 4.2% in 2018, 3.3% in 2019 and 3.0% in 2020.

— The gradual elimination of restrictions on input tax refunds for large businesses as of January 1, 2018, puts downward pressure on the growth of consumption tax revenue.

## ❑ Other revenue

Revenue from duties and permits shows a change of −1.5% in 2018-2019 and an increase of 4.7% in 2019-2020 and 3.4% in 2020-2021.

— This change is explained primarily by the change in anticipated revenue under Québec's cap-and-trade system for greenhouse gas emission allowances (carbon market).

Miscellaneous revenue shows a change of −0.3% in 2018-2019 and an increase of 3.8% in 2019-2020 and 4.0% in 2020-2021.

— 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.

## ❑ Assumptions, risks and sensitivity analysis

### ■ Assumptions

The forecast for own-source revenue excluding that from government enterprises is based on a number of assumptions, data elements and forecast models that take into account the economic outlook established by the Ministère des Finances.[9]

These models reflect the relations between a revenue source and its key economic determinants. For example:

— the estimate of personal income tax is closely tied to changes in wages and salaries, pension income, self-employed income, capital gains and interest income;

— the forecast of contributions for health services is directly affected by changes in wages and salaries;

[9] The main assumptions underpinning the economic outlook established by the Ministère des Finances are presented on page B.7.

- the estimate of corporate taxes depends in large part on changes in the net operating surplus of corporations;

- the forecast of Québec sales tax hinges primarily on the growth outlook for household consumption (excluding food products and housing) and residential investment;

- the estimate of specific taxes (fuel, tobacco products and alcoholic beverages) reflects changes in the consumer price index and various economic indicators, such as gas prices and per capita household disposable income.

In addition, the own-source revenue forecast relies on the most recent data available during the establishment of the financial framework, such as Revenu Québec data derived from tax returns and tax bases, as well as preliminary public accounts data.

Lastly, estimates take into account the existing tax system and the anticipated financial impact of tax and budgetary measures announced by the Québec government, including the harmonization of such measures with the federal budget.

## Risks

Completion of the accounting for 2017-2018 data, and in-year revenue monitoring for fiscal 2018-2019 are elements of risk and uncertainty that can produce results different from those forecast and affect revenue levels in 2018-2019 and subsequent years.

- Final actual data for fiscal 2017-2018 will be released when the public accounts are tabled in fall 2018.

The forecasts for 2018-2019 and subsequent years carry a level of risk and uncertainty, given that they are based on assumptions concerning future events, such as changes in the economic situation.

- For example, the forecast for corporate tax revenue entails a significant level of uncertainty due to the combination of several economic, decision-making and administrative factors, such as the legal framework allowing businesses to make tax-related choices concerning the use of loss carryovers, the possibility of adjusting installment payments and the time required to process income tax returns, which influences the accounting for corporate taxes.

## Sensitivity analysis

In general, the nominal GDP forecast is a very good indicator of growth in own-source revenue, given the direct link between taxable bases and nominal GDP.

— According to the overall sensitivity analysis, a variation of 1 percentage point in nominal GDP has an impact of about $700 million on the government's own-source revenue.

This sensitivity analysis is based on an adjustment of each taxable base in proportion to the adjustment of nominal GDP.

— In reality, a change in economic outlook can have a greater impact on certain economic variables, as well as greater repercussions on certain taxable 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, while remaining valid, they may prove inaccurate for a given year depending on the economic situation.

— Indeed, for a given year, economic fluctuations may have different impacts on revenue because of changes in the behaviour of economic agents.

— In these situations, the variation in own-source revenue can be more or less pronounced compared to that in nominal GDP.

TABLE B.18

**Sensitivity of own-source revenue to major economic variables**

| Variable | Growth forecasts for 2018 | Impacts for fiscal 2018-2019 |
|---|---|---|
| Nominal GDP | 4.1% | A variation of 1 percentage point changes own-source revenue by approximately $700 million. |
| – Wages and salaries | 4.7% | A variation of 1 percentage point changes personal income tax revenue by about $310 million. |
| – Employment insurance | −2.3% | A variation of 1 percentage point changes personal income tax revenue by approximately $5 million. |
| – Pension income | 6.0% | A variation of 1 percentage point changes personal income tax revenue by about $50 million. |
| – Net operating surplus of corporations | 4.8% | A variation of 1 percentage point changes corporate tax revenue by about $40 million. |
| – Consumption excluding food products and housing | 4.2% | A variation of 1 percentage point changes QST revenue by about $160 million. |
| – Residential investment | 9.0% | A variation of 1 percentage point changes QST revenue by about $25 million. |

### 3.1.2 **Revenue from government enterprises**

Revenue from government enterprises totals $4.3 billion in 2018-2019. It will reach $4.5 billion in 2019-2020 and $4.8 billion in 2020-2021.

- The change in 2018-2019 mainly reflects decreased results of Hydro-Québec stemming from a forecast based on normal temperatures compared to the cold weather of the previous year.
- The change in 2019-2020 mainly reflects the rise in the results of Hydro-Québec stemming from the expected growth of demand in Québec.
- The change in 2020-2021 mainly reflects the rise in the results of Hydro-Québec stemming from the projected increase in net electricity exports and the expected growth of demand in Québec.

TABLE B.19

**Changes in revenues from government enterprises**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Hydro-Québec | 2 475 | 2 075 | 2 275 | 2 575 |
| Loto-Québec | 1 310 | 1 230 | 1 219 | 1 221 |
| Société des alcools du Québec | 1 114 | 1 125 | 1 151 | 1 174 |
| Other(1) | 193 | –91 | –182 | –191 |
| **TOTAL** | **5 092** | **4 339** | **4 463** | **4 779** |
| ***% change*** | ***3.9*** | ***–14.8*** | ***2.9*** | ***7.1*** |

(1) Other revenue incorporates the forecast of other government enterprises, in particular that of Investissement Québec, and the impact of the Electricity Discount Program for Rate L Business Customers.

## ❑ Assumptions, risks and sensitivity analysis

### ■ Assumptions

The revenue forecasts of government enterprises vary mainly in light of Hydro-Québec's results, since its revenue accounts for nearly half of revenue from government enterprises.

— Hydro-Québec considers, in particular, normal temperatures, the setting of electricity rates by the Régie de l'énergie and energy prices on external markets to determine its forecasts.

— Revenue from Loto-Québec and the Société des alcools du Québec is estimated, in particular, according to the consumption habits of their customers.

— Revenue from Investissement Québec depends on economic conditions and the anticipated returns from investment projects.

### ■ Risks

The forecasts of government enterprises depend on the information available when they are produced. Information updates can thus affect the forecasts. Additionally, it should be noted that certain assumptions, such as weather conditions, are hard to forecast.

### ■ Sensitivity analysis

For Hydro-Québec, in 2018 a change of:

— 1.0US¢/kWh in energy prices on external markets has an impact of nearly $150 million impact on its net earnings;

— a 1-percentage-point adjustment by the Régie de l'énergie in the electricity rates charged to Québec consumers changes its net earnings by nearly $110 million;

— a variation of 1°C in winter temperatures compared to normal temperatures changes its net earnings by nearly $50 million.

In 2018, in the case of Loto-Québec, a 1% variation in sales changes its net earnings by more than $10 million.

In 2018, in the case of the Société des alcools du Québec, a 1% variation in sales changes its net earnings by more than $15 million.

In the case of Investissement Québec, a variation of 1 percentage point in interest rates changes its net earnings by nearly $10 million.

### 3.1.3 **Federal transfers**

In 2018-2019, revenue from federal transfers stands at $23.7 billion, up 5.8% compared with the previous year. This growth results primarily from a 5.9% rise in equalization revenue stemming, in particular, from a $576 million adjustment payment of Québec.

In 2019-2020, federal transfer revenue will reach $24.3 billion, an increase of 2.8%. The change stems, in particular:

— an anticipated increase of 9.3% in equalization revenue due, among other things, to an increase in the equalization envelope, which grows on pace with Canada's nominal GDP—the impact of the adjustment payment for 2018-2019 being included in the increase—and to wider gaps in fiscal capacity between the provinces compared to 2018-2019;

— a decline in revenue from other programs, stemming, in particular, from the end of infrastructure programs under Phase 1 of the federal infrastructure plan.

In 2020-2021, federal transfer revenue will reach $25.0 billion, up 2.8%. As in 2019-2020, this change results in part from an anticipated rise in equalization revenue attributable to the increase in the equalization envelope, which grows in pace with Canada's nominal GDP.

TABLE B.20

**Changes in federal transfer revenues**
(millions of dollars)

| | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** |
|---|---|---|---|---|
| Equalization | 11 081 | 11 732 | 12 824 | 13 340 |
| *% change* | *10.5* | *5.9* | *9.3* | *4.0* |
| Health transfers | 6 096 | 6 326 | 6 640 | 6 905 |
| *% change* | *2.5* | *3.8* | *5.0* | *4.0* |
| Transfers for post-secondary education and other social programs | 1 648 | 1 613 | 1 640 | 1 676 |
| *% change* | *0.8* | *–2.1* | *1.7* | *2.2* |
| Other programs | 3 542 | 3 999 | 3 240 | 3 113 |
| *% change* | *37.9* | *12.9* | *–19.0* | *–3.9* |
| **TOTAL** | **22 367** | **23 670** | **24 344** | **25 034** |
| ***% change*** | ***10.8*** | ***5.8*** | ***2.8*** | ***2.8*** |

## ❑ Assumptions, risks and sensitivity analysis

### ■ Assumptions

Revenue from federal transfers refers to federal government revenue paid to Québec pursuant to the *Federal-Provincial Fiscal Arrangements Act*, to which is added revenue from other programs under bilateral agreements.

#### ▪ Equalization

The equalization program is intended to make up the differences in the fiscal capacity of the provinces in relation to the average for the 10 provinces thereby enabling the equalization-receiving provinces to offer public services at a reasonably comparable level of quality.

— Since 2009-2010, the equalization envelope has no longer corresponded to differences in fiscal capacity, because it grows at the same pace as Canada's nominal GDP.

The calculation of equalization payments is based on the per capita fiscal capacity of a province, which is defined as the revenue that the province would obtain if it applied the average tax rates in effect in the ten provinces to its own tax bases.

— To establish Québec's payments, the fiscal capacity of each of the provinces, based on economic and fiscal data, must be considered.

Québec's equalization revenue for 2018-2019 and previous years was confirmed by the federal government and will not be adjusted.

Moreover, in its 2018 budget, the federal government confirmed that technical changes would be made to the equalization program for the period from April 1, 2019 to March 31, 2024. The main changes, which were incorporated into the forecast, are as follows:

— inclusion of refundable tax credits in corporate income in the corporate income tax base;

— treatment of revenue from the sale of cannabis similar to that of revenue from the sale of alcohol, in the consumption tax base;

— minor changes to the calculation of the consumption tax base.

- **Health transfers and transfers for post-secondary education and other social programs**

Health transfers comprise revenue from the Canada Health Transfer (CHT) and the attendant targeted funds determined by the federal government in its 2017 budget. Transfers for post-secondary education and other social programs are determined according to revenue from the Canada Social Transfer (CST).[10]

— The Canada Health Transfer envelope increases at the same pace as Canada's nominal GDP, while the Canada Social Transfer increases by 3% a year.

— The budget allowances are broken down per capita.

- **Other programs**

Revenue from other programs stems, by and large, from agreements with the federal government that have different objectives (e.g., integration of immigrants, labour market agreements and infrastructure agreements).

## Risks

- **Equalization**

The main risk with respect to equalization forecasting concerns the estimation of the fiscal capacity of each of the provinces, since the federal government does not release forecasts for equalization payments by province. The federal government publishes only the equalization payments of each of the provinces for the current year and a five-year projection of the overall equalization envelope. Provinces receiving equalization must therefore make their own equalization revenue forecast using a detailed formula.

— In particular, estimating Québec's equalization revenue involves forecasting the fiscal capacity of each of the provinces, which requires many variables to be taken into account (e.g., the basic federal tax (BFT) for the personal income tax base and the net operating surplus for the corporate income tax base).

— In addition, provinces do not have access to all data used by the federal government (certain data are confidential) in determining the breakdown of the envelope for the current year, which would be helpful in forecasting the allocation of envelopes in future years.

— The equalization program is usually reviewed every five years. A review can result in changes to the equalization formula.

10 Québec's CHT and CST revenue are deducted from the value of the special Québec abatement (8.5% of the BFT in Québec, for the purposes of the CHT, and 5% of the BFT in Québec, for the purposes of the CST).

- **Health transfers and transfers for post-secondary education and other social programs**

The main risks with respect to forecasting CHT and CST revenue concern the estimation of the value of the special Québec abatement, which is based on Québec's economic variables and the impact of any fiscal changes to the BFT by the federal government and the estimated population of the provinces and territories.

## Sensitivity analysis

The forecast revenues from equalization, the CHT and the CST hinge, in particular, on the following economic and demographic variables:

- growth of Canada's nominal GDP, because the equalization and CHT envelopes grow in pace with Canada's nominal GDP;
- growth in wages and salaries, the main indicator of the BFT, which determines:
  - Québec's fiscal capacity in regard to the personal income tax base considered in the equalization program,
  - the value of the special Québec abatement, which is subtracted from the CHT and the CST (respectively 62% and 38% of the 13.5 BFT points in Québec);
- Québec's share of provincial populations, given that:
  - equalization revenue is calculated on the basis of a province's per capita fiscal capacity,
  - the CHT and the CST are allocated on a per capita basis.

In addition to the equalization revenue forecast, the sensitivity analysis takes into account the net operating surplus of corporations, the main indicator of taxable corporate income, which determines Québec's fiscal capacity in regard to the corporate income tax base.

Sensitivity analyses may not apply for a given year because of special economic conditions or changes made by the federal government to the operation of these transfers.

Moreover, the sensitivity analysis of equalization revenue is based on an increase of 1 percentage point in the growth of Québec's economic variables, without any impact on the growth of those of the other provinces.

TABLE B.21

## Sensitivity of federal transfer revenue to major economic and demographic variables

| Variable | Forecasts for 2018 | Impacts for fiscal 2018-2019 |
|---|---|---|
| **Growth in Canada's nominal GDP** | | |
| – Equalization | 4.0%[(1)] | An increase of 1 percentage point raises equalization revenue by approximately $20 million. |
| – CHT | 4.0%[(1)] | An increase of 1 percentage point raises CHT revenue by about $30 million. |
| **Growth in wages and salaries in Québec** | | |
| – Equalization[(2)] | 4.7% | An increase of 1 percentage point reduces equalization revenue by approximately $40 million. |
| – CHT and CST | 4.7% | An increase of 1 percentage point reduces CHT and CST revenue by around $45 million. |
| **Québec's share of the population** | | |
| – Equalization[(2)] | 22.6% | An increase of 0.1 percentage point raises equalization revenue by about $60 million. |
| – CHT and CST | 22.6% | An increase of 0.1 percentage point raises CHT and CST revenue by approximately $50 million. |
| **Growth of net operating surplus of corporations in Québec** | | |
| – Equalization[(2)] | 4.9% | An increase of 1 percentage point reduces equalization revenue by approximately $5 million. |

(1) The growth of 4.0% in Canada's nominal GDP in 2018 is based on federal equalization and CHT calculations for 2018-2019 and will not be revised. The impacts for 2018-2019 are provided for information purposes.
(2) Due to the two-year lag in the equalization formula, increased growth in 2018 will have an impact as of 2020-2021. The impact for 2018-2019 and 2019-2020 is nil.

## 3.2 Change in expenditure

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

Consolidated expenditure totals $108.7 billion in 2018-2019, with 5.0% growth compared to the previous year. It will reach $111.0 billion in 2019-2020 and $114.0 billion in 2020-2021. Consolidated expenditure will grow by 2.2% and 2.7%, respectively, for these two years.

TABLE B.22

**Changes in consolidated expenditure**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Mission expenditures | 94 249 | 99 379 | 101 762 | 104 670 |
| *% change* | *5.9* | *5.4* | *2.4* | *2.9* |
| Debt service | 9 240 | 9 286 | 9 282 | 9 341 |
| *% change* | *–3.0* | *0.5* | *–0.0* | *0.6* |
| **TOTAL** | **103 489** | **108 665** | **111 044** | **114 011** |
| ***% change*** | ***5.0*** | ***5.0*** | ***2.2*** | ***2.7*** |

### 3.2.1 **Mission expenditures**

In 2018-2019, expenditures for the two chief missions total:

- $42.0 billion for the Health and Social Services mission, representing 4.5% growth compared to 2017-2018;
- $23.9 billion for the Education and Culture mission, representing 4.5% growth compared to 2017-2018.

In particular, the spending targets established facilitate the funding, for 2018-2019, of all costs related to program renewal and the measures in the March 2018 Québec Economic Plan. For 2019-2020 and 2020-2021, there is a gap of less than $900 million between government program renewal costs and the established spending target. It is manageable with the normal expenditure management process.

TABLE B.23

**Mission expenditures**
(millions of dollars)

| | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** |
|---|---|---|---|---|
| Health and Social services | 40 213 | 42 020 | 43 571 | 45 398 |
| *% change* | *3.8* | *4.5*(1) | *3.7* | *4.2* |
| Education and Culture | 22 785 | 23 907 | 24 655 | 25 517 |
| *% change* | *5.3* | *4.5*(1) | *3.1* | *3.5* |
| Economy and Environment | 14 309 | 15 044 | 15 035 | 14 487 |
| *% change* | *16.0* | *5.1* | *–0.1* | *–1.3* |
| Support for Individuals and Families | 9 816 | 10 166 | 10 251 | 10 481 |
| *% change* | *2.4* | *4.4*(1) | *0.8* | *2.2* |
| Administration and Justice | 7 126 | 7 883 | 7 950 | 8 127 |
| *% change* | *6.2* | *10.6* | *0.8* | *2.2* |
| Contingency Fund reserve | — | 359 | 300 | 300 |
| **TOTAL** | **94 249** | **99 379** | **101 762** | **104 670** |
| ***% change*** | ***5.9*** | ***5.4*** | ***2.4*** | ***2.9*** |

(1) To assess growth in 2018-2019 according to spending levels determined on a comparable basis, the percentage changes for that year were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission ($12 million) and the Support for Individuals and Families mission ($75 million), and including them in the 2017-2018 expenditures of the Education and Culture mission.

**Mission expenditures**

The government divides its primary functions, or major areas of activity, into five public service missions:

- Health and Social Services, which consists primarily of the activities of the health and social services network and the programs administered by the Régie de l'assurance maladie du Québec;
- Education and Culture, which consists primarily of the activities of the education networks, student financial assistance, programs in the culture sector and immigration-related programs;
- Economy and Environment, which primarily includes programs related to economic development, employment assistance measures, international relations, the environment and infrastructure support;
- Support for Individuals and Families, which primarily includes measures pertaining to last resort financial assistance and assistance for families and seniors, as well as certain legal aid measures;
- Administration and Justice, which consists of the activities of legislature, central bodies and public security, as well as administrative programs.

## ❑ Assumptions, risks and sensitivity analysis

### ■ Assumptions

The Ministère des Finances establishes the multi-year spending target for the time frame of the financial framework.

- The target is essentially established according to the government's budgetary policy directions.

- It is dependent on program renewal costs and revenue trends, as well as on the analysis and in-year monitoring of the government's revenue and expenditure.

At the same time, the Secrétariat du Conseil du trésor, in collaboration with government departments and public bodies, estimates the cost of renewing government programs.

The cost of renewing government programs represents an assessment of the costs associated with the renewal of service delivery and existing programs.

- Given the sensitivity of expenditures to certain economic, demographic and wage parameters, the renewal cost calculation considers, in particular, elements such as the indexing of the prices of goods and services and variations in clienteles.

- It also takes into account the impact of government decisions pertaining, for example, to the cost of collective agreements or the implementation costs of recent budgetary measures.

TABLE B.24

**Factors affecting government program renewal costs and the multi-year spending target**

| Cost of renewing government programs | Multi-year spending target |
|---|---|
| – Change in clientele<br>– Price fluctuation<br>– Enhancement of public services<br>– New measures | – Financing capacity that depends, in particular, on revenue trends<br>– Fiscal and budgetary policies<br>– Budgetary guidelines, including new measures in the budget<br>– Monitoring during the year of revenue and expenditure |

## Bodies in the networks

### Bodies in the health and social services network

Bodies in the health and social services network include integrated health and social services centres and other public institutions, as well as regional authorities.

– For example, they include local community service centres, hospital centres, residential and long-term care centres, child and youth protection centres as well as rehabilitation centres.

Mission expenditures of bodies in the health and social services network amount to $26.5 billion in 2018-2019, an increase of 3.5%. These expenditures will reach $27.5 billion in 2019-2020 and $28.7 billion in 2020-2021, a rise of 3.6% and 4.5%, respectively.

**Mission expenditures of bodies in the health and social services network**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Mission expenditures | 25 652 | 26 545 | 27 499 | 28 727 |
| *% change* | *4.9* | *3.5* | *3.6* | *4.5* |

### Bodies in the education networks

Bodies in the education networks consist of school boards, the Comité de gestion de la taxe scolaire de l'Île de Montréal, CEGEPs and the Université du Québec and its constituents.

Mission expenditures of bodies in the education networks amount to $17.3 billion in 2018-2019, representing a change of 5.1%. These expenditures will reach $18.1 billion in 2019-2020 and $18.6 billion in 2020-2021, representing a change of 4.8% and 3.1%, respectively.

**Mission expenditures of bodies in the education networks**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Mission expenditures | 16 413 | 17 251 | 18 080 | 18 634 |
| *% change* | *5.2* | *5.1* | *4.8* | *3.1* |

The multi-year spending target is compared with the cost of renewing government programs, in order to manage any existing gaps.

In cases where the cost of renewing government programs falls below the multi-year spending target, a fiscal space is available to implement initiatives or reduce the expenditure target.

TABLE B.25

**Shortfall between the cost of renewing government programs and the multi-year spending target**

| | | | | |
|---|---|---|---|---|
| Renewal costs | > | Overall spending target | ➡ | Saving measures to be determined or an increase in spending |
| Renewal costs | < | Overall spending target | ➡ | Fiscal space for initiatives, reallocation, or reduction of the spending target |
| Renewal costs | = | Overall spending target | ➡ | No action required |

To ensure funding for existing public services and programs, the gap between government program renewal costs and the spending target must be closed for the fiscal year covered by the budget.

For subsequent fiscal years, shortfalls can remain. This gives the government the necessary time during the year to manage the gaps and determine measures to close them.

Thus, at the time of the next budget and further to an update of government program renewal costs, the existing gap for the year covered by the budget must in turn be closed.

## ▪ Assumptions with respect to demographics

Changes in the size and structure of the population based on the various age groups comprising it affect the level and composition of public spending.

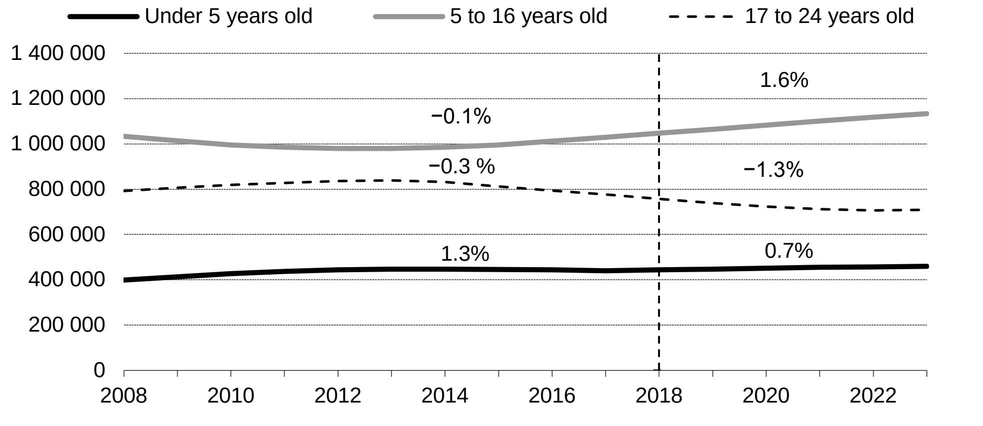
- Population growth drives spending upward to maintain the basket of public services.
- In addition, the type and cost of public services differ depending on the age group, particularly:
  - parents of children under 5 years of age have access to daycare places;
  - children aged 5 to 16 receive education services at the elementary and secondary levels;
  - a proportion of 17-to24-year-olds attend higher education institutions.

In the coming years, the number of individuals in the 5-to-16 age group will increase the most in the population under 24 years of age, by an average of 1.6% per year.

These assumptions are taken into consideration in assessing the costs of renewing portfolios that provide services to specific clienteles—for example, the Éducation and Enseignement supérieur portfolio.

CHART B.3

**Change in the Québec’s population under the age of 24 from 2008 to 2023**
(numbers and per cent)




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

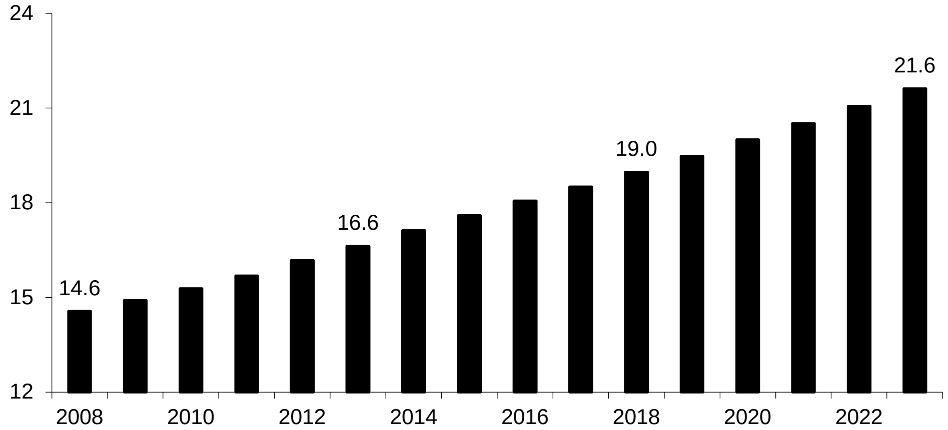
The rise in the population aged 65 and over affects spending on health and social services.

— It will also have an impact on renewal costs.

In the past 10 years, the percentage of individuals aged 65 and over has risen from 14.6% in 2008 to 19.0% in 2018 of the total population.

CHART B.4

**Change in the population 65 and over from 2008 to 2023**
(as a percentage of the total population)




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

- **Assumptions with respect to prices**

- ***Inflation***

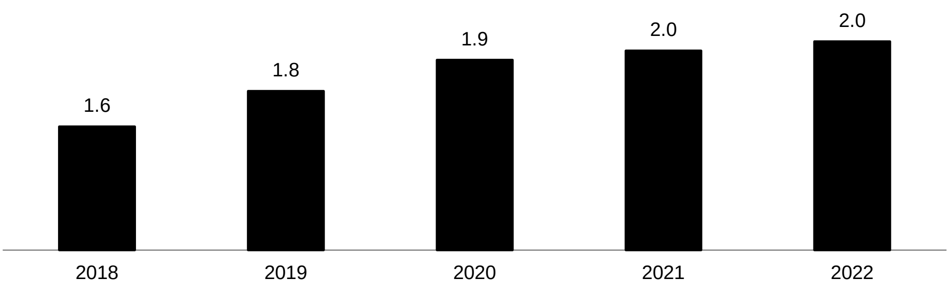
Public spending is influenced by the price of services funded by the government, the change of which is closely tied to the change in the general level of prices in the economy, i.e. inflation.

The consumer price index is used to measure inflation and facilitates the estimate between two given periods of the average change in the prices of the products that households consume.

Over the next five years, the average annual increase in the price index will be approximately 2%.

CHART B.5

**Consumer price index growth rate in Québec from 2018 to 2022**
(per cent)




Note: Alcohol and tobacco prices are excluded from the price index considered.
Sources: Statistics Canada and Ministère des Finances du Québec.

- ***Remuneration of government employees***

Prices for public services as a whole also take into consideration the impact of salary increases and of higher costs for pay equity maintenance and special agreements.

Remuneration agreements covering a period of at least five years were entered into with most government employees, facilitating the predictability of government spending.

— In particular, the agreements provide for annual increases of 1.5%, 1.75% and 2.0% as at April 1, 2016, 2017 and 2018, respectively.

TABLE B.26

**Negotiated salary increases for the 2015-2020 period**
(per cent)

| | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 |
|---|---|---|---|---|---|
| Salary parameters | — | 1.50 | 1.75 | 2.00 | — |
| Lump-sum payments | 1.00 | — | — | — | 0.50 |
| Salary relativity | — | — | — | — | 2.40(1) |
| Specific settlements | — | — | — | 0.70 | 0.40 |

Note: Represents the wage increases negotiated with the common front.
(1) This is the ultimate impact, which stands at 2.0% in 2019-2020.
Source: Secrétariat du Conseil du trésor.

- ***Medical compensation***

The price of public services also includes the effects stemming from medical compensation agreements.

The agreements reached, which cover the period from 2015 to 2023, will ensure that spending on medical compensation remains stable and predictable.

Payments under these agreements represent $7.7 billion in 2018-2019. They will reach $8.0 billion in 2019-2020.

— The increase in medical compensation will average 2.8% from 2017-2018 to 2022-2023. This change is the result of a 2.0% increase per year for the evolution of medical practice, that is, the number of acts performed, and a 0.8% increase for other factors.

TABLE B.27

**Medical compensation agreements**
(millions of dollars)

| | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** | **2021-2022** | **2022-2023** | **2017-2018 to 2022-2023(1)** |
|---|---|---|---|---|---|---|---|
| Amounts stipulated in the medical compensation agreements | 7 611 | 7 655 | 8 007 | 8 179 | 8 398 | 8 709 | |
| *% change* | *3.1* | *0.6* | *4.6* | *2.1* | *2.7* | *3.7* | *2.8* |
| *Change in $million, that is:* | *227* | *44* | *352* | *172* | *219* | *311* | |
| *– Evolution of medical practice* | *139* | *145* | *148* | *152* | *159* | *165* | *2.0* |
| *– Other factors* | *88* | *–101* | *203* | *20* | *61* | *145* | *0.8* |

Note: Totals may not add due to rounding.
(1) Average annual in percent.

## Evolution of medical practice

Under the agreements concluded with the medical federations, the medical compensation envelope for the period from 2017-2018 to 2022-2023 will increase by an average of 2.8% per year.

The annual envelopes provide for:

– a 2.0% increase for the evolution of medical practice;

  - The evolution of medical practice is the increase in the volume of care required to meet demand. It stems from the effects of the growth and aging of the population, and results in the addition of physicians.

– an increase of 0.8% for various other factors.

  - These factors include the rate increases provided in the agreements and measures to improve access to medical services.
  - These measures include, for example, the program to improve access to magnetic resonance imaging for specialist doctors and the implementation of conditions for family physicians concerning the overall care and continuity of medical services for persons in residential and long-term care centres (CHSLDs).

**Increase in medical compensation**
(per cent)

| | **2017-2018 to 2022-2023** |
|---|---|
| % annual change | |
| – Evolution of medical practice | 2.0 |
| – Other factors | 0.8 |
| **TOTAL** | **2.8** |

Source: Secrétariat du Conseil du trésor.

## Natural spending growth

For the purposes of medium-term and long-term planning, the government assesses spending trends on the basis of demographics, that is, changes in the clienteles of each of the government's sectors of activity, and price changes.

– Natural growth is used to assess the increase in spending requirements in the medium and long term, by major government sector of activity, so as to maintain the existing basket of services.

### Changes in clienteles

Spending is influenced by increases in the total population and the various age groups.

In the coming years, Québec's population will continue to grow, but more slowly than in the past. However, the changes will be more significant in certain age groups.

– For example, the 1.3% average annual increase in the under-5 age group over the past ten years will fall to an average annual increase of 0.1% by 2028.

**Population growth in Québec**
(average annual per cent growth rate)

| | From 2008 to 2018 | From 2019 to 2028 |
|---|---|---|
| Total population growth | 0.9 | 0.7 |
| **Population growth by age group** | | |
| Under 5 years | 1.3 | 0.1 |
| 5 to 16 years | –0.1 | 1.1 |
| 17 to 24 years | –0.3 | 0.3 |
| 25 to 64 years | 0.5 | –0.3 |
| 65 years and over | 3.5 | 3.1 |

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

### Change in the price of public services

Public spending is influenced by the price of services funded by the government, the change of which is closely tied to the change in the general level of prices in the economy, i.e. inflation.

## Natural spending growth (continued)

**Growth necessary to maintain the basket of services**

Because of the change in demographics and prices from 2019-2020 to 2029-2030 forecast in each of the portfolios, 3.1% average annual natural growth in mission expenditures is necessary for the basket of services to remain constant.

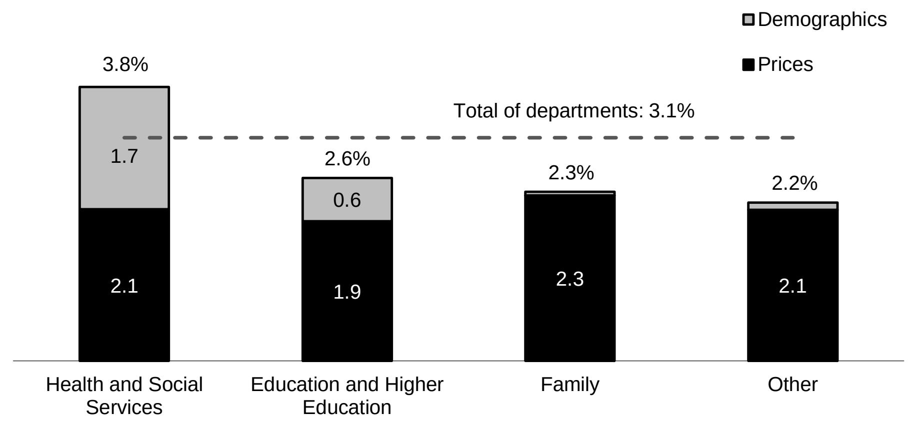
– In the case of health and social services, the average annual growth necessary is 3.8%.

  - The impact of prices will be 2.1 percentage points, while the impact of demographics will be 1.7 percentage point.

– In the case of education and higher education and support for families, the average annual growth necessary is 2.6% and 2.3%, respectively.

  - In the case of education and higher education, the impact of prices will be 1.9 percentage point, while the impact of demographics will be 0.6 percentage point.

**Impact of demographic and price factors on the growth of mission expenditures from 2019-2020 to 2029-2030**
(per cent and percentage point)




Note: Totals may not add due to rounding.
Source: Ministère des Finances du Québec.

## Natural spending growth (continued)

**Growth in health and social services spending**

Growth in health and social services program spending is forecast at 3.7% for 2017-2018, 5.0% for 2018-2019 and 4.0% for the following two years. For these four years, growth will average 4.2% per year.

- In addition, growth in the spending of health and social services institutions, which provide most direct services to the Québec public, will reach 3.5% in 2018-2019. It will average 4.0% annually from 2018-2019 to 2020-2021.

The growth allocated to health and social services exceeds by 0.4 percentage point what is needed by the government to fund natural growth in health spending, which will average 3.8% annually from 2019-2020 to 2029-2030.

- This difference is sufficient to fund the use of new technologies and more health care and social services.

**Growth in education and higher education spending**

Growth in education and higher education program spending is forecast at 5.6% for 2017-2018, 7.6% for 2018-2019, 4.6% for 2019-2020 and 3.5% for 2020-2021, which represents an average annual growth of 5.2%.

- Growth in the spending of educational institutions[1] that provide services to students will reach 5.1% in 2018-2019. It will average 3.9% annually from 2018-2019 to 2020-2021.

This growth exceeds by 2.6 percentage points that needed by the government to fund natural growth in education spending, which will average 2.6% annually from 2019-2020 to 2029-2030.

- This difference is sufficient to ensure services are enhanced.

Note: Government department program expenditures are presented in Appendix 3.
1 Excluding chartered universities and private educational institutions.

## ■ Risks

Changes in target clienteles can have an impact on the expenditures of a government department.

- For example, a change in the number of last resort financial assistance recipients due to an economic slowdown could pose a risk and affect the spending forecasts for the Ministère du Travail, de l'Emploi et de la Solidarité sociale.
- An unforeseen change in staffing at elementary and secondary schools, CEGEPs or universities could increase the expenditures of the Éducation et Enseignement supérieur portfolio.
- A change in the subsidized childcare services clientele could affect the expenditures of the Famille portfolio.

Technological change can also cause spending changes in certain sectors.

- Health and social services spending, for example, is in large part tied to the cost of prescription drugs and diagnostic equipment, which are technology intensive.

In general, expenditures can be changed, for example as when new, specific needs arise in the population.

It should be noted that a change in the general level of prices can have an impact on public spending as a whole. The risk affects the government's various portfolios differently.

Furthermore, changes in government employees' salaries are set out in agreements, enhancing the predictability of the increases.

- Renewal of agreements can influence the change forecast in the financial framework.

## Sensitivity analysis

The financial framework 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 demographic factors (population changes) and price factors (inflation).

The following tables show the sensitivity of program spending to certain changes at the budgetary level and in economic factors.

— It should be noted that such data are indications and that repercussions may vary depending on the nature and interaction of risk factors.

### Budgetary choices

Program spending may vary according to the government's choices in allocating its available budgetary resources.

Accordingly, a 1% variation in the program spending of:

— the Santé et Services sociaux portfolio would lead to a variation of about $390 million in such spending;

  — In particular, 1% growth in the costs of health care technologies would have an impact of $235 million.

— the Éducation et Enseignement supérieur portfolio would result in a change of approximately $200 million in such spending;

— the Famille portfolio would lead to a change of approximately $30 million in such spending.

In the case of the other portfolios, a 1% variation in program spending would result in a change of $170 million in such spending.

TABLE B.28

**Sensitivity of program spending to a variation of 1% in each departmental portfolio**
(millions of dollars)

| | Impact for fiscal 2018-2019 |
|---|---:|
| Santé et Services sociaux | 390 |
| Éducation et Enseignement supérieur | 200 |
| Famille | 30 |
| Other portfolios | 170 |
| **TOTAL – PROGRAM SPENDING** | **790** |

- **Economic variables**

The analysis conducted also made possible the estimation of the sensitivity of program spending to certain important economic variables.

- ***Demographics***

Spending is also affected by changes in total population and in the size of the clientele for certain services.

For example, a 1% variation in total population would change spending by $580 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 1% variation in the number of people aged 0-4, that is, the population that affects, in particular, the demand for childcare services, would have a $50 million impact on total spending.

— The Famille portfolio would be affected the most by such a variation. Its spending would change by 1.0 percentage point.

A 1% variation in the number of people aged 65 and over would lead to a variation of $180 million in total spending.

— Spending for the Santé et Services sociaux portfolio would vary by 0.4 percentage point.

- ***Prices***

Public spending is influenced by the price of services provided by the government, the change in which is closely tied to that in the general level of prices in the economy, that is, inflation.

Accordingly, a uniform variation in prices could lead to changes in program spending.

— However, a large share of spending consists of government employee remuneration, which increases essentially as set out in collective agreements. Therefore, a variation in prices would not affect that portion of spending.

— For example, a 1% variation in the salaries of government employees, excluding physicians, would change spending on the order of $375 million.

The results show that a 1% variation in prices would lead to a variation of $280 million, or 0.3 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 0.2 percentage point; spending relating to the Famille portfolio and the Travail, Emploi et Solidarité sociale portfolio would both vary by 0.9 percentage point.

TABLE B.29

**Sensitivity of program spending to a variation of 1% in each economic variable**

| Economic variables | | Impact for fiscal 2018-2019 ($million) | Impact for fiscal 2018-2019 (percentage point) |
|---|---|---|---|
| **Demographics** | | | |
| Total population | **Total spending** | **580** | **0.7** |
| | By portfolio | | |
| | – Santé et Services sociaux | | 0.7 |
| | – Éducation et Enseignement supérieur | | 0.8 |
| | – Famille | | 1.0 |
| | – Other | | 0.6 |
| 0 to 4 years | **Total spending** | **50** | **0.1** |
| | By portfolio | | |
| | – Famille | | 1.0 |
| 5 to 16 years | **Total spending** | **110** | **0.1** |
| | By portfolio | | |
| | – Éducation et Enseignement supérieur | | 0.4 |
| 17 to 24 years | **Total spending** | **110** | **0.1** |
| | By portfolio | | |
| | – Éducation et Enseignement supérieur | | 0.4 |
| 65 years and over | **Total spending** | **180** | **0.2** |
| | By portfolio | | |
| | – Santé et Services sociaux | | 0.4 |
| **Prices** | | | |
| Inflation | **Total spending** | **280** | **0.3** |
| | By portfolio | | |
| | – Santé et Services sociaux | | 0.3 |
| | – Éducation et Enseignement supérieur | | 0.2 |
| | – Famille | | 0.9 |
| | – Travail, Emploi et Solidarité sociale | | 0.9 |
| | – Other | | 0.6 |

## 3.2.2 **Debt service**

Debt service corresponds to the amount of interest that has to be paid on the debt on financial markets, i.e. direct debt service, plus interest on the liability for the retirement plans and other future benefits.

From 2018-2019 to 2020-2021, direct debt service will grow mainly because of the anticipated increase in interest rates and the government's capital investments.

Interest on liabilities with regard to pension plans and future employee benefits will decline due to the investment income of the Retirement Plans Sinking Fund (RPSF), which increases every year. The RPSF shows continued growth driven by returns and the absence of withdrawals.

Overall, debt service increases by 0.5% in 2018-2019. It will remain stable in 2019-2020 and rise by 0.6% in 2020-2021.

TABLE B.30

**Change in debt service**
(millions of dollars)

| | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** |
|---|---|---|---|---|
| Direct debt service(1) | 7 468 | 7 913 | 8 275 | 8 561 |
| Interest on the liability for the retirement plans and other employee future benefits(2) | 1 772 | 1 373 | 1 007 | 780 |
| **TOTAL** | **9 240** | **9 286** | **9 282** | **9 341** |
| ***% change*** | ***–3.0*** | ***0.5*** | ***–0.0*** | ***0.6*** |

(1) Direct debt service includes revenue from the Sinking Fund for government borrowings, recorded as a deduction. This revenue comprises investment income and gains and losses on dispositions. The revenue forecast for the Sinking Fund for government borrowings being closely tied to interest rate trends, it can be adjusted upward or downward.
(2) This corresponds to the interest on obligations relating to 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.

## ❑ Assumptions, risks and sensitivity analysis

### ■ Assumptions

The debt service forecast is based primarily on the debt level and interest rate forecasts.

### ■ Risks

The main risk with respect to the debt service forecast is a higher-than-anticipated increase in interest rates or a lower-than-anticipated return on the RPSF.

The RPSF is an asset that was created for the purpose of paying the retirement benefits of public and parapublic sector employees, and is managed by the Caisse de dépôt et placement du Québec.

Revenue from the RPSF is recorded as a deduction from debt service. Accordingly, a lower-than-anticipated return would drive up debt service.

### ■ Sensitivity analysis

A greater-than-anticipated rise in interest rates of 1 percentage point over a full year would increase interest expenditure by approximately $250 million.

A return of 1 percentage point less than the anticipated return on the RPSF would lead to a $20 million increase in debt service the following year.

A change in the value of the Canadian dollar compared with other currencies would have no impact on debt service, because the government’s debt has no foreign currency exposure.

# 4. DEBT

Several debt concepts are used to measure a government's indebtedness. The following table presents the five-year forecast for the gross debt, the net debt and the debt representing accumulated deficits.

The gross debt amounted to $201.1 billion, or 48.5% of GDP, as at March 31, 2018.

The net debt stood at $179.3 billion, or 43.2% of GDP, as at March 31, 2018, while the debt representing accumulated deficits was $115.1 billion, or 27.7% of GDP.

A decline relative to GDP is anticipated in the coming years for the three debt concepts.

TABLE B.31

**Debt of the Québec government as at March 31 if the improvements in the financial framework are not used**
(millions of dollars)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| **GROSS DEBT(1)** | **203 490** | **201 072** | **205 030** | **205 532** | **207 528** | **207 218** | **206 761** |
| *% of GDP* | *51.5* | *48.5* | *47.5* | *46.1* | *45.1* | *43.7* | *42.4* |
| Less: Financial assets, net of other liabilities | –21 735 | –21 794 | –24 410 | –24 653 | –26 995 | –28 478 | –30 217 |
| **NET DEBT** | **181 755** | **179 278** | **180 620** | **180 879** | **180 533** | **178 740** | **176 544** |
| *% of GDP* | *46.0* | *43.2* | *41.8* | *40.5* | *39.2* | *37.7* | *36.2* |
| Less: Non-financial assets | –68 906 | –71 025 | –74 221 | –77 201 | –80 317 | –82 739 | –84 995 |
| Plus: Stabilization reserve | 4 552 | 6 855 | 6 218 | 6 232 | 6 703 | 7 653 | 8 603 |
| **DEBT REPRESENTING ACCUMULATED DEFICITS(2)** | **117 401** | **115 108** | **112 617** | **109 910** | **106 919** | **103 654** | **100 152** |
| *% of GDP* | *29.7* | *27.7* | *26.1* | *24.6* | *23.2* | *21.9* | *20.5* |

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) In accordance with the *Act to reduce the debt and establish the Generations Fund,* debt representing accumulated deficits comprises the accumulated deficits presented in the government's financial statements, increased by the balance of the stabilization reserve.

## ❑ Assumptions, risks and sensitivity analysis

### ■ Assumptions

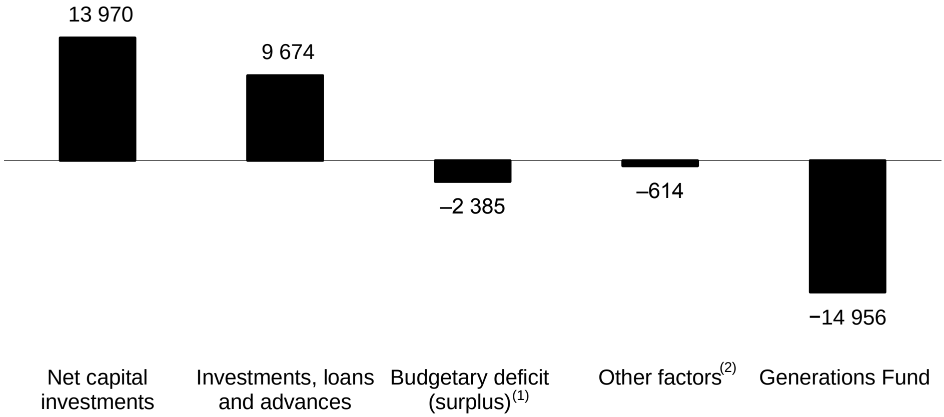
The main factors in gross debt growth are:

- change in the budgetary balance;
  - A budgetary deficit, as the case may be, increases the debt.
  - Conversely, a budgetary surplus reduces the gross debt.
- capital investments, which flow from the Québec Infrastructure Plan and for which borrowings must be made;
- government investments in businesses, primarily government enterprises, which are called investments, loans and advances;
  - Such investments may be made through advances or capital outlays, or by allowing government enterprises to keep part of their net earnings.
  - For example, each year Hydro-Québec pays the government a dividend that corresponds to 75% of its net earnings. Hydro-Québec uses the portion (25%) not paid to the government to fund its own investments, particularly hydroelectric dams. For the government, this constitutes an investment in Hydro-Québec that creates a financial requirement and thus leads to an increase in the gross debt.
- deposits made annually in the Generations Fund reduce the gross debt.

To illustrate, over the next five years, from 2018-2019 to 2022-2023, the gross debt will rise by $5.7 billion, primarily because of capital investments. This factor will increase the gross debt by $14.0 billion.

CHART B.6

**Factors in gross debt growth from 2018-2019 to 2022-2023**
(millions of dollars)




(1) The budgetary balance indicated is that after the use of the stabilization reserve.
(2) The other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

## Risks

Several risks can affect the level of the gross debt, for example:

- a budgetary deficit further to a marked economic slowdown would increase the gross debt;
- a smaller-than-anticipated increase in capital investments would lead to a reduction in the gross debt.

Lastly, the amounts dedicated to the Generations Fund are managed by the Caisse de dépôt et placement du Québec, in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. The investment income of the Generations Fund is subject to the risk that the return will be lower than anticipated, because of changes in the economic and financial situation.

## Sensitivity analysis

A budgetary deficit or a rise in capital investment would increase the gross debt by the same amount.

In regard to the investment income of the Generations Fund, an achieved return that is 1 percentage point below the projected return would have an impact of $115 million on the debt.

## The budget leeway achieved through repayment of the debt

Using $2 billion a year from the Generations Fund to pay the debt will both ensure that the debt reduction objectives are achieved by 2025-2026 and reduces government spending on interest on the debt for the benefit of Quebecers as a whole.

**Savings on debt service**

The use of the Generations Fund to pay the debt will achieve nearly $1.1 billion in savings on debt service over five years, thereby increasing by an equivalent amount funding of public services.

**Interest savings on the debt stemming from debt repayment**
(millions of dollars)

| | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | Total |
|---|---|---|---|---|---|---|
| Interest savings on the debt | 61 | 130 | 209 | 295 | 383 | 1 078 |

This decision was also motivated by a desire to realize a part of the investment income at the end of an economic cycle, thereby reducing the government's exposure to market risks. Credit rating agencies and financial institutions endorsed the government's decision. In a March 28, 2018 press release, Moody's credit rating agency, noted that:

> "The province is able to maintain a forecast of continued surpluses through to 2022-2023 which is credit positive. Additionally, Québec will begin to see benefits from its Generations Fund, a fund dedicated to debt reduction, through its use of decreasing the refinancing the province requires. This will reduce the province's debt service payments at a time when interest rates are expected to rise, another credit positive."

## The budget leeway achieved through repayment of the debt (continued)

### Continued growth of the Generations Fund

Moreover, because the annual deposits in the Generations Fund exceed $2 billion, the balance of the fund will continue to increase from $12.8 billion as at March 31, 2018 to $17.8 billion as at March 31, 2023.

The same goes for investment income, which will continue to rise.

### Less investment income

Investment income will be lower than it would be had it been decided not to use the Generations Fund to reduce the debt on financial markets.

The difference is an estimated $1.9 billion over five years and is higher than savings on debt service that will be achieved because the yield assumption exceeds the government's borrowing cost.

**Lower investment income stemming from the use of the Generations Fund to repay the debt**
(millions of dollars)

| | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | Total |
|---|---|---|---|---|---|---|
| Lower investment income | 87 | 205 | 358 | 549 | 711 | 1 910 |

### Effect on the debt burden

Higher investment income would have resulted in additional deposits in the Generations Fund and a slightly smaller debt. As at March 31, 2023, gross-debt-to-GDP ratio should stand at 42.4%. Had it been decided not to make any withdrawals from the Generations Fund, the gross-debt-to-GDP ratio as at March 31, 2023 would instead stand at 42.0% of GDP, a 0.4 percentage point difference.

# 5. REPORTS ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

## 5.1 The *Balanced Budget Act*

### ❑ Current stipulations and requirements of the Act

The purpose of the *Balanced Budget Act* is to oblige the government to maintain a balanced budget and, to that end, to table balanced budget estimates. Generally speaking, the Act sets out the applicable rules in the case of a surplus or a deficit.

### ❑ Budgetary balance within the meaning of the *Balanced Budget Act*

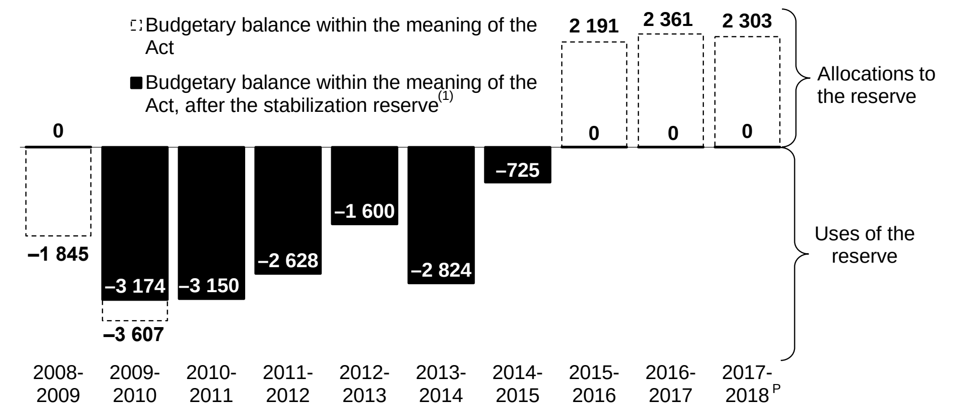
Under the *Balanced Budget Act*, the objectives of the Act are achieved if the budgetary balance, calculated in accordance with the Act, is zero or positive. Table B.32 shows the components that enable the government to establish the budgetary balance within the meaning of the Act.

For fiscal 2008-2009, the budgetary balance within the meaning of the Act was maintained. 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. The surpluses recorded of $2.2 billion and $2.4 billion, respectively, were entirely earmarked for the stabilization reserve, in accordance with the Act, thereby bringing the budgetary balance calculated, once the reserve was considered, to zero for each of the fiscal years.

CHART B.7

**Budgetary balance from 2008-2009 to 2017-2018**
(millions of dollars)




P: Preliminary estimates.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*, which takes into account allocations to the stabilization reserve and the uses of the reserve to maintain a balanced budget. From 2010-2011 to 2014-2015, there were no operations in the stabilization reserve.

TABLE B.32

## Budgetary balance within the meaning of the *Balanced Budget Act*

(millions of dollars)

| Fiscal year | Surplus (deficit) presented in the public accounts[1] | Generations Fund | Accounting and other changes | Budgetary balance within the meaning of the Act | Stabilization reserve: Surplus of the year | Stabilization reserve: Allocations | Stabilization reserve: Uses | Budgetary balance within the meaning of the Act after reserve[2] |
|---|---|---|---|---|---|---|---|---|
| 2008-2009 | –1 258 | –587 | — | –1 845 | — | –109[3] | 1 845 | — |
| 2009-2010 | –2 940 | –725 | 58[4] | –3 607 | — | — | 433 | –3 174[5] |
| 2010-2011 | –2 390 | –760 | — | –3 150 | — | — | — | –3 150[5] |
| 2011-2012 | –1 788 | –840 | — | –2 628 | — | — | — | –2 628 |
| 2012-2013 | –2 515 | –961 | 1 876[6] | –1 600 | — | — | — | –1 600[7] |
| 2013-2014 | –1 703 | –1 121 | — | –2 824 | — | — | — | –2 824[7] |
| 2014-2015 | 136 | –1 279 | 418[4] | –725 | — | — | — | –725[7] |
| 2015-2016 | 3 644 | –1 453 | — | 2 191 | 2 191 | –2 191 | — | — |
| 2016-2017 | 4 362 | –2 001 | — | 2 361 | 2 361 | –2 361 | — | — |
| 2017-2018 | 4 596 | –2 293 | — | 2 303 | 2 303 | –2 303 | — | — |
| 2018-2019 | 1 854 | –2 491 | — | –637 | — | — | 637 | — |
| 2019-2020 | 2 721 | –2 707 | — | 14 | 14 | –14 | — | — |
| 2020-2021 | 3 462 | –2 991 | — | 471 | 471 | –471 | — | — |
| 2021-2022 | 4 215 | –3 265 | — | 950 | 950 | –950 | — | — |
| 2022-2023 | 4 452 | –3 502 | — | 950 | 950 | –950 | — | — |

(1) For the years 2008-2009 to 2016-2017, the amounts correspond to those established in the government's annual consolidated financial statements, without taking into account the adjustments made in subsequent years for the fiscal year concerned.
(2) Budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to the stabilization reserve and the uses of the reserve in order to maintain a balanced budget.
(3) In accordance with section 32 of the Act (S.Q. 2009, chapter 38), the sum of $109 million, corresponding to the difference between the recorded surplus and the anticipated surplus for 2006-2007, was allocated to the stabilization reserve in 2008-2009.
(4) The *Balanced Budget Act* stipulates that the budgetary balance must be adjusted to take into account certain accounting changes resulting in particular from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of Chartered Professional Accountants Canada (CPA Canada).
(5) In accordance with the *Balanced Budget Act*, the obligation to achieve a balanced budget was suspended for 2009-2010 and 2010-2011.
(6) The result of $1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear generating station is excluded from the calculation of the budgetary balance for 2012-2013, in accordance with the Act.
(7) The budgetary deficits of $1.6 billion, $2.8 billion and $0.7 billion recorded for 2012-2013, 2013-2014 and 2014-2015, respectively, are allowed pursuant to the *Balanced Budget Act*.

## 5.2 The *Act to reduce the debt and establish the Generations Fund*

### ❑ Amounts dedicated to the Generations Fund

In 2018-2019, $2.5 billion in dedicated revenues is deposited in the Generations Fund.

In 2019-2020 and 2020-2021, dedicated revenues of $2.7 billion and $3.0 billion, respectively, will be deposited in the Generations Fund.

### ■ Use of the Generations Fund to repay maturing borrowings

The government has provided for the use of $10 billion from the Generations Fund—$2 billion a year from 2018-2019 to 2022-2023—to repay maturing borrowings on financial markets.

This repayment of the debt of $10 billion over the next five years will save the government nearly $1.1 billion in debt service by 2022-2023, while dedicated revenues continue to be deposited in the Generations Fund.

## ❑ Change in the Generations Fund

Taking into account the deposits made in the Generations Fund since its creation and those forecast for the coming years, along with the use of the fund to repay maturing borrowings on financial markets, the book value of the Generations Fund will reach $17.8 billion as at March 31, 2023.

TABLE B.33

**Generations Fund**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|
| **Book value, beginning of year** | **10 523** | **12 816** | **13 307** | **14 014** | **15 005** | **16 270** |
| **Dedicated revenues** | | | | | | |
| Water-power royalties | | | | | | |
| Hydro-Québec | 695 | 687 | 703 | 727 | 734 | 761 |
| Private producers | 102 | 100 | 102 | 104 | 106 | 108 |
| **Subtotal** | **797** | **787** | **805** | **831** | **840** | **869** |
| Indexation of the price of heritage electricity | 218 | 245 | 300 | 385 | 470 | 565 |
| Additional contribution from Hydro-Québec | 215 | 215 | 215 | 215 | 215 | 215 |
| Mining revenue | 145 | 230 | 272 | 324 | 356 | 388 |
| Specific tax on alcoholic beverages | 500 | 500 | 500 | 500 | 500 | 500 |
| Unclaimed property | 6 | 15 | 15 | 15 | 15 | 15 |
| Investment income(1) | 412 | 499 | 600 | 721 | 869 | 950 |
| **Total dedicated revenues** | **2 293** | **2 491** | **2 707** | **2 991** | **3 265** | **3 502** |
| Use of the Generations Fund to repay maturing borrowings | — | –2 000 | –2 000 | –2 000 | –2 000 | –2 000 |
| **BOOK VALUE AT YEAR END** | **12 816** | **13 307** | **14 014** | **15 005** | **16 270** | **17 772** |

(1) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposition of assets, etc.). The forecast can thus be adjusted upward or downward depending on the time at which the gains or losses are actually realized. In 2018-2019, the projected achieved return is 4.35%, a rate established using the average for the last four years. Furthermore, the achieved return is expected to rise gradually over the next few years, reaching the expected return of 6.35% as of 2021-2022, as a portion of the returns recorded in recent years for market value are achieved.

## Book value and market value of the Generations Fund

The following table shows the book value and market value of the Generations Fund since its creation. The book value is used to calculate the gross debt.

As at March 31, 2018, the market value of the Generations Fund was $2.3 billion higher than its book value.

**Book value and market value of the Generations Fund as at March 31**
(millions of dollars)

| | Book value | Market value[1] | Difference |
|---|---|---|---|
| 2007 | 584 | 586 | –2 |
| 2008 | 1 233 | 1 199 | 34 |
| 2009 | 1 952 | 1 646 | 306 |
| 2010 | 2 677 | 2 605 | 72 |
| 2011 | 3 437 | 3 599 | –162 |
| 2012 | 4 277 | 4 508 | –231 |
| 2013 | 5 238 | 5 636 | –398 |
| 2014 | 5 659 | 6 373 | –714 |
| 2015 | 6 938 | 8 271 | –1 333 |
| 2016 | 8 522 | 9 717 | –1 195 |
| 2017 | 10 523 | 12 324 | –1 801 |
| 2018 | 12 816 | 15 101 | –2 285 |

(1) The book value includes the accounts receivable as at March 31, i.e. dedicated revenues subsequently collected by the government and then paid to the Caisse de dépôt et placement du Québec.

# APPENDICES

# APPENDICES[1]



[1] Unaudited 2017-2018 data.

# APPENDIX 1: REQUIREMENTS UNDER THE *ACT RESPECTING THE MINISTÈRE DES FINANCES* AND THE *AUDITOR GENERAL ACT*

In June 2014, at the time of Budget Speech 2014-2015, the government announced that it would publish a report on the state of Québec's public finances prior to fixed-date general elections.

In April 2015, the National Assembly passed legislative provisions mandating the Minister of Finance to publish a pre-election report presenting the state of public finances. Accordingly, the *Act respecting the Ministère des Finances* (CQLR, chapter M-24.01) and the *Auditor General Act* (CQLR, chapter V-5.01) were amended.

## ❑ Tabling and time frame of the pre-election report

With respect to the tabling and time frame of the pre-election report, the following sections were introduced in the *Act respecting the Ministère des Finances*:

> "23.1 The Minister shall publish a pre-election report on the third Monday of August preceding the expiry of a Legislature as provided for in section 6 of the *Act respecting the National Assembly* (chapter A-23.1)…"
>
> "23.4 The Minister shall send the draft report to the Auditor General not later than the first working day of the ninth week preceding its publication date to enable the Auditor General to prepare the report required under section 40.1 of the *Auditor General Act* (chapter V-5.01).
>
> The Minister shall inform the Auditor General of any changes the Minister makes to the report up to the time the Minister receives the Auditor General's opinion in accordance with the second paragraph of section 40.3 of the *Auditor General Act*."
>
> "23.5 On the date the pre-election report is published, the Minister shall send it, with the Auditor General's opinion attached, to the President of the National Assembly, who shall table them before the National Assembly within three days after receiving it or, if the Assembly is not sitting, within three days of the opening of the next session or resumption.
>
> As soon as the pre-election report and attached opinion are sent to the President of the National Assembly, the Minister shall publish them by any means the Minister considers appropriate, without waiting for the President to table them."

## ❑ Role of the Auditor General

The following sections were introduced in the *Auditor General Act*:

> "40.1 The Auditor General shall prepare a report giving his opinion on the plausibility of the forecasts and assumptions presented in the pre-election report published by the Minister of Finance on the date specified in section 23.1 of the Act respecting the Ministère des Finances (chapter M-24.01). The Auditor General may include in the report any comments he considers appropriate in connection with his work involving the pre-election report.
>
> In his report, the Auditor General shall also indicate whether he received all requested information and documents for the preparation of the report." [omit]
>
> "40.2 The opinion on the plausibility of the forecasts must cover at least the first three fiscal years reported on…"
>
> "40.3 The report prepared by the Auditor General must be sent to the President of the National Assembly, who tables it in the manner established for the Auditor General's annual report under section 44. The Auditor General shall publish his report, by any means he considers appropriate, at the same time as the pre-election report is published.
>
> The Auditor General shall send his opinion to the Minister of Finance not later than the Monday preceding the publication date of the pre-election report required under section 23.1 of the Act respecting the Ministère des Finances (chapter M-24.01)."

## ❑ Elements to be included in the pre-election report

The elements to be presented in the pre-election report are set forth in sections 23.1, 23.2 and 23.3 of the *Act respecting the Ministère des Finances*:

> "23.1 […] The opinion of the Auditor General, presented in the report required under section 40.1 of the *Auditor General Act* (chapter V-5.01), must be attached to the pre-election report."
>
> "23.2 The Minister shall include the following in the pre-election report, with any necessary revisions:
>
> > (1) the economic forecasts and assumptions appearing in the Budget Plan presented in the most recent Budget Speech;
> >
> > (2) the projected components of the Government's financial framework appearing in the Budget Plan;
> >
> > (3) the estimated expenditures, established in collaboration with the Chair of the Conseil du trésor and broken down by field of State activity;
> >
> > (4) the reports required under section 15 of the *Balanced Budget Act* (chapter E-12.00001) and section 11 of the Act to reduce the debt and establish the Generations Fund (chapter R-2.2.0.1)."

“23.3. The projected components of the Government’s financial framework must be presented for a period of five consecutive fiscal years, and the estimated expenditures, broken down by field of State activity, for a period of three consecutive fiscal years, beginning, in both cases, with the fiscal year that includes the date on which the report was published.”

# APPENDIX 2: FINANCIAL FRAMEWORK FOR THE GENERAL FUND AND CONSOLIDATED ENTITIES

TABLE 1

**Financial framework for the General Fund and consolidated entities**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|
| **GENERAL FUND** | | | | | | |
| **Revenue** | | | | | | |
| Own-source revenue excluding that from government enterprises | 57 148 | 58 784 | 60 713 | 62 519 | 64 599 | 66 847 |
| *% change* | *4.2* | *2.9* | *3.3* | *3.0* | *3.3* | *3.5* |
| Revenue from government enterprises | 4 659 | 3 879 | 3 948 | 4 179 | 4 329 | 4 477 |
| *% change* | *–1.6* | *–16.7* | *1.8* | *5.9* | *3.6* | *3.4* |
| Federal transfers | 20 072 | 20 933 | 22 367 | 23 201 | 23 697 | 24 104 |
| *% change* | *8.0* | *4.3* | *6.9* | *3.7* | *2.1* | *1.7* |
| **Total revenue** | **81 879** | **83 596** | **87 028** | **89 899** | **92 625** | **95 428** |
| ***% change*** | ***4.8*** | ***2.1*** | ***4.1*** | ***3.3*** | ***3.0*** | ***3.0*** |
| **Expenditure** | | | | | | |
| Program spending | –72 564 | –76 902 | –79 720 | –82 294 | –84 908 | –87 563 |
| *% change* | *4.6* | *6.0* | *3.7* | *3.2* | *3.2* | *3.1* |
| Debt service | –7 148 | –7 066 | –6 883 | –6 696 | –6 400 | –6 172 |
| *% change* | *–5.2* | *–1.1* | *–2.6* | *–2.7* | *–4.4* | *–3.6* |
| **Total expenditure** | **–79 712** | **–83 968** | **–86 603** | **–88 990** | **–91 308** | **–93 735** |
| ***% change*** | ***3.6*** | ***5.3*** | ***3.1*** | ***2.8*** | ***2.6*** | ***2.7*** |
| **NET RESULTS OF CONSOLIDATED ENTITIES** | | | | | | |
| Non-budget-funded bodies and special funds(1) | 205 | –236 | –280 | –307 | –258 | –643 |
| Bodies in the health and social services and education networks | –69 | –29 | –31 | –31 | –9 | — |
| Generations Fund | 2 293 | 2 491 | 2 707 | 2 991 | 3 265 | 3 502 |
| **Total consolidated entities** | **2 429** | **2 226** | **2 396** | **2 653** | **2 998** | **2 859** |
| Contingency reserve | — | — | –100 | –100 | –100 | –100 |
| **SURPLUS (DEFICIT)** | **4 596** | **1 854** | **2 721** | **3 462** | **4 215** | **4 452** |
| ***BALANCED BUDGET ACT*** | | | | | | |
| Deposits of dedicated revenues in the Generations Fund | –2 293 | –2 491 | –2 707 | –2 991 | –3 265 | –3 502 |
| Use of the stabilization reserve | — | 637 | — | — | — | — |
| **BUDGETARY BALANCE(2)** | **2 303** | **—** | **14** | **471** | **950** | **950** |

(1) These results include consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve.

# APPENDIX 3: MISSION EXPENDITURES ACCORDING TO THE GOVERNMENT'S FINANCIAL ORGANIZATION

The presentation of mission expenditures according to the government's financial organization reveals the spending levels of each of the sectorial components included in the government's reporting entity. Such components include:

— the General Fund, which receives most of the revenue, mainly taxes, and funds the program spending of departments and budget-funded bodies;

— the special funds, which establish a link between the funding of a service and the revenue earmarked for this purpose;

— the Generations Fund, a special fund dedicated solely to the repayment of the government's gross debt;

— specified purpose accounts, which isolate funds paid to the government by a third party pursuant to a contract or an agreement that stipulates the allocation to a determined purpose;

— tax-funded expenditures, which group together the refundable tax credits granted under the personal and corporate tax systems, and doubtful tax accounts;

— bodies in the health and social services and education networks, which include, in particular, integrated health and social services centres and the school boards;

— non-budget-funded bodies, which offer specific services to the public.

## ❑ Expenditure by mission and by sector

The following table indicates expenditure by mission in 2018-2019 according to the main sectors that make up the financial framework:

— the General Fund (program spending);

— special funds;

— non-budget-funded bodies;

— bodies in the health and social services and education networks;

— tax-funded expenditures.

To determine the mission expenditures, it is also necessary to take into consideration consolidation adjustments that stem mainly from the elimination of reciprocal transactions between entities in different sectors.

TABLE 2

**Expenditure by mission and sector – 2018-2019**
(millions of dollars)

| | General Fund | Special funds | Non-budget-funded bodies | Bodies in the health and social services and education networks | Tax-funded expenditure(1) | Other sectors(2) | Total |
|---|---|---|---|---|---|---|---|
| Health and Social Services | 38 541 | 210 | 13 513 | 26 545 | 729 | –37 518 | 42 020 |
| Education and Culture | 20 429 | 146 | 528 | 17 251 | 483 | –14 930 | 23 907 |
| Economy and Environment | 6 038 | 7 114 | 3 495 | — | 1 424 | –3 027 | 15 044 |
| Support for Individuals and Families | 6 538 | 2 878 | 217 | — | 3 577 | –3 044 | 10 166 |
| Administration and Justice | 4 997 | 1 803 | 2 756 | — | 722 | –2 395 | 7 883 |
| Contingency Fund reserve | 359 | — | — | — | — | — | 359 |
| **TOTAL** | **76 902** | **12 151** | **20 509** | **43 796** | **6 935** | **–60 914** | **99 379** |

(1) Tax-funded expenditures included doubtful tax accounts.
(2) The other sectors include specified purpose accounts and consolidation adjustments.

## ❑ The program spending of government departments

Program spending, namely, that of the General Fund, stands at $76.9 billion in 2018-2019 and will amount to $79.7 billion in 2019-2020. Its growth will go from 6.0% in 2018-2019 to 3.7% in 2019-2020 and to 3.2% in 2020-2021. In particular:

— spending growth in the Health and Social Services portfolio stands at 5.0% in 2018-2019 and at 4.0% in 2019-2020 and in 2020-2021;

— spending growth in the Education and Higher Education portfolio is 7.6% in 2018-2019, 4.6% in 2019-2020 and 3.5% in 2020-2021;

— the budgets of the other portfolios will increase by 0.3% in 2018-2019, by 5.0% in 2019-2020 and by 1.5% in 2020-2021.

Moreover, the expenditure planning framework calls for reserves to offset certain risks.

— In this respect, the Contingency Fund provides for $1 078 million in 2018-2019 and $568 million in 2019-2020.

TABLE 3

**Program spending of government departments**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Health and Social Services | 36 710 | 38 541 | 40 076 | 41 662 |
| *% change* | *3.7* | *5.0*(1) | *4.0* | *4.0* |
| Education and Higher Education | 18 095 | 19 380 | 20 274 | 20 982 |
| *% change* | *5.6* | *7.6*(1) | *4.6* | *3.5* |
| Other portfolios | 17 759 | 17 903 | 18 802 | 19 079 |
| *% change* | *5.4* | *0.3*(1) | *5.0* | *1.5* |
| Contingency Fund(2) | — | 1 078 | 568 | 571 |
| **TOTAL** | **72 564** | **76 902** | **79 720** | **82 294** |
| ***% change*** | ***4.6*** | ***6.0*** | ***3.7*** | ***3.2*** |

Note: Totals may not add due to rounding.
(1) To assess growth in 2018-2019 based on comparable spending levels, the percentage changes for that year were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services ($12 million) and Education and Higher Education ($79 million) portfolios and including them in the 2017-2018 expenditures of the other portfolios.
(2) For 2018-2019, the amounts provided for in the Contingency Fund include $366 million to fund the measures announced in the March 2018 Québec Economic Plan.

## ❑ Health and Social Services

Health and social services spending seeks to maintain, enhance and restore the health and well-being of Quebecers through access to an array of health and social services.

Program spending for health and social services stands at $38.5 billion in 2018-2019. It includes, in particular:

— $18.8 billion for health services delivered by establishments, including $8.8 billion for physical health and $4.0 billion to support seniors' autonomy;

— $7.9 billion for professional services, mainly medical services;

— $2.5 billion for pharmaceutical services and medications.

TABLE 4

**Program spending – Health and Social Services**
(millions of dollars)

| | 2018-2019 |
|---|---|
| **Healthcare institutions** | **18 804** |
| – Physical health | 8 782 |
| – Support for seniors' autonomy | 3 997 |
| – Mental health | 1 308 |
| – Young people in difficulty | 1 321 |
| – Mental impairment and autism spectrum disorder | 1 022 |
| – Physical impairment | 610 |
| – Public health | 428 |
| – Building and equipment management | 1 337 |
| **Professional services** | **7 936** |
| – Medical services | 7 656 |
| – Dental services | 207 |
| – Optometric services | 74 |
| **Pharmaceutical services and medications** | **2 515** |
| **Other expenses** | **9 286** |
| – Administration and support for services | 2 065 |
| – Debt service | 1 591 |
| – Other | 5 630 |
| **TOTAL** | **38 541** |

Note: Totals may not add due to rounding.
Source: 2018-2019 Expenditure Budget.

## ❑ Education and Higher Education

Education and Higher Education spending helps fund the elaboration of policies as well as services related to preschool, primary, secondary, CEGEP education, university education and research, and student financial assistance.

Program spending for Education and Higher Education stands at $19.4 billion in 2018-2019. It includes, in particular:

- $13.8 billion for educational services:
  - $8.7 billion for school boards,
  - $2.0 billion for CEGEPs,
  - $3.1 billion for universities;
- $5.6 billion for other expenditures, for example:
  - $1.6 billion for debt service related to funding public infrastructure,
  - $0.9 billion for student financial assistance.

TABLE 5

**Program spending – Education and Higher Education**
(millions of dollars)

| | 2018-2019 |
|---|---|
| **Educational institutions** | **13 754** |
| – School boards | 8 697 |
| – CEGEPs | 1 953 |
| – Universities | 3 104 |
| **Other expenditures** | **5 626** |
| – Debt service | 1 597 |
| – Student financial assistance | 850 |
| – Private preschool, elementary and secondary education | 513 |
| – Development of recreation and sports | 86 |
| – Other | 2 579 |
| **TOTAL** | **19 380** |

Note: Totals may not add due to rounding.
Source: 2018-2019 Expenditure Budget.

## ❑ Program spending of government departments

Aside from health and education, program spending supports the implementation of public services in various sectors such as:

- the economy, the environment and culture;
- support for individuals and families;
- administration and justice.

Such program spending stands at $18.9 billion in 2018-2019.

TABLE 6

**Other program spending of government departments**
(millions of dollars)

| | **2018-2019** |
|---|---|
| Travail, Emploi et Solidarité sociale | 4 360 |
| Famille | 2 657 |
| Administration activities(1) | 2 713 |
| Affaires municipales et Occupation du territoire | 1 889 |
| Sécurité publique | 1 588 |
| Justice | 1 017 |
| Économie, Science et Innovation | 1 017 |
| Agriculture, Pêcheries et Alimentation | 899 |
| Culture et Communications | 726 |
| Transports, Mobilité durable et Électrification des transports | 698 |
| Forêts, Faune et Parcs | 489 |
| Immigration, Diversité et Inclusion | 339 |
| Développement durable, Environnement et Lutte contre les changements climatiques | 175 |
| Tourisme | 185 |
| Relations internationales et Francophonie | 112 |
| Énergie et Ressources naturelles | 84 |
| **TOTAL** | **18 948** |

(1) Administration activities include the National Assembly, persons designated by the National Assembly, the Ministère du Conseil exécutif and the Secrétariat du Conseil du trésor, including the Contingency Fund, government administration and the Ministère des Finances.
Source: 2018-2019 Expenditure Budget.

## ❑ Expenditures of bodies and special funds

In addition to program spending, mission expenditures include expenditure carried out by other entities, in particular that of bodies in the health and social services and education networks, non-budget-funded bodies, and special funds. Such expenditures are funded:

— to a large extent by transfers from government departments;

— by own-source revenue such as duties and permits and taxes, and federal transfers.

Such expenditures total $22.5 billion in 2018-2019, up 3.7%. Spending will stand at $22.0 billion in 2019-2020 and $22.4 billion in 2020-2021, a −1.9% and 1.5% change, respectively.

TABLE 7

**Expenditures of bodies and special funds**
(millions of dollars)

| | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** |
|---|---|---|---|---|
| Bodies in the health and social services network | 25 652 | 26 545 | 27 499 | 28 727 |
| *% change* | *4.9* | *3.5* | *3.6* | *4.5* |
| Bodies in the education networks | 16 413 | 17 251 | 18 080 | 18 634 |
| *% change* | *5.2* | *5.1* | *4.8* | *3.1* |
| Non-budget-funded bodies | 19 750 | 20 509 | 21 179 | 21 630 |
| *% change* | *–0.9* | *3.8* | *3.3* | *2.1* |
| Special funds | 11 416 | 12 151 | 12 572 | 12 472 |
| *% change* | *13.1* | *6.4* | *3.5* | *–0.8* |
| Tax-funded expenditures | 6 486 | 6 935 | 7 141 | 7 379 |
| *% change* | *–0.6* | *6.9* | *3.0* | *3.3* |
| Other sectors(1) | –58 032 | –60 914 | –64 429 | –66 466 |
| **TOTAL** | **21 685** | **22 477** | **22 042** | **22 376** |
| ***% change*** | ***10.4*** | ***3.7*** | ***–1.9*** | ***1.5*** |

(1) The other sectors include specified purpose accounts and consolidation adjustments.

## Share of the expenditures of the entities funded through transfers from government departments

The mission expenditures of entities such as bodies in the health and social services network and bodies in the education networks are, by and large, funded by transfers from government departments.

For example:

- the Ministère de la Santé et des Services sociaux funds roughly 90% of the expenditures of bodies in the health and social services network;

- the Ministère de l'Éducation et de l'Enseignement supérieur funds roughly 80% of the expenditures of bodies in the education networks.

The expenditures of non-budget-funded bodies and those of the special funds are funded by the government departments to a lesser extent, i.e. nearly 70% and 40%, respectively.

**Share of the mission expenditures of the entities funded through transfers from government departments**
(per cent)

| | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|
| Bodies in the health and social services network | 89.9 | 90.3 | 90.6 |
| Bodies in the education networks | 79.6 | 81.2 | 81.3 |
| Non-budget-funded bodies | 66.9 | 68.3 | 68.9 |
| Special funds | 40.4 | 40.3 | 40.7 |

## ❑ Non-budget-funded bodies

Non-budget-funded bodies offer specific services to the public.

The mission expenditures of non-budget-funded bodies stand at $20.5 billion in 2018-2019, up 3.8%, and will reach $21.2 billion in 2019-2020 and $21.6 billion in 2020-2021, a 3.3% and 2.1% increase, respectively.

Spending growth in non-budget-funded bodies is mainly attributable to the Régie de l’assurance maladie du Québec and the Fonds de l’assurance médicaments.

Section F of the March 2018 Québec Economic Plan presents the reconciliation between the expenditure budget of non-budget-funded bodies and the government’s financial framework.

TABLE 8

**Mission expenditures of non-budget-funded bodies**
(millions of dollars)

| | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** |
|---|---|---|---|---|
| Régie de l’assurance maladie du Québec (RAMQ) | 12 540 | 12 869 | 13 382 | 13 743 |
| Fonds de l’assurance médicaments (FAM) | 3 576 | 3 675 | 3 821 | 3 975 |
| Elimination of reciprocal transactions between the RAMQ and the FAM | –3 567 | –3 666 | –3 812 | –3 966 |
| **Subtotal** | **12 549** | **12 878** | **13 391** | **13 752** |
| ***% change*** | ***1.2*** | ***2.6*** | ***4.0*** | ***2.7*** |
| Other non-budget-funded bodies(1) | 7 201 | 7 631 | 7 788 | 7 878 |
| *% change* | *–4.3* | *6.0* | *2.1* | *1.2* |
| **TOTAL** | **19 750** | **20 509** | **21 179** | **21 630** |
| ***% change*** | ***–0.9*** | ***3.8*** | ***3.3*** | ***2.1*** |

(1) These amounts include other eliminations of reciprocal transactions between non-budget-funded bodies.

## Expenditures of other non-budget-funded bodies for 2018-2019

In addition to the Régie de l’assurance maladie du Québec and the Fonds de l’assurance médicaments, the reporting entity includes several other non-budget-funded bodies whose total expenditures stand at $7.6 billion in 2018-2019.

For example, for 2018-2019, expenditures total:

- $1.2 billion for the Agence du revenu du Québec;
- $1.2 billion for the Société d’habitation du Québec;
- $868 million for the Société québécoise des infrastructures.

**Mission expenditures of other non-budget-funded bodies**
(millions of dollars)

| | 2018-2019 |
|---|---|
| Agence du revenu du Québec | 1 216 |
| Société d’habitation du Québec | 1 152 |
| Société québécoise des infrastructures | 868 |
| Société de financement des infrastructures locales du Québec | 659 |
| Centre de services partagés du Québec | 546 |
| Héma-Québec | 436 |
| La Financière agricole du Québec | 403 |
| Société de l'assurance automobile du Québec | 277 |
| Other bodies and consolidation adjustments(1) | 2 074 |
| **TOTAL** | **7 631** |

(1) These amounts include other eliminations of reciprocal transactions between non-budget-funded bodies.

## ❑ Special funds

Special funds are entities established by legislation to fund certain activities in government departments and bodies.

The activities of the special funds can be funded, in particular, by tax revenue, fees or transfers from government departments.

The mission expenditures of the special funds stand at $12.2 billion in 2018-2019, up 6.4%, and will reach $12.6 billion in 2019-2020 and $12.5 billion in 2020-2021, a 3.5% and −0.8% change, respectively.

Spending growth in the special funds stems, in particular from:

- the Land Transportation Network Fund, because of funding of road network and mass transit infrastructure;
- the Green Fund, bearing in mind the implementation of the *2013-2020 Action Plan on Climate Change;*
- the Economic Development Fund, which reflects changes in financial assistance payments to businesses.

Section F of the March 2018 Québec Economic Plan presents the reconciliation between the expenditure budget of the special funds and the government's financial framework.

TABLE 9

**Mission expenditures of the special funds**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Land Transportation Network Fund (FORT) | 3 890 | 3 587 | 3 788 | 3 694 |
| Green Fund | 704 | 792 | 789 | 713 |
| Economic Development Fund | 120 | 352 | 290 | 215 |
| Elimination of reciprocal transactions between the FORT and the Green Fund | –254 | –238 | –231 | –127 |
| **Subtotal** | **4 460** | **4 493** | **4 636** | **4 495** |
| ***% change*** | ***32.7*** | ***0.7*** | ***3.2*** | ***–3.0*** |
| Other special funds(1) | 6 956 | 7 658 | 7 936 | 7 977 |
| *% change* | *3.3* | *10.1* | *3.6* | *0.5* |
| **TOTAL** | **11 416** | **12 151** | **12 572** | **12 472** |
| ***% change*** | ***13.1*** | ***6.4*** | ***3.5*** | ***–0.8*** |

(1) These amounts include other eliminations of reciprocal transactions between the special funds.

## Expenditures of other special funds in 2018-2019

In addition to the Land Transportation Network Fund, the Green Fund and the Economic Development Fund, the government's reporting entity includes several other funds. The expenditures of such funds stand at $7.7 billion in 2018-2019.

In particular, for 2018-2019, the expenditures total:

- $2.4 billion for the Educational Childcare Services Fund;
- $1.1 billion for the Labour Market Development Fund;
- $971 million for the Tax Administration Fund.

**Mission expenditures of other special funds**
(millions of dollars)

| | **2018-2019** |
|---|---|
| Educational Childcare Services Fund | 2 423 |
| Labour Market Development Fund | 1 107 |
| Tax Administration Fund | 971 |
| Police Services Fund | 650 |
| Natural Resources Fund – Sustainable forest land development section | 538 |
| Health and Social Services Information Resources Fund | 210 |
| Tourism Partnership Fund | 203 |
| Other funds and consolidation adjustments(1) | 1 556 |
| **TOTAL** | **7 658** |

(1) These amounts include other eliminations of reciprocal transactions between the special funds.

## ❑ Tax-funded expenditures

The refundable tax credits granted to individuals and companies, which are similar to a transfer expenditure related to the taxation system, are recorded as expenditure rather than reducing revenue. To such refundable tax credits are added expenditures related to doubtful tax accounts.

Tax-funded expenditures stand at $6.9 billion in 2018-2019, a 6.9% change in relation to the preceding year. Such expenditures will reach $7.1 billion in 2019-2020 and $7.4 billion in 2020-2021, a 3.0% and 3.3% increase, respectively, for the two years.

TABLE 10

**Tax-funded expenditures**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Mission expenditures | 6 486 | 6 935 | 7 141 | 7 379 |
| *% change* | *–0.6* | *6.9* | *3.0* | *3.3* |

# APPENDIX 4: DETAILED MISSION EXPENDITURES FROM 2017-2018 TO 2020-2021

TABLE 11

## Detailed mission expenditures from 2017-2018 to 2020-2021

(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | % Δ 2018-2019 to 2020-2021 |
|---|---|---|---|---|---|
| **Health and Social services** | | | | | |
| – Health and social services institutions | 25 652 | 26 545 | | | |
| – Medical compensation | 7 487 | 7 655 | | | |
| – Prescription drug insurance (non-budget-funded body) | 3 576 | 3 675 | | | |
| – Refundable tax credits related to health | 655 | 729 | | | |
| – Other, including: | 2 843 | 3 416 | | | |
| ▪ Santé et Services sociaux (coordination functions and Office des personnes handicapées du Québec) | 138 | 159 | | | |
| **Subtotal** | **40 213** | **42 020** | **43 571** | **45 398** | |
| ***% change*** | ***3.8*** | ***4.5***(1) | ***3.7*** | ***4.2*** | ***4.1*** |
| **Education and Culture** | | | | | |
| – School boards | 12 547 | 13 149 | | | |
| – CÉGEPs and Université du Québec and its constituents | 3 867 | 4 102 | | | |
| – Financial assistance for education expenses | 757 | 850 | | | |
| – Culture et Communications (department) | 789 | 726 | | | |
| – Immigration, Diversité et Inclusion (department) | 220 | 339 | | | |
| – Refundable tax credits related to education and culture | 449 | 483 | | | |
| – Other, including: | 4 156 | 4 258 | | | |
| ▪ Éducation et Enseignement supérieur (administration, sports and recreation, support for organizations) | 406 | 401 | | | |
| **Subtotal** | **22 785** | **23 907** | **24 655** | **25 517** | |
| ***% change*** | ***5.3*** | ***4.5***(1) | ***3.1*** | ***3.5*** | ***3.8*** |
| **Economy and Environment** | | | | | |
| – Économie, Science et Innovation (department) | 867 | 1 017 | | | |
| – Société d'habitation du Québec | 985 | 1 152 | | | |
| – Société de financement des infrastructures locales du Québec | 620 | 659 | | | |
| – Transport, Mobilité durable et Électrification des transports | | | | | |
| ▪ Department expenditure | 685 | 698 | | | |
| ▪ Land Transportation Network Fund | 3 890 | 3 587 | | | |
| ▪ Société de l'assurance automobile du Québec | 247 | 277 | | | |
| – Green Fund | 704 | 792 | | | |
| – Natural Resources Fund – Sustainable Forest Development Component | 569 | 538 | | | |
| – La Financière agricole du Québec | 411 | 403 | | | |
| – Refundable tax credits related to the economy and environment | 1 344 | 1 424 | | | |

TABLE 11 (cont.)

## Detailed mission expenditures from 2017-2018 to 2020-2021 (cont.)

(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | % Δ 2018-2019 to 2020-2021 |
|---|---|---|---|---|---|
| **Economy and Environment (cont.)** | | | | | |
| – Other, including: | 3 987 | 4 497 | | | |
| ▪ Travail, Emploi et Solidarité sociale (employment assistance measures) | 842 | 818 | | | |
| ▪ Affaires municipales et Occupation du territoire (regional development, municipal infrastructures and metropolis) | 730 | 738 | | | |
| ▪ Tourisme (department) | 213 | 185 | | | |
| ▪ Relations internationales et Francophonie (départment) | 124 | 112 | | | |
| ▪ Éducation et Enseignement supérieur (Capitale-Nationale) | 77 | 60 | | | |
| ▪ Agriculture, Pêcheries et Alimentation (bio-food business development, training and food quality) | 441 | 460 | | | |
| ▪ Forêts, Faune et Parcs (mainly fauna, parks and regional operations) | 316 | 284 | | | |
| ▪ Développement durable, Environnement et Lutte contre les changements climatiques (department) | 282 | 175 | | | |
| ▪ Énergie et Ressources naturelles (department) | 99 | 84 | | | |
| **Subtotal** | **14 309** | **15 044** | **15 035** | **14 857** | |
| ***% change*** | ***16.0*** | ***5.1*** | ***−0.1*** | ***−1.3*** | ***1.2*** |
| **Support for Individuals and Families** | | | | | |
| – Educational Childcare Services Fund | 2 364 | 2 423 | | | |
| – Refundable tax credits related to support for individuals and families | 3 429 | 3 577 | | | |
| – Financial assistance measures (Ministère du Travail, de l'Emploi et de la Solidarité sociale program) | 2 950 | 3 014 | | | |
| – Access to justice and compensation and recognition | 301 | 331 | | | |
| – Other, including: | 772 | 821 | | | |
| ▪ Éducation et Enseignement supérieur (Status of women) | 19 | 17 | | | |
| ▪ Famille (mainly administration, assistance measures for families, Condition of Seniors and Curateur public du Québec) | 207 | 234 | | | |
| ▪ Travail, Emploi et Solidarité sociale (administration) | 516 | 510 | | | |
| **Subtotal** | **9 816** | **10 166** | **10 251** | **10 481** | |
| ***% change*** | ***2.4*** | ***4.4***(1) | ***0.8*** | ***2.2*** | ***2.2*** |

TABLE 11 (cont.)

## Detailed mission expenditures from 2017-2018 to 2020-2021 (cont.)

(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | % Δ 2018-2019 to 2020-2021 |
|---|---|---|---|---|---|
| **Administration and Justice** | | | | | |
| – Conseil du Trésor (department) et Administration gouvernementale | 810 | 997 | | | |
| – Sécurité publique (department) | 1 571 | 1 588 | | | |
| – Agence du revenu du Québec | 1 126 | 1 216 | | | |
| – Assemblée nationale et personnes designées | 234 | 328 | | | |
| – Conseil exécutif (department) | 410 | 463 | | | |
| – Administration of justice, criminal and penal prosecutions and judicial activity | 584 | 654 | | | |
| – Refundable tax credits related to administration and justice(2) | 609 | 722 | | | |
| – Other, including: | 1 782 | 1 915 | | | |
| ▪ Affaires municipales et Occupation du territoire (support for municipalities, consumer protection, department activities) | 748 | 707 | | | |
| ▪ Finances (department) | 231 | 201 | | | |
| ▪ Travail, Emploi et Solidarité sociale (labour) | 25 | 19 | | | |
| **Subtotal** | **7 126** | **7 883** | **7 950** | **8 127** | |
| ***% change*** | ***6.2*** | ***10.6*** | ***0.8*** | ***2.2*** | ***4.5*** |
| Contingency Fund reserve | — | 359 | 300 | 300 | |
| **Mission expenditures** | **94 249** | **99 379** | **101 762** | **104 670** | |
| ***% change*** | ***5.9*** | ***5.4*** | ***2.4*** | ***2.9*** | ***3.6*** |

(1) To assess growth in 2018-2019 according to spending levels established on a comparable basis, the percentage changes for that year 2018-2019 were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission ($12 million) and the Support for Individuals and Families mission ($75 million) and including them in the 2017-2018 expenditures of the Education and Culture mission.

(2) Includes doubtful tax accounts.

*Pre-Election Report on the State of Québec's Public Finances – August 2018* flows from the government's commitment to publish a report on the state of Québec's public finances prior to fixed-date general elections.

*Pre-Election Report on the State of Québec's Public Finances – August 2018* is based on the financial framework of the March 2018 Québec Economic Plan, to which the necessary adjustments were made to take into account the most recent information.

The pre-election report presents budgetary forecasts prepared according to a transparent, stringent and prudent process. The forecasts in the report are based on the assumptions that are most plausible.

**To help you take stock of the state of Québec's public finances, consult:**

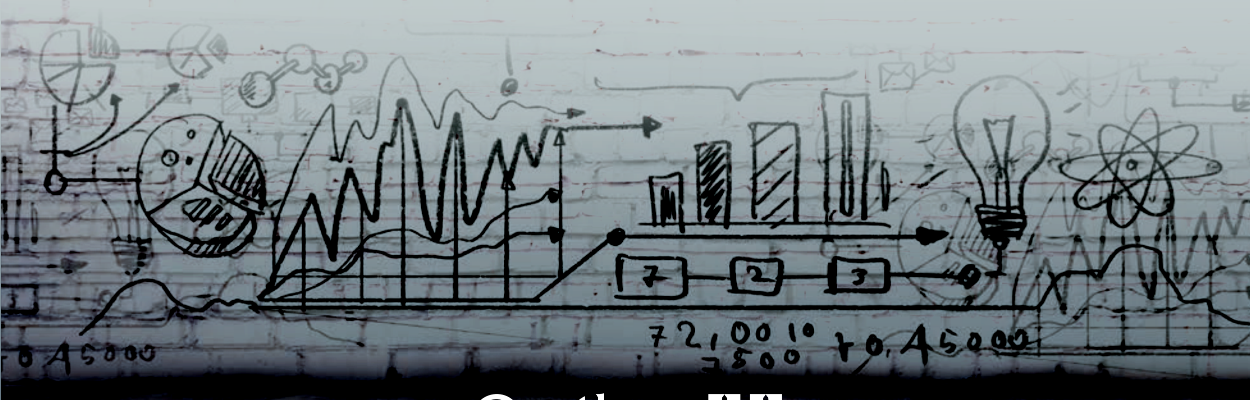
**www.rapportpreelectoral.gouv.qc.ca**

Finances Québec

August 20, 2018

# THE BUDGETARY PROCESS
## Supporting the Pre-election Report

## A TRANSPARENT, STRINGENT, PRUDENT AND FLEXIBLE BUDGETARY PLANNING EXERCISE



Québec

August 20, 2018

# THE BUDGETARY PROCESS
## Supporting the Pre-election Report

## A TRANSPARENT, STRINGENT, PRUDENT AND FLEXIBLE BUDGETARY PLANNING EXERCISE

Finances Québec

The Budgetary Process Supporting the Pre-election Report

Ministère des Finances

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# INTRODUCTION

In recent years, the government has undertaken numerous actions to define a budgetary process that responds to the needs and expectations of the public and parliamentarians.

— The pre-election report is the end result of the process the government set up to draft the Québec budget and quantify its financial framework.

The purpose of this section is to report on the initiatives undertaken to make drawing up the budget a transparent, rigorous, prudent and flexible exercise.

## ❑ Four characteristics

The process Québec selected essentially features four characteristics.

### ■ A transparency process

The budgetary process must be transparent.

Quebecers and parliamentarians must have all of the information required to evaluate the government's budget orientations.

### ■ A rigorous process

The process must be rigorous.

The budgetary process must be based on proven practices to guarantee that the evaluations are rigorous.

### ■ A prudence process

The budgetary process must be prudent.

The financial framework is vulnerable to both internal and external shocks and all forecasts involve some uncertainty. The budgetary process must take such risks and uncertainties into consideration.

### ■ A flexible process

The budgetary process must be flexible.

The economic and social context changes constantly; the very nature of a democratic society requires the budgetary process to be adjustable so that it can adapt quickly to events and to the implementation of public policy choice.

## Budgetary planning process

### Budgetary planning

Budgetary planning makes it possible to situate the government's budget policy within a financial framework. It defines the actions to be taken over the short and medium term, particularly to ensure adequate funding for public services based on the government's and Quebecers' ability to pay, in compliance with the laws in effect, including the *Balanced Budget Act* and the *Act to reduce the debt and establish the Generations Fund*.

### Evolving planning

Budget planning is open-ended. That is why it is regularly reviewed and amended to factor in changes that could affect the financial framework.

In Québec, the government's preferred budgetary planning practices are built on a multi-year approach so that policies can be framed over several years. This approach means that measures can be implemented progressively.

### Sound management of medium-term risks

The government's multi-year management hinges on the sound management of medium-term risk. For example, the government evaluates the cost of renewing government programs to ascertain and manage the expenditure overruns that might occur in subsequent years.

### Long-term projections

The government also creates long-term projections that extend beyond five years. Such projections make it possible for the government to make decisions about trends that could have repercussions on public finances.

### Budget secrecy

The budgetary planning process is subject to budget secrecy until the day of the budget speech. The concept of budget secrecy is rooted in the British parliamentary system. It is primarily intended to keep people with advance knowledge of budget measures from capitalizing on them by reorganising their activities.

# 1. THE TRANSPARENCY OF THE BUDGETARY PROCESS

The primary expectation Quebecers and parliamentaries have for the budget process is transparency.

It is essential for Quebecers to have all of the information required to evaluate and judge the government's budgetary orientations.

- The budgetary orientations must be **documented and published**.
- The documents made available must provide a **complete, accessible and comprehensible** vision of the financial framework.
- The vision must also cover the documentation produced with respect to the **accountability process**.

## 1.1 Documentation that supports the government's budgetary policy

In the March 2018 Québec Economic Plan, the government made public a document describing the process to establish the financial framework and public documentation to support the budgetary cycle.[1]

— In particular, the document outlines the documentation provided to Quebecers in support of budget policy, including that produced in conjunction with the process for fiscal monitoring and accountability.

In recent years, the budget documentation has been revised so as to present the information in logical order and make it more comprehensible to Quebecers.

### ❑ The Budget Speech

In it, when tabling the Budget in the National Assembly, the Minister of Finance sets out the budget policy–the government's priorities and commitments–including the objectives that have been selected and the ways chosen to achieve them.

### ❑ Budget plan

The budget plan—which has been called the Québec Economic Plan since March 2015—is the document containing the various information elements related to the priorities and orientations announced in the budget speech.

#### ■ Economic and budgetary policy directions

The plan sets out the economic and budgetary orientations[2] for the five years following the budget speech, including the current budget year.

It includes the government's consolidated financial framework, the strategic choices and measures, the annual targets for the Québec Infrastructure Plan and the debt reduction targets.

In addition to those orientations, the government also provides information derived from comparing Québec's economic and financial situation with that of other provinces, data on the change in revenue and expenditure as a percentage of the economy, and explanations of the adjustments made from the previous budget.

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1 See *Budgetary Process and Documents: Public Financial Accountability* published as part of the March 2018 Québec Economic Plan.

2 In March 2018, the economic and budgetary orientations were covered in Section A of the Québec Economic Plan.

## Detailed consolidated financial framework

The Québec Economic Plan gives Quebecers and lawmakers the detailed consolidated financial framework for the three years following the budget speech, including the current budget year.[3]

The financial framework is called consolidated because it contains the data on all of the entities within the government reporting entity. In March 2018, the consolidated financial framework covered close to 350 different entities.

The detailed consolidated financial framework gives Quebecers and parliamentarians information on the factors affecting the changes in revenue and expenditure, and presents adjustments to the financial framework since the last budget was tabled.

The detailed consolidated financial framework is a direct source of management information for the entities within the government reporting entity; it helps them plan their short-term operations based on the financial resources that will be available to them.

## Information to support budgetary policy

The Budget Plan, or the Québec Economic Plan, contains the information that supports budgetary policy, namely information that presents the government's orientations for economic development, its economic forecasts, and detailed information on the debt and federal transfers.

In particular, the information clustered under the theme of government orientations for economic development provides detailed information in plain language on the various tax and budgetary initiatives announced in the budget.[4]

The economic forecasts are in a special section due to the central role they play in forecasting revenue and expenditure.[5,6]

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3 The detailed financial framework is presented in Section F of the March 2018 Québec Economic Plan.

4 In the March 2018 Québec Economic Plan, the government's orientations for economic development are set out in Sections B, C and D. Section B summarizes all of the initiatives. Section C details the initiatives designed for individuals and the community. Section D describes the initiatives introduced to boost economic development.

5 See Section E of the March 2018 Québec Economic Plan.

6 The information that supports budgetary policy also includes a detailed forecast of the evolution of the debt and financing program over five years (Section G of the March 2018 Québec Economic Plan) and Québec’s position with respect to federal transfers (Section H).

## ❑ Specific details and perspectives

Complementary to the Budget Speech, another series of documents includes publications that provide certain details or particular perspectives to Quebecers and parliamentarians.

- The government provides an entire array of additional information concerning, for example, things like legislation pertaining to budgetary balance and the Generations Fund,[7] or other one-time information about some budget initiatives.[8]
  - In particular, the procedural requirements respecting the tax measures are described in detail in the document entitled Additional Information.
- The government publishes brochures that are also part of budgetary documentation to highlight certain themes tackled in the budget.[9]

7 This category includes measures requiring an amendment to legislation, Québec's budgetary statistics and sensitivity analyses for economic and financial variables.

8 In March 2018, the government published further information on the *Tax Fairness Action Plan*, the cannabis framework and support for the taxi industry.

9 This series of documents also includes the economic and financial summary and calculators available on the Ministère des Finances website, as well as the executive summary of the budget.

## 1.2 Complete, accessible, plain-language documentation

The government has done many things to enhance the transparency of budget documents in recent years.

The transparency compares favourably to the transparency of budget documents available in other Canadian provinces in many respects.

### ❑ Complete documentation

The budget documentation provides complete information on the data presented and assumptions used.

#### ■ Complete financial framework

The information presented in the budget documents is complete and accessible to everyone. It describes changes to the financial framework's components and its revisions. In the same way, the assumptions are explained clearly and justified so that the reader grasps the changes made since the last budget.

For example, the Ministère des Finances releases a range of information, such as:

- economic and financial indicators that explain revenues and expenditures;
- growth rates and adjustments to the main components of the financial framework;
- government orientations and announcements that have an influence over the forecasts;
- the impact of economic conditions and government orientations on the budget situation and, if applicable, major changes in public services;
- comparisons with other Canadian provinces.

#### ■ Economic forecasts

The economic forecasts used by the government play a critical role in projecting revenue and expenditure, as well as managing the debt and defining economic policies.

The budget documents provide extensive information on those forecasts, including the forecast change in Québec's primary economic variables over two years, the growth outlook for both real and nominal GDP over five years, the expected progress of the Canadian economy, U.S. economy and world economy, and the evolution of a variety of financial market variables.

## ■ Federal transfers

The section on federal transfers sets out the forecast for federal transfer revenues, which are federal government revenues paid to Québec under the *Federal-Provincial Fiscal Arrangements Act*, to which revenue from other programs is added. It also sets out Québec's requests to the federal government.

The information on federal transfers informs Quebecers about Québec's requests. The section is also addressed to the other provinces and the federal government, giving them Québec's perspective on the transfers.

## ■ Medium-term projections

The Ministère des Finances also regularly publishes medium-term projections on the development of the economy, Québec's financial framework and debt.

# ❑ Accessible documentation

The budget documents are presented in an understandable way and their structure makes the information easy to access.

## ■ Presentation of the Québec Economic Plan

The sections of the Québec Economic Plan devoted to various fiscal and budgetary initiatives illustrate the concern with accessibility.

All government initiatives are categorized by theme, and the document spells out their financial impact, how they will be funded, and the context for the government measures. The terms for applying tax measures are also described in detail in the additional information.

That gives all Quebecers an exhaustive statement of the fiscal and budgetary initiatives announced in the budget, together with explanations about them and the reasons why they were adopted. Details of the measures and specific terms of application are released after the budget is tabled. The minister responsible for each measure handles this task.

## ■ Information presented systematically

The array of information that makes it possible to understand all aspects of budget policy is made available to all Quebecers in a systematic way.

## ■ A strong effort compared with other Canadian provinces

The budget document presentation Québec has chosen is the most complete of any province in Canada.

— Québec is the only province that provides a detailed explanation of the adjustments to revenue and expenditure, and makes the connection between the changes and the economic situation as part of an economic and financial update.

— Québec is also the only province to produce a monthly report on its financial operations.

## ❑ Plain-language information

With each budget, the government issues a summary that sets out all of the economic, financial and fiscal orientations in just a few pages.[10]

### ■ Budget papers

The budget papers included in the budget documentation are also intended to provide a plain-language explanation of certain orientations announced in the budget.

The budget papers provide complete information on the initiatives announced in the budget for specific issues; in-depth background information is often included.[11]

### ■ Use of digital technology

The development of digital technology provided the government with an opportunity to present its information in plainer language.

All the different calculators and "Québec by the Numbers," available on the Ministère des Finances website, give Quebecers understandable information and rapid access to the budget initiatives that directly concern them.

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[10] In March 2018, the document was called *Economic Plan in Brief.*

[11] The 2018-2019 budget documentation comprises thirteen papers that address topics such as health, education, climate change and disposable income.

## 1.3 Accountability

The government's desire for transparency cannot be limited to the budget period.

Fiscal and financial policy directions must be monitored and an accountability report drawn up, while making this information available to all Quebecers.

Three monitoring and accountability documents allow Quebecers to better understand the state of public finances throughout the budgetary cycle: the fall update, the monthly report on financial transactions and the public accounts.

### ❑ The fall update

The government has published a fall update every year since the 2006-2007 fiscal year. This publication presents the government's update on Québec's economic and financial situation over the course of the fiscal year.

As part of the fall update, the government may choose to announce new policy directions that will be restated when the upcoming budget is published.

The Québec government's fall update is the most comprehensive document of its type compared to other Canadian provinces.

### ❑ The monthly report on financial transactions

The government has also published a monthly report on financial transactions since the 2006-2007 fiscal year. Eleven times a year, Quebecers have access to an overall picture of the monthly progress when it comes to public finances.

### ❑ The public accounts

In accordance with the *Financial Administration Act*, the government tables its public accounts at the end of the budgetary cycle.

The document presents the government's financial statements and financial information pertaining to government departments, budget funded bodies and special funds, as well as other information including an analysis of financial indicators.

It should be noted that the Auditor General of Québec presents its opinion on the consolidated financial statements as part of its audit.

# 2. RIGOROUS BUDGETARY PROCESS

The various documents published at the same time as the annual budget and throughout the budgetary cycle are intended to ensure transparency in the budgetary process. The process must meet a second expectation on the part of Quebecers: it must be rigorous.

— It must be based on proven **practices** so as to guarantee that the evaluations and forecasts are rigorous.

— When it comes to forecasts, their rigorous nature may be measured by evaluating "**forecast performance**," which is the difference between formulated forecasts and actual changes.

## 2.1 Practices used

The Québec government has gradually implemented a series of practices in order to ensure a rigorous budgetary process.

— The Ministère des Finances works closely with the departments and bodies of the Québec government. This collaboration hinges on precisely defining the responsibilities of everyone involved. The government also works very closely with the Secrétariat du Conseil du trésor.

— Very detailed forecasting models allow for precise simulation of the assumptions used.

— The Ministère des Finances bases its forecasts on the most recent economic and financial results.

— The process conforms to legal and regulatory provisions as well as public sector accounting policies.

These practices are implemented for the various budget forecasting exercises that determine the financial framework and debt valuation: economic forecasts, revenue forecasts, expenditure forecasts, including financing needs forecasts to determine the debt level.

## ❑ Economic forecasts

Economic forecasts are made in advance of the process that determines the financial framework and debt. They serve as inputs for revenue and expenditure forecasts. They indicate the anticipated movement of the Québec economy, the economy of Québec's main trading partners, the financial markets, the price of raw materials and the global economy.

The Ministère des Finances goes to great lengths to ensure that each step follows best practices.

### ■ Tracking changes in the economic situation

During the initial step, the Ministère des Finances tracks changes in the economic situation, gathers and processes the most recent official statistics and analyzes factors that could influence forecasts.

### ■ Economic forecasting models

During the second stage, the Ministère des Finances uses economic forecasting models to produce consistent forecast scenarios. These very detailed forecasting models allow for reflection on the assumptions used.

### ■ Results analysis

During the third stage, the results are analyzed.

Certain parameters and assumptions are re-evaluated in order to come up with consistent, reliable forecasts. For example, the economic forecasts may be adjusted so as to reflect the impact of major budgetary measures on economic growth.

This stage also includes the cross validation of assumptions used with private sector forecasts. The comparison with private sector forecasts helps determine the plausibility of the assumptions as well as the risks that could influence results.

## ❑ Revenue forecasts

Revenue forecasts are drawn up once economic forecasts have been finalized as they are based, in part, on the latter. Revenue forecasts also depend on the government's fiscal policy directions.

Revenue forecasts are based on two distinct processes involving either own-source revenues or federal transfers.

### ■ Own-source revenue

In the case of own-source revenue,[12] the forecasts result from concerted action by several stakeholders, in particular the Ministère des Finances, government departments and bodies and government enterprises. The revenue of each source is determined separately using a forecasting method and models established specifically for the source.

#### ▪ Ongoing analysis

The information required for creating forecasts is repeatedly compiled and analyzed throughout the year. For the most part, this information comes from reports produced by Revenu Québec and by the Comptroller of Finance.[13]

Thanks to these reports, the Ministère des Finances can carry out in depth analyses of the changes in revenue sources and their components, thus reducing the risks associated with forecasting.

Forecasts of revenue from government enterprises is determined according to information that the latter submit, namely their earnings forecasts and the information on which the forecasts are based.

#### ▪ Using models

All the data and information is processed using models that are designed for each source of revenue.

These models facilitate the production of a detailed revenue forecast broken down into components in a manner that captures the behaviour of economic agents, thus allowing for more efficient monitoring throughout the year. As part of a continuous improvement process, these models are updated regularly to ensure the reliability of the forecast.

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[12] In 2018-2019, own-source revenue represents 78.6% of the government’s total revenue.

[13] The compiled information used to forecast own-source revenue also comes from the Institut de la statistique du Québec, Statistics Canada, various government departments, public bodies and government enterprises.

- **Controls and validations**

Throughout the own-source revenue forecasting process, controls and validations are carried out to ensure the accuracy and relevance of the assumptions used.

- **Integration of new fiscal and budgetary measures**

Once the forecasts have been established, the Ministère des Finances incorporates new fiscal and budgetary measures that will impact revenue into the financial framework.

## ■ Federal transfers

When it comes to federal transfers,[14] the forecasting process primarily consists in collecting and analyzing a range of economic, demographic and fiscal data.

The revenue forecast from the Canada Health Transfer, the Canada Social Transfer and equalization is established using a model that precisely reproduces the parameters outlined in the *Federal-Provincial Fiscal Arrangements Act*.

The forecast of revenue from other programs is determined based on inputs from various government departments and federal bodies.

The Ministère des Finances also uses as inputs several variables from the previously established economic forecast.

When it comes to federal transfers, controls and validations are carried out during the forecasting process to ensure the accuracy and relevance of the assumptions used, especially those of an economic nature.

[14] In 2018-2019, federal transfers represent 21.4% of the government's total revenue.

## ❑ Expenditure forecasts

As is the case with revenue forecasts, expenditure forecasts are carried out once economic forecasts have been finalized as they are based, in part, on the latter. Expenditure forecasts are also based on the government's fiscal policy directions.

Expenditure forecasts are established using two different processes, depending on whether the expenditure is a mission expenditure or debt service expenditure.

### ■ Mission expenditures

Mission expenditure forecasts[15] are established by the Ministère des Finances in close collaboration with the Secrétariat du Conseil du trésor and all government departments and public bodies. The Ministère des Finances collaborates closely with the Secrétariat du Conseil du trésor and the responsibilities of each department are outlined in the legislation.[16]

The process established to determine the forecasts is made up of five steps, which are clearly defined.

#### ▪ Clear and detailed instructions

Clear and detailed instructions are communicated to government departments, public bodies and other government reporting entities. This step is vital in guaranteeing the quality of forecasts and the rigorous nature of the completed work.

The instructions communicated include the economic and budgetary parameters that must be taken into account. It is essential that the same assumptions be used to ensure that government program renewal costs are coherently evaluated by the various government departments and bodies.

#### ▪ Multi-year spending target

The Ministère des Finances determines the multi-year spending target.

This target is determined based on the government's fiscal policy directions and its capacity to pay, which stems, in particular, from the changes in government program renewal costs, revenue and expenditure during the year.

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15 In 2018-2019, mission expenditures represent 91.5% of the government’s total expenditure.

16 *Act respecting the Ministère des Finances* and *Public Administration Act.*

### ▪ Government program renewal costs

At the same time, the Secrétariat du Conseil du trésor, in collaboration with government departments and public bodies, estimates the renewal costs of government department programs and other mission expenditures.

— "Government program renewal costs" entail an exhaustive evaluation of the costs associated with the renewal of service delivery and existing programs.

The estimate considers the relevant economic, demographic and salary parameters, such as changes in the price of goods and services or changes in the clientele. The estimate of program renewal costs also incorporates the impact of government decisions, for example the cost of collective agreements or the cost of new measures.

### ▪ Managing the differences observed

The multi-year target is compared with government program renewal costs for the possible management of the differences observed, whether they display a surplus or a deficit in relation to program renewal costs.

### ▪ Total mission expenditures

During the final stage of this process, the Ministère des Finances establishes the total mission expenditures.

— Furthermore, based on the evaluation of program renewal costs, the Secrétariat du Conseil du trésor determines the government departments' and bodies' appropriations for the budget's reference year as well as the expenditure budget for special funds and non-budget-funded bodies.

The new tax and budget measures that affect expenditure are then incorporated into the forecasts.

## ■ Debt service

The direct debt service forecast[17] is obtained using a model that takes into account the characteristics of each financial instrument that makes up the debt. The forecast uses the most recent actual results as a base. It factors in all of the government's decisions that impact financing needs.

The direct debt service forecast integrates the debt management strategy implemented by the government.

The debt service forecast also includes interest on liabilities with regard to pension plans and future employee benefits.

[17] In 2018-2019, the debt service represents 8.5% of the government's total expenditure.

## Reconciliation of forecasts and policy directions

Once revenue and expenditure forecasts have been created, the next step involves reconciliation of the government's forecasts and policy directions.

This reconciliation is carried out in three phases.

### Overview of the budgetary situation

During the first stage, the profile of the fiscal position is prepared when the revenue and expenditure forecasts are pooled. A complete representation is obtained through the consolidation of the forecasts produced by the Ministère des Finances and by those produced by government departments and bodies.

### The government's policy directions

During the second stage, the government determines its economic, fiscal, budgetary and financial directions.

These directions are primarily based on pre-budget consultations and on requests submitted by government departments and public bodies. Some of these proposals are subject to in-depth analyses, including alternate scenarios.

It is incumbent upon the government to choose the policies and measures that will be integrated into budgetary policy. The initiatives are adopted especially according to the government's priorities and the leeway achieved during the financial framework elaboration process.

### Validating the consistency of the financial framework

During the third stage, the Ministère des Finances validates the consistency of the financial framework in light of the measures adopted and the government's policy directions. This final analysis ensures that the assumptions, forecasts and policy directions used are plausible.

## 2.2 Accuracy of achieved results: forecast performance

In order to evaluate the accuracy of achieved results, the Ministère des Finances compares its forecasts with the results observed.

This forecast performance measure is applied to economic, own-source revenue and mission expenditure forecasts.

### ❑ Economic forecast performance

The performance of economic forecasts in relation to achieved results is a vital step. Economic forecasts are the starting point for establishing the financial framework.

#### ■ Most likely outlooks

The economic forecasts must correspond to the most probable outlooks at the time they are created, based on the information available at that time.

— The forecasts must take risks into account.

The economic forecasts must be centred and lead to an accurate revenue forecast. A large gap would translate into inadequate decisions in terms of government policies.

— The likelihood of forecasts is evaluated by comparing the Ministère des Finances forecasts to those of private sector institutions.

#### ■ The most accurate outlooks after the fact

The quality of forecasts may also be evaluated by comparing them ex post to what has transpired—the facts can only be evaluated in hindsight.

— When it comes to economic forecasts, the facts can only be quantified a few years after the period in question.

The comparison between forecasts and subsequent official data constitutes a forecast performance measure.

## ■ An initial evaluation while drawing up forecasts

When being drawn up, economic forecasts are compared to private sector forecasts.

— This comparison allows the Ministère des Finances to undertake an initial assessment of changes in the economic situation.

The Ministère des Finances reviews forecasts drawn up by eleven private sector institutions.[18]

Overall, since 2002, the economic forecasts of the Ministère des Finances have been comparable to the average private sector forecasts. These forecasts are between the lower and higher limits of the private sector forecasts.

TABLE 1

**Québec real GDP initial forecast: comparison with the private sector**
(percentage change)

| | Ministère des Finances du Québec(1) | Private sector(2) | | |
|---|---|---|---|---|
| | | Low | Average | High |
| 2002 | 1.7 | 0.4 | 1.3 | 1.7 |
| 2003 | 2.5 | 2.0 | 2.9 | 3.4 |
| 2004 | 2.7 | 2.2 | 2.6 | 3.0 |
| 2005 | 2.4 | 2.1 | 2.4 | 2.8 |
| 2006 | 2.5 | 1.9 | 2.5 | 2.7 |
| 2007 | 1.8 | 1.1 | 1.8 | 2.4 |
| 2008 | 1.5 | 0.9 | 1.6 | 2.4 |
| 2009 | −1.2 | −2.5 | −1.2 | −0.4 |
| 2010 | 2.3 | 2.0 | 2.4 | 2.8 |
| 2011 | 2.0 | 1.8 | 2.2 | 2.6 |
| 2012 | 1.5 | 1.4 | 1.6 | 2.0 |
| 2013 | 1.5 | 1.3 | 1.5 | 1.7 |
| 2014 | 1.8 | 1.5 | 1.8 | 1.9 |
| 2015 | 2.0 | 1.7 | 2.0 | 2.4 |
| 2016 | 1.5 | 1.3 | 1.6 | 2.0 |
| 2017 | 1.7 | 1.5 | 1.7 | 1.9 |

(1) For example, the 2002 forecast was published in Budget 2002-2003.
(2) Ministère des Finances du Québec summary, which contains the forecasts of 10 private sector institutions for 2002 to 2014 and 11 institutions for 2015 to date.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

18 The 11 private sector institutions whose economic forecasts are reviewed by the Ministère des Finances are the Laurentian Bank of Canada, Royal Bank of Canada, Scotiabank, TD Bank, BMO Capital Markets, CIBC World Markets, Conference Board of Canada, Desjardins, National Bank Financial, IHS Markit and Industrial Alliance.

## Retroactive analysis of economic forecasts

The retroactive analysis of the differences in economic forecasts compared to observed results allows the Ministère des Finances to determine the accuracy of the achieved results and thus the efficiency of the forecasting process.

### Retroactive analysis

This retroactive analysis can only be carried out after the fact as official statistics on the state of the economy are subject to a series of revisions.

When it comes to real GDP, final statistics for a given year are generally published after several revisions. They generally stabilize after three annual revisions.

— For example, the first estimate for the 2013 real GDP was published by statistical agencies in March 2014. This data was subsequently revised in November 2014 and again in 2015 and 2016.

— Thus, the 2013 real GDP growth increased from 1.0% to 1.4% between the first forecast and the last available estimate to date.[19]

— Furthermore, Statistics Canada may modify these statistics over the coming years while drawing up broader historical forecasts. These revisions in particular aim to improve forecasting methods or modify certain concepts.

[19] For more information, see page 65 of *Budgetary Process and Documents: Public Financial Accountability* published as part of the March 2018 Québec Economic Plan.

- **Differences in official data observed ex post**

The Ministère des Finances carried out a retroactive analysis of the differences observed between the first estimated observation for a given year—which was used to draw up the financial framework of the same year—and the first and last official data published by statistics agencies.

Between 2002 and 2016, the differences between the forecasts of the Ministère des Finances and the first estimate of official data are positive for certain years and negative for others, indicating that the forecasts do not include a systematic bias. This represents, on average, a difference of 0.1 percentage point for the entire period, which indicates a low bias. The standard deviation, which represents the deviation dispersion, is 0.9 percentage point. The lower the standard deviation, the more precise the forecast.

When comparing the forecasts of the Ministère des Finances with the final observed data, a mean deviation of 0.2 percentage point is observed for the entire period.

TABLE 2

**Québec real GDP forecast: comparison with observed data**
(variation in percentages and difference between the forecast and observed date in percentage points)

| | Initial forecast of the Ministère des Finances du Québec[1] | First estimated observation | | Latest estimated observation available | |
|---|---|---|---|---|---|
| | | Observed data | Difference | Observed data | Difference |
| 2002 | 1.7 | 4.1 | –2.4 | 2.9 | –1.2 |
| 2003 | 2.5 | 1.7 | 0.8 | 1.2 | 1.3 |
| 2004 | 2.7 | 1.9 | 0.8 | 2.5 | 0.2 |
| 2005 | 2.4 | 2.1 | 0.3 | 1.5 | 0.9 |
| 2006 | 2.5 | 1.6 | 0.9 | 1.2 | 1.3 |
| 2007 | 1.8 | 2.5 | –0.7 | 2.4 | –0.6 |
| 2008 | 1.5 | 1.0 | 0.5 | 1.9 | –0.4 |
| 2009 | –1.2 | –1.4 | 0.2 | –0.8 | –0.4 |
| 2010 | 2.3 | 2.8 | –0.5 | 2.0 | 0.3 |
| 2011 | 2.0 | 1.7 | 0.3 | 1.9 | 0.1 |
| 2012 | 1.5 | 1.0 | 0.5 | 1.0 | 0.5 |
| 2013 | 1.5 | 1.1 | 0.4 | 1.4 | 0.1 |
| 2014 | 1.8 | 1.3 | 0.5 | 1.8 | 0.0 |
| 2015 | 2.0 | 1.1 | 0.9 | 1.0 | 1.0 |
| 2016 | 1.5 | 2.0 | –0.5 | 1.4 | 0.1 |
| **MEAN DEVIATION** | | | **0.1** | | **0.2** |
| **STANDARD DEVIATION** | | | **0.9** | | **0.7** |

(1) For example, the 2002 forecast was published in Budget 2002-2003.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

## Forecasts more comparable retroactively than those of the private sector

In order to determine the accuracy of the forecasting work within the framework of the budgeting process, the Ministère des Finances compared the differences observed retroactively between the forecasts of the Ministère des Finances and the official data published by statistics agencies with the differences observed between the private sector forecasts and the same official data.

The initial forecasts of the Ministère des Finances are more comparable than the average private sector forecast.

— For the 2002-2016 period, the mean deviation is 0.2 percentage point for the average private sector forecast and 0.1 percentage point for the Ministère des Finances.

— The standard deviation for the 2002-2016 period is 1.0 percentage point for the private sector, compared to 0.9 percentage point for the Ministère des Finances.

When it comes to the comparison with the last available estimated observation, observations of the Ministère des Finances are, on average, comparable to private sector's forecasts.

— The mean deviation for the 2002-2016 period is 0.3 percentage point for the private sector and 0.2 percentage point for the Ministère des Finances.

— The standard deviation is 0.8 percentage point for the private sector and 0.7 percentage point for the Ministère des Finances.

TABLE 3

**Difference between economic forecasts and official data from 2002 to 2016**
(percentage points)

| | First estimated observation | | Latest estimated observation available | |
|---|---|---|---|---|
| | **Ministère des Finances du Québec** | **Private sector average** | **Ministère des Finances du Québec** | **Private sector average** |
| Mean deviation | 0.1 | 0.2 | 0.2 | 0.3 |
| Standard deviation | 0.9 | 1.0 | 0.7 | 0.8 |

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

## ❑ Own-source revenue forecast performance

The retroactive analysis of the differences in own-source revenue forecasts reveals a mean deviation of 0.3 percentage point in 2014-2015, 0.9 percentage point in 2015-2016 and 1.4 percentage point in 2016-2017.

On average, the difference is less than 1 percentage point for the three years. The larger difference in 2016-2017 is due to the elimination of the health contribution as of 2016, announced retroactively within the framework of the March 2017 Québec Economic Plan. Excluding this information, which was not available at the time the forecast was created, the difference is reduced to 0.8 percentage point.

TABLE 4

**Changes in forecast and observed own-source revenue**
(as a percentage and in percentage points)

| | 2014-2015 | 2015-2016 | 2016-2017 |
|---|---|---|---|
| Budget 2014-2015 | 3.9 | 3.5 | 3.6 |
| March 2015 Québec Economic Plan | | 4.4 | 3.3 |
| March 2016 Québec Economic Plan | | | 2.6 |
| **Observed(1)** | **3.6** | **4.9** | **1.8** |
| **Mean deviation(2)** | **0.3** | **0.9** | **1.4** |

(1) According to the public accounts in the reference year.
(2) Mean deviation, in absolute value, between the changes observed and forecast in the various budgets for the given year.

The analysis also included the three main components of own-source revenue: personal income tax, corporate taxes and Québec sales tax.

— The analysis showed that the forecasts were accurate given the low average forecasting differences. These forecasts are not biased as the observed differences were both higher and lower.

— The forecasts are more volatile for certain own-source revenue: corporate tax in particular, due to its high variability.

## ■ The most precise economic forecasts for own-source revenue in Canada

The economic forecasts for own-source revenue established by Québec and observed over a period of 15 years are the most precise in Canada.

According to the C.D. Howe Institute, Québec ranks first when the difference between forecast and observed data over the past 15 years is compared with the difference calculated by the provincial and federal governments.[20]

TABLE 5

**Standard deviation in forecasts for own-source revenue of provincial, territorial and federal governments from 2002-2003 to 2016-2017**

| | **Deviation[(1)]** (%) | **Rank** |
|---|---|---|
| **Québec** | **1.8** | **1** |
| Federal government | 2.0 | 2 |
| Prince Edward Island | 2.3 | 3 |
| Manitoba | 2.8 | 4 |
| Nova Scotia | 2.8 | 5 |
| New Brunswick | 3.1 | 6 |
| Ontario | 3.7 | 7 |
| British Columbia | 4.7 | 8 |
| Northwest Territories | 5.0 | 9 |
| Yukon | 5.3 | 10 |
| Nunavut | 6.7 | 11 |
| Saskatchewan | 10.9 | 12 |
| Newfoundland and Labrador | 11.5 | 13 |
| Alberta | 12.5 | 14 |

(1) The root-mean-square error is used to measure the deviation.
Sources: Ministère des Finances for Québec and the C.D. Howe Institute for the other governments.

20 WILLIAM B. P. ROBSON, FARAH OMRAN, *Blown Budgets: Canada's Senior Governments Need Better Fiscal Controls*, Commentary No. 512, Toronto, C.D. Howe Institute, 2018, p. 8.

- **Personal income tax**

Personal income tax is the government's largest source of revenue. In 2018-2019, revenue from personal income tax stands at $31.0 billion, representing 28% of the government's consolidated revenue.

The average forecast differences for revenue from personal income tax were 0.2 percentage point in 2014-2015, 0.6 percentage point in 2015-2016 and 2.8 percentage points in 2016-2017.

— On average, the difference since 2014-2015 has been 1.2 percentage point.

For 2016-2017, the most significant forecast difference is due to downward adjustments of the growth of wages and salaries for 2016, which was forecast at 3.5% in the 2014-2015 budget and was ultimately stood at 2.6%.

TABLE 6

**Forecast and observed change in personal income tax revenue**
(as a percentage and in percentage points)

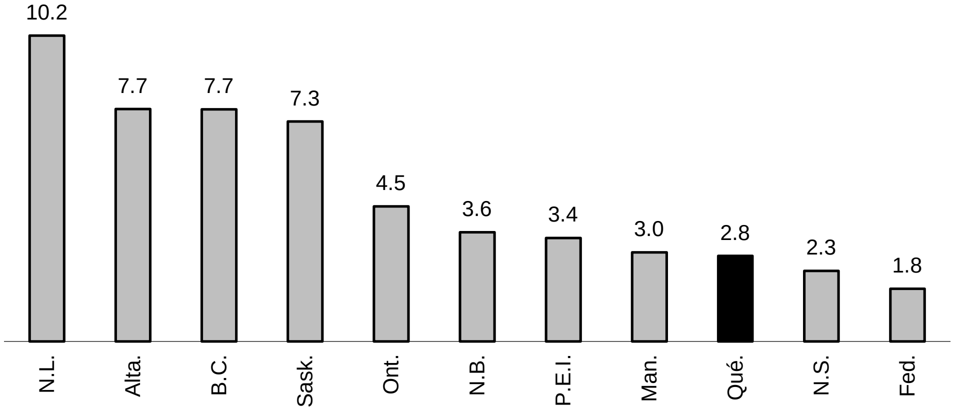
| | 2014-2015 | 2015-2016 | 2016-2017 |
|---|---|---|---|
| Budget 2014-2015 | 5.3 | 3.6 | 4.8 |
| March 2015 Québec Economic Plan | | 4.7 | 4.7 |
| March 2016 Québec Economic Plan | | | 4.1 |
| **Observed(1)** | **5.1** | **4.4** | **1.7** |
| **Mean deviation(2)** | **0.2** | **0.6** | **2.8** |

(1) According to the public accounts in the reference year.
(2) Average difference, in absolute value, between the changes observed and forecast in the various budgets for the given year.

Québec ranks third in Canada in terms of the accuracy of its forecast personal income tax revenue for the 2002-2003 to 2016-2017 horizon.

CHART 1

**Mean deviation(1) in absolute values of personal income tax forecasts of Canadian provinces and the federal government from 2002-2003 to 2016-2017**
(per cent)




(1) Represents the mean difference, as a percentage, between that observed in the public accounts for a given year and the forecasts produced in the corresponding budget.
Sources: Public accounts and budgets of the provinces and federal government for 2002-2003 to 2016-2017. Calculations of the Ministère des Finances du Québec.

- **Corporate taxes**

In 2018-2019, revenue from corporate income tax stands at $8.3 billion, which represents nearly 8% of the government's consolidated revenue.

Corporate income tax is very volatile during an economic cycle, making it one of the most difficult sources of revenue to forecast. This volatility is partially due to the economic situation, as well as the particulars of the corporate tax system, which enable companies to manage their profits and losses according to the economic cycle.

— For example, during economic downturns, companies may have to make certain choices with regard to their income tax payable. They may choose to reduce their tax instalments or carry back losses incurred to a previous year in order to obtain a refund for part of the income tax paid during those years.

— Depending on the year, the fiscal choices made by companies can significantly intensify the effects related to the economy.

Due to the complexity of forecasting the behaviour of companies (availability of data, processing times for returns, and so on) and the impact of volatility on corporate income tax, larger forecast differences are expected.

The average forecast differences for corporate income tax revenue were 1.2 percentage point in 2014-2015, 11.4 percentage points in 2015-2016 and 2.6 percentage points in 2016-2017.

— Since 2014-2015, the mean deviation between corporate income tax forecasts and observed results has been 5.0 percentage points.

The bigger difference observed in 2015-2016 is mainly due to more sustained growth of tax revenues, primarily from tax installments.

— Furthermore, the tax measures implemented, particularly the elimination of the reduced rate for tax on capital for insurance companies applicable to individual insurance premiums and the temporary surtax for financial institutions, have spurred growth.

TABLE 7

**Forecast and observed change in corporate income tax revenue**
(as a percentage and in percentage points)

| | 2014-2015 | 2015-2016 | 2016-2017 |
|---|---|---|---|
| Budget 2014-2015 | 5.0 | 5.0 | 4.5 |
| March 2015 Québec Economic Plan | | 12.7 | 5.1 |
| March 2016 Québec Economic Plan | | | 2.5 |
| **Observed(1)** | **3.8** | **20.2** | **6.6** |
| **Mean deviation(2)** | **1.2** | **11.4** | **2.6** |

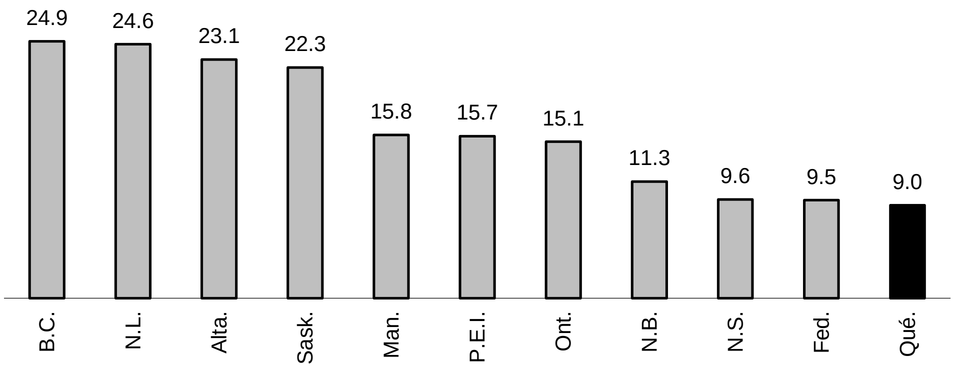
(1) According to the public accounts in the reference year.
(2) Average difference, in absolute value, between the changes observed and forecast in the various budgets for the given year.

Despite the volatility of corporate income tax revenue, Québec is the Canadian jurisdiction that most accurately forecasts this type of revenue.

— With an average percentage difference of 9.0% since 2002-2003, Québec ranks first, above the federal government and Nova Scotia.

CHART 2

**Mean deviation(1) in absolute values of corporate income tax forecasts of Canadian provinces and the federal government from 2002-2003 to 2016-2017**
(per cent)




(1) Represents the mean difference, as a percentage, between that observed directly in the public accounts for a given year and the forecasts produced in the corresponding budget.
Sources: Public accounts and budgets of the provinces and federal government for 2002-2003 to 2016-2017. Calculations of the Ministère des Finances du Québec.

- **Québec sales tax**

Québec's sales tax revenue for 2018-2019 stands at $17.1 billion, making it the second largest source of revenue. It represents more than 15% of the government's consolidated revenue.

Analysis of the differences in Québec sales tax forecasts shows differences of 1.5 percentage point in 2014-2015, 1.1 percentage point in 2015-2016 and 2.0 percentage points in 2016-2017.

TABLE 8

**Forecast and observed change in sales tax revenue**
(as a percentage and in percentage points)

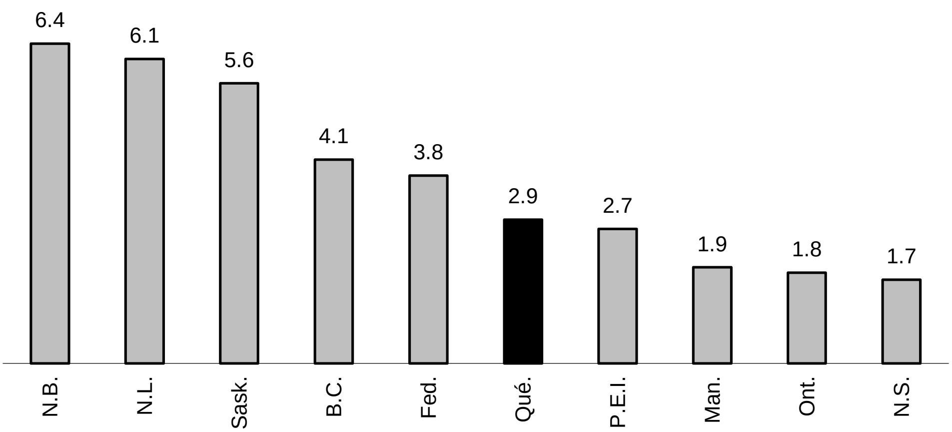
| | 2014-2015 | 2015-2016 | 2016-2017 |
|---|---|---|---|
| Budget 2014-2015 | 3.6 | 4.1 | 2.8 |
| March 2015 Québec Economic Plan | | 4.1 | 3.1 |
| March 2016 Québec Economic Plan | | | 3.9 |
| **Observed(1)** | **2.1** | **5.2** | **5.3** |
| **Mean deviation(2)** | **1.5** | **1.1** | **2.0** |

(1) According to the public accounts in the reference year.
(2) Average difference, in absolute value, between the changes observed and forecast in the various budgets for the given year.

The accuracy of the sales tax revenue forecast compares advantageously to that of the other provinces and the federal government.

CHART 3

**Mean deviation(1) in absolute values of sales tax forecasts of Canadian provinces(2) and the federal government from 2002-2003 to 2016-2017**
(per cent)




(1) Represents the mean difference, as a percentage, between that observed directly in the public accounts for a given year and the forecasts produced in the corresponding budget.
(2) Alberta does not collect provincial sales tax.
Sources: Public accounts and budgets of the provinces and federal government for 2002-2003 to 2016-2017. Calculations of the Ministère des Finances du Québec.

## ❑ Mission expenditures forecast performance

The retroactive analysis of the differences in mission expenditures forecasts shows a mean deviation of 0.5 percentage point in 2014-2015, 0.3 percentage point in 2015-2016 and 0.9 percentage point in 2016-2017.

The difference is less than 1 percentage point for the three years.

TABLE 9

**Forecast and observed change in mission expenditures**
(as a percentage and in percentage points)

| | 2014-2015 | 2015-2016 | 2016-2017 |
|---|---|---|---|
| Budget 2014-2015 | 1.9 | 1.3 | 1.7 |
| March 2015 Québec Economic Plan | | 1.5 | 1.9 |
| March 2016 Québec Economic Plan | | | 2.4 |
| **Observed(1)** | **1.4** | **1.1** | **2.9** |
| **Mean deviation(2)** | **0.5** | **0.3** | **0.9** |

(1) According to the public accounts in the reference year.
(2) Mean deviation, in absolute value, between the changes observed and forecast in the various budgets for the given year.

## ■ Québec ranks first when it comes to precision in expenditure forecasts

As is the case with own-source revenue forecasts, the expenditure forecasts of the Québec government are the most precise in Canada.

According to the C.D. Howe Institute, Québec ranks first when the standard deviation between the Québec government's expenditure forecasts over the past 15 years is compared to the standard deviation calculated by the provincial and federal governments.[21]

TABLE 10

**Difference in forecasts for expenditure of provincial, territorial and federal governments from 2002-2003 to 2016-2017**

| | **Difference**[(1)] (%) | **Rank** |
|---|---|---|
| **Québec** | **1.1** | **1** |
| Nova Scotia | 2.0 | 2 |
| Ontario | 2.2 | 3 |
| British Columbia | 2.5 | 4 |
| Prince Edward Island | 2.5 | 5 |
| New Brunswick | 2.5 | 6 |
| Manitoba | 3.0 | 7 |
| Federal government | 3.5 | 8 |
| Northwest Territories | 3.9 | 9 |
| Newfoundland and Labrador | 4.6 | 10 |
| Alberta | 5.5 | 11 |
| Saskatchewan | 6.2 | 12 |
| Nunavut | 7.0 | 13 |
| Yukon | 7.1 | 14 |

(1) The root-mean-square error is used to measure the deviation.
Sources: Ministère des Finances for Québec and the C.D. Howe Institute for the other governments.

21 WILLIAM B. P. ROBSON, FARAH OMRAN, *Blown Budgets: Canada's Senior Governments Need Better Fiscal Controls*, Commentary No. 512, Toronto, C.D. Howe Institute, 2018, p. 8.

## ❑ Budgetary balance forecast performance

The budgetary balance is established based on revenue and expenditure forecasts and also by taking into account the principles outlined in the *Balanced Budget Act*. This act provides for the government's obligation to present balanced budgetary forecasts.

### ■ Accurate forecast

The budgetary balance is accurate. The mean deviation between the forecast balance and the observed balance is less than 1% of GDP.

In Québec's case, the accuracy of the observed budgetary balance is of particular importance when it comes to the *Balanced Budget Act*.

In relation to GDP, the mean deviation for the budgetary balance was 0.3% in 2014-2015, 0.5% in 2015-2016 and 0.6% in 2016-2017.

The biggest difference was observed in 2016-2017.

TABLE 11

**Forecast and observed[(1)] change in the budgetary balance**
(millions of dollars)

| | **2014-2015** | **2015-2016** | **2016-2017** |
|---|---|---|---|
| Budget 2014-2015 | –1 049 | 1 583 | 2 254 |
| March 2015 Québec Economic Plan | | 1 586 | 2 236 |
| March 2016 Québec Economic Plan | | | 2 028 |
| **Observed** | **136** | **3 644** | **4 362** |
| **Mean deviation[(2)]** | **1 185** | **2 060** | **2 189** |
| ***% of GDP*** | ***0.3*** | ***0.5*** | ***0.6*** |

(1) According to the public accounts in the reference year.
(2) Average difference between the levels observed and forecast in the various budgets for the given year.

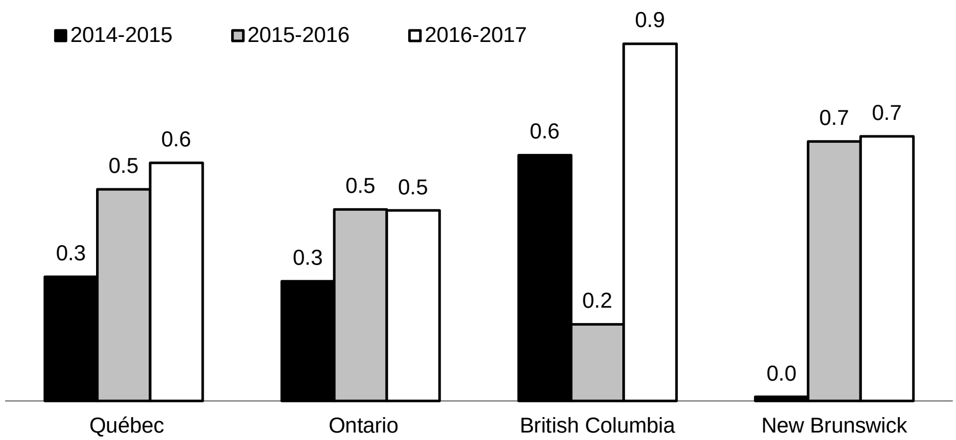
## Accuracy of budgetary balance forecast comparable to other provinces

The analysis of the differences as a percentage of GDP between the budgetary balance forecast and observed from 2014-2015 to 2016-2017 for certain provinces shows that the accuracy in forecasting in Québec and the other provinces is comparable.

The actual budgetary balance has generally been higher than the forecast budgetary balance and the difference has been less than 1% of GDP for the analyzed period.

CHART 4

**Difference between the forecast and observed budgetary balance of certain Canadian provinces**
(percentage of GDP)




Sources: Budgets and public accounts of the provinces from 2014-2015 to 2016-2017.

# 3. PRUDENT BUDGETARY PROCESS

In addition to being transparent and rigorous, the budgetary process must meet a third expectation on the part of Quebecers: it must be prudent.

There are two reasons why prudence must be exercised.

— Forecasts are uncertain by nature and it is important that uncertainty be taken into account when defining the financial framework.

— A financial framework that is defined with all of the requisite rigour may be subject to internal and external shocks that are hard to foresee. Economic conditions could deteriorate rapidly and impact own-source revenue and certain expenditure categories.

## ❑ Taking uncertainties and risks into account

The budgetary process must take these uncertainties and risks into account.

— Forecasts of the various elements of the financial framework must be **drawn up with prudence**.

— The process also requires **coming up with a certain number of prudence margins** that may be used as required.

## 3.1 A prudent approach to drawing up forecasts

The process selected by the Québec government to draw up various forecasts that allow for the definition of the financial framework has just been presented. This process respects best practices so as to limit uncertainties and take risks into account.

— In order to reduce uncertainties and take certain risks into account, economic forecasts are systematically compared to the forecasts drawn up by private sector economists. The assumptions are cross validated, which allows for evaluation of the risks associated with the chosen scenarios.

— When it comes to own-source revenue, the Ministère des Finances reduces the risks associated with the forecast by carrying out detailed analyses for every revenue source and their respective components. The information required for drawing up forecasts is gathered and analyzed throughout the year, allowing for detailed tracking of the revenue collected and the changes in revenue.

— When it comes to mission expenditures forecasts and estimating the debt service, risks are also reduced by continuously analyzing the information used to draw up forecasts. Periodic tracking is carried out among government departments.

## 3.2 Margins for prudence to counter risks and uncertainty

Despite the prudent nature of the forecasts, it is essential to guard against risks and internal and external shocks by building up a certain number of margins that may be used as required.

### ❑ Sensitivity analyses to determine the impact of risks

The sensitivity analyses drawn up by the Ministère des Finances and presented in the pre-election report[22] show the potential impact, over the course of a year, of variations in certain assumptions for several elements of the financial framework. For example:

— a 1-percentage-point change in nominal GDP growth changes own-source revenue by roughly $700 million;

— a variation of 1.0US¢/kWh in energy prices in external markets has an almost $150 million impact on Hydro-Québec's net earnings in 2018;

— an increase of 1 percentage point in interest rates would increase the debt service by $250 million.

[22] For more information, see Section B of the pre-election report.

## ❑ Margins for prudence

In order to manage risk linked to uncertainties such as internal and external shocks, the government provides for margins in the form of financial provisions.

### ■ The reserves included in the financial framework

Three provisions are included in the financial framework.

- The contingency reserve is an overall reserve aimed at overcoming uncertainties that could influence the entire financial framework. This reserve allows the government to tackle various risks that result from changes in economic conditions.

- The Contingency Fund reserve is intended to cover unforeseen expenditures that may arise in government programs.

- The purpose of the debt service reserve is essentially to cover sudden fluctuations in financial markets. For example, the government could use the debt service reserve to cover a higher-than-anticipated increase in interest rates.

### ■ Stabilization reserve

Aside from the financial framework, the stabilization reserve is made up of the budgetary surpluses freed up and can be used to balance the financial framework.

The stabilization reserve is managed in compliance with the provisions of the *Balanced Budget Act*. It is a multi-year budgetary planning tool that is available to the government.

### ■ An overall margin of nearly $11.2 billion over five years

Overall, the three provisions and the stabilization reserve as defined in the pre-election report should allow the government to counter risks that could affect the financial framework and result in either a decline in revenue or an increase in unexpected expenditure of $11.2 billion.[23]

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[23] For more information on the sums forecast in the various margins for prudence, see page 44 of the highlights of the pre-election report.

# 4. FLEXIBLE BUDGETARY PROCESS

A transparent, rigorous and prudent budgetary process must also be flexible.

— Flexibility in the budgetary process is crucial in order to allow the government to quickly adapt to the economic and financial reality, based on formulated forecasts.

— Flexibility in the budgetary process is essential in order to give the government the means to adapt its policy direction implementation to reality and also allow the governments to revise its fiscal policy directions, that is, add new directions or abandon others.

## ❑ Three instances where flexibility in the budgetary process is required

The budgetary process implemented by the Québec government respects these flexibility requirements:

— when **updating information that defines the budgetary context**, due to factors that are often out of the government's control;

— when **gradually implementing government commitments**;

— when **making changes to budgetary choices**.

## 4.1 Updating data that define the budgetary context

Economic, financial and fiscal budgetary data are monitored on a practically permanent basis once the budget has been published. This process of monitored and subsequently updating budgetary data can lead the government to make certain changes to its actions.

These updates result in a revised financial framework approximately six months after the budget is published. The revised financial framework is published as part of the fall update.

### ❑ Economic variables

The Ministère des Finances ensures that the various economic statistics and forecasts drawn up by private sector economists are monitored.

This monitored process is incorporated into a new forecasting exercise that begins each fall after the budget is tabled, as the fall update is being prepared. Forecasts are adjusted over the total period covered.

For example, when it comes to the March 2018 Québec Economic Plan, the economic forecasts for 2022, presented for the first time in 2018, will be revised twice a year until the 2023 fall update is published, allowing for almost 10 revisions.

## ❑ Revenue and expenditure

Forecasts for changes in revenue are also continuously monitored by the Ministère des Finances using reports produced throughout the year by Revenu Québec and the Comptroller of Finance, in particular.

The same applies to forecasts for changes in expenditure, which are monitored by the Secrétariat du Conseil du trésor, government departments, public bodies and government reporting entities.

## ■ Public accounts

The public accounts, tabled by the government, at the latest nine months following the end of the fiscal year, present the government's consolidated financial statements and information on revenue and expenditure. This information relates to revenue, expenditure of government departments and budget funded bodies as well as revenue, expenditure and investments of special funds and non-budget-funded bodies.

## ■ Fall update

The financial results published in the public accounts prompt the Ministère des Finances to revise the financial framework presented in the budget a few months beforehand. The financial framework that is corrected based on these results—and the changes made to economic forecasts—is made public as part of the fall update.

The publication of the fall update approximately six months after the budget clearly illustrates the flexibility inherent in the budgetary process and the fact that the data presented are not static.

## 4.2 Gradual implementation of government commitments

The government departments and responsible bodies gradually implement the government commitments announced in the Budget in the months or years following their announcement. This implementation may be completed faster than anticipated or, conversely, after additional time limits due to unforeseen difficulties.

The multi-year financing of government commitments allows for this gradual implementation process.

### ■ Government commitment implementation process

Information on the implementation of government commitments is gathered at the same time as information that defines the budgetary context.

The Ministère des Finances, in collaboration with all government departments and bodies, tracks the implementation of new initiatives that were announced in budgets.

— In addition, the government departments and bodies report on the use of any funds allocated to them.

Information on the implementation of government commitments that impacts any data for the previous fiscal year is integrated into the public accounts, which are tabled by the government, at the latest nine months following the end of the current fiscal year.

### ■ Fall update

As is the case with statistics that define the budgetary context, the fall update and subsequent budgets give the government an opportunity to make the necessary corrections to revenue and expenditure information, thus taking into account the reality of applying commitments announced by the government.

## 4.3 Changes to budgetary choices

The financial framework presented by the government when the budget is tabled may be revised at any time in order to take into account any changes to the budgetary context or the reality of implementing government commitments.

### ❑ Modifying previous choices

Flexibility in the budgetary process is required to allow the government to modify previous choices or implement new priorities.

When budgetary choices are modified or new priorities formulated, the process makes it possible to take into account new government decisions.

- The transparency of the process ensures that every Quebecer has the opportunity to be fully informed about the new choices that have been made, their impact on the budget and the consequences they will have on government policies.

- The stringent nature of the process means that the new choices will not jeopardize the quality of previous forecasts or forecast performance. It is essential that new budgetary choices be defined and financed while respecting the stringent nature of the financial framework, especially when it comes to the quality of economic, financial and fiscal forecasts.

- The same is true for the prudent approach to the process, which must not be compromised when new choices are made by the government.

## ❑ The financial framework: a common base and an integral part of the democratic process

The financial framework presented by the government when the budget is tabled is not a collection of static figures that cover a five-year period, but a consistent and comprehensive presentation of choices and commitments defined by the government and presented to Quebecers at a certain point in time.

This financial framework, which is presented in the form of the *Pre-election Report on the State of Québec's Public Finances – August 2018*, is both a reference and a common base for all Quebecers and political parties who can present their own budgetary plan by clearly explaining how the plan will be financed.

Therefore, the financial framework is an integral component of the democratic debate in that its process guarantees quality.

Finances
Québec

August 20, 2018

# HIGHLIGHTS

## of the Pre-election Report

THE STATE OF QUÉBEC'S PUBLIC FINANCES

Québec

August 20, 2018

# HIGHLIGHTS

## of the Pre-election Report

THE STATE OF QUÉBEC'S PUBLIC FINANCES

Finances Québec

Highlights of the Pre-election Report – The State of Québec's Public Finances

Ministère des Finances

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# INTRODUCTION

In April 2015, the National Assembly passed legislative provisions mandating the Minister of Finance to publish a pre-election report on the state of public finances.

In addition, the *Auditor General Act* mandates the Auditor General of Québec to prepare a report in which it gives its opinion on the plausibility of the forecasts and assumptions presented in the pre-election report published by the Ministère des Finances.

The *Pre-election Report on the State of Québec's Public Finances – August 2018* is the first report released, in accordance with the Act.

This report was based on the financial framework presented in the March 2018 Québec Economic Plan. When required, adjustments were made to the information released in March 2018 so that the report would be based on the most recent financial information, available as at July 10, 2018. The financial framework also takes into account the budgetary impact of the economic support measures announced in August 2018.

## ❑ Updated state of public finances leading to five key funding

The *Pre-election Report on the State of Québec's Public Finances – August 2018* presents the current state of Québec's public finances.

Five key funding emerge from this state of public finances:

— the financial framework is **balanced**[1] since, **for 2018-2019 to 2022-2023, improvements of $950 million** have been provided for, **compared to the March 2018 Québec Economic Plan**;

— revenue growth is based on forecasts reflecting **developments in Québec's economy**;

— the change in planned expenditure **corresponds to the cost of public services that was announced**, with the funding required for the cost of service being provided;

— **debt reduction** objectives **are met and debt repayment has begun**;

— **provisions** and a reserve are provided to **manage risks and uncertainties**.

1 The financial framework is balanced according to the *Balanced Budget Act.*

# 1. A BALANCED FIVE-YEAR FINANCIAL FRAMEWORK, IMPROVEMENTS OF $950 MILLION ANNUALLY FOR 2018-2019 TO 2022-2023

The Québec government's financial framework is balanced in 2018-2019 and for the next four fiscal years.

- **Revenue and expenditure** make up the government's financial framework.
- The **financial framework** presented in the *Pre-election Report on the State of Québec's Public Finances – August 2018* confirms that public finances are balanced within the meaning of the *Balanced Budget Act* and as announced in the March 2018 Québec Economic Plan: revenue and part of the funds stipulated in the stabilization reserve are sufficient to fund both the announced cost of expenditure and deposits in the Generations Fund.
- Acceleration of the economy and sound management of public finances are generating **improvements** of $950 million annually for 2018-2019 to 2022-2023 in relation to the March 2018 Québec Economic Plan.

## 1.1 Québec's budget: revenue and expenditure

The budget is primarily a planning and management tool that describes all the planned revenue and expenditure to cover government operations—in particular funding for public services—during the coming fiscal year.

These revenue and expenditure make up the government's financial framework.

### ❑ A financial framework of $111.2 billion

In 2018-2019, the government's consolidated revenue stood at $110.5 billion. Adding the use of $0.6 billion from the stabilization reserve, these amounts fund:

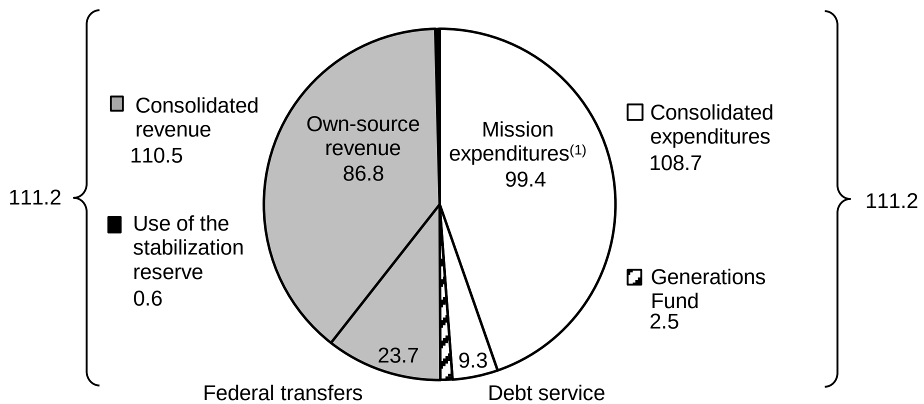
— mission expenditures of $99.4 billion, that is, expenditures for the government's major areas of activity;

— debt service of $9.3 billion;

— deposits of $2.5 billion in the Generations Fund.

CHART 1

**2018-2019 Québec Budget**
(billions of dollars)




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

**What is a budget?**

The annual presentation of a budget is one of the government's key actions. It stems from analysis and reflection that allow the government to express its priorities in financial terms.

The budget is primarily a planning and management tool that describes and explains all the revenue and expenditure planned to coversee government operations during the fiscal year covered by the budget.

In Québec's case, the budget presents the gaps between the forecasts and the preliminary estimates of the current fiscal year, in particular due to changes in the economic situation.

Revenue and expenditure are usually revised to take such gaps into account, and measures are set up to ensure economic growth and redistribution of wealth, while at the same time maintaining a balanced budget.

What is more, a government communicates its strategic choices and policy directions through the budget.

## 1.2 Financial framework

The financial framework of the *Pre-election Report on the State of Québec's Public Finances – August 2018* presents revenue and expenditure through 2022-2023.

Québec's financial framework provides for ongoing balanced budgets for fiscal 2018-2019 through 2022-2023. For 2017-2018, preliminary estimates anticipate a $2.3-billion surplus.

### ❑ Financial framework revenue and expenditure

The financial framework provides for 2.9% average annual growth in consolidated revenue over the next five years. Revenue totals $110.5 billion in 2018-2019 and will reach $124.5 billion in 2022-2023. This change reflects anticipated growth in the Québec economy and also takes into account the tax and budget measures that the government has implemented.

The financial framework provides for 3.0% average annual growth in consolidated expenditure over the next five years. Spending stands at $108.7 billion in 2018-2019 and will amount to $120.0 billion in 2022-2023.

It also integrates the economic support measures announced in August 2018.

Over the financial framework, consolidated revenue and the use of part of the amounts provided in the stabilization reserve will fund the anticipated expenditure.

TABLE 1

**Consolidated financial framework summary from 2017-2018 to 2022-2023**
(billions of dollars)

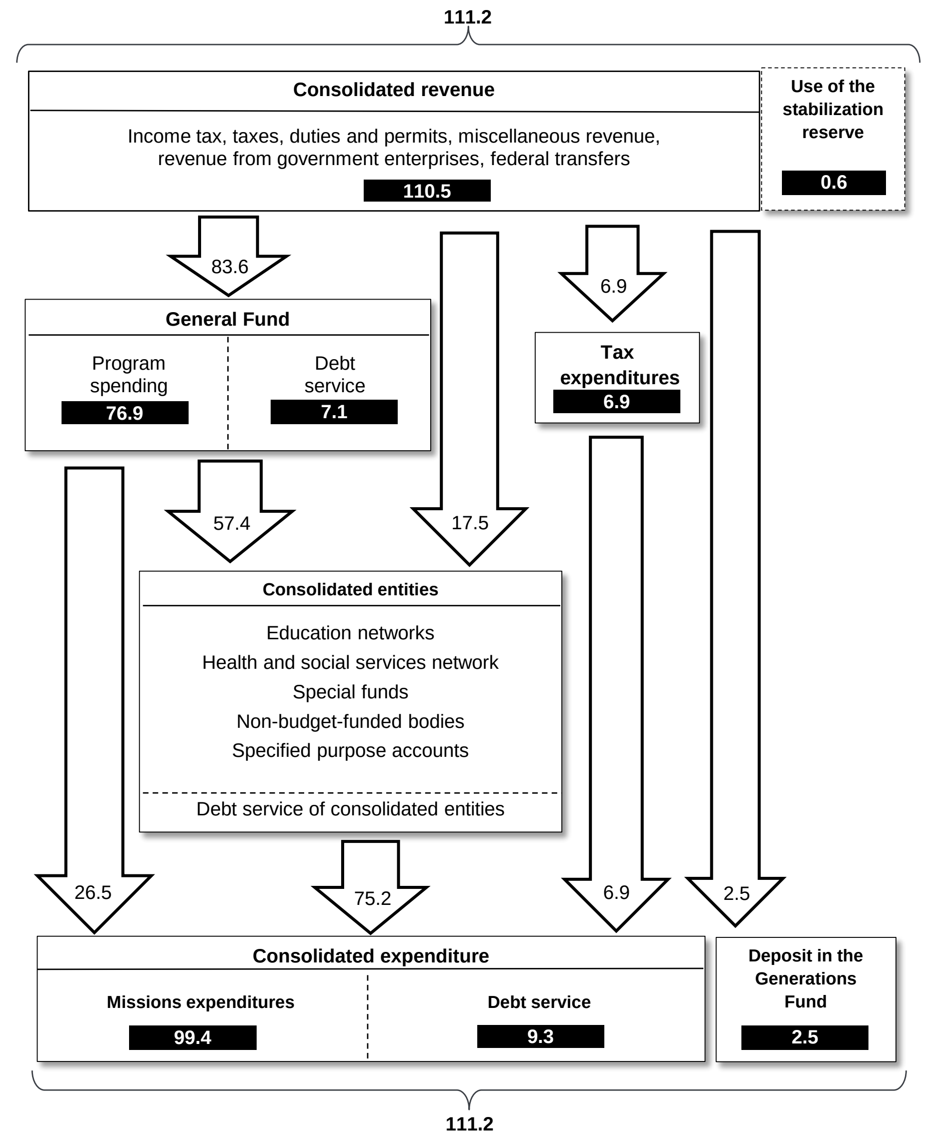
| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | *Average annual growth (%)(1)* |
|---|---|---|---|---|---|---|---|
| Consolidated revenue | 108.1 | 110.5 | 113.9 | 117.6 | 121.0 | 124.5 | |
| *% change* | *5.0* | *2.3* | *3.0* | *3.3* | *2.9* | *2.9* | *2.9* |
| Consolidated expenditure | –103.5 | –108.7 | –111.0 | –114.0 | –116.6 | –120.0 | |
| *% change* | *5.0* | *5.0* | *2.2* | *2.7* | *2.3* | *2.8* | *3.0* |
| Contingency reserve | — | — | –0.1 | –0.1 | –0.1 | –0.1 | |
| **SURPLUS (DEFICIT)** | **4.6** | **1.9** | **2.7** | **3.5** | **4.2** | **4.5** | |
| ***BALANCED BUDGET ACT*** | | | | | | | |
| Deposits of dedicated revenues in the Generations Fund | –2.3 | –2.5 | –2.7 | –3.0 | –3.3 | –3.5 | |
| Use of the stabilization reserve | — | 0.6 | — | — | — | — | |
| **BUDGETARY BALANCE(2)** | **2.3** | **—** | **0.0** | **0.5** | **1.0** | **1.0** | |

Note: Totals may not add due to rounding.
(1) Average annual growth is calculated for 2018-2019 through 2022-2023.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve.

## Revenue and expenditure: funding of public services

In 2018-2019, the government's consolidated revenue of $110.5 billion along with $0.6 billion from the stabilization reserve allow public services, or mission expenditures, and debt service to be funded. A portion of the revenue is also dedicated to the Generations Fund.

**Funding of public services in Québec in 2018-2019**
(billions of dollars)




Note: Totals may not add due to rounding.

## Revenue and expenditure: funding of public services (continued)

**Funding provided through various structures**

Public services are funded through various budget structures that have been implemented to ensure that what the government collects matches the funding of public services. This financial organization is primarily based on government choices about governance and service delivery.

The departments can offer services directly to Quebecers or transfer amounts to bodies that are better able to provide such services. For example, the Ministère de l'Éducation et de l'Enseignement supérieur administers the student financial assistance program, but entrusts large amounts to the school boards which offer education services.

**Spending by government departments: revenue allocated to the General Fund**

Most general and income taxes go to the General Fund to fund the government's missions. To this end, $83.6 billion is deposited into the General Fund and allocated to the program expenditures of the departments and bodies, as well as to debt service.

Altogether, the departments' "direct" expenditure total $26.5 billion, while $57.4 billion is transferred to various funds and public bodies, i.e. the special funds, non-budget-funded bodies and networks that provide most public services.

**Revenue earmarked for consolidated entities**

Other than transfers they receive from the departments out of the General Fund, consolidated entities are funded through own-source revenue and federal transfers. This revenue stands at $17.5 billion.

Some funds have been created to provide specific services, funded exclusively through dedicated contributions. The Land Transportation Network Fund is one such fund.

Through own-source revenue, a portion of taxes is directly allocated to funding the activities of public funds and bodies.

**Tax-funded expenditures**

Over the years, the government has introduced measures called "tax expenditures" into the tax system for the purpose of granting tax relief to specific groups of individuals or businesses, or to certain activities. Those measures help support economic development, encourage savings or protect low-income households. Some of those tax relief measures are recorded as expenditures in the government's financial framework. Tax-funded expenditures stand at $6.9 billion.

**Revenues deposited in the Generations Fund**

In addition to funding consolidated expenditure, consolidated revenue, along with a portion of allocated sums in the stabilization reserve, fund the Generations Fund. Revenue of $2.5 billion is dedicated to the Generations Fund for debt reduction purposes. This revenue comes mainly from royalties, the specific tax on alcoholic beverages and investment income.

## 1.3 Improvements to the financial framework

This section summarizes the main adjustments to the financial framework since the publication of the March 2018 Québec Economic Plan.

The financial framework of the *Pre-election Report on the State of Québec's Public Finances – August 2018* was updated as at July 10, 2018. It also takes into account the budgetary impact of the economic support measures announced in August 2018. It therefore takes into account events that have occurred since the publication of the March 2018 Québec Economic Plan.

In particular, the economic growth observed in recent months[2] is engendering positive adjustments in the financial framework for 2017-2018 and subsequent years compared to the forecast in the March 2018 Québec Economic Plan.

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

Preliminary estimates for fiscal 2017-2018 show an improvement of nearly $1.5 billion in relation to what was anticipated in March 2018. The adjustments stem mainly from:

- an $889-million increase in revenue due, among other things, to the sound performance of the Québec economy, which led to higher revenue from personal and corporate income tax;
- a $565-million difference between the planned and real expenditures of government departments and bodies and special funds.

As a result of these improvements, preliminary estimates for 2017-2018 anticipate a $2.3-billion surplus.

To obtain additional information, please refer to pages B.19 and B.20 of the pre-election report.

TABLE 2

**Summary adjustments to the financial framework since March 2018 – 2017-2018**
(millions of dollars)

| | 2017-2018 | | |
|---|---|---|---|
| | **March 2018** | **Adjustments** | **August 2018** |
| Consolidated revenue | 107 196 | 889 | 108 085 |
| *% change* | *4.2* | | *5.0* |
| Consolidated expenditure | –104 054 | 565 | –103 489 |
| *% change* | *5.6* | | *5.0* |
| **SURPLUS (DEFICIT)** | **3 142** | **1 454** | **4 596** |
| ***BALANCED BUDGET ACT*** | | | |
| Deposits of dedicated revenues in the Generations Fund | –2 292 | –1 | –2 293 |
| **BUDGETARY BALANCE(1) – AUGUST 2018** | **850** | **1 453** | **2 303** |

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

2 See page 17 for more information on the economic situation.

## ❑ Adjustments to the financial framework from 2018-2019 to 2020-2021

Acceleration of the economy and sound management of public finances are engendering positive adjustments in the financial framework in relation to the March 2018 Québec Economic Plan.

Overall, the improvements to the financial framework total $950 million per year from 2018-2019 to 2020-2021. In particular, the improvements are attributable to positive adjustments in own-source revenue because of the recurrence of more favourable results than anticipated in 2017-2018 stemming from sound economic performance.

TABLE 3

**Improvements in the financial framework since March 2018 from 2018-2019 to 2020-2021**
(millions of dollars)

| | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|
| Own-source revenue | 924 | 899 | 933 |
| Carbon market | 110 | 110 | 110 |
| Federal transfers | –4 | –420 | –262 |
| Other | 170 | 659 | 346 |
| Economic support measures – August 2018 | –250 | –298 | –177 |
| **TOTAL IMPROVEMENTS** | **950** | **950** | **950** |

### ■ Economic support measures – August 2018

In order to support businesses affected by higher customs tariffs, the government recently implemented support measures that:

- allow businesses to release the cash resources necessary to maintain operations;
- improve the competitiveness of businesses by fostering investments and reducing the tax burden for small and medium-sized businesses;
- protect jobs through support for worker training.

The investments total $250 million in 2018-2019, $298 million in 2019-2020 and $177 million in 2020-2021.

For more information, refer to pages B.21 and B.22 of the pre-election report.

## ❑ Budgetary balance within the meaning of the *Balanced Budget Act*

The budgetary balance within the meaning of the *Balanced Budget Act* takes deposits in the Generations Fund and stabilization reserve transactions into account.

The balance of the stabilization reserve is adjusted on the basis of either the amounts used to maintain the budgetary balance each year or the recorded surpluses.

### ■ Deposits in the Generations Fund

A portion of the revenue is allocated to the Generations Fund; this allocation is required to reach debt reduction objectives by 2025-2026.

Deposits in the Generations Fund will increase from $2.5 billion in 2018-2019 to $3.5 billion in 2022-2023.

### ■ The stabilization reserve if the improvements in the financial framework are not used

Over the last three years—from 2015-2016 to 2017-2018—the amounts in the stabilization reserve came from the $6.9 billion budgetary surpluses accumulated.

For 2018-2019 to 2022-2023, the update of the financial framework provides for improvements of $950 million annually. If the improvements are not used by the government, the amounts will gradually increase the amounts in the stabilization reserve to $8.6 billion.

TABLE 4

**Change in the stabilization reserve from 2017-2018 to 2022-2023**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|
| **STABILIZATION RESERVE – MARCH 2018** | **5 402** | **3 815** | **2 879** | **2 400** | **2 400** | **2 400** |
| Improvements to the financial framework for 2017-2018(1) | 1 453 | 1 453 | 1 453 | 1 453 | 1 453 | 1 453 |
| Cumulative improvements to the financial framework for 2018-2019 ($950 million/year) | — | 950 | 1 900 | 2 850 | 3 800 | 4 750 |
| **STABILIZATION RESERVE IF AUGUST 2018 IMPROVEMENTS IN FINANCIAL FRAMEWORK ARE NOT USED** | **6 855** | **6 218** | **6 232** | **6 703** | **7 653** | **8 603** |

(1) This amount corresponds to the improvement stemming from preliminary estimates for 2017-2018.

# 2. REVENUE GROWTH: FORECASTS REFLECTING THE STRONG PERFORMANCE OF THE QUÉBEC ECONOMY

To fund public services, the government must have sufficient revenue.

- As regards the **change in revenue**, Québec's financial framework anticipates that the government's revenue will increase in the coming years, reflecting the growth of Québec's economy.
  - Revenue growth also takes into account the various tax relief measures implemented by the government, such as elimination of the health contribution, lower income taxes and the reform of the school tax system.
  - Economic growth enables government revenue to increase despite the planned reductions in the tax burden.
- As for the **economic situation and assumptions used**, expected growth of the Québec economy takes many external and internal factors into account, including the anticipated slowdown of the global economy related to monetary tightening and demographic changes, as well as the expected change in the labour market.
- The **economic forecasts** used are **comparable to those of the private sector**.

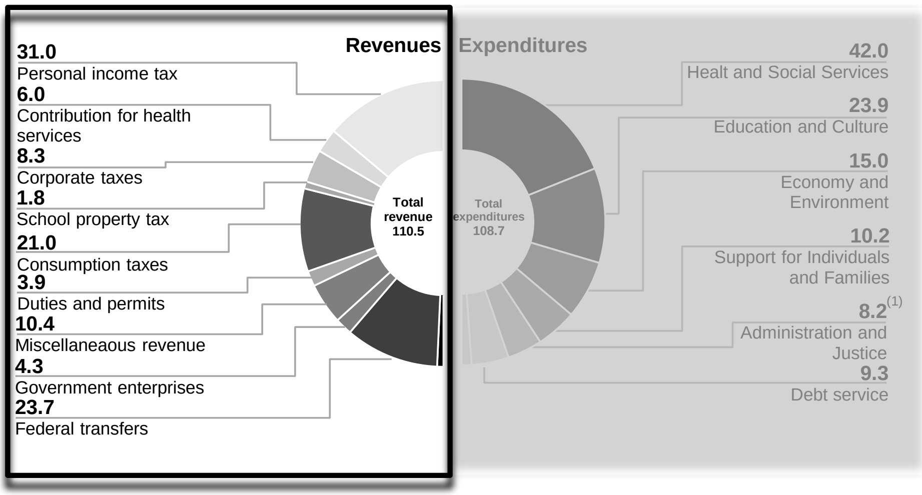
## ❑ Composition of Québec government revenue

For 2018-2019, Québec government revenue stands at $110.5 billion.

Government revenues comprise tax revenue (income tax and taxes), duties and miscellaneous other revenue, in addition to federal transfers and revenue from government enterprises.

CHART 2

**Consolidated revenue – 2018-2019**
(billions of dollars)




Note: Totals may not add due to rounding.
(1) Includes the $359 million reserve in the Contingency Fund.

## 2.1 Change in revenue

The government's consolidated revenue is $110.5 billion in 2018-2019. Revenue will total $113.9 billion for 2019-2020 and $117.6 billion for 2020-2021.

Revenue growth is 2.3% in 2018-2019 and will reach 3.0% in 2019-2020 and 3.3% in 2020-2021.

Consolidated revenue is nearly 79% own-source revenue ($86.8 billion in 2018-2019) and more than 21% is federal transfers ($23.7 billion in 2018-2019).

Their growth changes depending on both the economic situation and government decisions.

TABLE 5

**Change in consolidated revenue**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| **Own-source revenue** | | | | |
| Tax revenue | 66 222 | 68 192 | 70 167 | 72 298 |
| *% change* | *3.2* | *3.0* | *2.9* | *3.0* |
| Duties, permits and miscellaneous revenue | 14 404 | 14 318 | 14 891 | 15 462 |
| *% change* | *5.2* | *–0.6* | *4.0* | *3.8* |
| Government enterprises | 5 092 | 4 339 | 4 463 | 4 779 |
| *% change* | *3.9* | *–14.8* | *2.9* | *7.1* |
| **Own-source revenue** | **85 718** | **86 849** | **89 521** | **92 539** |
| ***% change*** | ***3.6*** | ***1.3*** | ***3.1*** | ***3.4*** |
| Federal transfers | 22 367 | 23 670 | 24 344 | 25 034 |
| *% change* | *10.8* | *5.8* | *2.8* | *2.8* |
| **TOTAL** | **108 085** | **110 519** | **113 865** | **117 573** |
| ***% change*** | ***5.0*** | ***2.3*** | ***3.0*** | ***3.3*** |

## ❑ Change in own-source revenue

Own-source revenue includes tax revenue (income tax and taxes), revenue from duties, permits and miscellaneous revenue, and revenue from government enterprises.

### ■ Tax revenue

Own-source revenue mainly comprises tax revenue.

Tax revenue is made up of personal income tax, contributions to health services, corporate taxes, school property tax and consumption taxes.

Tax revenue represents a little over 60% of the government's consolidated revenue. It stands at $68.2 billion in 2018-2019.

Forecast tax revenue growth is 3.0% in 2018-2019. Growth will be 2.9% in 2019-2020 and 3.0% in 2020-2021.

### ■ Duties, permits and miscellaneous revenue

Own-source revenue also includes revenue from duties and permits (such as vehicle registrations, revenue from the carbon market and drivers' licences), and miscellaneous revenue (such as the sale of goods and services and investment income).

This revenue stands at $14.3 billion in 2018-2019. It has grown −0.6%. Growth will be 4.0% in 2019-2020 and 3.8% in 2020-2021.

### ■ Government enterprises

The revenue from government enterprises is also part of own-source revenue.

— Government enterprises chiefly include Hydro-Québec, Loto-Québec, the Société des alcools du Québec and Investissement Québec.

This revenue stands at $4.3 billion in 2018-2019. Its growth will go from −14.8% in 2018-2019 to 2.9% in 2019-2020 and 7.1% in 2020-2021.

## ❑ Change in revenues from federal transfers

Federal transfer revenues are comprised of equalization payments, health transfers, transfers for post-secondary education and other social programs as well as other types of programs.

Such revenues amount to $23.7 billion in 2018-2019. Forecast revenue growth is 5.8% in 2018-2019. Growth will reach 2.8% in 2019-2020 and 2020-2021.

## 2.2 Economic situation and assumptions used

Québec's economy is doing well—both in terms of economic growth and job creation—and, based on the forecasts presented in the pre-election report, the current sound economic situation will hold for the rest of the forecast period, until 2022-2023.

### ❑ Economic activity

Real gross domestic product (GDP)—which reflects the total value of production within Québec’s territory—is the main measure of economic activity.

Real GDP growth has picked up over the past year, from 1.4% in 2016 to 3.0% in 2017.

Economic growth is forecast to continue in the coming years. Growth in real GDP will reach 2.1% in 2018 and 1.7% in 2019.[3] These growth rates are comparable to those of Québec’s main trading partners.

TABLE 6

**Outlook for economic growth**
(real GDP, percentage change)

| | **2017** | **2018** | **2019** |
|---|---|---|---|
| Québec | 3.0 | 2.1 | 1.7 |
| Canada | 3.0 | 2.1 | 1.7 |
| United States | 2.3 | 2.5 | 2.2 |
| World | 3.6 | 3.7 | 3.6 |

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

3 Except for Québec’s, the economic forecasts are those published in the March 2018 Québec Economic Plan. For Québec, the economic forecasts hinge on statistics available as at June 27, 2018.

## ■ Adjustments to the economic forecast since March 2018

Few changes have been integrated into the economic forecast scenario since the publication of the March 2018 Québec Economic Plan*.* Indeed, the economic environment has remained similar to that observed in early 2018.

Only the Québec economic forecast scenario has been modified. The adjustments concern only certain components of GDP and some economic indicators.

— For 2017, the economic forecasts scenario incorporates statistics from Québec's economic accounts, published as at June 27, 2018.

— Over the forecasting horizon, changes in GDP and the components have been adjusted to factor in the new data available.

  — Since the beginning of 2018, changes in the economic indicators display slightly more vigour. However, this favourable change will be tempered by the intensification of protectionist tensions that remain a source of short-term uncertainty.

  — The impact of the increasing risks related to the escalating protectionist tendencies will nevertheless be limited by the economic support measures announced in August 2018.

In this context, the overall view of the evolution of the economy remains similar to that presented in March 2018. The Ministère des Finances du Québec is maintaining its forecast real GDP growth for the entire forecasting horizon.

Nominal GDP grew by 5.1% in 2017, as against anticipated growth of 4.4% in the March 2018 Québec Economic Plan*.*

— This adjustment essentially reflects high growth in wages and salaries, especially because of sound labour market performance and the net operating surplus of businesses.

The vigour of nominal GDP growth should continue in early 2018. Accordingly, nominal GDP should increase by 4.1% in 2018 and by 3.3% in 2019.

— This marks a 0.6 percentage point increase in 2018 in relation to March 2018, while the 2019 forecast is unchanged.

## Real GDP growth factors

Economic growth is based on domestic demand and the external sector, namely imports and exports.

TABLE 7

**Main components of real GDP**
(percentage change and contribution in percentage points)

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| **Contribution of domestic demand** | **3.5** | **3.1** | **1.6** |
| – Household consumption | 3.2 | 2.4 | 1.8 |
| – Residential investment | 7.2 | 5.2 | –1.4 |
| – Non-residential business investment | 4.8 | 5.8 | 3.0 |
| – Government spending and investment | 2.6 | 2.7 | 1.1 |
| **Contribution of external sector** | **–1.2** | **–0.1** | **0.2** |
| – Exports | 1.8 | 2.1 | 2.1 |
| – Imports | 4.0 | 2.1 | 1.5 |
| **Contribution of inventories** | **0.8** | **–0.8** | **–0.2** |
| **REAL GDP** | **3.0** | **2.1** | **1.7** |

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

### Domestic demand

Domestic demand includes household consumption, residential investment, non-residential business investment and government spending and investment.

— Household consumption continues to be one of the main drivers of the economy. Household consumption spending grew 3.2% in 2017, contributing substantially to the increase in economic activity. It will grow 2.4% in 2018 and 1.8% in 2019.

— Residential investments (which includes new construction and renovation) also increased (7.2%) in 2017, buoyed by economic growth and job creation. The favourable economic situation will continue to support the residential sector in the coming years, but investment growth will be slowed by the gradual rise in interest rates and the tightening of mortgage rules.

— As for businesses, non-residential investment grew for a second year in 2017 (4.8%). These investments should continue to grow in the coming years, due to economic growth, the high production capacity utilization rate, the support measures announced and the high degree of confidence among entrepreneurs in the economic outlook.

— Public administrations including, in particular, the Québec, federal and municipal governments, plan to keep their infrastructure investments high, thereby directly contributing to economic growth.

Furthermore, following robust growth in 2017, inventory accumulation by businesses should slow in 2018 and in 2019.

- **The external sector**

Québec has an open economy in which exports account for a large share of production.

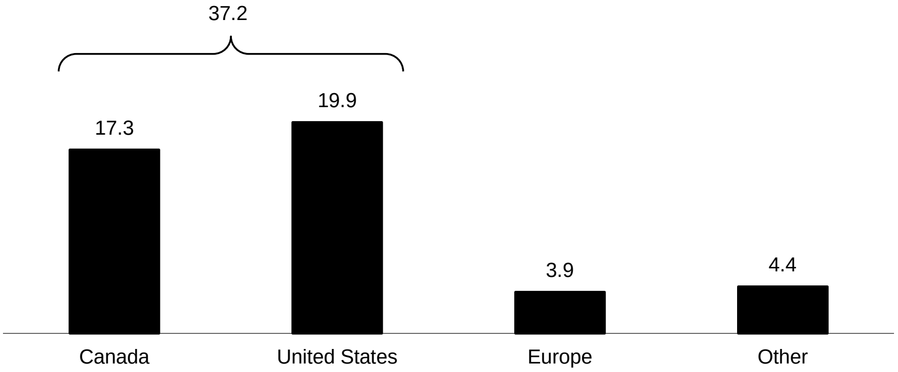
Economic forecasts are also based on external factors that have a significant impact on exports, including the changing dynamics of Québec's main economic partners, the financial markets and commodity prices.

Exports will benefit from generalized global economic growth in the coming years. Accordingly, despite rising protectionist tensions, exports should continue to grow. Export growth should reach 2.1% in 2018 and 2019, after posting a 1.8% increase in 2017.

**Share of exports in Québec's GDP**

Québec's economy is largely export oriented, with exports representing more than 45% of GDP in 2017. That is why Québec's economic growth depends largely on the economic positions of its main partners.

**Share of exports in Québec's GDP, by destination in 2017**
(as a percentage of nominal GDP)




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

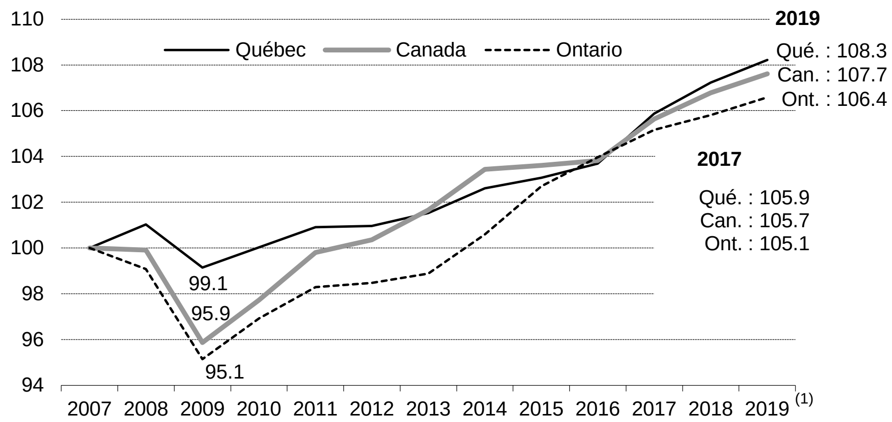
## Growth in the standard of living

The faster pace of economic growth in recent years has led to an improvement in the standard of living, measured by real GDP per capita. Quebecers' standard of living increased at a rate comparable to that of other Canadians from 2007 to 2017.

– This growth is expected to continue in 2018 and 2019.

Overall, Quebecers' standard of living should increase 8.3% between 2007 and 2019, compared to an increase of 7.7% for all Canadians and 6.4% for Ontario residents.

**Growth in the standard of living**
(real GDP per capita, 2007 index = 100)




(1) For 2018 and 2019, the forecasts are those of the Ministère des Finances du Québec for Québec and Canada, and the Conference Board of Canada for Ontario.
Sources: Institut de la statistique du Québec, Statistics Canada, Conference Board of Canada and Ministère des Finances du Québec.

## ❑ Employment

Québec's population was close to 8.4 million in 2017, with more than 4.2 million people working.

— Developments in the labour market reflect Québec's economic performance and changing demographics.

### ■ Positive results

Québec's labour market was vigorous in 2017: 90 200 jobs were created in 2017 compared to 2016, and the unemployment rate decreased from 7.1% in 2016 to 6.1% in 2017. This is the lowest annual rate since Statistics Canada began its *Labour Force Survey* in 1976.

The employment rate observed in Québec was also among the highest in Canada for most age groups. In 2017, it was 84.4% among 25-to 54-year-olds in Québec, compared to 82.3% for all of Canada.

### ■ A trend that will continue

Forecasts indicate that the current labour market trend will continue.

— Job creation will be influenced, in particular, by demographic changes, which will result in a smaller pool of available workers. Accordingly, 59 200 jobs will be created in 2018 and 30 500 in 2019.

— The unemployment rate will fall to 5.4% in 2018 and 5.3% in 2019.

These low levels of unemployment will require Québec to use its full labour potential in order to support economic growth. That is why immigration makes a major contribution to Québec's labour market.

## Factors contributing to economic growth and consideration of demographic changes

The key factors of economic growth, measured by the increase in real GDP, are:

- demographic growth, indicated by changes in the population aged 15 to 64, which constitutes the main pool of potential workers;
- employment growth, reflected in a higher employment rate, that is, the total number of workers relative to the population aged 15 to 64;
- productivity growth, that is, the variation in output per job.

Between 1982 and 2010, the increase in GDP was based more or less equally on the three factors listed above. In recent years, though, demographics have stopped contributing to real GDP growth, despite the contribution of immigrants.

Against this backdrop, an increased employment rate and productivity growth will be the main drivers of Québec's economic growth going forward.

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

| | Historical background | | | Forecasts | | | |
|---|---|---|---|---|---|---|---|
| | **1982-2010** | **2011-2016** | **2017** | **2018** | **2019** | **2020** | **2021-2022** |
| Real GDP (percentage change) | 2.0 | 1.4 | 3.0 | 2.1 | 1.7 | 1.5 | 1.3 |
| **Growth factors (contribution)** | | | | | | | |
| Potential labour pool(1) | 0.6 | 0.1 | −0.1 | −0.1 | −0.2 | –0.3 | −0.2 |
| Employment rate(2) | 0.6 | 0.7 | 2.3 | 1.5 | 0.9 | 0.8 | 0.7 |
| Productivity(3) | 0.8 | 0.6 | 0.8 | 0.7 | 0.9 | 0.9 | 0.8 |

Note: Totals may not add due to rounding.
(1) The population 15 to 64 years of age.
(2) The employment rate corresponds to the total number of workers over the population between 15 and 64 years of age.
(3) Productivity represents real GDP per job.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

## Immigration: a major contribution to the labour market

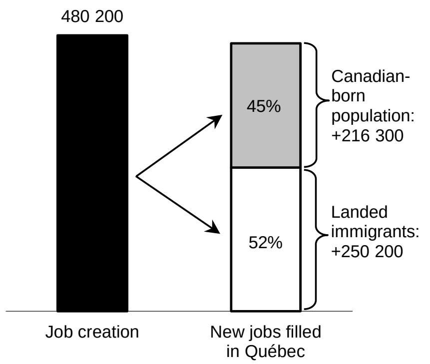
The major contribution of immigration to the labour market can be illustrated in the change in jobs held by immigrants. More specifically, 480 200 jobs were created in Québec for people aged 15 and over between 2006 and 2017.

During that period, the immigrant population aged 15 and over occupied 250 200 of those new jobs, more than 50% of the jobs created in Québec. Canadian-born workers filled 216 300 jobs over the same time period.

The labour market reflects demographic change. Indeed, Québec's demographic growth has been strengthened by the arrival of immigrants in recent years. The population aged 15 and over increased by 705 200 people between 2006 and 2017.

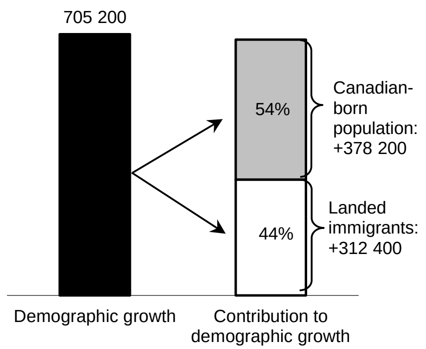
Immigration represented close to 45% of this increase (312 400 people). As the immigrant population is usually younger, its relative contribution to employment is greater than its demographic contribution.

**Job creation among the Québec population aged 15 and over between 2006 and 2017**
(in number of jobs and contribution as a percentage)




Note: The sum of the "Landed immigrants" and "Population born in Canada" categories is not equal to total job creation, which includes new jobs occupied by Canadian citizens born outside Canada and by non-permanent residents.
Source: Statistics Canada.

**Demographic growth among the Québec population aged 15 and over, between 2006 and 2017**
(in number of people and percentage contribution)




Note: The sum of the "Landed immigrants" and "Population born in Canada" categories is not equal to demographic growth, which includes Canadian citizens born outside Canada and non-permanent residents.
Source: Statistics Canada.

## 2.3 Economic assumptions comparable to those of the private sector

The economic forecasts for the current year and subsequent years in the March 2018 Québec Economic Plan are maintained relatively unchanged in the *Pre-election Report on the State of Québec's Public Finances – August 2018*. Essentially, certain components are adjusted but the overall perspective remains very similar.

— Québec's economic growth will reach 2.1% in 2018 and 1.7% in 2019, as forecast in the March 2018 Québec Economic Plan.

The growth prospects of the Ministère des Finances and the private sector are comparable.

— In June 2018, private sector economists anticipated real GDP growth of 2.2% for 2018 overall, a forecast equivalent to what they anticipated when the March 2018 Québec Economic Plan was published.

  — The forecast is slightly higher than that of the Ministère des Finances (2.1%) in the pre-election report.

— For 2019, private sector economists anticipate real GDP growth of 1.8%, an upward adjustment of 0.1 percentage point in relation to what they anticipated in March 2018.

  — The forecast is slightly higher than that of the Ministère des Finances (1.7%) in the pre-election report.

TABLE 8

**Economic outlook according to the Ministère des Finances du Québec and the private sector**
(real GDP, percentage change)

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| **Ministère des Finances du Québec** | | | |
| – March 2018 Québec Economic Plan | 3.0 | 2.1 | 1.7 |
| – 2018 pre-election report | 3.0 | 2.1 | 1.7 |
| **Private sector** | | | |
| – March 2018(1) | 2.9 | 2.2 | 1.7 |
| – June 2018(2) | — | 2.2 | 1.8 |

(1) These data represent the Ministère des Finances du Québec summary, which includes the forecasts of 11 private sector institutions as at March 12, 2018.
(2) These data represent the Ministère des Finances du Québec summary, which includes the forecasts of 11 private sector institutions as at June 28, 2018.

# 3. CHANGE IN EXPENDITURE: FUNDING CORRESPONDING TO THE COST OF SERVICES ANNOUNCED

The financial framework includes a forecast of changes in government expenditure for the delivery of public services.

— The financial framework presents the **change in expenditure** for each of the government's chief missions until 2020-2021.

— The level of these services is based on **the costs** of renewing existing programs, plus commitments made in the last budget.

The financial framework presented in the *Pre-election Report on the State of Québec's Public Finances – August 2018* provides for expenditure growth corresponding to the cost of services announced.

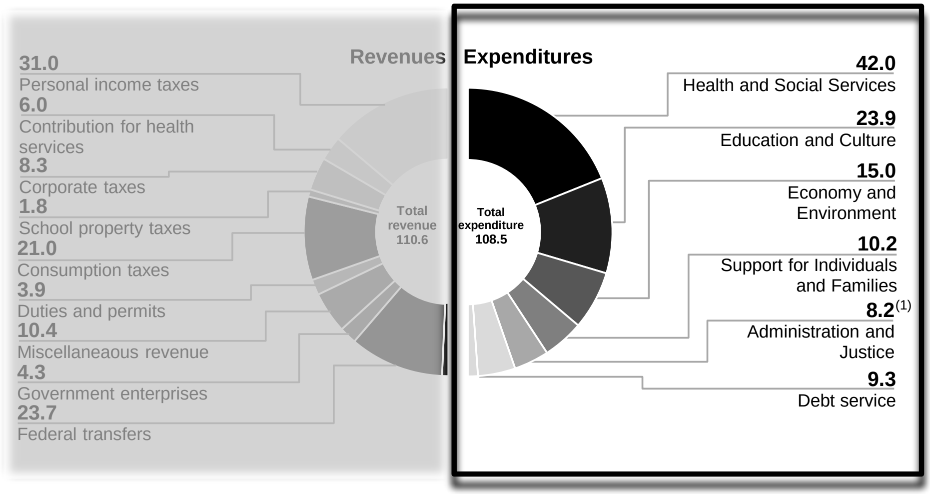
## ❑ Québec government expenditure

In 2018-2019, expenditure amounts to $108.7 billion.

— This expenditure includes mission expenditures, such as Health and Social Services and Education and Culture, as well as debt service.

CHART 3

**Consolidated expenditure – 2018-2019**
(billions of dollars)




Note: Totals may not add due to rounding.
(1) Includes the $359 million reserve in the Contingency Fund.

## 3.1 Change in expenditure

Consolidated expenditure totals $108.7 billion in 2018-2019. It will reach $111.0 billion and $114.0 billion, respectively, in the next two years.

Expenditure growth is forecast to be 5.0% in 2018-2019, 2.2% in 2019-2020 and 2.7% in 2020-2021.

Consolidated expenditure includes:

— mission expenditures ($99.4 billion for 2018-2019), that is, the expenditures for the government's major areas of activity;

— debt service ($9.3 billion for 2018-2019).

### ❑ Debt service and its impact on mission expenditures

Debt service corresponds to the amount of interest that has to be paid on the debt on financial markets, i.e. direct debt service, plus interest on the liability for the retirement plans and other future benefits.

Debt service represents 8.5% of total consolidated expenditure in 2018-2019.

— Those amounts are not available to fund public services.

The government's strategy when the March 2018 Québec Economic Plan was released, which provides for using the Generations Fund to repay the $2 billion in maturing loans annually, will reduce the debt service proportion in coming years and provide some leeway for funding mission expenditures.[4]

[4] See page 36 for more information on the debt and repayments that have been made.

## 3.2 Government mission expenditures

Mission expenditures correspond to direct services to the population, such as health care and education.

They also include investments made to support economic growth and thus secure the funding of future services and an improved standard of living for Quebecers.

### ❑ Change in mission expenditures

The government divides its primary functions, or major areas of activity, between five public service missions.

TABLE 9

**Change in mission expenditures**
(millions of dollars)

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 |
|---|---|---|---|---|
| Health and Social Services | 40 213 | 42 020 | 43 571 | 45 398 |
| *% change* | *3.8* | *4.5*[(1)] | *3.7* | *4.2* |
| Education and Culture | 22 785 | 23 907 | 24 655 | 25 517 |
| *% change* | *5.3* | *4.5*[(1)] | *3.1* | *3.5* |
| Economy and Environment | 14 309 | 15 044 | 15 035 | 14 847 |
| *% change* | *16.0* | *5.1* | *–0.1* | *–1.3* |
| Support for Individuals and Families | 9 816 | 10 166 | 10 251 | 10 481 |
| *% change* | *2.4* | *4.4*[(1)] | *0.8* | *2.2* |
| Administration and Justice | 7 126 | 7 883 | 7 950 | 8 127 |
| *% change* | *6.2* | *10.6* | *0.8* | *2.2* |
| Contingency Fund reserve | — | 359 | 300 | 300 |
| **TOTAL** | **94 249** | **99 379** | **101 762** | **104 670** |
| ***% change*** | ***5.9*** | ***5.4*** | ***2.4*** | ***2.9*** |

(1) To assess growth in 2018-2019 based on comparable spending levels, the percentage changes for that year were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission ($12 million) and the Support for Individuals and Families mission ($75 million) and including them in the 2017-2018 expenditures of the Education and Culture mission.

## ■ Health and Social Services

The Health and Social Services mission primarily concerns the activities of the health and social services network and the programs administered by the Régie de l'assurance maladie du Québec.

This mission accounts for the biggest share of mission expenditures, i.e. 42.3% in 2018-2019. That represents a total expenditure of $42.0 billion for that year, an increase of 4.5% compared to 2017-2018. It is expected to rise an average of 3.9% for the two subsequent years.

## ■ Education and Culture

The Education and Culture mission primarily concerns the activities of the education networks, student financial assistance, programs in the culture sector and immigration-related programs.

This is the second largest mission, accounting for 24.1% of mission spending. In 2018-2019, that represents an expenditure of $23.9 billion, an increase of 4.5% from 2017-2018. It is expected to rise an average of 3.3% for the two subsequent years.

## ■ Economy and Environment

The Economy and Environment mission primarily includes programs related to economic development, employment assistance measures, international relations, the environment and infrastructure support.

In 2018-2019, the expenditure dedicated to the Economy and Environment mission totals $15.0 billion, an increase of 5.1% from 2017-2018.

## ■ Support for Individuals and Families

The Support for Individuals and Families mission primarily includes measures pertaining to last resort financial assistance and assistance for families and seniors, as well as certain legal aid measures.

In 2018-2019, the expenditure dedicated to the Support for Individuals and Families mission totals $10.2 billion, an increase of 4.4% from 2017-2018.

## ■ Administration and Justice

The Administration and Justice mission includes the activities of the legislature, central bodies and public security, as well as administrative programs.

In 2018-2019, the expenditure dedicated to the Administration and Justice mission totals $7.9 billion, an increase of 10.6% from 2017-2018.

## 3.3 Funding that is tied to the cost of public services

Changes in the size and structure of the population according to different age groups affect the level and composition of public spending.[5] The increase in population is thus a factor in spending growth. The cost of public services is also affected by price movements,[6] i.e. changes in inflation and wages. Both those factors are considered in calculating the cost of program renewal.[7]

The absence of a shortfall – based on the renewal costs and the goal of mission expenditures – means that the funding allocated corresponds to the cost of the services announced.

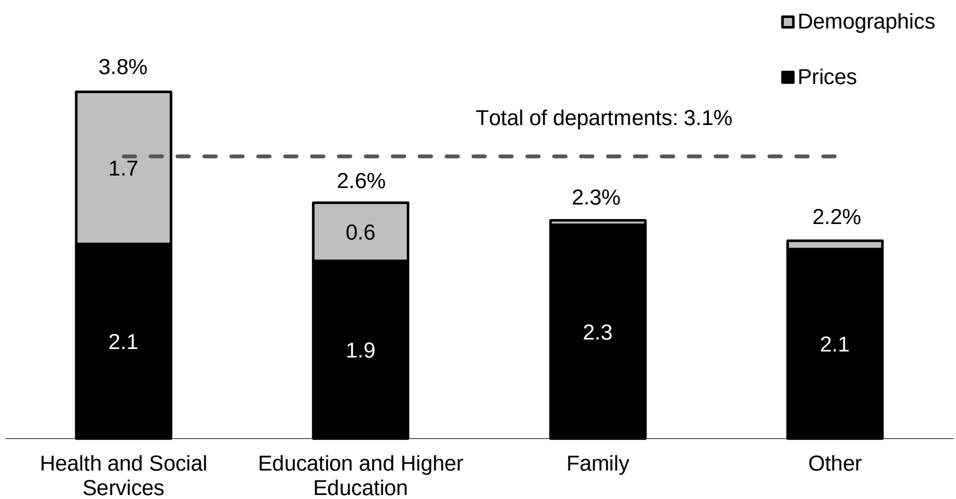
### ❑ Public service funding tied to the cost of services

Due to the forecast change in demographics and prices from 2019-2020 to 2029-2030, the average increase in the consolidated expenditure necessary to maintain the basket of services will be 3.1% per year.

The average annual growth needed for Health and Social Services will be 3.8%. The Education and Higher Education sector and the Support for Families sector will require average annual growth of 2.6% and 2.3% respectively.

CHART 4

**Impact of demographic and price factors on the growth of mission expenditures from 2019-2020 to 2029-2030**
(per cent and in percentage points)




Note: Totals may not add due to rounding.
Source: Ministère des Finances du Québec.

[5] For further information on the effects of demographics, see page B.51 of the pre-election report.

[6] For further information on price changes, see page B.53 of the pre-election report.

[7] For further information on the costs of renewing government programs, see page 33.

## ❑ A spending target in line with the cost of services announced

To ensure funding that is in line with the cost of services announced, a multi-year spending target is compared with the costs of renewing government programs so as to manage the current annual shortfall, if applicable. This is a normal expenditure management process.

Government departments and public bodies are responsible for determining the measures to be implemented to ensure their spending targets are reached, under the coordination of the Secrétariat du Conseil du trésor.

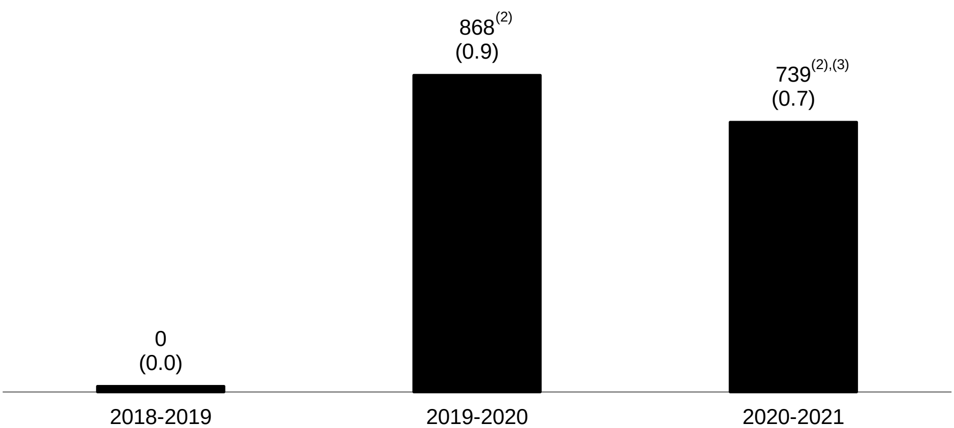
Based on the current financial information, there is no gap between the costs of renewing government programs and spending targets in 2018-2019. The shortfall is less than $900 million for 2019-2020 and 2020-2021, which is small compared with mission expenditures (0.9% and 0.7%, respectively, in 2019-2020 and 2020-2021).

— Time will help determine the best ways for funding the shortfall, either through savings, reworking expenditures or by granting additional funding, as applicable.

The *Pre-election Report on the State of Québec's Public Finances – August 2018* thus calls for a spending level that corresponds to the cost of public services announced. This means that the shortfall to be eliminated in fiscal 2019-2020 and 2020-2021 will be small and, essentially, the mission expenditures announced in the financial framework will receive the required funding.

CHART 5

**Shortfall to be offset[(1)] for mission expenditures**
(millions of dollars and per cent of mission expenditures)




(1) The shortfall to be offset corresponds to the difference between the annual target and the cost of renewing government programs.
(2) Includes a $200 million-a-year cost forecast for the actuarial valuation of pension plans.
(3) Includes a provision of $250 million for the forecast risk, which makes up for the fact that program renewal costs tend to be more uncertain in the final years of the financial framework.

# 4. DEBT: COMPLIANCE WITH REDUCTION AND REPAYMENT OBJECTIVES

Québec must deal with a relatively large public debt load.

- The financial framework takes both **debt repayment** and deposits of dedicated revenue to the **Generations Fund** into account.
  - For several years now, Québec has undertaken to reduce the weight of its debt in relation to its GDP, in particular through the establishment of the Generations Fund and deposits made to it.
  - The government recently undertook a new phase, which involves using a portion of the accrued amounts in the fund to repay borrowings that are maturing each year.
- The financial framework **meets the debt reduction objectives** set out in the Act to reduce the debt and establish the Generations Fund. The strategy that has been adopted allows the government to keep making deposits to the Generations Fund, provides some budget leeway to finance services, and ensures that the debt reduction targets are reached.
- The financial framework maintains these efforts. **The debt is under control but still high**.

## 4.1 Debt repayment and the Generations Fund

In 2018-2019, $2.5 billion in dedicated revenues is going to the Generations Fund.

In 2019-2020 and 2020-2021, the deposits will total $2.7 billion and $3.0 billion, respectively.

### ❑ Repayment of maturing loans

Faster growth by the assets in the Generations Fund and the strong financial framework give Québec the opportunity to move into another phase by using a portion of the accrued amounts to start paying off its debt.

In this context, the government plans to use $10 billion from the Generations Fund—$2 billion a year from 2018-2019 to 2022-2023—to repay financial market borrowings that are maturing.

This repayment of $10 billion in debt over the next five years will save the government nearly $1.1 billion in debt service costs by 2022-2023, while dedicated revenues continue to be deposited in the Generations Fund.

— The financial framework plans to use that budget leeway to fund public services.

### ❑ Balance of the Generations Fund

Taking into account the deposits made in the Generations Fund since its creation and those slated for the coming years, plus the use of some of the amounts to repay maturing loans, the book value of the Generations Fund will continue to increase, reaching $17.8 billion as at March 31, 2023.

## 4.2 Compliance with the debt reduction objectives set out in the Act

Two primary debt concepts are used to measure a government's indebtedness.

- Gross debt is the sum of debt issued on financial markets and the net liability of pension plans and other future benefits of public and parapublic sector employees, minus the balance in the Generations Fund and pre-financing.
- 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.
  - The debt representing accumulated deficits is calculated by subtracting the financial assets net of other liabilities and non-financial assets from the gross debt. In accordance with the *Act to reduce the debt and establish the Generations Fund*, the debt is increased by the stabilization reserve.

The government has set a reduction target for the proportion of both of those in the economy.

### ❑ Debt level and proportion in the economy

As at March 31, 2018 the gross debt stood at $201.1 billion. This corresponds to 48.5% of GDP, as a proportion of the economy.

The debt representing accumulated deficits stood at $115.1 billion, or 27.7% of GDP.

The debt-to-GDP ratio is expected to decline in the coming years for both debt concepts.

TABLE 10

**Debt of the Québec government as at March 31 if the improvements in the financial framework are not used**
(billions of dollars)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| **Gross debt[1]** | **203.5** | **201.1** | **205.0** | **205.5** | **207.5** | **207.2** | **206.8** |
| *As a % of GDP* | *51.5* | *48.5* | *47.5* | *46.1* | *45.1* | *43.7* | *42.4* |
| **Debt representing accumulated deficits** | **117.4** | **115.1** | **112.6** | **109.9** | **106.9** | **103.7** | **100.2** |
| *As a % of GDP* | *29.7* | *27.7* | *26.1* | *24.6* | *23.2* | *21.9* | *20.5* |

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

## ❑ Debt reduction targets

Debt reduction objectives were included in the *Act to reduce the debt and establish the Generations Fund*.

The Act stipulates that, for fiscal 2025-2026:

— gross debt may not exceed 45% of GDP;

— the debt representing accumulated deficits may not exceed 17% of GDP.

### ■ Compliance with the established target

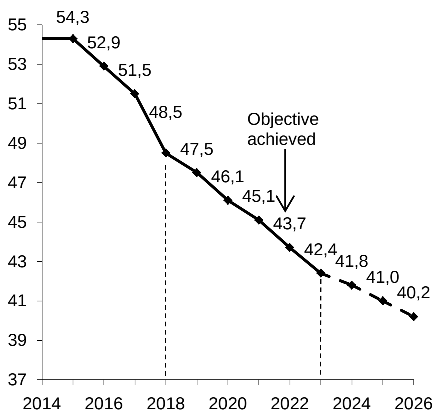
As a proportion of the economy, gross debt will be 43.7% of GDP as at March 31, 2022. The Act's gross debt reduction target will thus have been met.

As a proportion of the economy, the debt representing accumulated deficits will be 16.6% of GDP as at March 31, 2026. The goal of reducing the debt representing accumulated deficits will be reached in 2025-2026, as provided in the Act.

CHART 6

**Gross debt as at March 31**

(as a percentage of GDP)

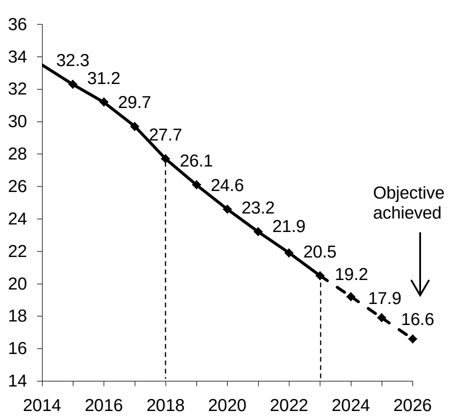



Note: These are projections as of 2024.

CHART 7

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

(as a percentage of GDP)




Note: These are projections as of 2024.

## Infrastructure investment

The government is investing large amounts in infrastructure that benefits the people of Québec.

– Investments under the 2018-2028 Québec Infrastructure Plan (QIP) will total $100.4 billion, an increase of $9.3 billion from the figure announced in the 2017-2027 Québec Infrastructure Plan.

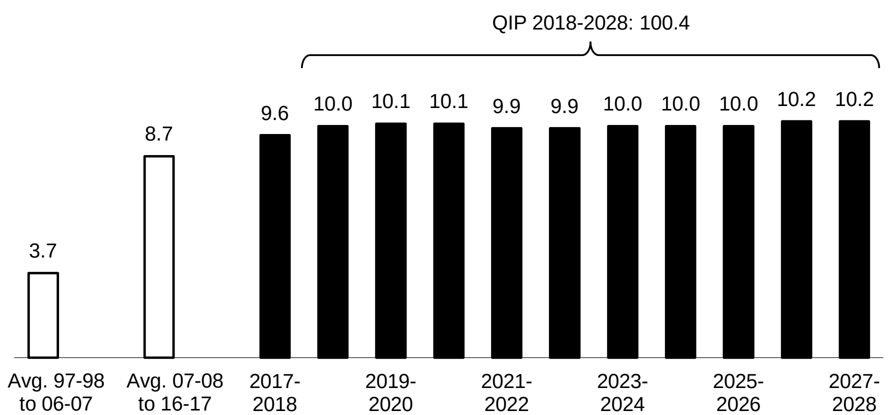
– Infrastructure investments have been made possible by the efforts to reduce the debt burden and, in particular, the deposits made to the Generations Fund each year.

These investments improve quality of life for Quebecers by responding to infrastructure needs, particularly in the education, health and social services, roads and public transit sectors.

Annual investments of $10 billion are planned over the next 10 years.

– These investments will make it possible, in particular, to maintain the stock of public capital in the economy at 26% of real GDP.

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



## 4.3 Debt under control, but still high

Québec is continuing the debt reduction efforts it has made in recent years because it still has a high debt load.

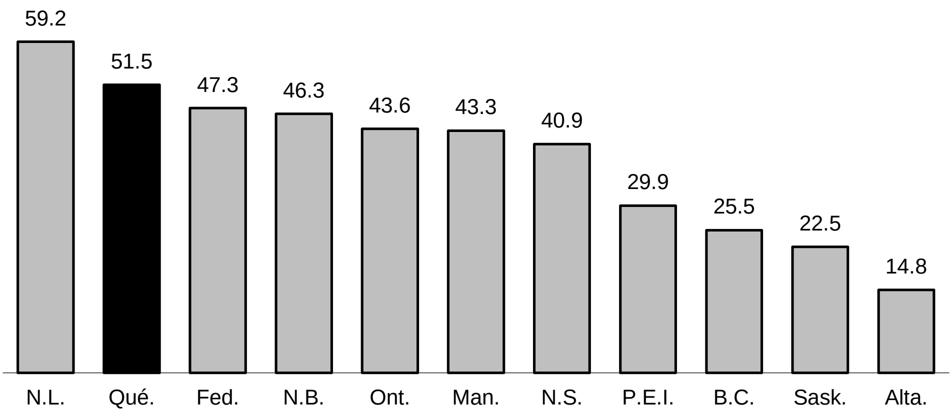
### ❑ The proportion of the debt in the economy

Despite the improvement in recent years, Québec continues to have one of the highest debt loads among Canadian provinces.

— On a gross debt and percentage of GDP basis, Québec is the second most heavily indebted province after Newfoundland and Labrador.

CHART 8

**Gross debt as at March 31, 2017**
(as a percentage of GDP)




Sources: Public accounts and Statistics Canada.

## ❑ Impact of the Generations Fund on the debt

Without the deposits in the Generations Fund, the anticipated gross debt as at March 31, 2023 would be $28.8 billion higher.

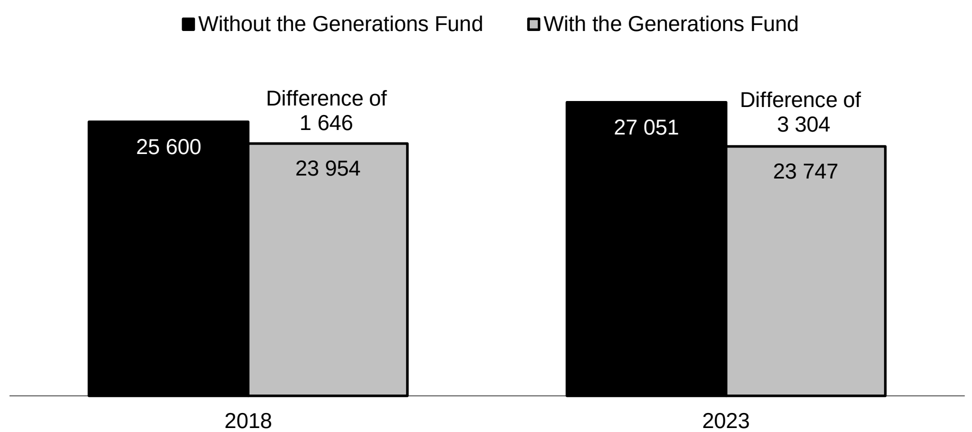
This additional debt would have amounted to $3 304 per capita.

— As at March 31, 2023, gross debt per capita will be $23 747.

— Without the Generations Fund, it would have reached $27 051 per capita.

CHART 9

**Gross debt as at March 31**
(in dollars per capita)



# 5. MARGINS FOR PRUDENCE FACTORS TO MANAGE RISK AND UNCERTAINTY

The Québec government's financial framework is built on certain assumptions. By definition, uncertainties come with those assumptions.

The forecast fiscal balance may be jeopardized by external shocks, such as a deterioration of economic conditions that has a major impact on revenue or expenditure, or any other shock.

- To deal with such risks and uncertainties, the government provides for reserves from its financial framework and a **stabilization reserve**.
  - Prudence factors are an integral part of good organizational practice; they increase the probability of hitting budget targets. They give the financial framework the required flexibility for the government to adapt should any of those risks materialize, but without compromising public finances.
- The Ministère des Finances targets **the main risks** that could affect the financial framework and does **sensitivity analyses** regarding those risks.

## 5.1 Provisions in the financial framework and stabilization reserve

The financial framework includes prudence factors, i.e. provisions and a stabilization reserve, to mitigate the risks from negative external shocks or the uncertainties surrounding the determination of budgetary forecasts.

### ❑ Several reserves built into the financial framework

The government resorts to several reserves to prepare the financial framework. Such reserves are integrated into the financial framework in order to offset certain risks.

Overall, the reserves total more than $500 million per year for the next five years.

— If the risks do not materialize, the reserves could be used, for example, to fund a portion of the shortfall in expenditure.

TABLE 11

**Margins for prudence**
(millions of dollars)

| | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | Total |
|---|---|---|---|---|---|---|
| Contingency reserve | — | 100 | 100 | 100 | 100 | 400 |
| Contingency Fund reserve | 359 | 300 | 300 | 300 | 300 | 1 559 |
| Debt service reserve | 50 | 150 | 150 | 150 | 150 | 650 |
| **Subtotal – Reserves** | **409** | **550** | **550** | **550** | **550** | **2 609** |
| Stabilization reserve(1) | | | | | | 8 603 |
| **TOTAL** | **409** | **550** | **550** | **550** | **550** | **11 212** |

(1) If the improvements in the financial framework are not used.

### ■ Contingency reserve

The contingency reserve is designed to mitigate various risks arising out of economic conditions or other events that affect the government's financial position. In the financial framework, the contingency reserve is $100 million per year from 2019-2020 to 2022-2023.

### ■ Contingency Fund

The Contingency Fund is intended to cover unforeseen expenditures that may arise in government programs, planned expenditures not broken down in the departmental portfolios, and certain measures announced in the Budget Speech.

In the financial framework, the amount corresponding to a reserve in the Contingency Fund and included in the expenditure budget is $359 million in 2018-2019 and $300 million as of 2019-2020.

### ■ Debt service reserve

The purpose of the debt service reserve is to cover various contingencies, such as a larger than anticipated increase in interest rates and sudden fluctuations on financial markets.

In the financial framework, the debt service reserve is $50 million in 2018-2019 and will be $150 million per year as of 2019-2020.

## ❑ Stabilization reserve if the improvements in the financial framework are not used

The *Balanced Budget Act* provides that any surplus be allocated to the stabilization reserve so as to facilitate the government's multi-year budget planning.

— The balance of the stabilization reserve is adjusted on the basis of recorded surpluses allocated to the reserve or amounts used from the reserve for each fiscal year.

Thus, if the improvements in the financial framework are not used, the stabilization reserve will total roughly 6.9 billion as at March 31, 2018 and $8.6 billion as at March 31, 2023.[8]

[8] For further information on the stabilization reserve, see page B.28 of the pre-election report.

## 5.2 Main risks that could affect the financial framework and sensitivity analyses

The Ministère des Finances targets the main risks that could arise and have an impact on public finances.

To quantify the impact that such risks would have on public finances, the Ministère des Finances assesses the sensitivity of government revenue and expenditure to changes in the various assumptions that underpin the financial framework. Those risks are published in the pre-election report together with the results of the sensitivity analyses.[9]

The risks and uncertainties that are targeted may be external or internal, and may affect either revenue or expenditure.

### ❑ Risks and uncertainties that could affect revenue

The revenue forecast is based on several different assumptions, data and forecast models that take into account the economic outlooks drawn up by the Ministère des Finances.

For example, a 1-percentage-point change in Québec's nominal GDP growth has a $700-million impact on own-source revenue.

Since the Québec economy is very open to outside markets, Québec's economic variables are influenced by many external factors.

— Québec's economy could be affected by a widespread global economic slowdown, an increase in trade restrictions worldwide, faster than anticipated monetary policy tightening around the world, oil or energy price movements that diverge from the forecasts, or a sharper downturn in Canada's housing sector.

For example:

— a 1% change in U.S. real GDP will result on average in a 0.5% change in Québec's real GDP;

— a 1.0US¢/kWh change in energy prices in external markets will have an almost $150-million impact on Hydro-Québec's net earnings in 2018.

Other internal risks and events could result in different forecasts. Completion of the accounting for 2017-2018 financial data and in-year revenue monitoring for fiscal 2018-2019 are elements of risk and uncertainty that can produce results different from those forecast and affect revenue levels in 2018-2019 and subsequent years.

9 For more information, see Section B of the pre-election report.

## ❑ Risks and uncertainties that could affect expenditures

### ■ Clienteles

A change in target clienteles compared with the forecast can have an impact on portfolio spending.

For example:

- a change in the number of people taking medication could affect spending in the Santé et Services sociaux portfolio;
- a change in staffing at elementary and secondary schools, CEGEPs or universities could increase the expenditure of the Éducation et Enseignement supérieur portfolio;
- a change in the number of recipients of last resort financial assistance due to an economic slowdown could pose a risk and affect spending for the Ministère du Travail, de l'Emploi et de la Solidarité sociale.

For example, a 1% variation in the number of people aged 0-4, i.e. the population segment that affects the demand for childcare services, would have a $50 million impact on total spending.

### ■ Prices

The uncertainty surrounding spending also stems from the cost of goods and public services.

A change in the general level of prices can have an impact on public spending as a whole. The risk affects the government's various portfolios differently.

For example, a 1% variation in prices would lead to a variation of $280 million, or 0.3 percentage point, in total spending.

### ■ Interest rate

The interest rate affects the cost of borrowing.

The main risk with respect to the debt service forecast is a larger than anticipated increase in interest rates. An increase of 1 percentage point in interest rates would increase the debt service by $250 million.

## Impact of an economic shock on own-source revenue

### Impact of an average recession

Past experience shows that the government is at risk from events that could impact its financial framework, such as an economic downturn.

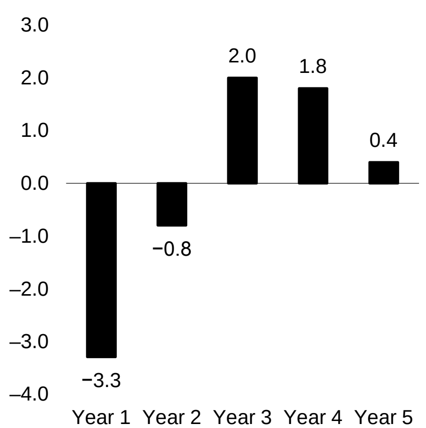
The analysis of historical data in Québec indicates that an average recession could lead to a nominal GDP adjustment of −3.3 percentage points during the first year of recession and −0.8 percentage point the following year compared to the reference scenario. Given the economic recovery that generally follows a downturn, nominal GDP would be upgraded as of the third year, which corresponds to 2.0 percentage points, 1.8 percentage point and 0.4 percentage point, respectively.

The impact of such an economic downturn on the government's own-source revenue could result in a loss of revenue amounting to $8.5 billion over a five-year period before returning to the pre-recession level.[1] Own-source revenue generally grows at a rate similar to that of the economy since there is a direct link between tax bases and nominal GDP. According to the sensitivity analysis drawn up by the Ministère des Finances, a variation of 1 percentage point in Québec's nominal GDP has an impact of approximately $700 million on own-source revenue. Furthermore, during periods of economic downturn, a sharper change in own-source revenue than in nominal GDP is generally observed.

In addition to flexibility in the budgetary process, the government also has at its disposal a series of ways to manage unforeseen factors that could affect the state of Québec's public finances. The s incorporated into the financial framework, to which are added the possible use of the stabilization reserve as a management instrument, would be sufficient to cover, over a five-year period, the revenue lost from an economic downturn.

**Nominal GDP adjustment**

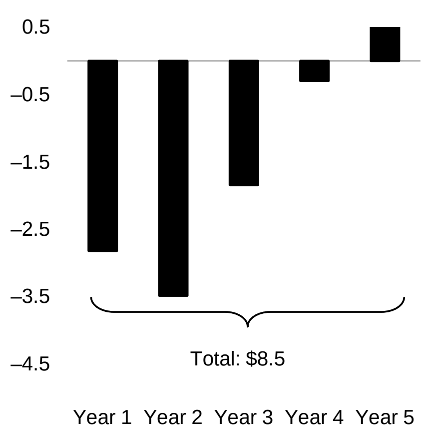
(percentage points)




Source: Ministère des Finances du Québec.

**Adjustment to consolidated revenue(1)**

(billions of dollars)




(1) Excluding government enterprises.
Source: Ministère des Finances du Québec.

1 The illustrationis based on an estimate made by the Ministère des Finances du Québec in the fall of 2016. The estimated impact does not take into account the increase in expenditure linked to an economic downturn, such as fiscal stimulus measures.

To help you take stock
of the state of Québec's public finances, consult:

www.rapportpreelectoral.gouv.qc.ca

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