

MONTHLY REPORT ON FINANCIAL TRANSACTIONS

March 10, 2020

AT DECEMBER 31, 2019

Note to the reader

The monthly report on financial transactions provides an overview of the Québec government's monthly financial results. It is produced to increase the transparency of public finances and to provide regular monitoring on the achievement of the budgetary balance target for the fiscal year. The financial information presented in this report is unaudited and is based on the accounting policies used in the government's annual financial statements.⁽¹⁾

The *Monthly Report on Financial Transactions at January 31, 2020* will be published on April 17, 2020.

Highlights for December 2019

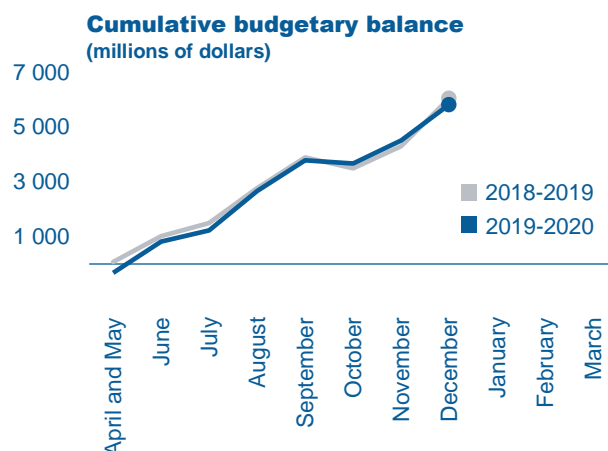
At December 31, 2019, that is, for the first nine months of 2019-2020, the budgetary balance within the meaning of the *Balanced Budget Act* showed a surplus of \$5.8 billion. This is a decrease of \$54 million compared to the previous year at the same date.

This result is due to:

- revenues of \$87.4 billion;
- expenditures of \$79.7 billion;
- deposits of \$1.8 billion in the Generations Fund.

According to the *Québec Budget Plan – March 2020*, a budgetary balance of \$1.9 billion is expected for the year as a whole.

- This surplus will contribute to reducing the debt.



SUMMARY OF CONSOLIDATED RESULTS

(unaudited data, millions of dollars)

	December			April to December			
	2018	2019	Change	2018-2019	2019-2020	Change	Change (%)
Own-source revenue	8 693	8 651	-42	67 797	69 409	1 612	2.4
Federal transfers	1 883	1 991	108	16 694	17 944	1 250	7.5
Consolidated revenue	10 576	10 642	66	84 491	87 353	2 862	3.4
Portfolio expenditures	-7 792	-8 503	-711	-69 645	-73 976	-4 331	6.2
Debt service	-700	-648	52	-6 622	-5 757	865	-13.1
Consolidated expenditure	-8 492	-9 151	-659	-76 267	-79 733	-3 466	4.5
SURPLUS (DEFICIT)⁽²⁾	2 084	1 491	-593	8 224	7 620	-604	—
BALANCED BUDGET ACT							
Deposits of dedicated revenues in the Generations Fund	-639	-179	460	-2 347	-1 797	550	—
BUDGETARY BALANCE⁽³⁾	1 445	1 312	-133	5 877	5 823	-54	—

CONSOLIDATED REVENUE

Own-source revenue

At December 31, 2019, that is, for the first nine months of 2019-2020, own-source revenue amounted to \$69.4 billion. This represents an increase of \$1.6 billion (2.4%) compared to the same period last year.

- The cumulative change in own-source revenue slowed down in December, due in particular to lower miscellaneous revenue, partially offset by higher revenues from personal income tax and consumption taxes.

Tax revenue increased by \$1.9 billion (3.6%) to \$54.9 billion, due to:

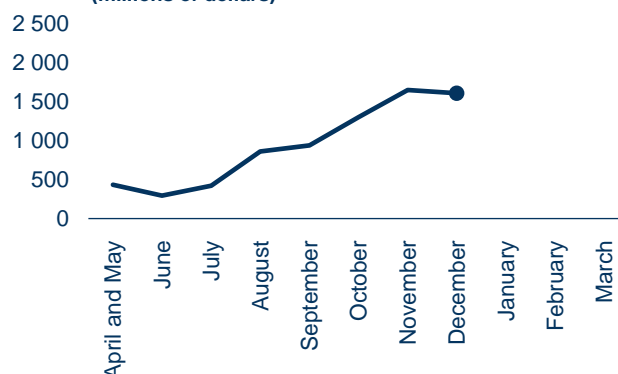
- a \$1.2-billion increase (5.2%) in **personal income tax**, driven in particular by growth in wages and salaries;
- a \$53-million increase (1.1%) in **contributions for health services**, resulting in particular from growth in wages and salaries, offset by the reduction in the contribution rate to the Health Services Fund for all Québec SMBs;
- a \$79-million decrease (1.3%) in revenue from **corporate taxes**, due in particular to the impact of the measures to increase certain tax deductions for depreciation, which were announced in the fall 2018 economic and financial update, despite growth in corporate profits;
- a \$268-million decrease (18.7%) in **school property taxes**, due to the school tax system reform, which aims to reduce school tax rates in Québec;
- a \$986-million increase (5.9%) in **consumption taxes**, due in particular to growth in household consumption and residential construction.

Other own-source revenue increased by \$81 million (0.7%) to \$11.6 billion, due in particular to:

- a \$147-million increase (4.8%) in **duties and permits**, mainly due to increased revenue from Québec's greenhouse gas emissions cap-and-trade system;
- a \$66-million decrease (0.8%) in **miscellaneous revenue**, due in particular to the decrease in investment revenue from the Generations Fund stemming from exceptional gains realized in 2018-2019 within the context of accelerated debt repayment, partially offset by the increase in revenue of Mining and Hydrocarbon Capital Fund.

Revenue from government enterprises decreased by \$402 million (12.3%) to \$2.9 billion. In June 2018, Hydro-Québec realized an extraordinary gain tied to the partial disposal of the TM4 subsidiary. Moreover, the value of Hydro-Québec's exports declined in relation to last year, mainly because of lower temperatures.

Cumulative change in own-source revenue
(millions of dollars)



OWN-SOURCE REVENUE

(unaudited data, millions of dollars)

	December			April to December			
	2018	2019	Change	2018-2019	2019-2020	Change	Change (%)
Income and property taxes							
Personal income tax	3 110	3 406	296	24 005	25 246	1 241	5.2
Contributions for health services	544	575	31	4 913	4 966	53	1.1
Corporate taxes	789	768	-21	6 000	5 921	-79	-1.3
School property tax	145	124	-21	1 436	1 168	-268	-18.7
Consumption taxes	2 009	2 118	109	16 622	17 608	986	5.9
Tax revenue	6 597	6 991	394	52 976	54 909	1 933	3.6
Duties and permits	299	288	-11	3 089	3 236	147	4.8
Miscellaneous revenue	1 279	828	-451	8 476	8 410	-66	-0.8
Other own-source revenue	1 578	1 116	-462	11 565	11 646	81	0.7
Total own-source revenue excluding revenue from government enterprises	8 175	8 107	-68	64 541	66 555	2 014	3.1
Revenue from government enterprises	518	544	26	3 256	2 854	-402	-12.3
TOTAL	8 693	8 651	-42	67 797	69 409	1 612	2.4

MONTHLY REPORT ON FINANCIAL TRANSACTIONS

Federal transfers

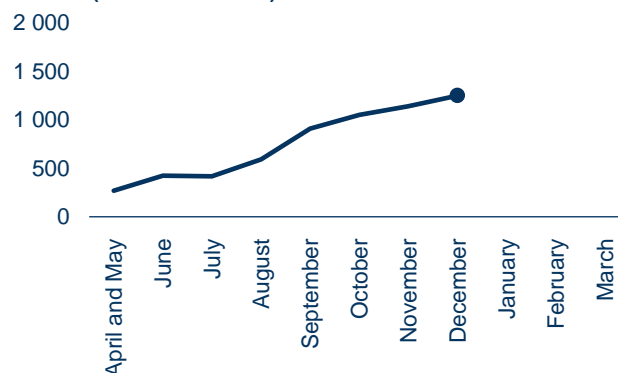
At December 31, 2019, that is, for the first nine months of 2019-2020, federal transfers amounted to \$17.9 billion. This represents an increase of \$1.3 billion (7.5%) compared to the same period last year.

- The cumulative change in federal transfers rose in December, mainly due to equalization revenue.

Equalization revenue increased by \$1.0 billion (11.9%) to \$9.8 billion, due to the growth in Canada's nominal GDP, which partly determines the pace of growth in this envelope.

Revenues from **other programs** rose by \$176 million (9.1%) to \$2.1 billion, due in particular to the agreement concluded with the federal government concerning the reimbursement of expenses related to asylum seekers.

Cumulative change in federal transfers
(millions of dollars)



FEDERAL TRANSFERS

(unaudited data, millions of dollars)

	December			April to December			
	2018	2019	Change	2018-2019	2019-2020	Change	Change (%)
Equalization	978	1 093	115	8 799	9 843	1 044	11.9
Health transfers	528	535	7	4 757	4 857	100	2.1
Transfers for post-secondary education and other social programs	135	124	-11	1 213	1 143	-70	-5.8
Other programs	242	239	-3	1 925	2 101	176	9.1
TOTAL	1 883	1 991	108	16 694	17 944	1 250	7.5

CONSOLIDATED EXPENDITURE

At December 31, 2019, that is, for the first nine months of 2019-2020, consolidated expenditure totalled \$79.7 billion. This represents an increase of \$3.5 billion (4.5%) compared to the same period last year.

- The cumulative change in expenditure increased in December, owing in particular to higher expenditures in the Transports and Santé et Services sociaux portfolios.

Expenditure in the **Éducation et Enseignement supérieur** portfolio increased by \$740 million (4.4%) to \$17.4 billion, mainly due to:

- a \$502-million increase in school boards expenses, due in particular to the increase in the number of teachers, which resulted from an increase in the number of students, and the indexation of salary scales.

Expenditure in the **Santé et Services sociaux** portfolio increased by \$1.9 billion (6.1%) to \$33.2 billion, mainly due to:

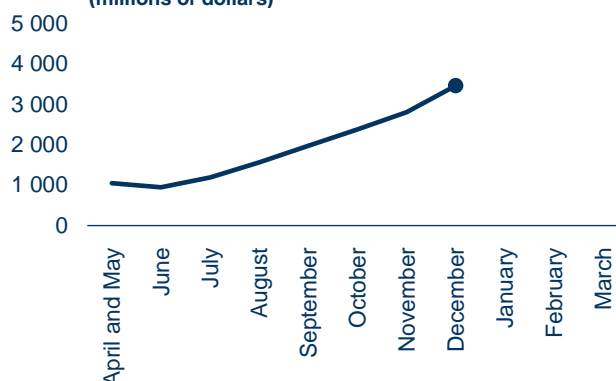
- a \$1.2-billion increase in spending by health and social services institutions, due in particular to an increase in the hours devoted to services to the population, drug costs, as well as to the indexation of salary scales and salary relativity for employed individuals as at April 1, 2019;
- a \$385-million increase in expenditures by the Régie de l'assurance maladie du Québec, particularly for medical, pharmaceutical, optometric and dental services.

Expenditure in **other portfolios** increased by \$1.7 billion (7.8%) to \$23.4 billion, due in particular to:

- a \$434-million increase in expenditure in the Famille portfolio, including \$210 million for the increase in family allowance amounts, which mainly results from the increased assistance provided for second and third children, and \$156 million due to the elimination, retroactive to January 1, 2019, of the additional contribution for childcare services;
- a \$384-million increase in expenditures in the Transports portfolio, resulting in particular from the \$260-million subsidy granted under the compensation program for holders of taxi owner's permits and the \$85-million contributions for the Réseau express métropolitain;
- a \$312-million increase in expenditure in the Sécurité publique portfolio resulting in particular from financial assistance following the spring 2019 floods.

Debt service expenditure decreased by \$865 million (13.1%) to \$5.8 billion, due in particular to accelerated debt repayment from the Generations Fund, lower interest rates and increased revenue from the Retirement Plans Sinking Fund, which are recorded as a deduction from debt service.

Cumulative change in consolidated expenditure
(millions of dollars)



CONSOLIDATED EXPENDITURES BY PORTFOLIO⁽⁴⁾

(unaudited data, millions of dollars)

	December			April to December			
	2018 ⁽⁵⁾	2019	Change	2018-2019 ⁽⁵⁾	2019-2020	Change	Change (%)
Éducation et Enseignement supérieur	2 098	2 079	-19	16 647	17 387	740	4.4
Santé et Services sociaux	3 687	3 892	205	31 299	33 201	1 902	6.1
Other portfolios ⁽⁶⁾	2 007	2 532	525	21 699	23 388	1 689	7.8
Portfolio expenditures	7 792	8 503	711	69 645	73 976	4 331	6.2
Debt service	700	648	-52	6 622	5 757	-865	-13.1
TOTAL	8 492	9 151	659	76 267	79 733	3 466	4.5

NET FINANCIAL SURPLUSES OR REQUIREMENTS

Composition of net financial surpluses or requirements

The government's revenues and expenditures are established on an accrual basis of accounting. Revenues are recognized when earned and expenses when incurred, regardless of when receipts and disbursements occur.

Financial surpluses (requirements), on the other hand, consist of the difference between receipts and disbursements resulting from government activities. To meet its net financial requirements, the government uses a variety of financing sources, including cash and borrowings.

The various items for net financial requirements represent net receipts and disbursements generated by the government's loans, interests in its enterprises, fixed assets and other investments, as well as by retirement plans and other employee future benefits and by other accounts. This last item includes the payment of accounts payable and the collection of accounts receivable.

For the period April to December 2019, net financial surpluses amount to \$2.9 billion and are mainly due to:

- the \$7.6-billion surplus resulting from the difference between government revenues and expenditures;
- the \$3.0-billion financial requirements for investments, loans and advances, including growth in the equity basis of government enterprises⁽⁷⁾, the increase in investments made through the Economic Development Fund and a \$283-million investment in preferred shares of REM inc.;
- the \$2.7-billion financial requirements for government capital investments resulting from \$5.8 billion in investments, including \$2.8 billion by health and social services and educational institutions, mainly to expand, build and redevelop infrastructure, and \$1.9 billion by the Land Transportation Network Fund, principally to replace road infrastructure. These investments are partially offset by amortization expenses of \$3.1 billion;⁽⁷⁾
- the \$2.4-billion financial surplus related to retirement plans and other employee future benefits, which have a cash requirement for the payment of benefits to government employees of \$4.8 billion, which is less than the recorded expenditures of \$7.1 billion. This expense consists mainly of the cost of benefits earned throughout the careers of these employees, which amounts to \$2.1 billion, and interest of \$5.0 billion on obligations related to these benefits;⁽⁷⁾
- the \$1.5-billion financial requirements for other accounts,⁽⁸⁾ resulting in particular from disbursements relating to expenditures recorded at the end of 2018-2019, including measures announced in the March 2019 budget and the payment, in December 2019, of interest incurred on the debt.

NET FINANCIAL SURPLUSES OR REQUIREMENTS

(unaudited data, millions of dollars)

	April to December	
	2018-2019	2019-2020
SURPLUS (DEFICIT)⁽²⁾	8 224	7 620
Non-budgetary transactions		
Investments, loans and advances	-2 487	-2 965
Capital investments	-1 529	-2 659
Retirement plans and other employee future benefits	1 930	2 426
Other accounts ⁽⁸⁾	-2 311	-1 487
Total non-budgetary transactions	-4 397	-4 685
NET FINANCIAL SURPLUSES (REQUIREMENTS)	3 827	2 935

➤ CHANGE IN THE BUDGETARY BALANCE IN 2019-2020

Results at December 31, 2019 showed a budgetary surplus of \$5.8 billion for the first nine months of the year.

According to the *Québec Budget Plan – March 2020*, a budgetary balance of \$1.9 billion is expected for 2019-2020. The decrease in the budgetary balance over the last three months of the fiscal year is due to:

- an anticipated slowdown in the growth of own-source revenue which, coupled with an anticipated acceleration in the growth of portfolio expenditures and the estimated losses on the CSeries investment, will contribute to reducing the surplus by \$2.5 billion from January to March 2020;
- the initiatives announced in the fall 2019 *Update on Québec's Economic and Financial Situation*, for which a balance of \$468 million remains to be recorded;
- the targeted initiatives announced in the *Québec Budget Plan – March 2020*, which total \$947 million in 2019-2020.

This budgetary surplus will contribute to reducing the debt.

CHANGE IN THE BUDGETARY BALANCE FOR 2019-2020

(millions of dollars)

	2019-2020
MONTHLY REPORT ON FINANCIAL TRANSACTIONS AT DECEMBER 31, 2019⁽³⁾	5 823
UPCOMING RESULTS FOR JANUARY TO MARCH 2020	
Results excluding initiatives	
– Consolidated revenue	30 590
– Consolidated expenditure	–31 660
– Deposits of dedicated revenues in the Generations Fund	–836
– Estimated losses on the CSeries investment	–603
Subtotal	–2 509
Balance of the fall 2019 update's initiatives to be recorded	–468
Initiatives in the <i>Québec Budget Plan – March 2020</i>	–947
TOTAL	–3 923
PROJECTED BUDGETARY BALANCE⁽³⁾ – BUDGET 2020-2021	1 900

Note: Totals may not add due to rounding.

MONTHLY REPORT ON FINANCIAL TRANSACTIONS

APPENDIX 1: BUDGET FORECASTS – CHANGE SINCE THE MARCH 2019 BUDGET

BUDGET FORECASTS FOR 2019-2020

(millions of dollars)

	March 2019 Budget	Adjustments	March 2020 Budget ⁽⁹⁾	Change (%) ⁽¹⁰⁾
CONSOLIDATED REVENUE				
Income and property taxes				
Personal income tax	32 498	1 004	33 502	5.4
Contributions for health services	6 596	–3	6 593	3.7
Corporate taxes	8 516	196	8 712	–5.1
School property tax	1 553	3	1 556	–16.0
Consumption taxes	21 864	254	22 118	5.3
Tax revenue	71 027	1 454	72 481	3.3
Duties and permits	4 229	283	4 512	3.5
Miscellaneous revenue	10 680	480	11 160	–3.4
Other own-source revenue	14 909	763	15 672	–1.5
Total own-source revenue excluding revenue from government enterprises	85 936	2 217	88 153	2.4
Revenue from government enterprises	4 778	–85	4 693	–15.4
Total own-source revenue	90 714	2 132	92 846	1.3
Federal transfers	24 924	173	25 097	8.6
Total consolidated revenue	115 638	2 305	117 943	2.8
CONSOLIDATED EXPENDITURE				
Éducation et Enseignement supérieur	–24 436	–191	–24 627	6.7
Santé et Service sociaux	–45 433	56	–45 377	6.6
Other portfolios ⁽⁶⁾	–34 169	–789	–34 958	8.9
Portfolio expenditures	–104 038	–924	–104 962	7.4
Debt service	–8 996	1 151	–7 845	–10.1
Total consolidated expenditure	–113 034	227	–112 807	6.0
Contingency reserve	–100	100	—	—
Estimated losses on the CSeries investment	—	–603	–603	—
SURPLUS (DEFICIT)⁽²⁾	2 504	2 029	4 533	—
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund	–2 504	–129	–2 633	—
BUDGETARY BALANCE⁽³⁾	—	1 900	1 900	—

APPENDIX 2: EXPENDITURES BY MISSION

Government expenditures are broken down into five missions that focus on public services. This breakdown of government expenditure in its main areas of activity is a stable indicator over time, as it is generally not influenced by ministerial changes. Moreover, since this breakdown is also used in the Public Accounts, its presentation in the monthly report on financial transactions allows for a better monitoring of actual results over the course of the year.

The missions dedicated to public services are:

- **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 includes, in particular, last resort financial assistance, assistance measures for families and seniors, and certain legal aid measures;
- **Administration and Justice**, which consists of the activities of the legislature, central bodies and public security, as well as administrative programs.

CONSOLIDATED EXPENDITURES BY MISSION EXCLUDING DEBT SERVICE

(unaudited data, millions of dollars)

	December		April to December	
	2018 ⁽⁵⁾	2019	2018-2019 ⁽⁵⁾	2019-2020
Health and Social Services	3 629	3 832	30 592	32 449
Education and Culture	2 133	2 127	17 211	17 978
Economy and Environment	821	1 204	9 028	9 569
Support for Individuals and Families	712	789	7 534	8 044
Administration and Justice	497	551	5 280	5 936
TOTAL	7 792	8 503	69 645	73 976

MONTHLY REPORT ON FINANCIAL TRANSACTIONS

APPENDIX 3: MONTHLY APPLICATION OF ACCOUNTING POLICIES

Since April 1, 2019, the government has included in the monthly report on financial transactions three accounting policies used in the development of the government's consolidated financial statements. These changes have no impact on the government's consolidated financial statements.

Monthly financial information of bodies in the health and social services and education networks

The monthly financial information of network bodies is now consolidated on a line-by-line basis using a methodology which allows the government to take into account or estimate the actual financial information of network bodies. They were previously recognized using the modified equity method of accounting based on provisional information that was distributed on a straight-line basis and adjusted at the end of the financial year.

Personal income tax revenues and health care contributions

The government estimates revenues from personal income tax and contributions for health services withheld at source by employers and payers (agents) that have not been collected by the government by the end of the month. The new method of estimating these amounts considers the remuneration earned by taxpayers instead of the remuneration paid to them during the month.

Monthly application of the accounting standard on transfer payments

The government has reviewed its monthly application of the standard on transfer payments. Henceforth, transfer payments are recognized when they are authorized by the transferring entity and the eligibility criteria are met by the recipient entity. These transfers were previously recognized on a straight-line basis or on a disbursement basis, depending on the entity. This accounting change affects the government's results only when transfer payments are made outside the government's reporting entity.

These changes were applied retroactively with restatement of prior periods and resulted in changes to the government's surplus and budgetary balance for the period April to December 2018, as illustrated in the table below.

CHANGES IN THE CONSOLIDATED RESULTS OF 2018-2019

(unaudited data, millions of dollars)

	April to December 2018			Total
	Financial information of network bodies	Method of estimating tax revenues received by agents	Standard on transfer payments	
PREVIOUSLY REPORTED SURPLUS⁽²⁾				7 918
Revenue				
Own-source revenue	3 149	402	—	3 551
Federal transfers	207	—	-56	151
Total revenue	3 356	402	-56	3 702
Expenditure				
Portfolio expenditures	-3 140	—	-94	-3 234
Debt service	-162	—	—	-162
Total expenditure	-3 302	—	-94	-3 396
TOTAL ADJUSTMENTS	54	402	-150	306
RESTATED SURPLUS⁽²⁾				8 224
Deposits of dedicated revenues in the Generations Fund				-2 347
RESTATED BUDGETARY BALANCE⁽³⁾				5 877

In addition, certain figures for April to December 2018 have been reclassified to reflect the presentation adopted for 2019-2020. These reclassifications have no impact on the government's surplus or budgetary balance.

Consolidated financial information

Consolidated results include the results of all entities that are part of the government's reporting entity, i.e., that are under its control. To determine consolidated results, the government eliminates transactions carried out between entities in the reporting entity. Additional information on the government's financial organization and the financing of public services can be found on pages 13 to 18 of the document titled "[Budgetary Process and Documents: Public Financial Accountability](#)" (in French only).

Notes

- (1) The government's accounting policies can be found on pages 91 to 102 of the [Public Accounts 2018-2019](#).
- (2) Balance as defined in the Public Accounts.
- (3) Budgetary balance within the meaning of the *Balanced Budget Act*.
- (4) Consolidated expenditures by mission are presented in Appendix 2.
- (5) Certain expenditures were reclassified between portfolios and between missions to consider the transition to the 2019-2020 budgetary structure.
- (6) Other portfolios include inter-portfolio eliminations resulting from the elimination of reciprocal transactions between entities in different portfolios.
- (7) These items, which are included in the government's budgetary surplus (deficit), are eliminated in non-budgetary transactions because they have no effect on cash flow.
- (8) The surpluses or financial requirements pertaining to other accounts can vary significantly from one month to the next, in particular according to the time when the government collects or disburses funds related to its activities. For example, when the last day of the month is not a business day, QST remittances are collected at the beginning of the following month, such that the equivalent of two months' remittances can be collected in a given month.
- (9) The presentation of the budgetary information in this monthly report is consistent with that of the consolidated financial framework as published on page A.21 of the [Québec Budget Plan – March 2020](#).
- (10) This is the annual change compared to actual results in 2018-2019.

For more information, contact the Direction des communications of the Ministère des Finances at 418 528-7382.

The report is also available on the Ministère des Finances website: www.finances.gouv.qc.ca.