BUDGET PLAN

BUDGET 2013-2014

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Budget 2013-2014
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BUDGET PLAN

Section A

THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

HIGHLIGHTS

Budget 2013-2014 tabled by the government aims for a balanced budget in 2013-2014. It lays out the government's plan for balancing the budget and reducing the debt for future generations. It also takes the necessary steps to ensure funding for public services and promote and accelerate Québec's economic growth.

❑ Attainment of fiscal balance in 2013-2014

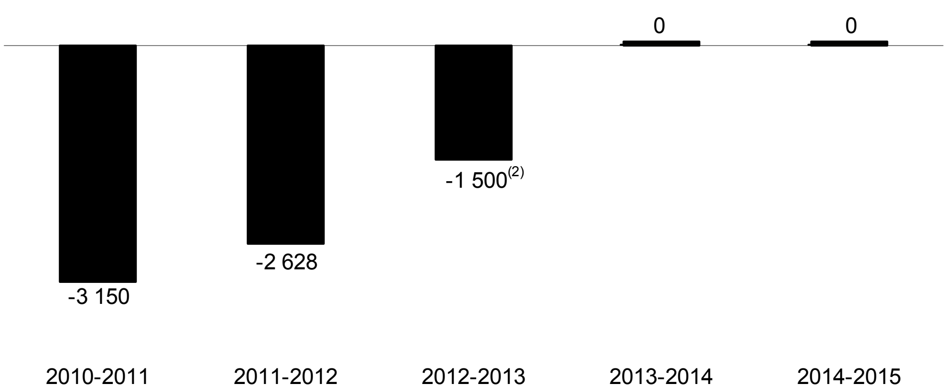
This budget confirms a return to fiscal balance in 2013-2014 and a balanced budget thereafter, in accordance with the *Balanced Budget Act*.

For 2012-2013, the government is maintaining the $1.5-billion budgetary deficit objective set in March 2012, to which will be added the accounting impact of the extraordinary loss incurred by Hydro-Québec as a result of the closure of the Gentilly-2 nuclear power plant.

As a precautionary measure, contingency reserves of $400 million for 2013-2014 and $500 million for each subsequent fiscal year have been incorporated into the budgetary balances.

CHART A.1

Budgetary balance from 2010-2011 to 2014-2015[(1)]
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) For 2012-2013, the budgetary balance excludes the accounting impact of $1.8 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant. The utlimate impact will be established in Hydro-Québec's financial statements as at December 31, 2012.

❑ Achievement of budgetary objectives

For 2012-2013, the government had to manage a $1.6-billion budgetary shortfall reported in September 2012. The government has taken the necessary steps to contain spending overruns. The decrease in revenue attributable to the economic slowdown is offset by lowering debt service cost and using part of the contingency reserve.

❑ Offsetting of the budgetary shortfall in 2013-2014 and 2014-2015

The government is taking the necessary steps to offset the additional budgetary shortfall stemming from the impact of weaker-than-anticipated economic growth on revenue and from previous government commitments that put significant pressure on public spending. The total shortfall is:

— $1.4 billion in 2013-2014;

— $2.8 billion in 2014-2015.

TABLE A.1

Impact on the financial framework of the revised economic outlook and previous government commitments
(millions of dollars)

	2013-2014	2014-2015
Adjustments related to the economic outlook(1)	**–605**	**–287**
Pressure on spending from certain previous government commitments		
In 2013-2014	–829	–829
In 2014-2015	—	–796
Subtotal	**–829**	**–1 625**
Difference to be offset, forecast in Budget 2012-2013	**—**	**–875**
TOTAL SHORTFALL TO BE ELIMINATED	**–1 434**	**–2 787**

(1) The amounts shown include all adjustments related the economic outlook, in particular those relating to government own-source revenue, federal transfers and debt service.

To offset the shortfall, the government is adopting a balanced approach that involves the entire government apparatus. This budget provides for:

— strict control of departmental spending;

— lower spending by public bodies and additional efforts from government corporations;

— a reduction in certain tax expenditures.

The budget also raises certain specific taxes.

❑ Achievement of the spending targets set in the March 2012 budget to ensure fiscal balance

With this budget, the government is affirming its commitment to meet the spending targets set in March 2012, which are necessary to ensure fiscal balance. Program spending growth is limited to 1.9% in 2012-2013 and 1.8% in 2013-2014.

For 2014-2015, growth in program spending is reduced from 3.0% to 2.4%.

❑ Debt reduction

The government intends to achieve the debt reduction objectives for 2025-2026 while adopting a more balanced approach. Cancellation of the deposit in the Generations Fund of revenues generated by the 20% increase over five years in the price of electricity (increase of 1 ¢/kWh in the price of heritage pool electricity) as of 2014 is fully offset by the following measures:

- Total public capital investments will be capped at $9.5 billion on average for the next five years, a reduction of $1.5 billion a year over the projected levels in the previous budget.
- Additional sums from various revenue sources will be deposited in the Generations Fund:
  - amounts relative to the annual indexing of the price of heritage pool electricity, like other government rates, as of 2014;
  - $100 million a year as of 2014-2015 from the increase in the specific tax on alcoholic beverages;
  - all mining royalties as of 2015-2016;
  - Hydro-Québec's future savings of $215 million a year as of 2017-2018 resulting from the decision not to refurbish the Gentilly-2 nuclear power plant.

❑ Implementation of government priorities

The government is acting on its top priorities. Budget 2013-2014 provides for, in particular:

- the implementation of a new and fairer progressive health contribution that will make the health care system more fairly funded;
- the creation of 15 000 new reduced-contribution childcare spaces in order to offer a space to every child;
- the construction of 3 000 new affordable housing units under the AccèsLogis Québec program;
- the introduction of a tax credit to promote physical, artistic and cultural activity among young people.

❑ Action to promote private investment

The government is taking immediate action to stimulate private investment. Initiatives are planned in several sectors.

— The government is extending and enhancing the investment tax credit until 2017 and introducing the tax holiday for investments (THI).

— The Banque de développement économique du Québec will be set up to better assist and support businesses seeking to grow and invest in all regions of Québec.

— The government is taking special action to support private investment in several sectors. These sectoral actions concern the development of Northern Québec and mining development, natural resources processing, development of sustainable transportation and clean technology, energy, agriculture, tourism, the social economy and the life sciences industry.

— Comprehensive policies and strategies concerning manpower training, research and innovation, external trade and regulatory streamlining will be formulated in the coming months to round out the above sectoral actions.

INTRODUCTION

This section of the Budget Plan provides an overview of the government's economic and fiscal policy directions.[1]

Section 1 discusses developments in the economy and the government's financial situation since Budget 2012-2013, taking into account the implementation of measures for achieving the budgetary deficit objectives set out in the *Balanced Budget Act*. The policy directions with respect to spending control and debt reduction, along with the steps taken to offset the budgetary shortfall stemming from the economic slowdown and previous government commitments, which put significant pressure on budgetary expenditure, are also discussed.

Section 2 touches on public capital investment plans, as well as the multi-year budget plan for the funding of certain public services.

Section 3 discusses the government's top priorities implemented by this budget, in particular initiatives aimed at promoting and accelerating Québec's economic development.

1 Throughout this section, the budgetary data for 2011-2012 are real and those for 2012-2013 and subsequent years are forecasts.

1. FISCAL BALANCE IN 2013-2014

With this budget, the government is putting measures in place to attain fiscal balance in 2013-2014. It also gives concrete expression to the government's will to manage public finances in a responsible manner. This budget:

— takes the necessary measures to offset the identified budgetary shortfall and balance the budget in 2013-2014 and subsequent years;

— reduces the debt load as of 2013-2014;

— immediately delivers on the government's commitments;

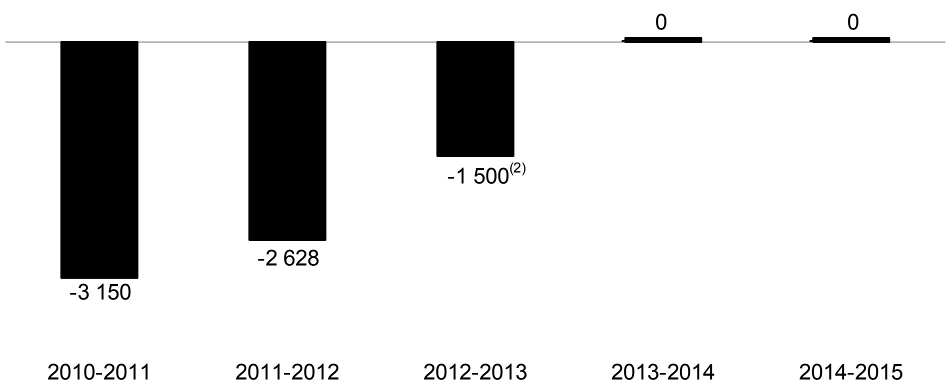
— makes provisions to promote and accelerate economic growth.

❑ Attainment and maintenance of fiscal balance as of 2013-2014

Budget 2013-2014 forecasts that the budget will be balanced in 2013-2014 and will stay balanced, in accordance with the *Balanced Budget Act*. For 2012-2013, the government is maintaining the $1.5-billion budgetary deficit objective set in March 2012. This amount does not include the extraordinary loss stemming from the closure of the Gentilly-2 nuclear power plant.[2]

CHART A.2

Budgetary balance from 2010-2011 to 2014-2015[(1)]
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) For 2012-2013, the budgetary balance excludes the accounting impact of $1.8 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant. The ultimate impact will be established in Hydro-Québec's financial statements as at December 31, 2012.

2 Given that this is a one-time impact unrelated to management of the government's current operations, the *Balanced Budget Act* will be amended to set the budgetary deficit objective the government is obliged to meet at $1.5 billion and exclude the accounting impact relative to the closure of the Gentilly-2 nuclear power plant.

Closure of the Gentilly-2 nuclear power plant

The Gentilly-2 nuclear power plant, which has a capacity of 675 MW, was commissioned in October 1983. Its operating licence stipulates that it must cease operations on December 28, 2012. This is the final operating date set by the Canadian Nuclear Safety Commission, given the age of the power plant.

In October 2012, based on a new study on the cost of the project to refurbish the Gentilly-2 nuclear power plant, the government accepted Hydro-Québec's recommendation to abandon the project and decommission the power plant as of December 28, 2012.

- Refurbishing the plant would cost $4.3 billion, in addition to the $2.0 billion for its closure in 2043. Moreover, operating it for a second life cycle would lead to an annual operating deficit of $215 million as of 2017-2018.

The closure of the power plant will lead to the recording of an extraordinary loss of $1.8 billion[1] in Hydro-Québec's financial statements for 2012.

- Since this is a one-time impact unrelated to management of the government's current operations, the *Balanced Budget Act* will be amended so that the deficit objective the government is obliged to meet, i.e. $1.5 billion, excludes the accounting impact stemming from the closure of the Gentilly-2 nuclear power plant.

Overall, the closure of the power plant will be profitable in the long term because it will generate recurring savings of $215 million as of 2017-2018. The sums corresponding to these savings will be deposited in the Generations Fund.

Impact of abandoning the refurbishment of Gentilly-2 on Hydro-Québec's net earnings from 2012 to 2043
(millions of dollars)

Loss in 2012 stemming from the closure of Gentilly-2	
Write-off of capitalized costs	–1 440
Increase in obligations related to the decommissioning	–365
Subtotal – Extraordinary loss	**–1 805**
Savings from 2017 to 2043 deposited in the Generations Fund	**5 805**
TOTAL IMPACT(1)	**4 000**

(1) In constant 2012 dollars.

1 The ultimate impact will be established in Hydro-Québec's financial statements as at December 31, 2012.

1.1 The economic and budgetary situation

The government is confirming that it is on track to balance the budget in 2013-2014, despite a shortfall stemming from the slowdown in Québec's economy in 2012 and the high costs of previous government commitments.

1.1.1 Continued economic growth in Québec[3]

The global economic situation deteriorated from 2011 to 2012 owing, in particular, to Europe's prolonged sovereign debt crisis and the slowdown in emerging economies.

As a result, Québec's economy grew at a slower pace in 2012 than forecast in Budget 2012-2013, with real gross domestic product (GDP) expected to grow by 0.9%. Business and residential construction investment supported economic activity; however growth in export and consumer spending was restrained by continuing global uncertainty. As these factors gradually wane, real GDP growth should strengthen and stand at 1.5% in 2013 and 2.0% in 2014.

— Domestic demand will continue to sustain economic growth. Business investment will remain high, while consumer spending growth will firm up, thereby attenuating the impact of the anticipated downturn in residential construction investment.

— Exports should continue making a positive contribution to growth with gradual improvement in the U.S. and other world economies.

In relation to budget 2012-2013, the average annual growth rate from 2012 to 2014 is revised downward by 0.4 percentage point.

TABLE A.2

Economic growth in Québec
(real GDP, percentage change)

	2011	2012	2013	2014	Average 2012-2014
Budget 2013-2014	**1.7**	**0.9**	**1.5**	**2.0**	**1.4**
Budget 2012-2013	1.6	1.5	1.9	2.1	1.9
Revision	0.1	–0.6	–0.4	–0.1	–0.4

Note: The figures have been rounded off, so they may not add up to the total indicated.
Sources: Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

3 For a more exhaustive discussion of the economic situation, see Section B.

1.1.2 The government's financial position

Overall, adjustments to the financial framework and budgetary restraint efforts will make it possible to achieve the budgetary objectives set by the *Balanced Budget Act*.

❑ Achievement of the forecast budgetary objective in 2012-2013

When the government learned the state of public finances in September 2012, it noted a shortfall of $1.6 billion for 2012-2013, including $1.1 billion in spending overruns and $501 million stemming from the negative adjustments to own-source revenue as a result of the more moderate economic growth outlook.

The government will be able to contain the anticipated spending overruns by the end of the fiscal year and achieve the spending objective stipulated in the budget last March. Steps have been taken so that the departments will achieve the spending targets set at the beginning of the year.

In addition, the negative adjustments to revenue are offset mainly by lower-than-anticipated debt service, the increase in certain specific taxes and the reduction in the contingency reserve.

TABLE A.3

Adjustments for 2012-2013 since the March 2012 budget
(millions of dollars)

BUDGETARY BALANCE − BUDGET 2012-2013	**–1 500**
Program spending	
Overruns anticipated in September(1)	–1 083
Achievement of spending target	1 083
Subtotal	**0**
Adjustments related to the economic outlook	
Own-source revenue	–501
Federal transfers	–92
Debt service	320
Consolidated entities(2)	78
Subtotal	**–195**
Revenue efforts	95
Contingency reserve	100
BUDGETARY BALANCE − BUDGET 2013-2014	**–1 500**

(1) Includes risks to be managed during the fiscal year.
(2) Excludes the Generations Fund.

❑ Budgetary shortfall to be eliminated in 2013-2014 and 2014-2015

In accordance with the *Balanced Budget Act*, the government must take steps to achieve and maintain a balanced budget in 2013-2014 and 2014-2015.

Indeed, the updated financial framework has shown that a substantial budgetary shortfall will persist for these two years unless additional efforts are made to comply with the financial framework established in March 2012. This shortfall stems from:

— the impact of the downward adjustments to the economic outlook on the government's revenue;

— commitments made by the government in the past that are exerting strong pressure on public spending;

— a difference of $875 million that must be offset as of 2014-2015 that had yet to be identified in the March 2012 budget in order to maintain fiscal balance.

Overall, the budgetary shortfall amounts to:

— $1.4 billion in 2013-2014;

— $2.8 billion in 2014-2015.

The government has adopted a balanced approach affecting spending for the most part in order to eliminate the shortfall and achieve the budgetary targets.

TABLE A.4

Impact on the financial framework of the revised economic outlook and previous government commitments
(millions of dollars)

	2013-2014	2014-2015
Adjustments related to the economic outlook(1)	**–605**	**–287**
Pressure on spending from certain previous government commitments		
In 2013-2014	–829	–829
In 2014-2015	—	–796
Subtotal	**–829**	**–1 625**
Difference to be offset, forecast in Budget 2012-2013	**—**	**–875**
TOTAL SHORTFALL TO BE ELIMINATED	**–1 434**	**–2 787**

(1) The amounts shown include all adjustments related the economic outlook, in particular those relating to government own-source revenue, federal transfers and debt service.

■ Impact of the adjustments related to the economic outlook

For 2013-2014 and 2014-2015, the budgetary adjustments related to the economic situation lead to a deterioration of $605 million and $287 million respectively in the financial framework. This can be attributed mainly to lower own-source revenue because of the recurring impacts of the economic slowdown in 2012 and the downward adjustments to Hydro-Québec's projected earnings.

— This is offset by a downward adjustment in debt service due to lower interest rates.

For 2014-2015, the impact of the economic adjustments declines to $287 million, mainly as a result of the smaller adjustments to budgetary revenue.

TABLE A.5

Adjustments stemming from the economic outlook
(millions of dollars)

	2013-2014	2014-2015
Budgetary revenue		
Own-source revenue	–515	–392
Federal transfers	–369	45
Subtotal	**–884**	**–347**
Debt service	201	122
Consolidated entities	78	–62
TOTAL	**–605**	**–287**

■ Impact of past government decisions on spending

Government decisions made over the last few years have added greatly to the pressure on spending. In particular, increased spending on depreciation and interest related to high investment levels and certain wage agreements alone will account for approximately 60% of the increase in spending over the next two years.

— Depreciation and interest expenditures for infrastructure, which amount to $6.0 billion in 2012-2013,[4] will grow at an average rate of 8.9% per year from 2013-2014 to 2014-2015.

— Expenditures related to the agreements with the two medical federations amount to $5.6 billion in 2012-2013. These expenditures will increase by an average of 9.2% per year from 2013-2014 to 2014-2015.

If nothing is done, these commitments will lead to spending growth in excess of the objectives needed to achieve and maintain fiscal balance. The efforts required of government departments to achieve the spending objectives contained in the March 2012 budget amount to $829 million for 2013-2014 and $1.6 billion for 2014-2015.

4 Data before taking into account Budget 2013-2014.

TABLE A.6

Past government decisions and difference with the spending targets[1] set in Budget 2012-2013

(millions of dollars)

	2012-2013	2013-2014	2014-2015	Average growth %[2]
Past commitments				
Depreciation and interest spending for capital expenditures[3]	5 992	6 570	7 111	
Annual growth		578	541	
% change		*9.6*	*8.2*	*8.9*
Agreements with the medical federations[4]	5 579	6 109	6 649	
Annual growth		530	540	
% change		*9.5*	*8.8*	*9.2*
Total commitments	11 571	12 679	13 760	
Annual growth		1 108	1 081	
% change		*9.6*	*8.5*	*9.0*
Other government spending[5]	66 062	70 547	72 209	
Annual growth		1 485	1 662	
% change		*2.2*	*2.4*	*2.3*
Spending before efforts	**80 633**	**83 226**	**85 969**	
Annual growth		2 593	2 743	
% change		*3.2*	*3.3*	*3.3*
Less:				
Spending targets in Budget 2012-2013[5]	**80 633**	**82 397**	**84 344**	
Annual growth		1 764	1 947	
% change		*2.2*	*2.4*	*2.3*
Efforts required of the departments to achieve the spending targets		**–829**	**–1 625**	

(1) Consolidated expenditure excluding debt service.
(2) Average annual growth from 2013-2014 to 2014-2015.
(3) Includes repayment of principal, depreciation and interest payment.
(4) On the basis of the envelopes negotiated in 2011.
(5) According to the spending growth targets set in Budget 2012-2013.

Increased spending related to public capital investments and special wage agreements

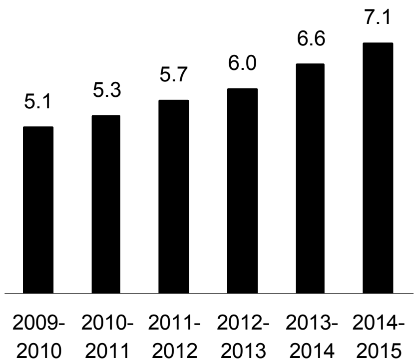
Spending related to public capital investments

Due to their high growth for several years now, public capital investments are generating ever larger expenditures, which cannot be compressed. Indeed, the amortization expenses and interest payments arising from these investments will increase their financing costs by 8.2% per year from 2012-2013 to 2014-2015, or roughly $500 million per year. Because of decisions that were made in the past, these expenditures will rise from $5.7 billion in 2011-2012 to $7.0 billion in 2014-2015.

Wage agreements with the two medical federations

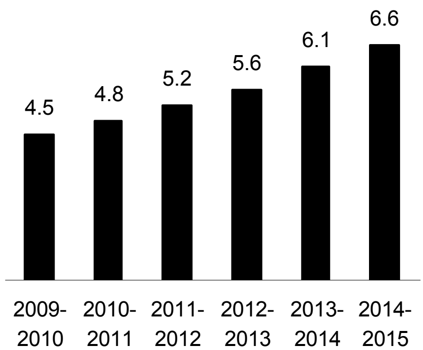
Québec's two medical federations have signed agreements that will, in particular, adjust the remuneration of Québec physicians in relation to that of their Canadian counterparts. From 2009-2010 to 2015-2016, these agreements will increase the remuneration envelope for general practitioners and specialists by nearly 50%. Covering some 18 000 physicians, they will lead to an annual increase of 8.7%, or $500 million, in payroll costs from 2012-2013 to 2014-2015. Due to the decisions made, these costs will climb from $5.2 billion in 2011-2012 to $6.6 billion in 2014-2015.

Change in spending related to public capital investments
(billions of dollars)



Sources: Public accounts and Ministère des Finances et de l'Économie du Québec.

Change in spending on the remuneration of physicians
(billions of dollars)



Sources: Public accounts and Secrétariat du Conseil du trésor du Québec.

❑ Budgetary restraint efforts

The adjustments made to the financial framework because of the economic outlook, as well as certain decisions taken by the government in the past, call for major budgetary efforts totalling $1.4 billion in 2013-2014 and $2.8 billion in 2014-2015. These efforts, which are needed to restore fiscal balance and ensure the sustainability of public services, will be made while protecting public services.

For this purpose, the government is introducing a balanced approach.

— Spending control and a reduction in public capital investments to levels compatible with the government's capacity to pay, which will offset most of the shortfall while maintaining the spending targets contained in the last budget.
  — Overall, these efforts will amount to $954 million in 2013-2014 and $2 035 million in 2014-2015.
  — As part of the annual program review, government departments and bodies have made provisions for achieving their spending objectives while protecting the delivery of their services.

— Efficiency initiatives, involving notably the reduction of certain tax expenditures as well as efforts to improve the profitability of government corporations.
  — The savings related to these initiatives will total $438 million in 2013-2014 and $535 million in 2014-2015.

— An increase in certain specific revenue sources, namely, the tobacco tax, the tax on alcoholic beverages and the higher contribution of financial institutions.
  — Revenue efforts in this regard will reach $310 million in 2013-2014 and $441 million in 2014-2015.

As a whole, these efforts will make it possible to:

— offset the budgetary shortfall and balance the budget in 2013-2014;

— reduce the difference to be offset in the financial framework in 2014-2015 to $430 million, compared with $875 million in Budget 2012-2013;

— include contingency reserves of $400 million in 2013-2014 and $500 million per year as of 2014-2015.

TABLE A.7

Adjustments to the budgetary balance since Budget 2012-2013
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Budgetary balance – Budget 2012-2013	**–1 500**	—	—
Budgetary shortfall			
Adjustments stemming from the economic outlook	–195	–605	–287
Difference relative to the spending objectives in Budget 2012-2013	—	–829	–1 625
Difference to be offset – Budget 2012-2013	—	—	–875
Total budgetary shortfall	**–195**	**–1 434**	**–2 787**
Spending efforts			
Achievement of objectives in 2013-2014 and 2014-2015	—	829	1 625
Reduction in spending by other public bodies and the special funds in 2013-2014	—	100	—
Cap of $9.5 billion on average for public capital investments – Savings on depreciation and interest	—	—	200
Savings on debt service(1)	—	25	40
Slowdown in the growth of spending by departments, from 3.0% to 2.4% in 2014-2015	—	—	170
Subtotal	**—**	**954**	**2 035**
Efficiency initiatives			
Additional efforts within government corporations	—	290	330
Additional efforts to fight tax evasion	—	80	90
Reduction in tax expenditures	—	68	115
Subtotal	**—**	**438**	**535**
Increase in certain specific revenue sources			
Specific tax on tobacco	43	130	130
Specific tax on alcoholic beverages	33	100	100
Additional contribution of financial institutions	19	80	211
Subtotal	**95**	**310**	**441**
Cost of budgetary measures in Budget 2013-2014	—	–40	–10
Cost of fiscal measures in Budget 2013-2014	—	–28	–44
Deposit in the Generations Fund of revenue from the increase in the specific tax on alcoholic beverages	—	—	–100
Contingency reserves	100	–200	–500
Difference to be offset	—	—	430
BUDGETARY BALANCE IN BUDGET 2013-2014(2)	**–1 500**	—	—

(1) Savings on debt service resulting from the use of $1 billion in 2013-2014 from the Generations Fund to repay maturing borrowings.
(2) For 2012-2013, the budgetary balance excludes the $1.8-billion accounting impact stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant. The ultimate impact will be established in Hydro-Québec's financial statements as at December 31, 2012.

1.2 The government's financial framework

The government's financial framework confirms that fiscal balance will be restored in 2013-2014 and maintained thereafter, as provided for in the *Balanced Budget Act.*

The balance of measures to be identified in order to maintain a balanced budget as of 2014-2015 is now $430 million, or $445 million less than the difference of $875 million to be offset, forecast in Budget 2012-2013.

❑ Return to fiscal balance in 2013-2014

Due to rigorous spending control and revenue efforts, annual growth of budgetary revenue will surpass that of expenditure from 2012-2013 to 2014-2015.

— Average annual growth in budgetary revenue will be 4.4%, while that of budgetary expenditure is expected to be 2.5%. This difference will make it possible to return to a balanced budget in 2013-2014 and reduce the difference to be offset in the financial framework in 2014-2015 to $430 million.

As of 2015-2016, budgetary revenue and budgetary expenditure will increase at roughly the same pace, thus ensuring that fiscal balance will be maintained.

In addition, the financial framework includes contingency reserves of $200 million in 2012-2013, $400 million in 2013-2014 and $500 million thereafter.

❑ Deposits in the Generations Fund

The government is pursuing the debt reduction objectives included in the *Act to reduce the debt and establish the Generations Fund*. Accordingly, it will continue to make annual deposits of dedicated revenues in the Generations Fund.

Deposits of $1 039 million and $1 386 million will be made in the Generations Fund in 2013-2014 and 2014-2015 respectively. In 2017-2018, deposits will reach $2 616 million.

TABLE A.8

Financial framework from 2011-2012 to 2017-2018

(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Budgetary revenue[1]							
Own-source revenue	50 272	53 192	56 215	58 580	60 559	62 650	64 621
% change	*6.5*	*5.8*	*5.7*	*4.2*	*3.4*	*3.5*	*3.1*
Federal transfers	15 243	15 705	16 145	15 892	16 273	16 728	17 139
% change	*–1.2*	*3.0*	*2.8*	*–1.6*	*2.4*	*2.8*	*2.5*
Total budgetary revenue	**65 515**	**68 897**	**72 360**	**74 472**	**76 832**	**79 378**	**81 760**
% change	***4.6***	***5.2***	***5.0***	***2.9***	***3.2***	***3.3***	***3.0***
Budgetary expenditure[1]							
Program spending	–61 503	–62 642	–63 791	–65 350	–67 434	–69 594	–71 806
% change	*2.5*	*1.9*	*1.8*	*2.4*	*3.2*	*3.2*	*3.2*
Debt service	–7 348	–7 917	–8 601	–8 735	–8 952	–9 149	–9 409
% change	*3.7*	*7.7*	*8.6*	*1.6*	*2.5*	*2.2*	*2.8*
Total budgetary expenditure	**–68 851**	**–70 559**	**–72 392**	**–74 085**	**–76 386**	**–78 743**	**–81 215**
% change	***2.8***	***2.5***	***2.6***	***2.3***	***3.1***	***3.1***	***3.1***
Consolidated entities							
Non-budget-funded bodies and special funds[2]	1 003	462	432	–317	–376	–565	–475
Health and social services and education networks	–295	–100	—	—	—	—	—
Generations Fund	840	879	1 039	1 386	1 884	2 128	2 616
Total consolidated entities	**1 548**	**1 241**	**1 471**	**1 069**	**1 508**	**1 563**	**2 141**
Contingency reserves	—	–200	–400	–500	–500	–500	–500
Difference to be offset	—	—	—	430	430	430	430
Extraordinary loss – Closure of Gentilly-2	—	–1 805	—	—	—	—	—
SURPLUS (DEFICIT)	**–1 788**	**–2 426**	**1 039**	**1 386**	**1 884**	**2 128**	**2 616**

BALANCED BUDGET ACT

SURPLUS (DEFICIT)	**–1 788**	**–2 426**	**1 039**	**1 386**	**1 884**	**2 128**	**2 616**
Deposits of dedicated revenues in the Generations Fund	–840	–879	–1 039	–1 386	–1 884	–2 128	–2 616
Exclusion – Extraordinary loss	—	1 805	—	—	—	—	—
BUDGETARY BALANCE[3]	**–2 628**	**–1 500**	—	—	—	—	—

(1) This item corresponds to the revenue and expenditure of the general fund.
(2) Includes consolidation adjustments.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE A.9

Financial framework for consolidated revenue and expenditure from 2011-2012 to 2017-2018

(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Revenue							
General fund	65 515	68 897	72 360	74 472	76 832	79 378	81 760
Special funds	8 218	8 865	10 041	9 908	10 501	10 928	11 478
Generations Fund	840	879	1 039	1 386	1 884	2 128	2 616
Non-budget-funded bodies	18 028	18 993	19 961	21 229	22 303	23 256	24 075
Health and social services and education networks	35 836	36 642	37 764	38 941	40 177	41 777	43 084
Specified purpose accounts	1 477	1 368	1 201	994	994	994	994
Tax-funded transfers(1)	6 016	6 215	6 196	6 204	6 276	6 359	6 352
Consolidation adjustments(2)	–49 517	–51 234	–53 370	–55 405	–58 176	–60 830	–62 516
Consolidated revenue	**86 413**	**90 625**	**95 192**	**97 729**	**100 791**	**103 990**	**107 843**
Expenditure							
General fund	–61 503	–62 642	–63 791	–65 350	–67 434	–69 594	–71 806
Special funds	–6 572	–7 480	–8 347	–8 588	–8 732	–8 953	–9 175
Non-budget-funded bodies	–16 695	–17 471	–18 530	–19 769	–20 731	–21 475	–22 187
Health and social services and education networks	–35 280	–35 885	–36 853	–37 943	–38 981	–40 416	–41 677
Specified purpose accounts	–1 477	–1 368	–1 201	–994	–994	–994	–994
Tax-funded expenditures(1)	–6 016	–6 215	–6 196	–6 204	–6 276	–6 359	–6 352
Consolidation adjustments(2)	48 793	50 080	52 034	53 759	56 051	58 250	59 941
Consolidated expenditure excluding debt service	**–78 750**	**–80 981**	**–82 884**	**–85 089**	**–87 097**	**–89 541**	**–92 250**
Debt service							
General fund	–7 348	–7 917	–8 601	–8 735	–8 952	–9 149	–9 409
Consolidated entities(3)	–2 103	–2 148	–2 268	–2 449	–2 788	–3 102	–3 498
Consolidated debt service	**–9 451**	**–10 065**	**–10 869**	**–11 184**	**–11 740**	**–12 251**	**–12 907**
Consolidated expenditure	**–88 201**	**–91 046**	**–93 753**	**–96 273**	**–98 837**	**–101 792**	**–105 157**
Contingency reserves	—	–200	–400	–500	–500	–500	–500
Difference to be offset	—	—	—	430	430	430	430
Extraordinary loss – Closure of Gentilly-2	—	–1 805	—	—	—	—	—
SURPLUS (DEFICIT)	**–1 788**	**–2 426**	**1 039**	**1 386**	**1 884**	**2 128**	**2 616**
BALANCED BUDGET ACT							
Deposits of dedicated revenues in the Generations Fund	–840	–879	–1 039	–1 386	–1 884	–2 128	–2 616
Exclusion – Extraordinary loss	—	1 805	—	—	—	—	—
BUDGETARY BALANCE(4)	**–2 628**	**–1 500**	—	—	—	—	—

(1) Includes doubtful tax accounts.
(2) Eliminations of inter-entity transactions and reclassifications.
(3) Includes consolidation adjustments.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

1.3 Spending control

Achieving the budgetary objectives is conditional upon strict control of spending by government departments and other entities included in the government's reporting entity.

1.3.1 Departmental spending

In 2013-2014, program spending will increase by 1.8%, or $1 149 million, to stand at $63.8 billion.

- Program spending for the Ministère de la Santé et des Services sociaux will rise by $1 039 million, or 3.4%. Including the projected $1 449 million in expenditures of FINESSS, health funding will rise by 4.8%.

- The amount allocated to the Ministère de l'Éducation, du Loisir et du Sport will increase by $183 million, or 1.8%, while that of the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie will rise by $122 million, or 2.0%.

- Spending by the Ministère de la Famille will go up $77 million, or 3.2%.

- Overall spending by other departments will be reduced by $272 million, or 2.0%.

TABLE A.10

Growth in program spending in 2013-2014
(millions of dollars)

			Change	
	2012-2013	**2013-2014**	($ billion)	(%)
Santé et Services sociaux	30 219	31 258	1 039	3,4(1)
Éducation, Loisir et Sport	10 022	10 205	183	1,8
Enseignement supérieur, Recherche, Science et Technologie	6 215	6 337	122	2,0
Famille	2 397	2 474	77	3,2
Other departments	13 789	13 517	–272	–2,0
TOTAL	**62 642**	**63 791**	**1 149**	**1,8**

Note: The figures have been rounded off, so they may not add up to the total indicated.
(1) Including the $1 449-million contribution from FINESSS, health and social services funding will grow by 4.8% in 2013-2014.
Source: Secrétariat du Conseil du trésor.

❑ Change in program spending

Program spending will grow at an average rate of 2.0% from 2012-2013 to 2014-2015, which is below the average annual growth rate of 5.6% posted from 2006-2007 to 2009-2010 and below the growth rates seen in 2010-2011 and 2011-2012. More specifically, program spending is expected to grow:

— by 1.9% in 2012-2013;

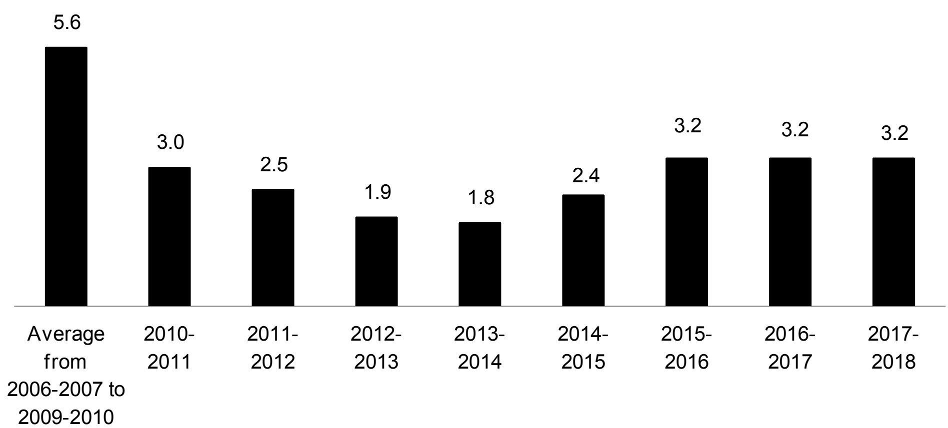
— by 1.8% in 2013-2014;

— by 2.4% in 2014-2015;

— by 3.2% per year from 2015-2016 to 2017-2018.

CHART A.3

Growth in program spending from 2006-2007 to 2017-2018
(per cent)



❑ Achievement of targets set in the March 2012 budget

The government is taking the necessary steps to meet the spending targets for 2012-2013 and 2013-2014 set in the March 2012 budget. The program spending growth target for 2014-2015 has been revised downward from 3.0% to 2.4% to ensure fiscal balance.

TABLE A.11

Change in program spending
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Target set in Budget 2012-2013	62 642	63 751	65 635
Adjustments since Budget 2012-2013	—	40	–285
TARGET SET IN BUDGET 2013-2014	**62 642**	**63 791**	**65 350**

1.3.2 Consolidated expenditure

Consolidated expenditure represents all public expenditure included in the government's reporting entity. In addition to program spending, consolidated expenditure includes spending by special funds, non-budget-funded bodies and the health and social services and education networks, spending funded by third parties out of the specified purpose accounts and spending funded by the tax system.

Growth in consolidated expenditure excluding debt service will be 2.6% on average from 2012-2013 to 2014-2015, which is below the average annual rate of 5.7% posted from 2006-2007 to 2009-2010 and below the growth rates seen in 2010-2011 and 2011-2012.

More specifically, consolidated expenditure excluding debt service is expected to grow:

— by 2.8% in 2012-2013;

— by 2.3% in 2013-2014;

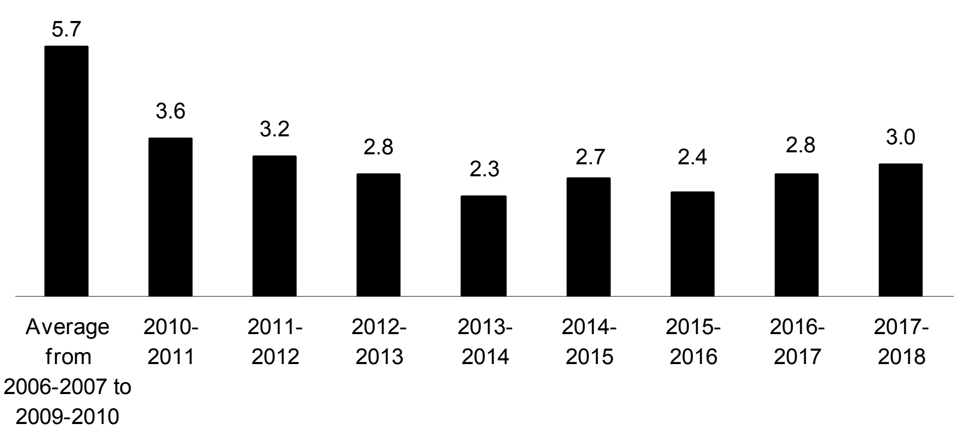
— by 2.7% in 2014-2015;

— by 2.7% per year on average from 2015-2016 to 2017-2018.

Growth in consolidated expenditure excluding debt service exceeds program spending growth in certain years, primarily due to stronger growth in spending by certain special funds, such as the Fund to Finance Health and Social Services Institutions (FINESSS) and the Land Transportation Network Fund (FORT).

CHART A.4

Consolidated expenditure growth(1) from 2006-2007 to 2017-2018
(per cent)



(1) Consolidated expenditure excluding debt service.

Results for 2011-2012

According to Public Accounts 2011-2012, the budgetary balance for the purposes of the *Balanced Budget Act* was in deficit by $2.6 billion for the fiscal year ended March 31, 2012. This is an improvement of $672 million in the budgetary balance relative to the $3.3-billion deficit forecast in the March 2012 budget. The improvement is primarily attributable to:

- a downward revision of $104 million in debt service;
- a $403-million improvement in the results of consolidated entities, essentially stemming from the slower-than-expected pace of implementation of certain infrastructure projects;
- the elimination of the $300-million contingency reserve, as the government did not use it.

These improvements were partially offset by a $119-million increase in program spending due primarily to additional expenditures related to medical services.

Adjustments made to the budgetary balance for 2011-2012 since Budget 2012-2013[1]
(millions of dollars)

	Budget 2012-2013	Adjustments	Actual results 2011-2012
Own-source revenue	45 600	–77	45 523
Government enterprises	4 764	–15	4 749
Federal transfers	15 175	68	15 243
Total budgetary revenue	**65 539**	**–24**	**65 515**
Program spending	–61 384	–119	–61 503
Debt service	–7 452	104	–7 348
Total budgetary expenditure	**–68 836**	**–15**	**–68 851**
Consolidated entities	**1 145**	**403**	**1 548**
Contingency reserve	–300	300	—
SURPLUS (DEFICIT)	**–2 452**	**664**	**–1 788**
BALANCED BUDGET ACT			
SURPLUS (DEFICIT)	**–2 452**	**664**	**–1 788**
Deposits of dedicated revenues in the Generations Fund	–848	8	–840
BUDGETARY BALANCE[1]	**–3 300**	**672**	**–2 628**
As a % of GDP	*1.0*		*0.8*

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
Source: Public Accounts 2011-2012.

1.3.3 Spending efforts

The government is proposing a series of measures starting this year to make up the budgetary shortfall and protect public services. It is a balanced approach that includes:

— spending efforts totalling $954 million in 2013-2014 and $2 035 million in 2014-2015;

— additional revenue efforts to implement efficiency initiatives and the increase in specific revenue sources.[5]

The following pages illustrate some of the spending and efficiency initiatives taken, that is:

— refocusing of the equalization program by the Ministère de l'Éducation, du Loisir et du Sport;

— productivity gains by the Société de l'assurance automobile du Québec.

TABLE A.12

All spending efforts
(millions of dollars)

	2013-2014	**2014-2015**
Achievement of objectives in 2013-2014 and 2014-2015	829	1 625
Reduction in spending by other public bodies and the special funds in 2013-2014	100	—
Cap of $9.5 billion on average for public capital investments – Savings on depreciation and interest	—	200
Savings on debt service[(1)]	25	40
Reduction in growth of spending by departments, from 3.0% to 2.4% in 2014-2015	—	170
TOTAL	**954**	**2 035**

(1) Savings on debt service resulting from the use of $1 billion in 2013-2014 from the Generations Fund to repay maturing borrowings.

5 For more information on these measures, see Appendix 2 of this section.

Main measures to reduce program spending in 2013-2014

Spending efforts totalling $829 million are required to achieve the spending targets set for 2013-2014. Government departments and agencies have already identified a number of steps to that end, including:

- savings of $336 million in prescription drug expenditures through adjustments to the support provided to the biopharmaceutical sector, including elimination of the 15-year rule, and measures to save on prescription drug costs;
- refocusing of the equalization program for school boards, which will save $150 million:
  - this amount represents 1.8% of the $8.1 billion in equalization grants paid for 2012-2013.
- a reduction of $68 million in various budget-funded business support programs:
  - these savings initiatives represent 13.5% of government financial assistance for businesses in 2012-2013.

Main measures to reduce program spending in 2013-2014
(millions of dollars)

Measures	Impact of the measure	Total initial Budget 2012-2013
Adjustments to expenditures for prescription drug insurance	336	2 335
– Elimination of the rule whereby the full cost of an innovative drug is reimbursed for a period of 15 years from the time it is entered on the list of medications		
– Adjustment to the indexation formula for the cost of innovative drugs		
– Adjustment to the allowable profit margin for drug wholesalers		
– Adjustment to the coverage for certain medical supplies and medication		
Refocusing of the equalization program for school boards	150	8 148
Adjustment to business support (1)	68	504
TOTAL	**554**	**10 987**

(1) Adjustment to the financial assistance granted by the former Ministère du Développement économique, de l'Innovation et de l'Exportation.
Source: Secrétariat du Conseil du trésor.

❑ Refocusing of the equalization program for school boards: an essential step toward tax fairness

■ Funding of school boards

Each year, the government grants substantial subsidies to school boards to enable them to fulfil their educational mission and discharge their responsibilities as a player in their community's social, economic and cultural development.

For the 2011-2012 school year,[6] school boards received $8.1 billion in subsidies, or 77% of their total revenue, from the Ministère de l'Éducation, du Loisir et du Sport.

— Of that amount, $590 million (7%) was paid in the form of an equalization grant.

The *Education Act* sets a limit on the maximum yield of the school tax that may be levied by school boards.

— The yield of the school tax may not exceed the amount of expenses to be financed locally, as determined each year by the government.

— The rate of the school tax may not exceed $0.35 per $100 of the standardized assessment of taxable immovables.

The Act also provides for the payment of an equalization grant to every school board whose fiscal resources are insufficient to cover the expenses the board must finance locally.

The objective of the equalization program is to provide school boards with the resources they need so that all taxpayers receive the same quality educational services while carrying a similar tax burden.

— This program is crucial to ensuring fairness among the school boards' taxpayers.

■ Changes to the equalization program in 2006

Following the mid-2000s real estate boom in several Québec municipalities, the equalization program was amended to introduce three measures as of 2007-2008:

— the spreading over three years of adjusted property valuations pursuant to the new assessment roll;

— possibility of paying school taxes equal to or greater than $300 in two equal amounts;

— additional financial assistance guaranteeing a grant equal to the amount allocated in 2006, regardless of the change in a school board's property tax base over time.

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6 From July 1, 2011 to June 30, 2012.

The fact that the third measure is permanent diverted the equalization program from its objective of tax fairness.

- Prior to the introduction of additional assistance, the equalization program functioned in such a way that if a school board's property tax base rose, the amount of the equalization grant the school board received decreased.
- Now, an increase in a school board's property tax base no longer affects the amount of the equalization grant it receives.

In fact, not only does the equalization program as currently designed no longer guarantee tax fairness among school boards, but it also creates greater inequity from one year to the next.

The equalization program must be refocused to restore tax fairness among school boards.

Overview of the issue in 2006

In 2006, the majority of school boards (62 out of 69)[1] received equalization grants because their fiscal resources were insufficient to cover the expenses to be financed locally.

- Only the Island of Montréal school boards, the Commission scolaire des Laurentides and the Commission scolaire des Découvreurs in Québec City did not receive equalization grants.

The exceptional hike – over 50% in some cases – in property values entered on assessment rolls in the mid-2000s led to a sharp increase in the amount of school taxes paid to school boards receiving an equalization grant. Since these school boards levied the maximum rate of school taxes fixed by the legislation, the increase in property values led to an equivalent increase in school taxes.

The changes made in 2006 aimed to solve this one-off problem. However, solving the problem by means of the equalization program ended up diverting the program from its purpose (ensure tax fairness among school boards) and created inequities that increase with time.

1 Québec has 72 school boards, 3 of which have special status: the Kativik, Cree and Littoral school boards. The latter do not levy school taxes in their respective territories.

■ Refocusing of the equalization program

The amount paid as additional assistance will be reduced by 50% for the 2013-2014 school years in order to restore tax fairness among school boards.

— The measures enabling the spreading of adjusted property valuations over three years and payment of school taxes in two equal amounts will not be changed.

For subsequent years, the amount of additional assistance will depend on the school board's property tax base.

For school boards whose property tax base is already sufficient to cover all of their expenses that must be funded locally (i.e. boards whose tax rate before the equalization grant is below the maximum limit of $0.35 per $100 of standardized assessment), the legislation will provide for gradual elimination over three years of the equalization grant.

— For these school boards, the amount of additional assistance will be reduced by 50% again in 2014-2015 and eliminated as of 2015-2016.

School boards that receive an equalization grant because their fiscal resources are insufficient to cover their expenses will continue to receive the new amount of additional assistance determined in 2013-2014 for as long as their property tax base is insufficient. Where a school board's property tax base enables the board to have a school tax rate of less than $0.35 per $100 of standardized assessment, the amount of additional assistance granted:

— will remain the same the first year;

— will be reduced by 50% the second year;

— will be eliminated as of the third year.

By taking this step, the government will reduce the cost of the additional assistance by $150 million for fiscal year 2013-2014.[7]

— This reduction represents 2% of the total budget of $8.1 billion for school boards affected by the refocusing of the equalization program.[8]

7 For the 2013-2014 school year, which runs from July 1, 2013 to June 31, 2014, the reduction in additional assistance will total $200 million.

8 Data not including the budget of Montréal school boards, the Comité de gestion de la taxe scolaire de l'Île de Montréal, the Commission scolaire des Découvreurs and the Commission scolaire des Laurentides, which are not affected by the announced changes.

- **Greater accountability for better spending control**

The adjustment to the equalization program will reduce certain school boards' equalization revenues. To maintain a balanced budget, commissioners will have to cut spending without affecting student services. Or they could choose to raise revenues. These are the tough choices that every elected official must face.

Furthermore, school boards will enjoy greater flexibility in administering the equalization program. Now the role of school boards will be valued in that the boards will have decision-making authority in how the full amount of the equalization grant is used.

❑ Cuts to spending by bodies and special funds

Spending by non-budget-funded bodies and special funds will total nearly $27 billion in 2013-2014, a 7.7% increase over 2012-2013. Like all government departments, these entities must contribute to the government's fiscal effort by reigning in their spending growth.

However, to help make their operations more efficient, the effort asked of these entities will be limited essentially to operating expenditures and remuneration and total roughly $9 billion.

Thus, for 2013-2014, these spending categories of non-budget-funding bodies and special funds will be reduced by an average of around 2.0%, or an amount determined by the government.

— For 2013-2014, the budgetary return on this savings measure has been set at $200 million for 2013-2014.

— The government will table a legislative provision as a part of the omnibus bill relating to this budget to enable application of this measure.

Although other public bodies executing fiduciary operations, such as the Commission de la santé et de la sécurité du travail, the Société de l'assurance automobile du Québec and the Commission de la construction du Québec have no impact on the government's consolidated results, they will nevertheless participate in the government's spending reduction effort in the interests of fairness.

— The budgetary return on these bodies' spending will benefit the plans concerned and their beneficiaries.

■ Terms and conditions of application

The responsible parties within the departments and bodies concerned will receive instructions in early 2013.

The Ministère des Finances et de l'Économie and the Secrétariat du Conseil du trésor will track the savings achieved.

TABLE A.13

Reduction in spending by bodies and special funds in 2013-2014
(millions of dollars)

	Reduction in spending	Impact on the budgetary balance
Subsidized bodies and special funds	100	—(1)
Bodies and special funds essentially funded through own-source revenue	100	100
TOTAL	**200**	**100**

(1) The savings for these entities will be reallocated to government departments in order to achieve the program spending target. Consequently, they will not improve the budgetary balance.

■ Ensure the performance of the Société de l'assurance automobile du Québec's vehicle registration and driver's licence issuing operations

▪ A reminder of what has been achieved

Over the last few years, the Société de l'assurance automobile du Québec has rectified the automobile insurance plan's financial situation.

Since 2005, the Conseil d'experts sur les contributions d'assurances automobile has taken a close look at the public compensation plan and made recommendations regarding rate setting and cost management. In December 2011, it concluded that today the scheme is financially sound.

▪ A situation that needs to be adjusted

Meanwhile, the Société's vehicle registration and driver's licence issuing operations accrued a deficit of $218 million. It is facing a recurring annual deficit of $35 million, which is covered by registration fees. An adjustment is necessary.

▪ The proposed solution

The proposed solution consists in entrusting the Société with the responsibility of solving the recurring annual deficit for vehicle registration and driver's licence issuing operations and repaying the debt by:

— realizing productivity gains of 5.0% per year to help cut costs;

— improving the means of delivering customer services.

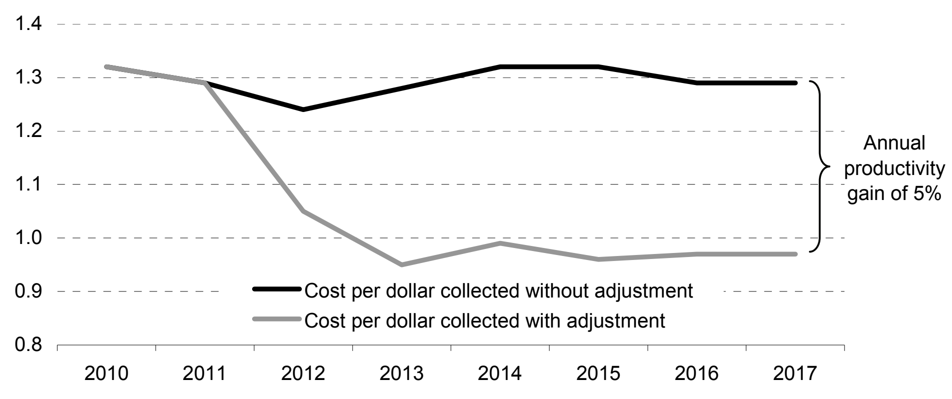
- **Implementation of the solution**

The government will examine the provisions needed to give the Société de l'assurance automobile du Québec the flexibility required to realize these productivity gains and cut costs.

In addition, it will broaden the mandate of the Conseil d'experts aux activités d'émission des permis de conduire et d'immatriculation to give it the same independent oversight of the use of funds and setting of rates as exists for insurance premiums.

CHART A.5

Impact on cost per dollar collected(1)
(dollars)



(1) Administrative costs per revenue dollar for management of driver's licence issuance and registration fees.
Source: Société de l'assurance automobile du Québec.

1.4 Debt reduction

As at March 31, 2012, the gross debt stood at 54.6% of GDP and the debt representing accumulated deficits, at 34.0% of GDP.

The *Act to reduce the debt and establish the Generations Fund* sets the following debt reduction objectives for 2025-2026:

— 45% of GDP for the gross debt;

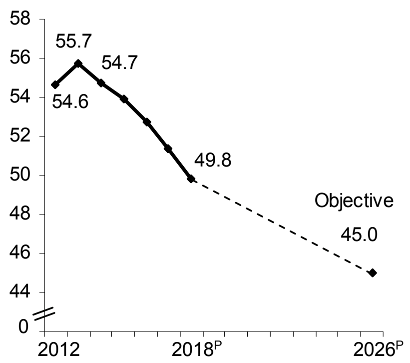
— 17% of GDP for the debt representing accumulated deficits.

Reducing the debt burden is a priority for the government. This budget confirms that these two objectives will be maintained.

CHART A.6

Gross debt as at March 31

(as a percentage of GDP)

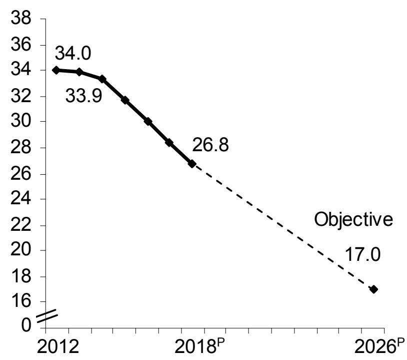


P: Projections.
Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.7

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



P: Projections.

To achieve the debt reduction objectives, the government has decided to adopt a more balanced approach that will make it possible, in particular, to cancel, and offset with other measures, the increase of 1 ¢/kWh over five years in the price of heritage pool electricity that was set to take effect in 2014.

In this budget, the government is announcing that it will deposit in the Generations Fund:

— The revenue generated by indexation of the price of heritage pool electricity starting in 2014-2015. This revenue will total $95 million in 2014-2015, $190 million in 2015-2016, $290 million in 2016-2017 and $395 million in 2017-2018.

— All mining royalties as of 2015-2016, representing $325 million per year.

- As of 2017-2018, the revenues generated by the gain in Hydro-Québec's net earnings as a result of the government's decision to abandon the planned refurbishment of the Gentilly-2 nuclear power plant. This gain will represent $215 million a year, or a total of $5.8 billion by 2043.

- The sum of $100 million a year, as of 2014-2015, from the increase in the specific tax on alcoholic beverages.

The government is also announcing that public capital investments will be reduced by $1.5 billion a year as of 2013-2014.

These debt reduction measures will enable the government to achieve the objectives set in the *Act to reduce the debt and establish the Generations Fund*. This is also a more balanced approach in that it is based on more-diverse revenue sources.

Lastly, the government will use $1 billion of the Generations Fund in 2013-2014 to repay maturing borrowings. This will produce debt service savings of $25 million in 2013-2014 and of $40 million a year as of 2014-2015.

The new revenue sources, added to the revenues currently dedicated to the Generations Fund, should raise the fund to $13.5 billion as at March 31, 2018.

Amendments will be made to the *Act to reduce the debt and establish the Generations Fund* and the other legislation concerned to allow for the implementation of the aforementioned measures.

The proposed legislative amendments are also intended to enable the deposit in the Generations Fund of $300 million in 2012-2013, from the accumulated surplus of the Territorial Information Fund, and of 25% of the amounts derived from the auction of oil, gas and underground reservoir exploration licences.

2. SOUND MANAGEMENT OF PUBLIC FINANCES

In addition to balancing the budget in 2013-2014 and keeping it balanced thereafter, Budget 2013-2014 takes action to ensure sound management of public finances.

— It puts forward a process to ensure better management of public capital investments.

— It establishes multi-year funding plans for certain government missions, such as health care and universities.

Making provisions for improving management of public finances and balancing the budget as of 2013-2014 is all the more necessary in Québec because:

— the recession was less severe, so had less of an impact on Québec's public finances compared with its main trading partners;

— Québec is the most heavily indebted province in Canada;

— the accelerated aging of the population is putting greater downward pressure on government revenues and greater upward pressure on health expenditures and retirement plans.

2.1 Better infrastructure planning and management

The government's capital investments have grown significantly in recent years.This substantial increase in investments raises two major issues that the government must consider:

— current and projected levels of capital expenditures are generating strong pressure on the government's debt and expenditure;

— certain aspects of the processes involved in planning and managing capital expenditures can be improved.

  — Therefore, the government mandated the firm SECOR-KPMG to study the current management of the Québec Infrastructures Plan (QIP) and the project planning process.

In Budget 2013-2014, the government is presenting new policy directions to reconcile the need to renew and develop infrastructure with the government's ability to pay.

Accordingly, the government is announcing two major changes right now:

— A cap on total public capital investments until 2025-2026. Over the next five years, the maximum will stand at $9.5 billion on average per year, which represents a reduction of $1.5 billion per year compared with the levels forecast in the March 2012 budget.

— The government will improve infrastructure planning and management through:

  — inclusion of all projects in the QIP;

  — an evaluation of the government's capital assets;

  — better project planning and management.

Over the next year, the Chair of the Conseil du trésor will make public all of the actions that will be taken to implement this new policy stance.

2.1.1 The issues with excessively rapid growth in investments

In October 2007, the government announced the implementation of the Québec Infrastructures Plan (QIP 2007-2012). In addition to the QIP, the government makes other capital investments through the departments, agencies and special funds.

— However, the steep increase in capital investments has not been accompanied by an adequate planning and management system.

Public capital investments, which will total $12.5 billion in 2012-2013, have tripled since 2003-2004.

Therefore, this acceleration of capital investments has generated certain problems, that is:

— significant pressure on government debt and spending;

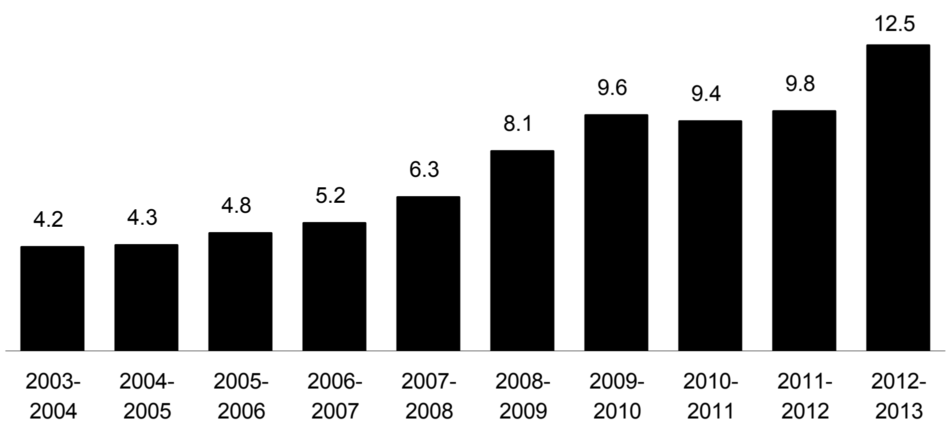
— restricted planning and management of capital expenditures, in particular due to:

  — the announcement of investments not included in the QIP;

  — knowledge gaps regarding the state of infrastructures, despite the legal obligations to ensure they are maintained in good condition.

CHART A.8

Evolution of total public capital investments
(billions of dollars)



❑ Pressure on government debt and spending

Acceleration of public capital investments causes a rapid increase in government debt and spending.

For example, from 2009 to 2012, capital expenditures contributed to a $14.5-billion increase in the debt, or 56% of the total increase in the gross debt.

In addition, capital investments generate substantial depreciation and interest expenditures for government departments and agencies every year. These expenditures, which cannot be compressed, amount to $6.0 billion in 2012-2013 and will grow at an average rate of 8.9% per year by 2014-2015, reaching $7.1 billion.

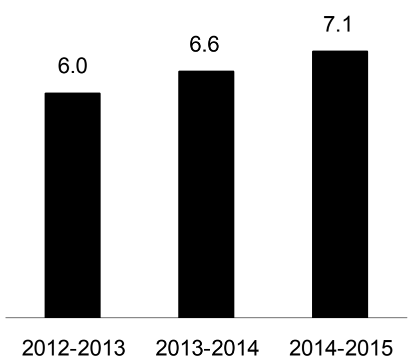
— This sharp growth is such that departments and agencies have to allocate an increasingly larger share of their budget to repaying investment borrowings.

Overall, from 2012-2013 to 2014-2015, spending on infrastructure will account for 19.7% of the total consolidated expenditure growth, nearly triple its 7.0% share in consolidated expenditure.

CHART A.9

Capital expenditures(1)

(billions of dollars)

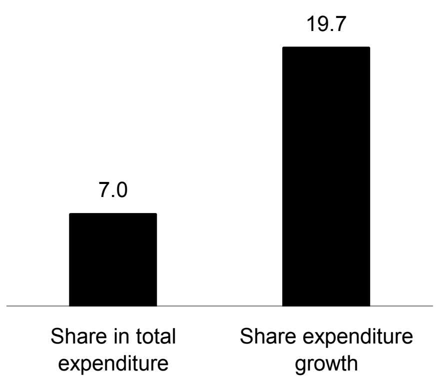


(1) Data based on Budget 2012-2013 assumptions.

CHART A.10

Share of capital expenditures in consolidated expenditure, 2012-2013 to 2014-2015(1)

(per cent)



(1) Data based on Budget 2012-2013 assumptions.

❑ Possible improvements to the infrastructure management framework

■ Only 80% of the government's capital investments are covered by the Québec Infrastructure Plan (QPI)

As of 2007, the government must decide the level of annual investment authorized for the QIP. However, this decision does not cover all of the capital expeditures it finances.

For 2012-2013, in particular, the current QIP covers only around 80% of the government's total capital investments.

Capital investments by departments, bodies and special funds over and above those covered by the QIP represent roughly 20% of total government capital investment, or approximately $2.7 billion.

— For example, capital investments consist of spending on computer resources, childcare centres and certain infrastructures in Northern Québec and of the Régie des installations olympiques.

The current framework of the QIP does not account for the actual level of capital expenditures incurred by the government and does not ensure full transparency.

It is important to mention, however, that even if certain investments are not covered by the QIP, they must each be authorized and their funding is included in the government's spending and debt.

■ Other problems raised by SECOR-KPMG

SECOR-KPMG's report, released on November 16, 2012, raises a number of other problems as well:

— a moving list of projects that is not released;

— late and inadequate validation of costs;

— limited and distributed accountability;

— need for an updated profile of assets and standards;

— a time horizon that is too short and not suited to major projects;

— projects not covered by the QIP that are currently under review by Infrastructure Québec.

2.1.2 Cap on public capital investments

With a view to easing pressure on the debt and public spending, the government is announcing that a cap is being placed on total public capital investments until 2025-2026. Over the next five years, these investments will be capped at $9.5 billion on average, which represents a reduction of $1.5 billion per year compared with the leves forecast in the March 2012 budget.

TABLE A.14

Maximum envelopes allocated to total capital investments
(billions of dollars)

	Investments under the former QIP	Investments not coverd by the former QIP	Subtotal	Reduction	New envelopes	
2003-2004	3.3	0.9	**4.2**	—	**4.2**	
2004-2005	3.5	0.8	**4.3**	—	**4.3**	
2005-2006	4.0	0.8	**4.8**	—	**4.8**	
2006-2007	4.2	1.0	**5.2**	—	**5.2**	
2007-2008	5.0	1.3	**6.3**	—	**6.3**	
2008-2009	6.6	1.5	**8.1**	—	**8.1**	
2009-2010	7.8	1.8	**9.6**	—	**9.6**	
2010-2011	7.6	1.8	**9.4**	—	**9.4**	
2011-2012	7.9	1.9	**9.8**	—	**9.8**	
2012-2013	9.8	2.7	**12.5**	—	**12.5**	
2013-2014	9.4	2.6	**12.0**	–1.5	**10.5**	$9.5 billion on average
2014-2015	9.1	2.5	**11.6**	–1.5	**10.1**	
2015-2016	8.0	2.2	**10.2**	–1.5	**8.7**	
2016-2017	8.4	2.3	**10.7**	–1.5	**9.2**	
2017-2018	8.3	2.3	**10.6**	–1.5	**9.1**	
2018-2019	8.3	2.3	**10.6**	–1.5	**9.1**	
2019-2020	8.2	2.3	**10.5**	–1.5	**9.0**	
2020-2021	8.1	2.3	**10.4**	–1.5	**8.9**	
2021-2022	8.0	2.2	**10.2**	–1.5	**8.7**	
2022-2023	8.2	2.3	**10.5**	–1.5	**9.0**	
2023-2024	8.4	2.3	**10.7**	–1.5	**9.2**	
2024-2025	8.7	2.4	**11.1**	–1.5	**9.6**	
2025-2026	8.9	2.5	**11.4**	–1.5	**9.9**	

❑ New infrastructure investment targets

The new targets set in Budget 2013-2014 will consider the total capital investments by government entities.

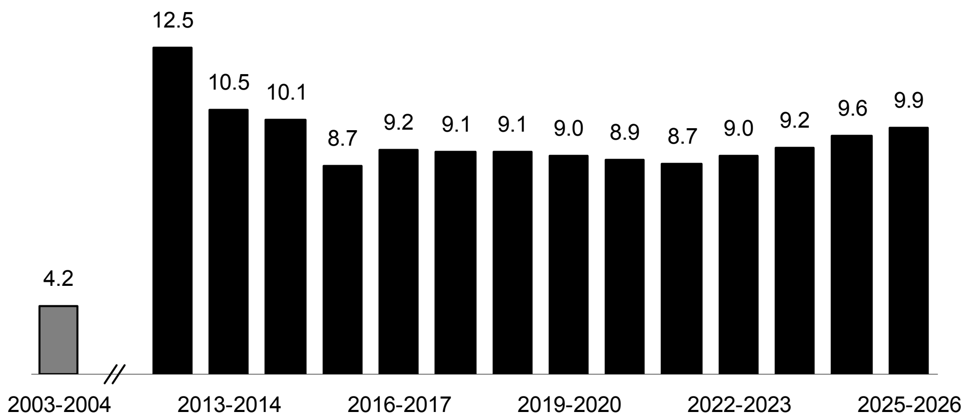
— Over the period 2013-2014 to 2021-2022, total annual investments will be gradually lowered from $10.5 billion to $8.7 billion.

— As of 2022-2023, the level of government capital investments will be slightly increased in order to maintain the value of capital stock in the economy.

Furthermore, even with the annual $1.5-billion decrease in public capital investments as of 2013-2014, annual investments will still be well above historical levels.

CHART A.11

Maximum envelopes allocated to total capital investments
(billions of dollars)



Lastly, better project management and lower investments should help reduce costs and increase the rate of project implementation as well as limit cost overruns.

■ Savings on expenditures

The $1.5-billion-a-year decrease in public capital investments will save $200 million on consolidated expenditures in 2014-2015, broken down as follows:

— $125 million for program spending;

— $75 million for consolidated entities.

Total savings will reach $640 million in 2017-2018, broken down as follows:

— $390 million for program spending;

— $250 million for consolidated entities.

TABLE A.15

Impact on expenditure of the annual $1.5-billion-a-year decrease in public capital investments
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Program spending	—	–125	–235	–330	–390
Expenditures of consolidated entities	—	–75	–130	–190	–250
TOTAL	**—**	**–200**	**–365**	**–520**	**–640**

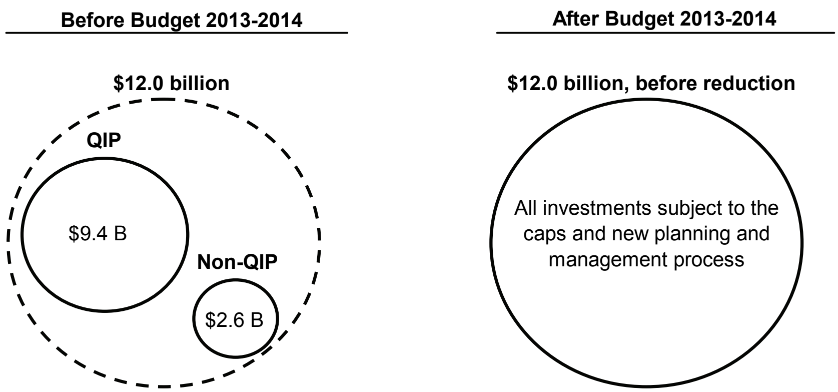
2.1.3 Enhancement of the planning and management framework for capital expenditures

Henceforth, it is important to the government that all of the capital expenditures it finances be subject to the same financial framework.

— This will make it possible to decide on the right level of investment.

CHART A.12

Illustration of the universe of total government-financed investments for 2013-2014



Furthermore, during the coming year the government will continue examining clearer measures that will be taken to improve the planning and management framework for capital expenditures while ensuring:

— that projects are economically viable, through better prioritization of projects and better cost management;

— accurate knowledge of the actual condition of infrastructures.

2.1.4 Heightened importance of public capital stock in the economy

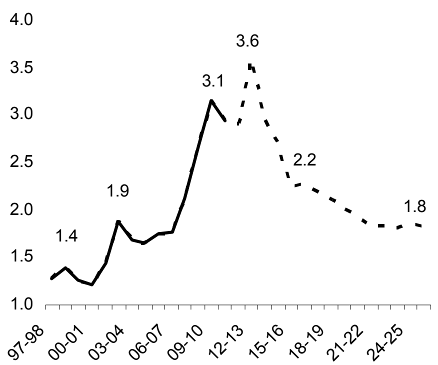
Over the next 10 years, annual investments as a percentage of GDP will remain above pre-2008 levels. After peaking at 3.6% in 2012-2013, the weight of government investments in GDP will be gradually reduced to 1.8% by 2025-2026.

The new investment targets will make it possible to continue increasing the importance of public capital stock in the economy, a key determinant of productivity and economic growth.[9]

— Indeed, after rising from 22.5% of GDP in 2002 to 28.1% in 2011, the ratio of public stock to GDP will continue growing, reaching 30.8% in 2025. The ground made up will return public capital stock to the level it was at in the early 1980s.

CHART A.13

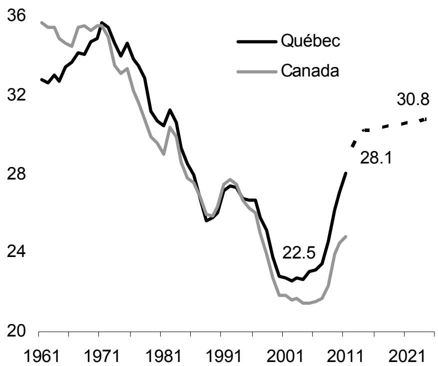
Annual public capital investments
(as a percentage of GDP)



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

CHART A.14

Change in public capital stock
(as a percentage of GDP, in 2002 dollars)



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

9 For a full discussion of Québec's public capital stock, see Section B of the 2011-2012 Budget Plan.

2.2 Health and university funding plans

The government is tabling multi-year funding plans for the government missions relating to health and social services and universities.

— Multi-year funding of these key sectors ensures stable medium-term planning of their activities.

TABLE A.16

Multi-year funding plans for certain government missions
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Health and social services(1)	31 217	32 707	34 282	35 932	37 661	39 478
Universities	2 976	3 075	3 240	3 360	3 456	3 516

(1) Includes program spending and the expenditures of FINESSS.

2.2.1 Health care

In 2013-2014, health care spending will grow by 4.8%, the highest rate for the government's main missions. The growth will stem from increases of:

— $1 039 million, or 3.4%, in program spending;

— $451 million in the expenditures of the Fund to Finance Health and Social Services Institutions (FINESSS). Expenditures for 2013-2014 stand at $1.4 billion, including $1.0 billion from the health contribution and $430 million from the federal compensation for the sales tax harmonization.[10]

As of 2014-2015, there will still be a $430-million shortfall to be offset in order to ensure 4.8% annual growth in health funding.

TABLE A.17

Government health funding from 2011-2012 to 2017-2018
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	Average annual growth(1)
Program spending(2)	**29 341**	**30 219**	**31 258**	**32 806**	**34 430**	**36 135**	**37 924**	
% change	*2.9*	*2.9*	*3.4*	*5.0*	*5.0*	*5.0*	*5.0*	*4.6*
FINESSS expenditures								
Progressive health contribution(3)	609	925	693	693	693	693	693	
Increase in tax rate for high-income earners		74	326	353	379	403	431	
Subtotal	609	998	1 019	1 046	1 072	1 096	1 124	
Allocation of part of the compensation for harmonization of the QST with the GST	—	—	430	—	—	—	—	
Shortfall to be offset	—	—	—	430	430	430	430	
Total – FINESSS	**609**	**998**	**1 449**	**1 476**	**1 502**	**1 526**	**1 554**	
TOTAL	**29 950**	**31 217**	**32 707**	**34 282**	**35 932**	**37 661**	**39 478**	
% change	*4.1*	*4.2*	*4.8*	*4.8*	*4.8*	*4.8*	*4.8*	*4.8*

(1) Average annual growth from 2013-2014 to 2017-2018.
(2) For 2011-2012, program spending is shown based on the 2012-2013 budget structure.
(3) The progressive health contribution will take effect on January 1, 2013.

10 Deposit of this compensation in FINESSS is conditional upon legislative amendments.

Transformational action in the health sector

Main policy directions with respect to health

By ensuring stable and adequate health care funding in the coming years, the government will direct a portion of resources to transformational action aimed at improving the performance and accessibility of the health care system while preparing for demographic changes.

- Promote health and prevention in order to minimize the use of health care services. Chronic illnesses are often caused by certain unhealthy lifestyles and 60% of cases can be avoided.
- Improve access to front-line services and family physicians. The budget continues the deployment of family medicine groups and takes steps so that every Quebecer will have access to a family physician by 2016.
- Decentralization of hospital care by increasing funding for home care.

Allocate more resources to services

With a view to channeling health funding directly to services, the Ministère de la Santé et des Services sociaux is continuing efforts to reduce certain administrative costs, in particular for training, publicity and travel, by 25%, which would save $50 million in 2012-2013.

- To that end, governance of health and social services will be modernized and programs will be streamlined to better match the needs of the population and uphold the principle of fairness.
- In addition, the role of health and social services agencies will be reviewed as part of the current efforts to eliminate duplication between the three levels of governance. The outcome of this review process could go as far as a merger of administrative services or agencies.

❑ Planning of FINESSS expenditures

The increase in revenues deposited in FINESSS raises the fund's expenditures to $1 449 million in 2013-2014, an increase of $451 million over 2012-2013. This spending will make it possible, in particular, to allocate:

— $273 million to services for seniors;

— $113 million to the consolidation and deployment of family medicine groups;

— $200 million to access to surgery and advances in surgical practices.

In addition, legislative amendments will be made to the *Act respecting the Ministère de la Santé et des Services sociaux* to specify who will be eligible to receive funding from FINESSS and thereby better meet the needs of health and social services institutions.

TABLE A.18

Allocation of sums from the Fund to Finance Health and Social Services Institutions in 2012-2013 and 2013-2014
(millions of dollars)

	2012-2013	2013-2014
Access to front-line services		
Seniors investment plan	163	273
Access plan for people with intellectual and physical disabilities	15	30
Family medicine groups (FMGs)	100	113
Specialized nurse practitioners	13	22
Access to services and increase in volumes		
Access to surgery and advances in surgical practices	170	200
Operation of new facilities	54	55
Oncology care	136	139
Dialysis	154	157
Other service access measures		
Hemodynamics and interventional electrophysiology	—	169
Respiratory therapy	134	138
Occupational therapy	—	86
Electrophysiology	50	51
Other(1)	4	6
Support for performance improvement		
Lean Health Care projects and optimization assistance	5	12
TOTAL	**998**	**1 449**

(1) Includes $6 million in 2013-2014 for insulin pumps.

❑ Activity-based funding within the health care system

Budget 2012-2013 announced the creation of an expert panel responsible for planning the gradual implementation of activity-based funding.

The government supports the continuation of the panel's work. However, adjustments appear to be necessary in order to bring its work in line with the government priorities.

Activity-based funding of health and social services is currently used to increase surgical output.

However, the government wishes to improve the quality of services and patient outcomes, in particular by prioritizing front-line services, continuity in care, service integration and the adoption of best practices.

That is why the mandate of the expert panel will be clarified so it can evaluate patient-based funding formulas that have greater potential for effecting the desired changes. The panel will now be called "Groupe d'experts pour un financement axé sur les patients."

In addition to its current mandate, the panel will be tasked with making recommendations in the following areas:

— payment schemes to support development of front-line services, in particular, the capacity to improve the continuum of care;

— means of enhancing knowledge of costs and outcomes;

— means of improving the funding formula for the surgery access program to, in particular, give better consideration to ambulatory surgery, the continuum of care and the quality of patient services.

Furthermore, to take account of these new policy directions, the mandate of the expert panel is being changed to request that it submit its report to the ministers of Health and Social Services and Finance and the Economy later in 2013, making recommendations on practical initiatives by the health and social services network.

2.2.2 Universities

The government does not presume to know the decisions that will flow from the summit on higher education, but it is nevertheless specifying the sums provided for in the financial framework.

In September, the government cancelled the planned tuition hike of $1 778 over seven years that was set to take effect in fall 2012. Cancellation of the increase will ultimately lower students' net contribution to university funding by $170 million.

With regard to student financial assistance:

- the government has kept existing measures in 2012-2013 in order to maintain access to university studies due to the increase in tuition fees that was planned.
- for subsequent years, because the increase in tuition fees has been cancelled, the level of student financial assistance will be the same as in 2011-2012.

With regard to universities, the government has already indicated that it could compensate universities for the shortfall stemming from cancellation of the tuition hike.

- The compensation required for 2012-2013 will be funded within the spending objective of the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie.

Cancellation of the tuition hike

On April 27, 2012, the previous government spread the increase in tuition fees over seven years so it would represent $254 a year. Cancellation of the tuition hike announced in September nullifies the university funding effort asked of students.

Cancellation of the tuition hike
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Cancellation of the increase in tuition fees	–47	–101	–155	–208	–259	–308	–357
Savings in student financial assistance	17	37	58	77	96	114	132
Savings under the tax credit for tuition fees	6	13	21	29	38	46	55
TOTAL	**–24**	**–51**	**–76**	**–102**	**–125**	**–148**	**–170**

(1) Taking into account tuition fees for Canadian students not resident in Québec.

The table below shows the university funding amounts still provided for in the financial framework. It reflects the amounts contained in the March 2012 budget.

University funding plan

The university funding plan, as updated under Budget 2012-2013, projected $1.0 billion in additional revenue for universities by 2018-2019, with $574 million coming from the Québec government.

The government's financial framework in Budget 2013-2014 provides for:

- university spending of $2 976 million in 2012-2013 and $3 075 million in 2013-2014, including long-term funding of public capital investments;
- the government contribution initially provided for under the university funding plan for the purposes of maintaining real per-student funding and reinvestment in university education.

Québec government's contribution to university funding
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Québec government's contribution							
Subsidies to universities	2 976	3 075	3 240	3 360	3 456	3 516	3 577
Including the Québec government's additional contribution to the university funding plan(1)							
– *Maintaining of real per-student funding*	148	175	224	261	269	308	348
– *Reinvestment in university education*	10	20	92	157	224	225	226
Total additional contribution	**158**	**195**	**316**	**418**	**493**	**533**	**574**

(1) Additional revenue relative to the 2010-2011 university fiscal year.

Following the summit, the government will make a decision on two matters:

— the conditions for granting universities the fixed sums for reinvestment in university education and, if applicable, for compensation universities for the cancellation of the increase in tuition fees;

— the conditions for granting any additional sums that may be necessary to fund higher education and that come from additional revenue sources or from adjustments to funding methods.

2.3 The need to restore fiscal balance in 2013-2014

Québec must balance its budget over a shorter period than other jurisdictions, particularly Ontario and Canada, for the following reasons in particular:

— the recession was less severe, so had less of an impact on Québec's public finances compared with its main trading partners;

— Québec is the most heavily indebted province in Canada;

— the accelerated aging of the population is putting greater downward pressure on government revenues and greater upward pressure on health expenditures and retirement plans.

❑ Recession of 2009: smaller budgetary impacts

The time horizon for restoring fiscal balance set by the majority of provinces, as well as the federal government, changes in tandem with the budgetary shorfall created by the 2009 recession.

— In 2009-2010, i.e. the fiscal year during which the recession occurred, Québec and British Columbia had similar-sized deficits. Both governments forecast a balanced budget in 2013-2014.

— The governments of Canada and Ontario posted much higher deficits than Québec and expect to take three or four years longer to restore fiscal balance.

TABLE A.19

Time horizon for restoring fiscal balance – Governments of Canada and certain provinces

	Budgetary balance in 2009-2010 (% of GDP)	**Expected number of years to balance budget**	**Year budget will be balanced**
Québec	**–1.0**	**4**	**2013-2014**
British Columbia	–1.0	4	2013-2014
Canada – federal government	–3.6	7	2016-2017
Ontario	–3.3	8	2017-2018

Evolution of budgetary balances of selected jurisdictions from 2012 to 2014

In 2012, several countries will continue to run deficits of over 4% of GDP due, in particular, to the global economic slowdown and, more specifically, the economic recession in the euro area.

All of the governments in the table below foresee an improvement in their budgetary situation by the end of 2014, thanks to the measures implemented to cut their deficits as well as economic growth, which should gradually accelerate. Nevertheless, half of the countries will still have a deficit of over 3% of GDP.

Budgetary balances
(as a percentage of GDP)

	2012-2013	2013-2014	2014-2015
Québec	–0.4	0.0	0.0
Ontario	–2.2	–1.9	–1.4
Canada – federal government	–1.4	–0.9	–0.4
Other jurisdictions – Public sector balances(1)			
Australia	0.1	0.1	0.2
Sweden	–0.0	–0.3	0.4
Germany	–0.2	–0.2	0.0
Finland	–1.8	–1.2	–1.0
Italy	–2.9	–2.1	–2.1
Netherlands	–3.7	–2.9	–3.2
Denmark	–3.9	–2.0	–1.7
France	–4.5	–3.5	–3.5
Portugal	–5.0	–4.5	–2.5
United Kingdom	–6.2	–7.2	–5.9
Greece	–6.8	–5.5	–4.6
United States – federal government	–7.0	–6.5	–5.6
Spain	–8.0	–6.0	–6.4
Japan	–8.3	–7.9	–7.7
Euro area (17 countries)	**–3.3**	**–2.6**	**–2.5**
G7	**–7.2**	**–6.1**	**–4.7**

(1) Balances are presented on a fiscal-year basis for each jurisdiction. The budgetary balances concern all levels of public administration (federal, provincial, local and social security), except in the cases of the United States and Canada. According to the IMF, public deficits in 2012 would be 3.8% of GDP in Canada and 8.7% in the United States.

Sources: Budget documents for Australia and the United States, International Montary Fund for the G7 (October 2012) and European Commission's Directorate General for Economic and Financial Affairs for all other countries (ECFIN, November 2012).

❑ The most heavily indebted province in Canada

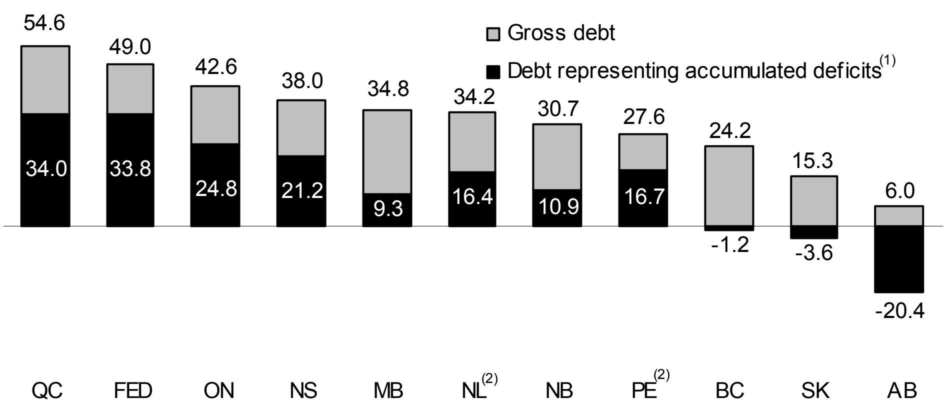
Québec has the highest debt load, as a percentage of GDP, of all the provinces, for both concepts of debt defined in the *Act to reduce the debt and establish the Generations Fund*.

— For example, Québec's gross debt-to-GDP ratio was 54.6% as at March 31, 2012, compared with 42.6% in Ontario and 24.2% in British Columbia.

This high level of indebtedness has an impact on the government's annual spending on debt service. The higher its debt-related costs, the fewer financial resources it has to finance public services or less leeway it has to improve Québec's tax competitiveness.

CHART A.15

Gross debt and debt representing accumulated deficits as at March 31, 2012
(as a percentage of GDP)



(1) A negative entry means that the government has an accumulated surplus.
(2) Debt as at March 31, 2011, given that the 2011-2012 public accounts had not yet been published on November 13, 2012.
Sources: Public accounts of the governments, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Accelerated aging of the population

Population aging is occurring across the provinces of Canada, just like in the majority of OECD member countries. The trend will accelerate over the next two decades. In terms of public finances, population aging is gradually putting:

— downward pressure on economic growth and, thereby, on government revenues;

— upward pressure on certain already-substantial government expenditures, such as health care funding and retirement funds.

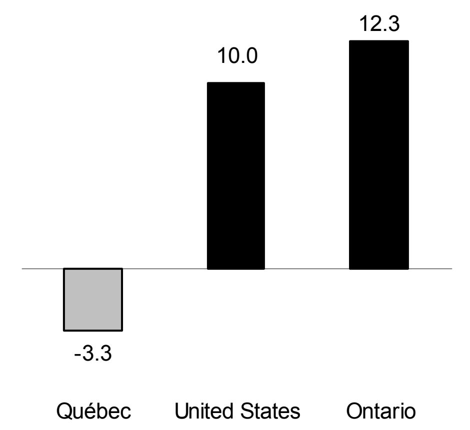
However, compared with its main partners, it will be more important to meet the challenge of demographic change in Québec because, coupled with population aging, the population aged 15-64 will start to shrink in 2014.

— Whereas this segment of the population will shrink by 3.3% in Québec between 2010 and 2030, it will grow by 10.0% and 12.3% in the United States and Ontario, respectively, over the same period.

These demographic changes, combined with the changes in Quebecers' lifestyles over the last 40 years, will necessitate more efficient management of public finances to ensure the same level of public services to Quebecers.

CHART A.16

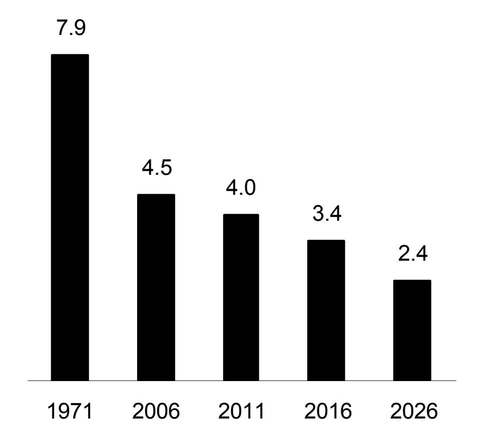
Change in potential labour pool between 2010 and 2030
(percentage change in population aged 15-64)



Note: Population aged 16-64 for the United States.
Sources: Institut de la statistique du Québec, U.S. Census Bureau and Ministère des Finances de l'Ontario.

CHART A.17

Change in number of workers per retiree
(ratio of the population aged 20-64 to the population 65 and over)



Source: Institut de la statistique du Québec (2011).

Lifestyle changes and their repercussions for public finances

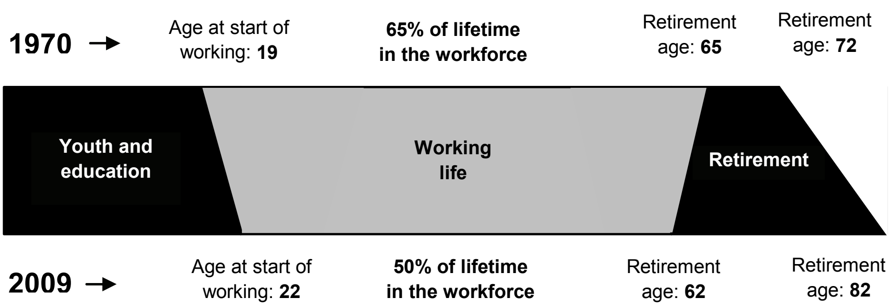
The age structure of the population, the duration of the major life stages, such as school, working life and retirement, and life expectancy have changed greatly over the past 40 years.

Young people stay in school longer than before, while older people retire earlier and enjoy a longer retirement thanks to a longer life expectancy. These changes limit the working life of individuals to 50% of their total lifetime, compared with 65% in 1970.

These changes have a significant impact on the funding and structure of public services, particularly health care, as well as on the government's capacity to finance them. They demand continuous efforts from the government to:

- ensure the sustainability of funding for public services;
- adapt public services to the new demographic and sociological realities.

Change in the duration of an individual's working life between 1970 and 2009



Sources: Institut de la statistique du Québec, Régie des rentes du Québec and Statistics Canada.

3. A GOVERNMENT FOR ALL : IMPLEMENTATION OF TOP PRIORITIES

The government plans to move quickly on the top priorities it set forth in the inaugural address.

The actions put forward today by the government will restore balance on behalf of families, in particular by giving them some financial breathing room and facilitating work-family balance.

These actions are also aimed at supporting private investment. Private investment drives wealth creation and prosperity in Québec, without which there can be no redistribution and social solidarity.

Lastly, the government will undertake negotiations with a view to renewing the fiscal and financial pact with municipalities by summer 2013. The purpose of the new pact will be to ensure that municipalities have the foreseeable financial means to meet the challenges they face.

Thus, as part of Budget 2013-2014, substantial investments will be made to move on the government's top priorities.

TABLE A.20

Investments to move on the government's priorities
(millions of dollars)

Top priorities	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
A government close to families	7	24	90	246	476
A government for prosperity	60	70	84	155	221
TOTAL	**67**	**94**	**174**	**401**	**697**

3.1 A government close to families

To offer additional support to families, particularly low-income and middle-class families, this budget provides for actions that will give them both financial and work-family balance support.

More specifically, Budget 2013-2014 provides for initiatives to:

— pursue the objective of offering a reduced-contribution childcare space to every child;

— increase access to decent affordable housing for the most disadvantaged;

— promote physical, artistic and cultural activity among young people.

Furthermore, this budget confirms:

— the introduction of the progressive health contribution, which will improve the fairness of health care funding;

— the will of the government to strengthen the retirement system so that people have an adequate standard of living on leaving the labour market.

TABLE A.21

Investments for families
(millions of dollars)

Initiatives	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Introduce a progressive health contribution	—	—	—	—	—
Promote physical, artistic and cultural activity among young people	7	14	21	28	35
Offer a reduced-contribution childcare space to every child	—	10	69	182	262
Increase access to decent affordable housing for the most disadvantaged	—	—	—	36	179
Strengthen our retirement income system	—	—	—	—	—
TOTAL	**7**	**24**	**90**	**246**	**476**

❑ Actions that make life easier for families

With Budget 2013-2014, the government is taking the means necessary to ease the financial burden of middle-class families. In this regard, families will benefit from:

— the new progressive health contribution;

— the cancellation of the increase of 1 ¢/kWh in the price of heritage pool electricity announced in Budget 2010-2011 and its replacement by the indexation of the price of heritage electricity as of 2014;[11]

— the introduction of a tax credit for youth physical, artistic and cultural activities.

Thus, the measures in Budget 2013-2014 will enable a couple with two children to save:

— $534 in 2014 and $888 at term, if their income totals $35 000;

— $344 in 2014 and $688 at term, if their income totals $50 000;

— $134 in 2014 and $488 at term, if their income totals $100 000.

TABLE A.22

Relief stemming from the measures in Budget 2013-2014 for a couple with two children and two incomes(1)
(dollars)

		Electricity rates(2)				
Family income	**Change in income tax and the health contribution**	**Cancellation of the increase of 1¢/kWh in the price of heritage pool electricity**	**Indexation of the price of heritage pool electricity**	**Net gain**	**Tax credit for youth physical, artistic and cultural activities(3)**	**Total**
In 2014						
35 000	400	77	–23	54	80	**534**
50 000	200	77	–23	54	80	**334**
100 000	0	77	–23	54	80	**134**
At term(4)						
35 000	400	408	–120	288	200	**888**
50 000	200	408	–120	288	200	**688**
100 000	0	408	–120	288	200	**488**

(1) Children 7 and 9 years of age. Each taxpayer earns 50% of the total income.
(2) Impact of the replacement of the 1 ¢/kWh increase over 5 years in the price of heritage pool electricity announced in Budget 2010-2011 by the indexation of the price of heritage pool electricity to the total Québec CPI for an average-sized house.
(3) Eligible expenses, that is, $200 per child in 2014 and $500 per child at term.
(4) In 2018.

11 Presented in detail in Appendix 3 of this section.

3.1.1 The new health contribution : improving the fairness of health care funding

Further to the commitment made on October 10, 2012, Budget 2013-2014 provides for the implementation of a new progressive health contribution as of January 1, 2013. Accordingly:

— the current health contribution of $200 will be replaced by a new contribution that is more in line with each person's ability to participate in the funding of health care;

— high-income taxpayers will be expected to do more, through an increase of 1.75 percentage points in the income tax payable on taxable income over $100 000.

The new health contribution will therefore introduce progressivity that will:

— ease the burden on middle-class taxpayers and families;

— improve fairness in the effort required of everyone to fund our health care system.

Combined with the tax increase, the contribution will ensure that:

— over $400 million is henceforward assumed by taxpayers with higher incomes;

— the burden of low-income and middle-class taxpayers is reduced by the same amount;

— 3.1 million taxpayers see their contribution reduced.

TABLE A.23

Impact of the new progressive health contribution and the tax increase for high-income taxpayers – 2013
(millions of dollars)

Revenue from the current health contribution	**1 013**
Increase in the burden of high-income taxpayers	
– New level of taxation, at the rate of 25.75%, for taxpayers with taxable income over $100 000 (rate increase of 1.75 percentage points)	322
– Increase in the health contribution for taxpayers with net income over $130 000	80
Subtotal	**402**
– Elimination or reduction of the health contribution for 3.1 million low-income and middle-class taxpayers	**–402**
REVENUE FROM THE NEW PROGRESSIVE HEALTH CONTRIBUTION AND THE TAX INCREASE	**1 013**

❑ A new progressive health contribution

As of the 2013 taxation year, the current health contribution will be replaced by a progressive health contribution based on net individual income.

— No health contribution will be applied to individual income of $18 000 or less. The contribution will gradually reach $100[12] for income between $18 000 and $20 000.

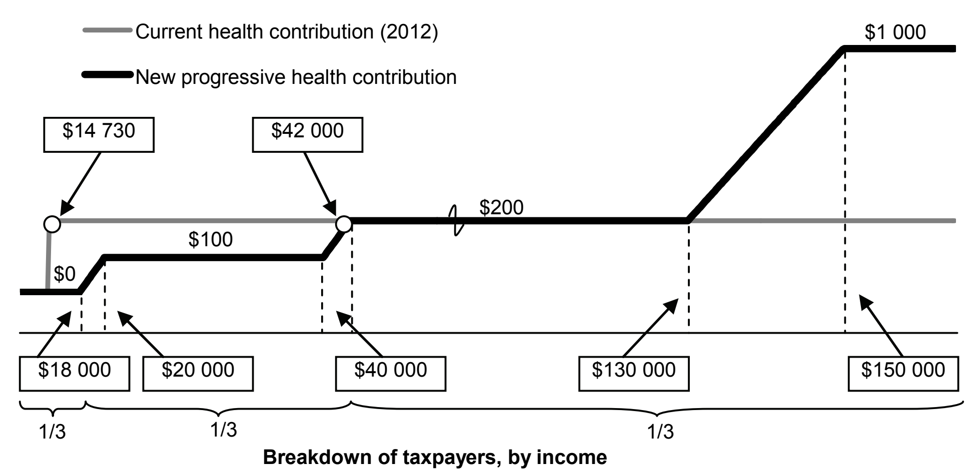
— It will be $100 for all taxpayers with income of $20 000 to $40 000, and will gradually reach $200[12] for those whose income is between $40 000 and $42 000.

— It will be maintained at $200 for taxpayers with income of $42 000 to $130 000.

— It will rise gradually from $200 to $1 000[13] for taxpayers with income of $130 000 to $150 000, and will reach $1 000 for taxpayers whose income is $150 000 or more.

CHART A.18

New progressive health contribution by taxpayer income – 2013



12 At the rate of 5% of income above threshold amount.

13 At the rate of 4% of income above threshold amount.

❑ Two-thirds of taxpayers will pay a health contribution below $200

The new progressive health contribution will do more to protect low-income and middle-class taxpayers:

— one-third of taxpayers will be exempt from paying the new health contribution, namely, those whose net income is equal to or less than $18 000;

— another one-third of taxpayers will see their health contribution reduced to an amount below the $200 payable for 2012, namely, those whose net income is between $18 000 and $42 000;

— lastly, one-third of taxpayers will be required to pay $200 or more, namely, those whose net income is $42 000 or more. Almost all of them will pay a contribution equal to the current level.

The threshold as of which the health contribution reaches $200, namely, $42 000, was established so as to ensure that at least two-thirds of taxpayers will have no health contribution to pay or will pay a reduced contribution.

The structure of the new health contribution is in keeping with the desire to increase the progressivity of the health contribution on the basis of income and improve the fairness of health care funding.

TABLE A.24

New progressive health contribution – 2013[P]

			New progressive health contribution		
Net revenue threshold	**Number of taxpayers**		**Amount payable**	**Revenue** ($ million)	**Average contribution** ($)
$18 000 or less	2 125 093	34%	None	—	—
$18 000 to $20 000	275 833		$1 to $99	15	56
$20 000 to $40 000	1 809 967	35%	$100	181	100
$40 000 to $42 000	144 074		$101 to $199	25	172
$42 000 to $130 000	1 826 264		$200	365	200
$130 000 to $150 000	33 176	31%	$201 to $999	20	590
$150 000 or over	84 392		$1 000	84	1 000
TOTAL	**6 298 799**		**—**	**691**	**110**
Contributors only	**4 173 706**		**—**	**691**	**166**

P: Projections.
Note: The figures have been rounded off, so they may not add up to the total indicated.

❑ Illustration of the progressivity of the new health contribution

The new health contribution will be progressive compared to the current system.

— It will be reduced for persons living alone whose net income is below $42 000 ($84 000 for couples).

— Conversely, it will be increased for those whose income is over $130 000 ($260 000 for couples).

TABLE A.25

Change in the health contribution, by type of household – 2013
(dollars)

	Person living alone			Couple with two children(1)		
Family income(2)	**Current health contribution**	**New progressive health contribution**	**Difference**	**Current health contribution**	**New progressive health contribution**	**Difference**
14 000	—	—	0	—	—	0
18 000	200	—	–200	—	—	0
20 000	200	100	–100	—	—	0
25 000	200	100	–100	—	—	0
32 000	200	100	–100	400	—	–400
36 000	200	100	–100	400	—	–400
40 000	200	100	–100	400	200	–200
42 000	200	200	0	400	200	–200
50 000	200	200	0	400	200	–200
75 000	200	200	0	400	200	–200
80 000	200	200	0	400	200	–200
84 000	200	200	0	400	400	0
100 000	200	200	0	400	400	0
115 000	200	200	0	400	400	0
130 000	200	200	0	400	400	0
150 000	200	1 000	800	400	400	0
200 000	200	1 000	800	400	400	0
250 000	200	1 000	800	400	400	0
260 000	200	1 000	800	400	400	0
275 000	200	1 000	800	400	1 000	600
300 000	200	1 000	800	400	2 000	1 600
500 000	200	1 000	800	400	2 000	1 600

(1) Each spouse earns 50% of the family income.
(2) The income taken into account is net income, that is, total income (salary or wages and other income) less the deduction for workers ($1 100) and the deductions for RRSP and RPP contributions.

❑ New thresholds that will exempt more taxpayers

The new progressive health contribution will henceforward be determined on the basis of individual income rather than family income. Raising the exemption threshold to $18 000 per adult means that almost 900 000 more taxpayers will be exempt from payment of the contribution.

— For example, persons living alone whose net income is between $14 730 and $18 000 must pay a health contribution of $200 for 2012. Under the new system, they will be exempt from the contribution as of 2013.

Moreover, to ensure the transition from the current system, people who are exempt from the contribution under the current system will not be required to pay the new contribution.Taxpayers in the following situations will therefore be protected:

— single-parent families and couples whose family income is below current family exemption thresholds;

— persons 65 or over who are currently exempt from payment of the health contribution because of the amount of the guaranteed income supplement they receive.

Overall, 2.1 million taxpayers—34% of all taxpayers—will not have to pay the new health contribution.

TABLE A.26

Exemption thresholds for the current health contribution and the new progressive health contribution
(dollars)

Type of household	Current health contribution in 2012 (1)	New progressive health contribution in 2013	
		Per adult	For the household
1 adult, no children	14 730	18 000	n/a
1 adult, 1 child	23 880	18 000	23 880
1 adult, 2 or more children	27 055	18 000	27 055
2 adults, no children	23 880	18 000	23 880
2 adults, 1 child	27 055	18 000	27 055
2 adults, 2 or more children	29 985	18 000	29 985

(1) On the basis of the expected exemption thresholds for 2012.

A fairer system

The new progressive health contribution will be applied on the basis of individual income thresholds. This differs from the current health contribution, which is assessed on the basis of family income.

A health contribution that takes into account taxpayers' ability to pay

The new progressive health contribution will take into account the ability to pay of the person in the household. This differs from the current health contribution of $200, which is based on family income and payable by both spouses even if one of them is less able to pay.

- For example, in the case of a couple with a single income of $50 000, each spouse must pay the current health contribution of $200. Under the new progressive health contribution, a spouse who has no income will be exempt from paying $200, because his or her net income is below the $18 000 threshold. Thus, the new progressive health contribution corrects the unfairness of the current health contribution that comes into play when one of the spouses does not have enough income.

In this regard, it is estimated that almost 700 000 spouses will be newly exempt from payment of the health contribution and more than 1.3 million spouses will see a drop in the amount of their health contribution.

Protection for low-income families

To ensure the transition from the current system, a person in a family that is exempt under the 2012 thresholds will not be required to pay the new progressive health contribution as of 2013.

- For example, in the case of a couple with two children, if one of the spouses has $20 000 in income and the other, $9 000, each spouse will be exempt from payment of the new progressive health contribution, even though the income of one of the spouses exceeds the individual threshold of $18 000.

As of 2014, the individual exemption threshold of the new health contribution will be indexed each year at the same rate as the other parameters of the tax system, whereas family exemptions will remain unchanged at the 2012 level. Consequently, the protection will maintained over time until the indexed individual exemption threshold attains the 2012 family exemption level.

❑ 3.1 million taxpayers will see their contribution reduced

As a result of the new progressive health contribution:

— 3.1 million, or one-half of, taxpayers will see an improvement in their situation;

— nearly 4.4 million taxpayers, including the 1.2 million taxpayers who are already exempt, will pay a smaller health contribution or will be exempt from paying it;

— 1.8 million taxpayers will see their contribution maintained.

TABLE A.27

Number of taxpayers covered by the new progressive health contribution – 2013[P]

Health contribution	Current health contribution	New progressive health contribution	Difference
None ($0)	1 232 716	2 125 093	+892 377
Reduced ($1 to $199)	—	2 229 874	+2 229 874
Subtotal	**1 232 716**	**4 354 967**	**3 122 251**
Maintained ($200)	5 066 083	1 826 264	–3 239 819
Increased (over $200)	—	117 568	+117 568
TOTAL	**6 298 799**	**6 298 799**	**0**
– **Exempt taxpayers**	**20%**	**34%**	**14%**
– **Taxpayers contributing less than $200**	**20%**	**69%**	**49%**

P: Projections.

❑ Tax rate increase from 24% to 25.75% on taxable income over $100 000

To finance the tax relief granted to middle-class households through the new progressive health contribution, the tax rate applicable to taxable income over $100 000 will be raised to 25.75% as of the 2013 taxation year.

This new level will bring the maximum personal income tax rate to 49.97%:

— 25.75% under the Québec system;

— 24.22% under the federal system.

TABLE A.28

Tax tables of the Québec and federal governments – 2013
(percent)

Québec government			Federal government		
Taxable income bracket	**Current rate**	**New rate**	**Taxable income bracket(1)**	**Rate**	**Québec rate(2)**
$41 095 or less	16	16	$43 561or less	15	12.53
$41 095 to $82 190	20	20	$43 561 to $87 123	22	18.37
$82 190 to $100 000(3)	24	24	$87 123 to $135 054	26	21.71
Over $100 000(3)	24	25.75	Over $135 054	29	24.22

(1) Considering the indexation rate of 2% expected by the Ministère des Finances et de l'Économie du Québec on the basis of the method generally used by the federal government.
(2) Considering the Québec abatement, which corresponds to 16.5% of basic federal personal income tax.
(3) The $100 000 threshold will be indexed at the rate of indexation for the personal income tax system as of 2014.

❑ Adjustment of source deductions

As of January 1, 2013, employers will deduct at source the new progressive health contribution and the tax increase for high-income taxpayers.

Thus, the amounts payable will be paid over the course of the year according to taxpayers' pay periods. Taxpayers who make instalment payments must continue to pay their health contribution in advance.

Deductions that facilitate payment of the health contribution
Since the introduction of personal income tax in 1954 in Québec, the tax system has had a mechanism for deducting income tax payable at source. The adjustment of source deductions to reflect the new progressive health contribution will enable payment of the contribution to be spread over the year. As with source deductions of personal income tax, this method of payment means taxpayers will not have to pay the full contribution at the end of the year. Consequently, it will make it as simple as can be for taxpayers to manage their cash flow. For example, as a result of the source deductions: – a person living alone who has a salary of $30 000 will pay $3.85 per pay,[1] rather than $100 at the end of the year; – on a salary of $60 000, the payment will be $7.69 per pay,[1] rather than $200 on filing the tax return.

1 Based on remuneration paid every two weeks.

❑ Illustration of the impact of the new health contribution and the tax increase for high-income taxpayers

For example, taking into account both the replacement of the health contribution and the tax increase for high-income taxpayers, the financial burden for 2013 of a person living alone will be:

— reduced by $200, if the person's income is $18 000;

— reduced by $100, if the person's income is $30 000;

— unchanged, if the person's income is $42 000;

— increased by $1 675, if the person's income is $150 000.

TABLE A.29

Change in the income tax and health contribution of a person living alone – 2013
(dollars)

		New system			
Income[(1)]	Current health contribution (1)	New progressive health contribution (2)	Tax increase of 1.75 % points (3)	Subtotal (4) = (2) + (3)	Difference (5) = (4) – (1)
14 000	—	—	—	0	0
16 000	200	—	—	0	–200
18 000	200	—	—	0	–200
19 000	200	50	—	50	–150
20 000	200	100	—	100	–100
30 000	200	100	—	100	–100
40 000	200	100	—	100	–100
41 000	200	150	—	150	–50
42 000	200	200	—	200	0
50 000	200	200	—	200	0
75 000	200	200	—	200	0
100 000	200	200	—	200	0
115 000	200	200	263	463	263
130 000	200	200	525	725	525
150 000	200	1 000	875	1 875	1 675
200 000	200	1 000	1 750	2 750	2 550
250 000	200	1 000	2 625	3 625	3 425
500 000	200	1 000	7 000	8 000	7 800

(1) The income taken into account is net income, that is, total income (salary or wages and other income) less the deduction for workers ($1 100) and the deductions for RRSP and RPP contributions. For the purposes of this illustration, net income is presumed to be equal to taxable income.

The financial burden of a couple with two children and two equal incomes will be:

- reduced by $400, if the family income is $36 000;
- reduced by $200, if the family income is $75 000;
- unchanged, if the family income is $100 000;
- increased by $3 350, if the family income is $300 000.

TABLE A.30

Change in the income tax and health contribution of a couple with two children and two incomes[(1)] – 2013
(dollars)

		New system			
Family income[(2)]	**Current health contribution** (1)	**New progressive health contribution** (2)	**Tax increase of 1.75 % points** (3)	**Subtotal** (4) = (2) + (3)	**Difference** (5) = (4) – (1)
25 000	—	—	—	0	0
36 000	400	—	—	0	–400
38 000	400	100	—	100	–300
40 000	400	200	—	200	–200
45 000	400	200	—	200	–200
50 000	400	200	—	200	–200
75 000	400	200	—	200	–200
80 000	400	200	—	200	–200
82 000	400	300	—	300	–100
84 000	400	400	—	400	0
100 000	400	400	—	400	0
130 000	400	400	—	400	0
150 000	400	400	—	400	0
250 000	400	400	875	1 275	875
270 000	400	800	1 225	2 025	1 625
280 000	400	1 200	1 400	2 600	2 200
290 000	400	1 600	1 575	3 175	2 775
300 000	400	2 000	1 750	3 750	3 350
500 000	400	2 000	5 250	7 250	6 850

(1) Each spouse earns 50% of the family income.
(2) The income taken into account is net income, that is, total income (salary or wages and other income) less the deduction for workers ($1 100) and the deductions for RRSP and RPP contributions. For the purposes of this illustration, net income is presumed to be equal to taxable income.

❑ A reform that will maintain health funding

Currently, all revenue from the health contribution is deposited in the Fund to Finance Health and Social Services Institutions (FINESSS). As a result of Budget 2013-2014, the revenue from the new health contribution and the tax increase of 1.75 percentage points for high-income taxpayers will be deposited in FINESSS.

Considering these two revenue sources, the amounts allocated to FINESSS will be:

— $1 019 million in 2013-2014;

— $1 046 million in 2014-2015;

— $1 072 million in 2015-2016.

Health funding will therefore be maintained.

TABLE A.31

Revenue from the progressive health contribution and the tax increase deposited in FINESSS
(millions of dollars)

	2013 taxation year	Fiscal year		
		2013-2014	2014-2015	2015-2016
Revenue from the current health contribution	**1 013**	**1 015**	**1 015**	**1 015**
Budget 2013-2014				
– Adjustment attributable to the new progressive health contribution	–322	–322	–322	–322
– Tax increase for high-income taxpayers	322	326	353	379
TOTAL: REVENUE DEPOSITED IN FINESSS[(1)]	**1 013**	**1 019**	**1 046**	**1 072**

(1) For more information on government health funding and the other allocations to FINESSS, see sub-section 2.2.1 of this section.

3.1.2 Promoting physical, artistic and cultural activity among young people

Several studies show the health benefits for young people of engaging in regular physical activity, and the positive impact, from a school and social standpoint, of their participation in artistic or cultural activities.

Despite the benefits of such activities for young people, financial considerations can cause some parents to hesitate about registering their children. For example, only 23% of children from low-income families take part in organized sports activities, compared to 66% of children from affluent families.

❑ Introduction of a refundable tax credit for physical, artistic and cultural activities for young people aged 5 to 16

To encourage youth participation in sports, artistic and cultural activities, the government will introduce, as of 2013, a refundable tax credit for physical, artistic and cultural activities for children and young people aged 5 to 16[14] for families earning $130 000 or less. The tax credit will correspond to 20% of eligible expenses, to a maximum of $500 per child, for a maximum annual tax credit of $100 per child.

■ Gradual implementation over five years

The tax credit will be implemented over a period of five years, as of the 2013 taxation year, with initial eligible expenses of $100. The expenses eligible for the tax credit will be raised by $100 each year and will reach the full amount of $500 in 2017.

TABLE A.32

Gradual implementation of the refundable tax credit for youth physical, artistic and cultural activities
(dollars)

	2013	2014	2015	2016	2017
Maximum eligible expense	100	200	300	400	500
Maximum tax credit	20	40	60	80	100

Note: For a young person with an impairment, an additional tax credit equivalent to the maximum tax credit will be paid once a minimum of 25% of the maximum eligible expense has been paid. For example, a young person with an impairment who has eligible expenses of $50 in 2013 will receive a basic tax credit of $10 (20% of $50) and an additional tax credit of $20 (maximum tax credit), for a total of $30.

14 The choice of the age group is based in particular on the World Health Organization's recommendation aimed at promoting regular physical activity among children aged 5 and over and adolescents.

Activities eligible for the tax credit

As a rule, to be eligible for the tax credit, an activity must be:

- ongoing (a duration of eight or more consecutive weeks, at a minimum of once a week or, in the case of children's camps, five consecutive days with more than 50% of the time devoted to physical, artistic or cultural activities);
- supervised;
- appropriate for children.

A program of physical activities must ensure that substantially all activities contribute to cardiorespiratory endurance, and to one or more of the following objectives: muscle strength, muscle endurance, flexibility or balance.

An artistic or cultural activity must contribute to fostering self-esteem, the desire to work hard, the development of creative skills or the acquisition of expertise in an artistic or cultural activity. In addition, the activity must help children develop and use particular intellectual skills, pay considerable attention to natural environments or develop interpersonal skills.

Examples of activities eligible for the tax credit

Physical activities		**Artistic and cultural activities**	
Hockey	Soccer	Music	Languages
Swimming	Water polo	Crafts	Literature
Track and field	Gymnastics	Painting	Singing
Skiing	Snowboarding	Photography	Circus arts
Martial arts	Horseback riding	Theatre	Dance

A measure that is in addition to the federal assistance

The Québec tax credit will be in addition to the assistance already available from the federal government.

— For example, for an eligible expense of $500, a Québec family may claim, at term, a maximum tax credit of $100 and a federal tax credit of $62.63.

— In addition, the Québec tax credit will be refundable; consequently, low-income families will be able to claim it, which is not the case with the federal assistance.

TABLE A.33

Tax assistance from tax credits for youth activities, in the case of a couple with one child and a single work income – At term
(dollars)

		Tax credit			
Family income	**Eligible expenses**	**Québec**	**Federal**(1)	**Total of tax credits**	**Percentage of eligible expenses**
25 000	500	100	—(2)	100	20.0
35 000	500	100	63	163	32.6
50 000	500	100	63	163	32.6
100 000	500	100	63	163	32.6
130 000	500	100	63	163	32.6
150 000	500	—	63	63	12.6

(1) These are the Children's Fitness Tax Credit and the Children's Arts Tax Credit. The 16.5 % Québec abatement has been factored into the amount of the credits.
(2) The federal tax credits being non-refundable, individuals not subject to income tax cannot claim them.

■ Assistance of $35 million to promote youth activities

At term, $35 million a year will be devoted to this measure to step up youth participation in physical, artistic and cultural activities.

TABLE A.34

Financial impact of the refundable tax credit for youth physical, artistic and cultural activities
(millions of dollars)

	2013-2014	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**
Refundable tax credit for youth physical, artistic and cultural activities	–7	–14	–21	–28	–35

3.1.3 Offering a reduced-contribution childcare space to every child

Development of the educational childcare program began in 1997 by offering parents childcare for $5 a day.

In Québec, the educational services provided to children by childcare providers have a three-fold mission: to ensure the well-being, health and safety of the children to whom childcare services are provided, to provide an environment conducive to the children's overall development, and to prevent future problems with learning, behaviour or social integration. In addition, the educational program applied by childcare providers addresses the needs of the children to whom childcare services are provided, fosters equal opportunity, develops the children's social skills and prepares them to start school. Lastly, childcare services help parents balance their family and professional responsibilities, thereby helping them join or remain in the workforce.

The government reiterates its commitment to maintaining these same objectives, in a context in which Québec has seen remarkable growth in the number of births in recent years: from 76 000 in 2005 to 88 500 in 2011. Thus, the government will make thousands of additional spaces available in the months and years to come.

Furthermore, the government pledges to complete the development of the reduced-contribution network in order to meet the needs of parents and give every child access to a space within four years.

It will be recalled that, on November 12, 2012, the government announced the creation of 28 000 new subsidized daycare spaces. Thus, in addition to the 13 000 spaces already planned in 2011 that have not yet been attributed, 15 000 new spaces will be added:

— 3 000 spaces in 2014-2015;

— 4 500 spaces in 2015-2016;

— 7 500 spaces in 2016-2017.

These new spaces will bring the number of subsidized spaces to 250 000. Of these 15 000 additional spaces, 12 750 will be created in childcare centres (CPEs) and 2 250 in subsidized daycare centres. The spaces will represent an investment of $262 million a year once they have all been created. These investments will be financed within the government's spending target.

Through this action, the government is meeting its commitment to accelerate the pace at which reduced-contribution spaces are created, so that all children can have one as rapidly as possible.

The new spaces will be attributed according to a rigorous, transparent process. Regional advisory committees will be consulted on regional needs and priorities. The committees will examine projects and recommend to the Minister of Families the ones that best meet their region's needs.

TABLE A.35

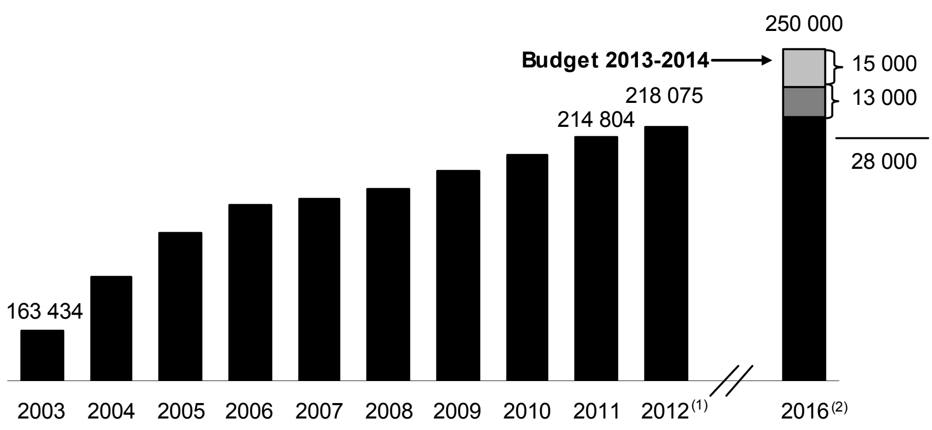
Investments to create 28 000 new reduced-contribution spaces

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	At term(1)
Number of spaces						
Spaces authorized in November 2012	1 300	3 900	3 800	4 000	—	13 000
Additional spaces under Budget 2013-2014	—	—	3 000	4 500	7 500	15 000
TOTAL SPACES	**1 300**	**3 900**	**6 800**	**8 500**	**7 500**	**28 000**
Investments ($ million)						
Spaces authorized in November 2012	3	31	99	170	211	215
Additional spaces under Budget 2013-2014	—	—	10	69	182	262
TOTAL INVESTMENTS	**3**	**31**	**109**	**239**	**393**	**477**

(1) In 2017-2018.

CHART A.19

Number of subsidized daycare spaces
(as at March 31 each year)



(1) As at September 30, 2012.
(2) As at December 31, 2016.

3.1.4 Increasing access to decent affordable housing for the most disadvantaged

Many cities in Québec are still grappling with a shortage of rental housing. The vacancy rate is of particular concern for certain municipalities, standing at less than 1%.

Such vacancy rates mean that the housing market has difficulty offering adequate housing that meets the expectations of households while remaining affordable.

Consequently, the government is announcing, in Budget 2013-2014, the construction of 3 000 new social, community and affordable housing units—an investment of $231 million.

This initiative will increase access to decent affordable housing for many less fortunate families and for people with special needs relative to, for example, a loss of autonomy.

These new units will be funded under the AccèsLogis Québec program, within the government's spending target.

TABLE A.36

Investments in the construction of 3 000 social, community and affordable housing units
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	Subsequent years	Total
Construction of 3 000 new housing units	—	—	36	179	16	231

AccèsLogis Québec

The AccèsLogis Québec program enables housing bureaus, housing cooperatives, and non-profit organizations (hereafter referred to as “developers”) to create social and community housing for low- and middle-income households and for people with special needs.

Under this program, the government, the developer of the housing project and the community (generally the municipality) assume 50%, 35% and 15%, respectively, of the maximum eligible project costs.

The amount of financial assistance varies with the municipality, the target group and the number of bedrooms in the housing unit. For example, the eligible construction cost of a two-bedroom unit in a large urban centre is $134 000, broken down as follows:

- $67 000 for the Québec government;
- $46 900 for the developer;
- $20 100 for the community.

Given the target clientele for these housing units, the rent is set below the median market rent.

Of the planned 38 000 social, community and affordable housing units:

— 23 517 are available;[15]

— 6 163 were in progress[15] (funding had been committed);

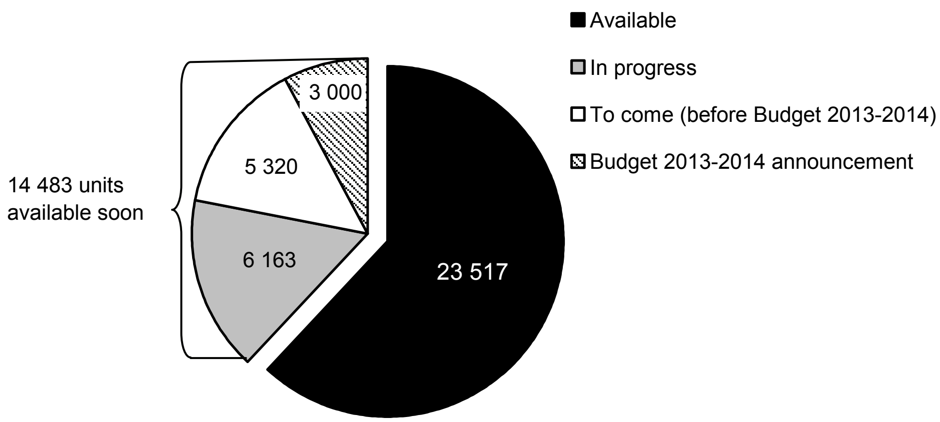
— 5 320 were to come[15] (funding had not yet been committed);

— 3 000 new housing units are announced in this budget.

Thus, another 14 483 housing units will become available in the years to come.

CHART A.20

State of completion of the 38 000 housing units
(as at October 31, 2012)



15 As at October 31, 2012.

3.1.5 Bolstering our retirement income system

Quebecers enjoy one of the world's most effective retirement income systems. However, despite its strengths, this system faces two problems:

— on the one hand, significant pressure on the funding of pension plans, in particular private plans as well as those of municipalities and universities;

— on the other, a lack of coverage and inadequate savings for many workers.

To preserve and improve the strength of our retirement income system, lasting solutions will have to be brought forward.

❑ Significant pressure on the funding of the pension plans

Because of the aging of the population and the increase in life expectancy, pension plans must pay a pension to a larger number of retirees over a longer period.

In addition, the international financial context, characterized by low interest rates and falling rates of return on financial markets, is putting the solvency of defined-benefit pension plans under significant pressure. The contributions that employers must pay into these plans have had to be increased substantially in recent years, creating an additional financial burden that may jeopardize many investment projects and the resulting job creation.

❑ Lack of coverage and inadequate savings for many workers

Most Québec workers will receive an adequate income when they retire as a result of the level of coverage offered by public plans.

— Workers, on average, will have retirement income ranging between 60% and 70% of their end-of-career income and, for those whose income is less than $25 000, this proportion will exceed 70%.

However, a large number of workers in the middle class are not covered by a group pension plan nor are their retirement savings adequate.

— 50% of workers do not have access to an employer-sponsored pension plan and 30% have no personal savings.

❑ Lasting solutions will have to be brought forward

The expert committee tasked with studying Québec's retirement system, chaired by Alban D'Amours, is expected to table its report in early 2013.

— The committee is mandated to recommend possible solutions to the government to improve our retirement system.

Once the committee has tabled its report, the government will act quickly to implement lasting and realistic solutions to the problems identified. The government intends to bolster our retirement income system to enable all Quebecers to have an adequate standard of living at retirement.

Concerning the inadequacy of retirement savings, the government will table, by the spring of 2013, a bill to implement the new voluntary retirement savings plans (VRSP). The bill will in particular reflect the committee's recommendations.

It should be noted that VRSPs are designed to facilitate retirement savings for workers who are not saving enough for their retirement. They will also enable the two million Quebecers with no pension plan to have access to a savings vehicle offering the benefits of a group plan.

Moreover, the Québec government will continue working with the other provinces and the federal government to assess the possibility of making a gradual and fully funded improvement to the Québec Pension Plan and the Canada Pension Plan.

The improvement under consideration could, for example, involve an increase in the income replacement rate, currently 25%, an increase in the cap on pensionable earnings or both. However, in the current context, the scenarios under consideration will have to take into account their possible impact on the economy.

Solutions that must reflect the economic and demographic context

The problems facing our retirement income system are not unique to Québec. For example, all defined-benefit plans in OECD countries face challenges resulting from longer life expectancy, aging populations, maturity of plans and the international financial situation that results in low interest rates and reduced returns.

These challenges substantially increase their cost, in particular for employers operating in an intensely competitive environment. While they affect most countries, these challenges are particularly acute in Québec where the situation is characterized by:

- a rapidly aging population;
- already substantial payroll levies for employers.

The rapid aging of the population means that an ever smaller number of workers will have to fund retirement pensions.

- For example, in 1971, there were 7.9 potential workers per person age 65 or over. In 2011, that ratio had declined to 4.0 and by 2031, it is forecast to drop further to 2.1.

In addition, since businesses in Québec already pay the highest payroll levies in Canada, there is less leeway to raise these taxes. An excessive increase for businesses and workers could harm investment and employment at a time when economic recovery remains fragile.

The solutions the government will bring forward to improve our retirement income system will therefore have to reflect Québec's specific economic and demographic situation to avoid an unduly heavy impact on workers and businesses.

TABLE A.37

Review of the main characteristics of VRSPs

Main characteristics targeting employers	
Obligation to offer a VRSP	– Companies with five or more employees with at least one year of uninterrupted service and that do not already offer all their employees the possibility of contributing to a retirement savings plan through payroll deductions would be required to: ▪ choose a VRSP to offer to their employees; ▪ enrol all their employees with at least one year of uninterrupted service in a VRSP; ▪ make source withholdings of employee contributions and remit them to the VRSP administrator.
Exemption for small businesses	– Employers with fewer than five employees with at least one year of uninterrupted service would not be required to offer a VRSP. – However, they could offer it voluntarily.
Automatic enrolment of workers	– If the employer is required to offer a VRSP, employees with at least one year of uninterrupted service would have to be enrolled automatically.
Employer contribution	– The employer would not be required to contribute. – As with registered pension plans, if the employer decided to contribute, the contributions he would pay would not be subject to payroll taxes and levies. – The employer's contributions would be deductible from its taxable income for Québec and federal tax purposes.
Employer compliance period	– Employers would have up to two years to comply with the obligation to offer a VRSP. – After the initial compliance period, an employer that is covered by the obligation to offer a VRSP will have one year to comply with it.
Employer oversight	– The Commission des normes du travail would be responsible for overseeing employers. It would intervene, in particular regarding complaints, to enforce the provisions of the law.

Review of the main characteristics of VRSPs (continued)

Main characteristics targeting workers	
Contribution rate	– The default employee contribution rate would be: ▪ 2% for the first three years; ▪ 3% for the fourth year; ▪ 4% as of the fifth year. – The participant would always be authorized to change his contribution rate and would have the option of ceasing to contribute for a certain time.
Tax treatment of contributions	– The participant's contributions would be deductible for taxable income. Contributions to a VRSP, which would be in addition to those made to an RRSP, would be subject to the same annual cap as RRSPs, i.e. a maximum of 18% of earned annual income. – The amounts accumulated would not be taxed unless they are withdrawn.
Withdrawal of accumulated amounts	– Like RRSPs, an employee's contributions could be withdrawn before retirement. – Amounts withdrawn would be subject to Québec and federal tax. – Employer contributions could only be withdrawn as of age 55.
Withdrawing from a VRSP	– Employees who have been automatically enrolled would have 60 days after enrolment to withdraw failing which contributions would start being deducted from their pay. – Thereafter, they could withdraw at any time.
Investment choices	– The default option would be based on a "life cycle" approach in which the risk level is adjusted based on the participant's age. – There would be a maximum of five other investment options.
Possibility of optional enrolment	– Those not automatically enrolled, such as self-employed workers or individual savers, could enrol in a VRSP by contacting a plan administrator directly.
Main characteristics targeting VRSP administrators	
Management fees	– Management fees of plan administrators would be the same for all participants (self-employed workers, employees, etc.). – The administrator would have to show the Régie des rentes du Québec that the management fees are comparable with those of institutional pension plans of similar size.
VRSP oversight	– The Régie des rentes du Québec would be tasked with oversight and ensure compliance with the legislation on VRSPs.
Eligible administrators	– VRSPs would be completely administered by third parties, such as financial institutions or investment fund managers.
Administrator oversight	– Administrators would have to hold a permit issued by the Autorité des marchés financiers to administer a VRSP.

3.2 A government for prosperity

To deal with the challenges of a changing global economy, Québec businesses must have the resources to position themselves as leaders in their activity sector. They must be innovative and continuously improve productivity. Private investment and innovation are the chief means to achieve this.

However, Québec businesses still lag those in the other Canadian provinces and the United States as far as private investment is concerned.

In Budget 2013-2014, the government is taking immediate initiatives and announcing its intentions for the coming months, laying the foundation for consistent and orderly action in favour of private investment, the key to future prosperity.

❑ Action on four levels

The economic vision the government is bringing forward includes actions on four levels:

— two major actions to stimulate private investment as quickly as possible: the tax holiday for investments (THI) and the extension and improvement of the tax credit for investments;

— new tools providing concrete support for businesses that want to invest in Québec – with the creation of the Groupe d'action ministérielle pour la mise en œuvre des projets d'investissement privé and the Banque de développement économique du Québec;

— sectoral actions that concern in particular the development of Northern Québec, mining development and natural resources processing, the development of green technology and transportation as well as the biopharmaceutical sector;

— comprehensive strategies and policies concerning workforce training, research and innovation, external trade and reducing red tape.

3.2.1 Immediate initiatives[16]

Budget 2013-2014 is an opportunity for the government to immediately improve business investment conditions. New initiatives and a renewed economic vision will provide businesses with support to make business decisions, ensure their long-term development and thus enable economic growth that benefits all Quebecers.

In this regard, the government is announcing initiatives to:

- support private investment;
- invest in the biopharmaceutical sector.

TABLE A.38

Cost of initiatives for prosperity
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Support private investment					
Tax holiday for investments (THI)	—	—	—	8	12
Extension and improvement until 2017 of the tax credit for investments	1	5	16	77	137
Creation of the Banque de développement économique du Québec	—	—	—	—	—
Economic diversification fund for certain regions(1)	14	15	18	20	22
Subtotal	**15**	**20**	**34**	**105**	**171**
Invest in the biopharmaceutical sector					
Increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities	20	25	25	25	25
$125-million matching funding for private-public research partnerships(1)	25	25	25	25	25
Subtotal	**45**	**50**	**50**	**50**	**50**
TOTAL	**60**	**70**	**84**	**155**	**221**

(1) These initiatives will be funded in 2013-2014 from the Economic Development Fund. As of 2014-2015, they will be funded within the government's spending objective.

16 The immediate initiatives are described in detail in the budget paper *Investing for Our Prosperity: The Government's Economic Vision*.

❑ Support private investment

To encourage businesses to invest sooner and support the economic diversification efforts of certain regions, the government is announcing four initiatives.

■ The THI: a 10-year tax holiday to stimulate large projects

The government is announcing the implementation of a new 10-year tax holiday for large investment projects to accelerate the emergence of these large projects.

The tax holiday for investments (THI) may apply to any business that invests at least $300 million to carry out a project in an eligible activity sector, i.e. manufacturing, wholesale trade, warehousing, value-added distribution centres as well as data processing and hosting.

The THI will enable businesses to receive, for a period of ten years, a holiday from corporate income tax and a holiday from the employer contribution to the Health Services Fund in relation to their large investment project. The value of the tax holiday may not exceed 15% of total eligible investment expenditures.

■ Extension and improvement until 2017 of the tax credit for investments

The tax credit for investments relating to manufacturing and processing equipment was implemented in Budget 2008-2009. It is designed to foster the acquisition of new manufacturing and processing equipment used in the manufacturing sector. This measure is due to expire on December 31, 2015.

To enable businesses to reach an investment decision quickly, the application period of tax credit for investments relating to manufacturing and processing equipment is being extended for two years, i.e. until December 31,2017.

The rates of the tax credit for investments will also be increased for businesses in the resource regions located in intermediate regions.[17]

— Accordingly, the 20% and 30% rates that apply in the intermediate regions will be raised to 25% and 35% respectively.

— This improvement will apply for businesses not covered by one of the tax credits for processing in the resource regions.[18]

17 The intermediate zone includes the administrative regions of Bas-Saint–Laurent, Saguenay–Lac-Saint-Jean and Mauricie, as well as the Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac RCMs.

18 Tax credit for processing activities in resource regions, tax credit for the Aluminum Valley or the tax credit for Gaspésie and certain maritime regions of Québec.

■ Creation of the Banque de développement économique du Québec

To provide the regions with real power over the activity sectors and industries to focus on and simplify the offering of services to businesses, the government is setting up the Banque de développement économique du Québec (BDEQ).

— The BDEQ will consolidate the activities of Investissement Québec and the front-line activities of the Ministère des Finances et de l'Économie du Québec.

The chief mission of the BDEQ will be to support the creation and growth of businesses in Québec by offering a complete range of financial and support services, from obtaining equity capital to support for promoters.

■ Economic diversification fund for certain regions

The government intends to take the measures needed to assist regions affected following the decision to stop producing asbestos and nuclear power.

— Accordingly, the government has announced the creation of a $200-million economic diversification fund intended for the Mauricie and Centre-du-Québec regions.

— A $50-million fund is also being set up for the Asbestos region following the cancellation of the proposed re-opening of the Jeffrey mine.

❑ Invest in the biopharmaceutical sector

The government is changing how it intervenes in the biopharmaceutical sector to adapt to the sector's new realities and foster research activities in Québec.

■ Increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities

To further encourage R&D activities carried out in Québec by the biopharmaceutical sector, the government is temporarily enhancing the tax credit for R&D salary for biopharmaceutical corporations that carry out R&D themselves or award R&D subcontracts in Québec.

More specifically, the rate of the tax credit will be raised from 17.5% to 27.5% for biopharmaceutical corporations that hold a certificate issued by Investissement Québec. This enhancement will be effective for just over five years, i.e. for R&D spending incurred after the day of Budget 2013-2014 and before January 1, 2018.

■ $125-million matching funding for private-public research partnerships

To ensure that Québec remains a preferred location for investment in the life sciences field, the government is providing matching funding of $125 million over five years to encourage research partnerships.

This funding will help support large-scale projects carried out in partnership with pharmaceutical companies and public research organizations, in particular specialized university and hospital centres, operating in sectors that are strategic for Québec.

Details of this measure will be revealed at a later date by the Minister for Industrial Policy and the Banque de développement économique du Québec and by the Minister of Higher Education, Research, Science and Technology.

3.3 A government that partners with the municipalities: negotiation of a fiscal and financial pact

Municipalities, through their responsibilities and knowledge of issues affecting their community, are essential partners in Québec's economic and social development. The government will continue to support the municipalities to maintain and improve public services.

Over the coming years, the municipalities will be have to deal with major issues, particularly regarding:

— the funding of local roads and mass transit;

— infrastructure maintenance;

— funding of municipal retirement plans;

— diversification of municipal revenues;

— decentralization;

— occupation of the territory and rurality.

Many of these issues will be discussed during the negotiation of a new fiscal and financial pact between the government and the municipalities. The existing Entente sur un nouveau partenariat fiscal et financier avec les municipalités pour les années 2007-2013 (2007-2013 agreement), will expire on December 31, 2013.

The objective of the new pact will be to ensure that municipalities have predictable financial levers to meet the challenges facing them, consistent with the government's and taxpayers' ability to pay.

The 2007-2013 agreement alone stipulates government financial transfers to the municipalities totalling $3.8 billion. Between 2007 and 2013, the annual transfers stipulated in the agreement will have almost doubled, from $407 million to $747 million. For the last two years of the agreement, these transfers will increase by 14.9% and 14.0%. However, such a growth rate is unsustainable given that in 2013, the economy is forecast to grow by 3.7% and the increase in the government's program spending is set at 1.8% in 2013-2014.

TABLEAU A.39

Growth in the amounts stipulated in the 2007-2013 agreement
(millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	Total
Amounts stipulated in the 2007-2013 agreement	406.6	435.0	475.0	520.0	570.0	655.0	747.0	3 808.6
% growth	*4.6*	*7.0*	*9.2*	*9.5*	*9.6*	*14.9*	*14.0*	

In addition, the 2007-2013 agreement is only part of the total government assistance to municipalities. In 2012, the amount of financial transfers stipulated in the 2007-2013 agreement, i.e. $655 million, represents 17% of total government assistance paid to the municipalities, i.e. $3 763 million. With respect to investment alone, $976 million will be invested in municipal infrastructure and $943 million in mass transit in 2012.

TABLE A.40

Government assistance to municipal bodies – 2012
(millions of dollars)

	2012 F
Annual amount stipulated in the 2007-2013 agreement	655.0
Municipal infrastructure	
Operations	*124.0*
Investment	*976.2*
Subtotal	1 100.2
Mass transit	
Operations	*448.2*
Investment	*943.2*
Subtotal	1 391.4
Economic development	121.0
Other transfers to local or regional bodies	258.8
Other	236.9
TOTAL	**3 763.3**

F: Forecasts.
Note: This table does not include payments in lieu of taxes.
Figures have been rounded off, so they may not add up to the total indicated.
The data in this table are as of the date of the government's fiscal year end or that of municipal bodies, as the case may be.
Sources: Ministère des Affaires municipales, des Régions et de l'Occupation du territoire, Ministère des Transports du Québec and ministère des Finances et de l'Économie du Québec.

Keeping to the government’s financial framework will be a non-negotiable condition for reaching an agreement in the current budgetary context. Reaching a new fiscal and financial pact with the municipalities must not compromise the government's return to fiscal balance. Under these circumstances, the new agreement will have to target funding of essential activities. Priorities must be clearly established.

The objective is to reach, by the summer of 2013, a new fiscal and financial pact for 2014 and subsequent years.

APPENDIX 1 : FINANCIAL IMPACT OF THE MEASURES OF BUDGET 2013-2014

TABLE A.41

Financial impact of the measures of Budget 2013-2014
(millions of dollars)

	Financial impact for the government		
	2012-2013	**2013-2014**	**2014-2015**
1. A GOVERNMENT CLOSE TO FAMILIES			
1.1 A new progressive, fair health contribution			
Elimination of the current health contribution	–254.0	–1 015.0	–1 015.0
Implementation of the new progressive health contribution	173.0	693.0	693.0
Increase of 1.75 percentage points in the tax rate for taxable income over $100 000	74.0	326.0	353.0
Subtotal	**–7.0**	**4.0**	**31.0**
Additional sums deposited in FINESSS	7.0	–4.0	–31.0
Subtotal	**—**	**—**	**—**
1.2 One child, one space			
Addition of 15 000 new reduced-contribution childcare spaces	—	—	–10.0
1.3 Fulfilment of Québec's young people			
Tax credit for youth physical, artistic and cultural activities	—	–7.0	–14.0
1.4 A roof for everyone			
Construction of 3 000 social and community housing units	—	—	—
SUBTOTAL	**—**	**–7.0**	**–24.0**

TABLE A.41

Financial impact of the measures of Budget 2013-2014 (continued)
(millions of dollars)

	Financial impact for the government		
	2012-2013	**2013-2014**	**2014-2015**
2. A GOVERNMENT FOR PROSPERITY			
2.1 Supporting private investment			
Tax holiday for investments (THI)	—	—	—
Extension and improvement until 2017 of the tax credit for investments	—	–1.0	–5.0
Creation of the Banque de développement économique du Québec	—	—	—
$200-million economic diversification fund for the Centre-du-Québec and Mauricie regions(1)	—	—	—
$50-million economic diversification fund for the Asbestos region(1)	—	—	—
Fund for the development of clean technology and electric transportation	—	—	—
Subtotal	**—**	**–1.0**	**–5.0**
2.2 Investing in the biopharmaceutical sector			
Increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities	—	–20.0	–25.0
$125-million matching funding over five years for private-public research partnerships(1)	—	—	—
Subtotal	**—**	**–20.0**	**–25.0**
2.3 Québec Research and Innovation Strategy			
Transitional funding in 2013-2014 for the new National Research and Innovation Policy	—	–40.0	—
SUBTOTAL	**—**	**–61.0**	**–30.0**
TOTAL IMPACT OF MEASURES OF BUDGET 2013-2014	**—**	**–68.0**	**–54.0**
Impact of measures on revenue	**—**	**–28.0**	**–44.0**
Impact of measures on program spending	**—**	**–40.0**	**–10.0**

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

(1) In 2013-2014, these initiatives will be financed out of the Economic Development Fund. As of 2014-2015, they will be financed within the government's spending objective.

APPENDIX 2 : DETAILS OF EFFICIENCY MEASURES AND REVENUE EFFORTS TO OFFSET THE BUDGETARY SHORTFALL

This appendix provides a detailed description of the efficiency measures and revenue efforts in Budget 2013-2014. Overall, these measures will help reduce the budgetary shortfall by:

— $95 million in 2012-2013;

— $748 million in 2013-2014;

— $976 million in 2014-2015.

TABLE A.42

Financial impact of efficiency measures and revenue efforts
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Efficiency measures	—	438	535
Revenue efforts	95	310	441
TOTAL	**95**	**748**	**976**

❑ Efficiency measures

In addition to spending efforts, the government, as part of Budget 2013-2014, is bringing forward certain revenue efficiency measures aimed at:

— additional efforts by government corporations;

— additional efforts to fight tax evasion;

— a reduction in tax expenditures.

Overall, these measures will represent $438 million in 2013-2014 and $535 million in 2014-2015.

TABLE A.43

Efficiency measures
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Additional efforts by government corporations			
– Improvement to Hydro-Québec's performance and profitability	—	225	225
– Leveraging investments made by Loto-Québec	—	50	90
– Sustained efficiency improvement by the Société des alcools du Québec	—	15	15
Subtotal	**—**	**290**	**330**
Additional efforts to fight tax evasion	**—**	**80**	**90**
Reducing tax expenditures			
– Maximum amount of the tax credit for experienced workers maintained at $3 000	—	15	25
– Deferral of the entry into force of the payroll tax rebate to foster employment for workers age 65 or over	—	22	28
– Taxation of all tax credits intended for businesses	—	31	62
Subtotal	**—**	**68**	**115**
TOTAL	**—**	**438**	**535**

Additional efforts by government corporations

Improvement to Hydro-Québec's performance and profitability

The government's financial framework for 2013-2014 forecast net earnings of $2 725 million for Hydro-Québec, up $100 million from the earnings from Hydro-Québec's activities in 2012-2013.

Owing to low export market prices, and if nothing is done to rectify the situation, Hydro-Québec's net earnings are expected to be $225 million lower than forecast for fiscal year 2013-2014. This reduction should also recur in subsequent years.

— For example, a simple decrease of 1 ¢/kWh in export market prices slashes net earnings by $270 million per year.

In order to balance the budget and keep it balanced, everyone who can must contribute to the efforts to offset the current budgetary shortfall. In this regard, Hydro-Québec's net earnings represent a non-negligible source of revenue for the Québec government. That is why an additional effort is being asked of Hydro-Québec.

Obviously, the effort this government corporation is being asked to make must not translate to an increase in the electricity rates consumers pay and must not affect the reliability of the power transmission and distribution system.

Efficiency gains

For the reasons mentioned above, Hydro-Québec will substantially reduce its operating expenses as a result of the efficiency gains it can make in all of its divisions, in particular Hydro-Québec Distribution and Hydro-Québec TransÉnergie.

The efficiency gains, both anticipated and realized, will translate to a loss of 2 000 employees at Hydro-Québec at year-end 2013, from 22 500 employees in early 2012.

— The reduction in staff levels of 2 000 people will be achieved through attrition.

Net earnings of $2 725 million can be achieved provided that the government corporation maintains the efficiency gains it is being asked to make. However, the current rate-setting system does not enable the government to ensure with sufficient certainty the amount by which Hydro-Québec's net earnings will increase as a result of the required efficiency gains.

The government believes that Hydro-Québec's overall profitability and efficiency gains must help the government return to, and maintain, fiscal balance.

Furthermore, the Régie de l'énergie must eventually set up an incentive regulation mechanism that enables efficiency gains to be shared between consumers and the government corporation.

Given the urgency of restoring fiscal balance, the government is proposing a transitional measure that will make it easier to achieve the anticipated net earnings.

- ***Transitional measure***

The measure, which will be temporary, will give the Régie de l'énergie the time it needs to establish an incentive regulation mechanism that will benefit electricity consumers and the government corporation, that is, all Quebecers.

Until then, the transitional measure will fix the amount of operating expenses based on the most recent decision by the Régie de l'énergie taking into account Hydro-Québec latest request for a rate increase.

Thus, all of the efficiency gains requested of Hydro-Québec's regulated divisions during the transitional period will benefit the government corporation. In other words, the Régie will set Hydro-Québec's rates as if the government had not asked the government corporation to achieve any more efficiency gains.

Consequently, the operating expenses of regulated divisions that the Régie de l'énergie must consider in setting rates will be $1 469.5 million for Hydro-Québec Distribution and $679.8 million for Hydro-Québec TransÉnergie for 2013-2014. Thereafter, these expenses will be determined by the government until such time as the Régie de l'énergie has established an incentive regulation mechanism.

Hydro-Québec will increase its earnings at no cost to electricity consumers.

With a view to implementing the transitional measure, the government will propose the appropriate legislative amendments to ensure that all Quebecers benefit from future efficiency gains realized by their largest government corporation.

TABLEAU A.44

Impact of additional efficiency gains on Hydro-Québec's net earnings in 2013-2014
(millions of dollars)

	Without efficiency gains and transitional measure	With efficiency gains and transitional measure
Revenue	12 750	12 750
Forecast expenditure	–10 250	–10 250
Efficiency gains afforded by the transitional measure	—	225
Expenditures after efficiency gains afforded by the transitional measure	–10 250	–10 025
Net earnings	**2 500**	**2 725**

Sources: Hydro-Québec and Ministère des Finances et de l'Économie du Québec.

- **Leveraging investments made by Loto-Québec**

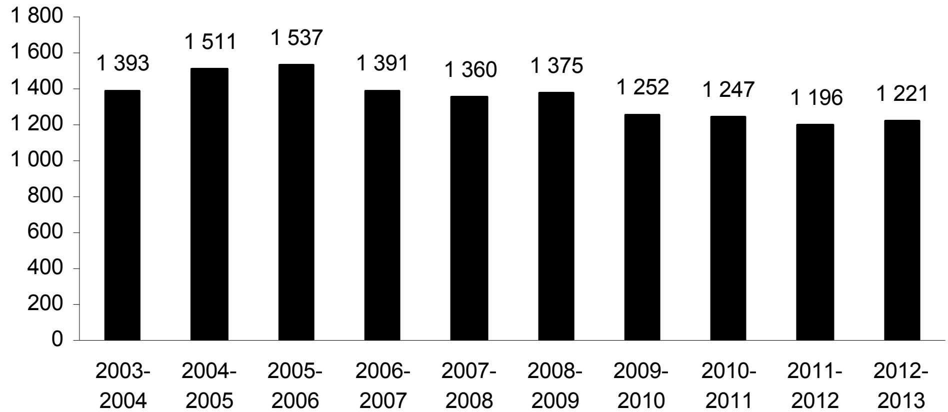
Created in 1969 to set up a public lottery, Loto-Québec has diversified its activities over the years. Gaming and gambling have changed a great deal over the last four decades. In addition to lotteries, Loto-Québec now operates four casinos, a network of video lottery terminals and an online gaming site.

In addition to reducing the availability of illegal gaming, Loto-Québec's operations make a significant contribution to the funding of all public services provided to Quebecers. Loto-Québec pays dividends to the government representing 100% of its net earnings. It also helps fund the government's specific missions in the areas of independent community action, assistance for seniors experiencing a loss of autonomy and pathological gambling. In 2011-2012, the corporation contributed $1.3 billion to Québec society as a whole, including a dividend of $1.2 billion.

However, the dividend Loto-Québec pays has declined since it peaked at $1.5 billion in 2005-2006.

CHART A.21

Change in the dividend paid by Loto-Québec(1)
(millions of dollars)



(1) Excluding Loto-Québec's contributions to the Assistance Fund for Independent Community Action and to the government's specified-purpose accounts.

- ***Maintaining the right balance***

From its inception, Loto-Québec's challenge has consisted in achieving its marketing goals while minimizing adverse effects of gaming on public health.

Loto-Québec's ability to play its role essentially hinges on the appeal of its gaming offering for customers. However, this offering must not become attractive to the point of creating public health problems. Consequently, the attractiveness of Loto-Québec's gaming offering rigorously complies with a set of rules governing how these games are offered.

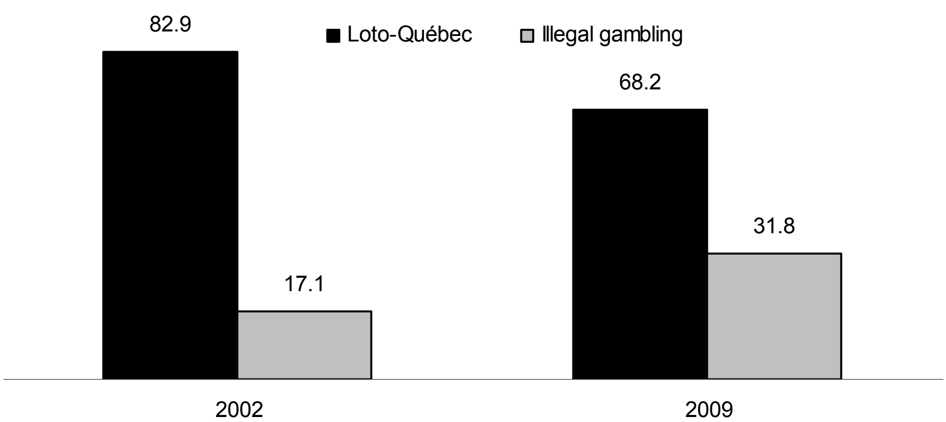
These rules of so-called "responsible gaming" protect people in socioeconomically disadvantaged communities and bar access to gaming and gambling by minors.

However, Loto-Québec must be able to attract Quebecers in general and, more specifically, those tempted by the offering in bordering territories and unsafe illegal sites.

However, an analysis of data disclosed in gaming behaviour surveys conducted in 2002 and 2009[19] reveals a shift in spending by the adult population from games of chance and gambling offered by Loto-Québec to illegal gaming and gambling.[20] In 2009, the relative weight of spending on Loto-Québec games was 68.2%, down from 82.9% in 2002. Over the same period, Quebecers' share in illegal gaming rose from 17.1% to 31.8%. For instance, the participation rate for online gambling rose from 0.3% in 2002 to 1.4% in 2009, i.e. before Loto-Québec introduced online gambling.

CHART A.22

Breakdown of total spending on games of chance and gambling by Québec's adult population
(per cent)



Sources: Ministère des Finances et de l'Économie estimates based on the findings of gaming behaviour and habits surveys released in 2004 and 2010.[1]

19 Kairouz, S., L. Nadeau and C. Paradis (2010). *ENQUETE ENHJEU–QUEBEC Portrait du jeu au Québec : Prévalence, incidence et trajectoires sur quatre ans*. Rapport d'étape (FQRSC, subvention # 130876).

Chevalier, S., D. Hamel, R. Ladouceur, C. Jacques, D. Allard and S. Sévigny (2004). *Comportements du jeu et jeu pathologique selon le type de jeu au Québec en 2002. Montréal et Québec*, Institut national de santé publique du Québec and Université Laval.

20 Given that the game categories used in the two surveys are essentially the same as Loto-Québec games and illegal gaming, this terminology has been used.

- ***Spending on games of chance and gambling lower in Québec***

Québec has the lowest average per-adult spending on games of chance and gambling in Canada, at $583 compared to $770 in Canada as a whole.

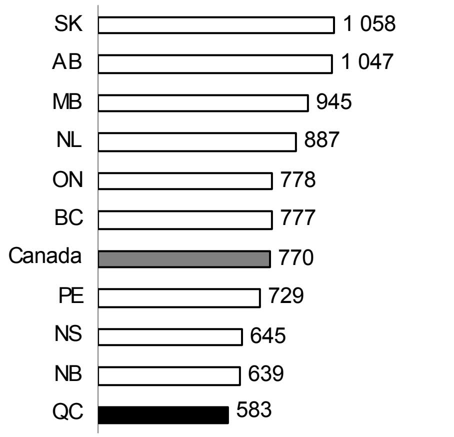
- ***Fewer pathological gamblers in Québec***

Québec has the lowest rate of pathological gamblers in Canada, at 0.7% of the adult population, (Chart A.23).

Another tracking indicator consists in verifying the quality of Loto-Québec's support and responsible gaming awareness programs by comparing them against the international standards developed by the World Lottery Association (WLA). Moreover, Loto-Québec was the first to receive the highest level (4) of responsible gaming certification from the WLA.

CHART A.23

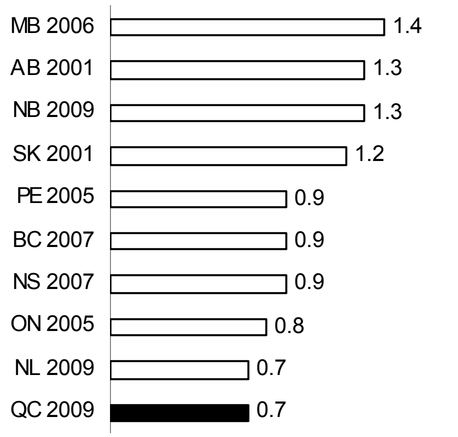
Average per-adult spending on games of chance and gambling in 2010-2011
(dollars)



Sources: Loto-Québec, based on the annual reports of responsible bodies and Statistics Canada population data.

CHART A.24

Problem gambling prevalence
(per cent)



Source : Canadian Gambling Digest, 2010-2011.

- ***Leveraging the efforts deployed***

Every year, Loto-Québec deploys extensive marketing efforts to channel players away from other jurisdictions and illegal sites and back to legal gaming and gambling activities. These efforts consist, in particular, in investing significant sums in government-operated casinos so they are comparable to casinos in other jurisdictions.

For example, in fall 2013, a total of $306 million will have been invested in the Casino de Montréal. Revitalization of the Casino du Lac-Leamy began this fall, a $50-million project that will also boost customer service quality. The casino at Mont-Tremblant, which was completed in 2009, now welcomes over 500 000 visitors a year, approximately 16% of whom are from outside Québec. In addition to these investments, Loto-Québec will continue its marketing efforts so that Quebecers benefit from these public investments.

Furthermore, in 2013 Loto-Québec will replace the 12 000 video lottery terminals it is authorized to operate. Terminals at the end of their useful cycle will be replaced by so-called third-generation terminals. The new terminals will enable Loto-Québec to manage its network more efficiently without increasing the availability of games. They will also make it possible to adopt more measures to promote responsible gaming than with second-generation terminals.

Considering that many establishments already have video lottery terminals, the replacement of terminals provides a good opportunity to amend the rule regarding the maximum number of video lottery terminals an establishment is licensed to operate so as to bring it more in line with reality, the same as was done with some existing licences in 2008. This will enable more effective management of the VLT fleet. A regulatory amendment will be made so as to raise the maximum allowable number of VLTs per licence without changing the total number of VLTs in operation, that is, 12 000.

Loto-Québec thinks that a new marketing campaign incorporating these changes will generate additional revenues totalling $50 million in 2013-2014 and $90 million in 2014-2015.

Additional efforts to fight tax evasion

The government wants to make every effort necessary to collect the amounts owed to it, hence its intention to step up its efforts to fight tax evasion.

Accordingly, the government is asking Revenu Québec to recover $80 million more in 2013-2014 and $90 million more in 2014-2015.

These additional targets are based on the implementation of four new initiatives[21] to:

- make detection and auditing of non-compliance with the tax laws more effective;
- expand the use of sales recording modules to activity sectors other than the restaurant industry;

21 The details of these measures are given in Section F.

— require certain trusts to file a return;

— require employment agencies to obtain a certificate from Revenu Québec.

■ Reduction in tax expenditures

▪ Maximum amount of the tax credit for experienced workers maintained at $3 000

Budget 2011-2012 stipulated the gradual implementation of a tax credit for experienced workers beginning January 1, 2012 to encourage more of these workers to hold a job.

Currently, the tax credit eliminates Québec tax for maximum earned income of $3 000.[22] The maximum amount of earned income was to have risen gradually to reach $10 000[22] as of 2016.

However, as of January 1, 2013, the maximum earned income threshold applicable to the tax credit for experienced workers will be maintained, for an indefinite period, at the 2012 level of $3 000.

This measure will generate savings of $100 million over three years, i.e. $15 million in 2013-2014, $25 million in 2014-2015 and $60 million in 2015-2016.

▪ Deferral of the entry into force of the payroll tax rebate to foster employment for workers age 65 or over

Budget 2012-2013 stipulated the implementation, as of January 1, 2013, of a reduction in contributions to the Health Services Fund for employers employing workers age 65 or over.

More specifically, this measure must consist of a non-refundable credit for contributions to the Health Services Fund in relation to wages paid to a worker age 65 or over.

— The credit of 10% must apply to wages paid and target private-sector employers.

— The credit must apply to the wages in excess of $5 000 paid to an experienced worker. The maximum credit per experienced worker must be $400 in 2013, rising gradually to $1 000 in 2016.

To help achieve a balanced budget, the government is deferring, for an indefinite period, the entry into force of the reduction in contributions to the Health Services Fund for employers employing workers age 65 or over.

Since this measure was to have entered into force only as of January 1, 2013, no business will be directly penalized by its deferral.

This deferral results in a financial gain of $22 million in 2013-2014 and $28 million in 2014-2015.

22 Beyond the first $5 000.

- **Taxation of all tax credits for businesses**

In general, the various forms of government assistance businesses receive are considered taxable income in Québec. However, Québec's tax legislation allows an exception regarding seven refundable tax credits:

— the four tax credits relating to research and development;[23]

— the tax credit for on-the-job training periods;

— the tax credit for design;

— the tax credit for the construction or conversion of vessels.

To help offset the budgetary shortfall and in the interests of fairness in the tax treatment of government assistance in Québec, the government is making all tax credits intended for businesses taxable.

— This measure will apply to a refundable tax credit that a taxpayer receives after the day of Budget 2013-2014 and that relates to an eligible expenditure it incurs for a taxation year beginning after that day.

This change results in a financial gain of $31 million in 2013-2014 and $62 million in 2014-2015.

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23 Tax credit relating to the salaries of researchers, tax credit for a university research contract, or contract with a public research centre or a research consortium, tax credit for pre-competitive research carried out in private partnership and tax credit relating to contributions or dues paid to a research consortium.

❑ Revenue efforts

The government is also taking steps to increase revenues from certain specific sources, including:

- an increase in the specific tax on tobacco products;
- an increase in the specific tax on alcoholic beverages;
- an increase in the contribution by financial institutions.

TABLE A.45

Revenue efforts
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Increase in the tobacco tax	43	130	130
Increase in the tax on alcoholic beverages	33	100	100
Increase in the contribution by financial institutions	19	80	211
TOTAL	**95**	**310**	**341**

■ Increase in the specific tax on tobacco products

Québec's smoking rate has remained stable over the last few years. Taxation of tobacco products remains one of the most effective ways to reduce smoking.

- Québec's smoking rate is roughly 20%. It is higher than the Canadian average and costs the health system an estimated $1.6 billion per year.

Given that and considering that smuggling has fallen substantially over the last two years, the Québec government will raise the specific tax on tobacco products by $4.00 per carton of 200 cigarettes, i.e. $0.50 per pack.

- This increase represents $130 million annually, as of 2013-2014, and will help reduce tobacco use and the associated health costs.

- **Recent decline in smuggling**

Following a significant increase in smuggling between 2004 and 2007, the government, through ACCES tobacco,[24] succeeded in reducing the market share of contraband tobacco products from 30% to 15%, a level similar to what was observed in the early 2000s.

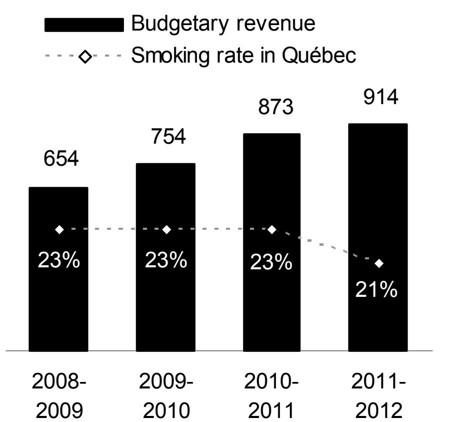
— The Ministère des Finances et de l'Économie du Québec estimates the tax losses associated with tobacco smuggling at $125 million for 2011, a drop of roughly $180 million compared to 2008.

Furthermore, the amount of revenue from the specific tax on tobacco products confirms the decline in the market share of contraband products in Québec since Québec's smoking rate[25] has remained stable.

— From 2008-2009 to 2011-2012, revenue from the specific tax rose from $654 million to $914 million, an increase of $260 million.

CHART A.25

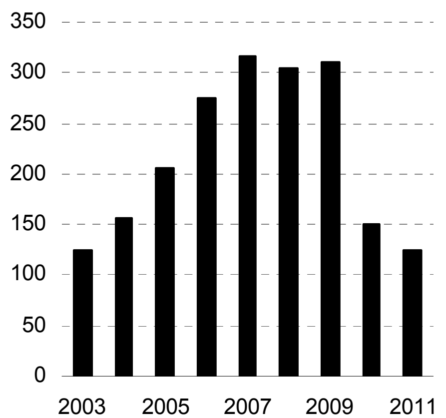
Change in revenue and smoking rate
(millions of dollars and per cent)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART A.26

Change in tax losses associated with contraband tobacco
(millions of dollars)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

24 Actions concertées pour contrer l'économie souterraine (concerted action to counter the underground economy) tobacco brings together Revenu Québec, the Ministère de la Santé et des Services sociaux, the Ministère de la Sécurité publique, the Director of Criminal and Penal Prosecutions, the Ministère des Finances et de l'Économie du Québec, police forces, as well as the Canada Revenue Agency and the Canada Border Services Agency. For more details on the activities of ACCES tobacco, refer to Section F of the Budget Plan.

25 STATISTICS CANADA, TABLE 105-0501, CANSIM, WWW5.STATCAN.GC.CA/CANSIM/A05?ID=1050501&LANG=EN

- **The first increase since 2003**

The specific tax on tobacco products will rise from $21.80 to $25.80 per carton of 200 cigarettes on November 21, 2012. This is the first increase since December 2003, apart from the adjustments for increases in the QST.[26]

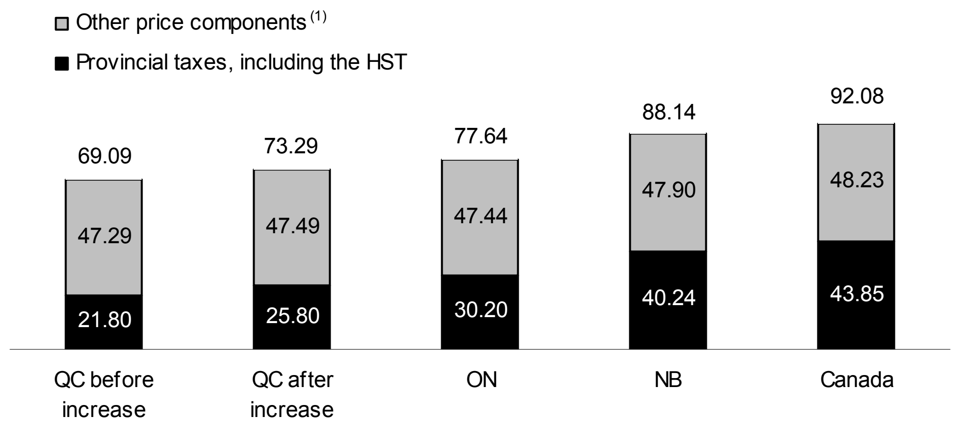
— This increase should add $130 million to the government's revenue and encourage roughly 50 000 smokers to quit.

Québec will remain the province with the lowest tax on tobacco products.

— Taking the taxes in other provinces into account, including, where applicable, the provincial component of the harmonized sales tax (HST), the difference will be $4.40, $14.44 and $18.05 compared to Ontario, New Brunswick and the Canadian average respectively.

CHART A.27

Taxes and prices for carton of 200 cigarettes
(dollars)



(1) The other components of the price were calculated assuming production costs of $27 throughout Canada. They also include the federal excise tax of $17 and the goods and services tax.
Sources: Ministry of Finance of Ontario, Department of Finance of New Brunswick, Department of Finance Canada and Ministère des Finances et de l'Économie du Québec.

This increase in the specific tax will be accompanied by close monitoring of the market to quickly detect any rise in contraband.

— Efforts to fight contraband will be adjusted as needed.

— The government will also maintain programs to encourage people to quit smoking to that the increase in the specific tax gives rise to a decline in smoking in Québec.

26 To reflect the increases in the QST on January 1, 2011 and January 1, 2012, this tax rose from $20.60 to $21.80 per carton of 200 cigarettes.

■ Increase in the specific tax on alcoholic beverages

To help achieve the budgetary objectives, the Québec government will increase the specific tax on alcoholic beverages effective November 21, 2012.

It should be noted that the overall tax burden stemming from the specific tax on alcoholic beverages has remained stable for the last 15 years.

▪ A tax that depends on the type of product and where it is consumed

The specific tax on alcoholic beverages currently depends on the type of products and where they are intended to be consumed. More specifically:

— beer is taxed more lightly than wine and spirits;

— alcoholic beverages sold in grocery stores, convenience stores and the Société des alcools du Québec for consumption at home (CAH) are more lightly taxed than alcoholic beverages sold in an establishment, such as a bar or restaurant, for on-site consumption (OSC).

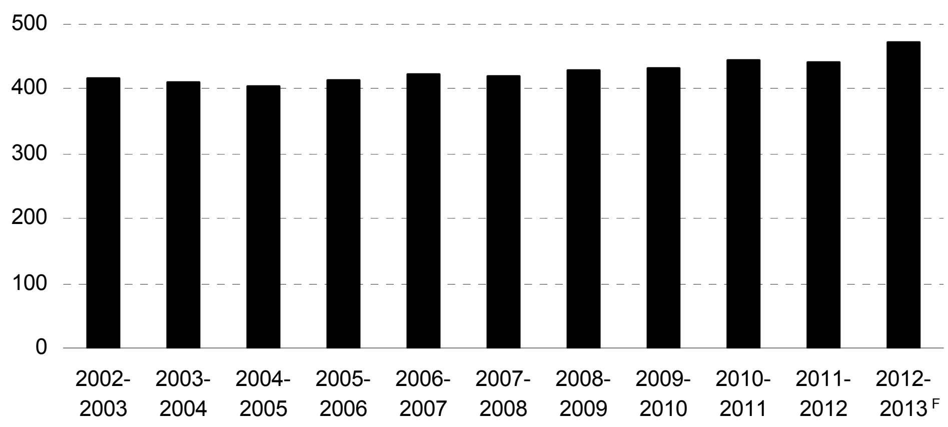
▪ Revenues growing slowly

Revenues from the specific tax on alcoholic beverages are growing slowly.

— They rose from $416 million in 2002-2003 to $440 million in 2011-2012, representing average annual growth of 0.6%.

CHART A.28

Change in revenues from the specific tax on alcoholic beverages
(millions of dollars)



F: Forecast including the impact of the tax increase.

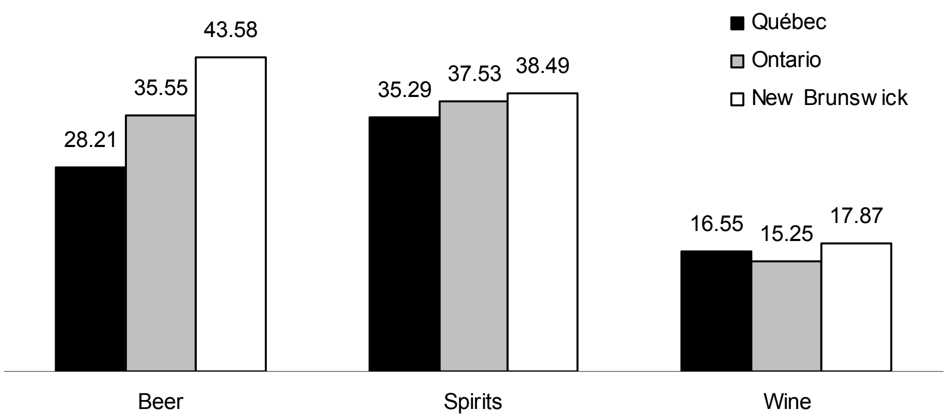
- **Prices for alcoholic beverages in Québec compare favourably with those in Ontario and New Brunswick**

The price of beer bought in retail stores is lower in Québec than in the neighbouring provinces.

A comparison of the average prices of some twenty of the most popular products sold in Québec and available in Ontario and New Brunswick shows that spirits are less expensive in Québec, but wine costs slightly more here than in Ontario.

CHART A.29

Comparison of average prices for some of the most popular alcoholic beverages sold in Québec
(dollars)



Note: For the price of beer in Québec, the price shown is the minimum price including the goods and services tax and the Québec sales tax. For wine and spirits, the price shown is the average price for some twenty of the most popular products sold in Québec and available in Ontario and New Brunswick.
Sources: Websites of the Liquor Control Board of Ontario, Alcool NB Liquor and the Société des alcools du Québec consulted on November 12, 2012.

▪ Details of the increase

The specific tax on alcoholic beverages for consumption at home will rise from \$0.40/l to \$0.50/l for beer and from \$0.89/l to \$1.12/l for wine and spirits. For on-site consumption, the specific tax will rise from \$0.65/l to \$0.82/l for beer and from \$1.97/l to \$2.47/l for wine and spirits.

— Revenues from the specific tax on alcoholic beverages are therefore adjusted upward by \$33 million for 2012-2013 and \$100 million for 2013-2014.

— As of 2014-2015, \$100 million will be allocated to the Generations Fund.

TABLE A.46

Specific tax on alcoholic beverages
(dollars per litre)

	Beer		Wine and spirits	
	CAH	OSC	CAH	OSC
Existing tax	0.40	0.65	0.89	1.97
Tax in effect on November 21, 2012	0.50	0.82	1.12	2.47

This increase will have a minor impact on the price of commercial formats sold in retail outlets.

— It represents roughly an extra \$0.82 for a case of 24 bottles of beer of 341 ml or \$0.03 per bottle.

— For wine and spirits, it represents roughly \$0.17 for a 750-ml bottle of wine and roughly \$0.26 for a 1.14-l bottle of spirits.

TABLE A.47

Impact of the increase on certain commercial formats
(dollars)

Case of 24 bottles of beer of 341 ml	0.818
341-ml bottle of beer	0.034
750-ml bottle of wine	0.173
1.14-l bottle of spirits	0.262

■ Increase in the contribution by financial institutions

As part of Budget 2010-2011, a temporary additional effort was sought from financial institutions to contribute to offsetting the deficit. This additional contribution was scheduled to end on March 31, 2014.

To raise the participation of financial institutions in the ongoing efforts to return to fiscal balance, the government is announcing that this temporary additional contribution by financial institutions will be increased and extended.

The contribution will take effect on January 1, 2013 and apply until March 31, 2019.

The rates of the temporary additional contribution by financial institutions will be:

— 2.80% on amounts paid as wages by banks, loan corporations, trust corporations and corporations trading in securities;

— 2.20% on amounts paid as wages by savings and credit unions;

— 0.90% on amounts paid as wages by other financial institutions.

— 0.30% on insurance premiums and amounts established regarding insurance funds.

TABLE A.48

Rates of the contribution by financial institutions
(per cent)

Types of financial institutions	Bases	Rates
Banks, loan corporations, trust corporations and corporations trading in securities	Amounts paid as wages	2.80
Savings and credit unions	Amounts paid as wages	2.20
Other financial institutions	Amounts paid as wages	0.90
Insurance companies and professional orders	Insurance premiums(1)	0.30

(1) Including amounts established regarding insurance funds.

This measure will enable the government to increase its revenue by $19 million in 2012-2013, $80 million in 2013-2014 and $211 million in 2014-2015.

APPENDIX 3 : INDEXING OF THE PRICE OF HERITAGE POOL ELECTRICITY

❑ Reconciling low rates with reducing the debt load

Electricity, especially hydroelectricity, is a great source of wealth for Québec and its economy.

Over time, Québec has developed a huge network of generating stations that meet consumer's electricity needs. An annual volume of 165 terawatthours (TWh) of electricity production, i.e. the heritage pool, is currently supplied at an average fixed cost of 2.79 ¢ per kilowatthour (kWh). This pool represents almost 95% of the electricity consumed in Québec.

The heritage pool’s low price was set on the premise that all Quebecers must benefit from this source of wealth, in particular through low electricity rates.

In Budget 2010-2011, the government announced an increase, as of 2014, in the average cost of the heritage pool of 1 ¢/kWh over five years with the revenue generated by this increase to be paid into the Generations Fund to reduce Québec’s debt.

In Budget 2013-2014, the government is cancelling this rise. Instead, it will adopt a more balanced approach to reduce the debt and mitigate the impact on consumers.

■ Replacement of the increase in the cost of the heritage pool announced in Budget 2010-2011

Accordingly, the government is cancelling the gradual increase of 1 ¢/kWh of the cost of the heritage pool over the period from 2014 to 2018 and will instead index the cost of heritage pool electricity.

— The government will amend the *Act respecting the Régie de l’énergie* to index the cost of supplying heritage pool electricity to the change in Québec’s total consumer price index (total CPI)[27] as of 2014.[28]

27 Rate corresponding to the annual change in overall consumer prices in Québec.

28 For greater clarity, the year considered is the 12-month period ending March 31 of the year preceding the one for which Hydro-Québec submitted a rate increase application to the Régie de l’énergie. For example, for the 2014 indexing, the CPI from April 2012 to March 2013 will be used.

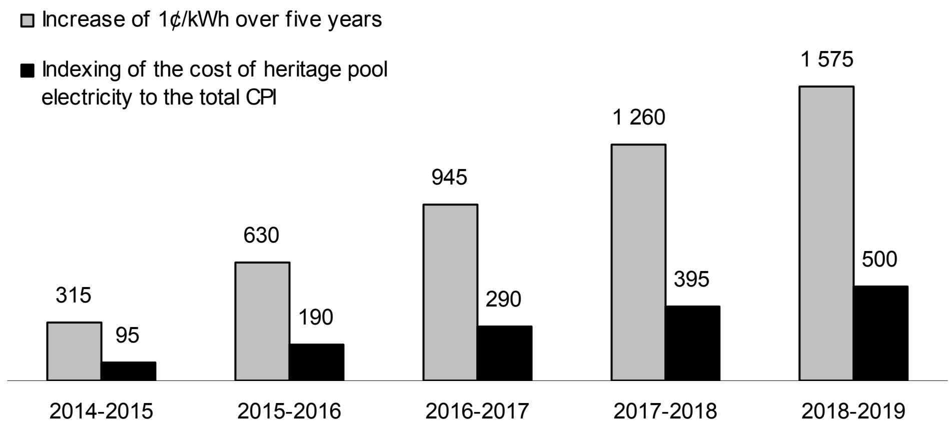
- **Continuation of deposits to the Generations Fund**

All the revenues generated by indexing the cost of heritage pool electricity will be deposited in the Generations Fund. For example, considering the average annual growth rate of the total CPI from 2012 to 2017 (2.1%), $95 million would be deposited into the Generations Fund in 2014-2015, i.e. $220 million less than would have been the case with the rise of 1 ¢/kWh. In 2018-2019, $500 million should be applied against Québec's debt, i.e. $1.1 billion less than the $1.6 billion initially forecast.

— Consequently, this is a balanced approach under which deposits continue to be made to the Generations Fund while at the same time reducing the impact on spending by households and businesses.

CHART A.30

Deposits to the Generations Fund
Forecast amounts based on the increase of 1 ¢/kWh over five years and illustration of amounts generated by indexing
(millions of dollars)



Current rate-setting mechanism

In Québec, the Régie de l'énergie has exclusive authority to set electricity and natural gas rates in addition to oversight and regulatory authority regarding petroleum products.

Rates are set using the cost of service method, i.e. taking account of all the costs to be recovered. In general terms, the method involves determining the costs that are necessary to deliver the service, including the return of the regulated business.

Rates are set based on the costs of electricity purchased by Hydro-Québec Distribution from Hydro-Québec Production, what is known as the costs of heritage pool electricity, and on the costs of post-heritage pool electricity acquired from various suppliers, including Hydro-Québec Production.

- The costs of heritage pool electricity have been defined in the Act respecting the Régie de l'énergie since June 2000 as a volume of 165 terawatthours (TWh) supplied at a cost of 2.79 ¢/kWh.[1]
- As far as post-heritage pool electricity sold in Québec in excess of 165 TWh is concerned, the distributor pays the market price, mainly following calls for tenders.[2]

In addition to supply costs, the rates incorporate:

- electricity transmission costs;
- electricity distribution costs;
- a rate of return the Régie de l'énergie allows on Hydro-Québec on its transmission and distribution assets.

Illustration of the rate reduction ordered by the Régie de l'énergie in 2012
(millions of dollars)

Total revenue required in 2012	
– Costs of heritage pool electricity	4 590
– Costs of post-heritage pool electricity	519
– Transmission costs	2 584
– Distribution costs	3 074
Subtotal	**10 767**
2012 sales revenue before rate reduction	**10 811**
Excess revenue	–44
2012 sales revenue after rate reduction excluding special contracts	**9 680**
Rate reduction ordered by the Régie de l'énergie (per cent)	–0.45%

Source: Hydro-Québec.

1 *Act respecting the Régie de l'énergie*, sub-paragraphs 1 and 2 of section 52.2.
2 Note that the average cost of new supplies associated with the most recent projects is roughly 9 ¢/kWh.

■ Indexing, a justified choice

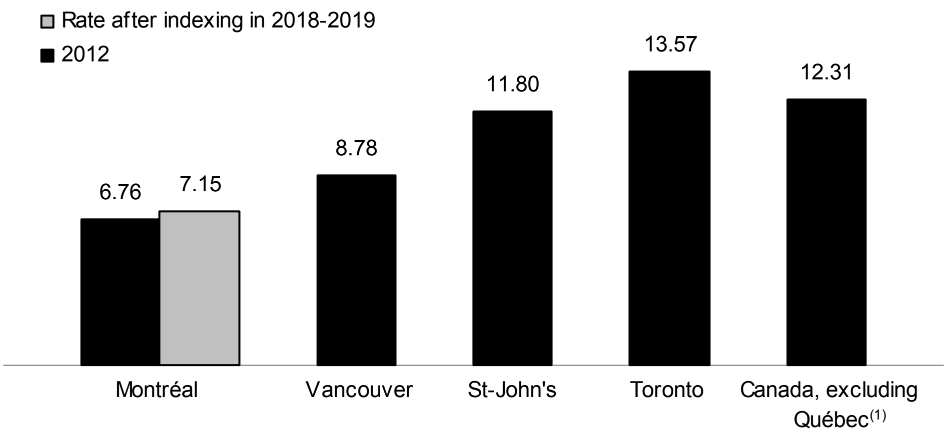
Indexing the price of heritage pool electricity to the consumer price index will result in:

- avoiding a growing gap between the sale price and the true market value;
- better reflecting the change in Hydro-Québec production costs;
- improving the price signal by encouraging consumers not to over-consume electricity.

Even with indexing of the cost of heritage pool electricity, Québec will maintain its comparative advantage over the other provinces.

CHART A.31

Average residential price in Montréal and certain large cities in Canada – 2012 and illustration in 2018-2019 for Montréal
(cents per kilowatthour)



(1) Average residential price in large Canadian cities as at April 1, 2012, excluding Québec.
Sources: Hydro-Québec, Comparison of Electricity Prices in Major North American Cities, 2012 and Ministère des Finances et de l'Économie du Québec.

Change in electricity rates since 2009

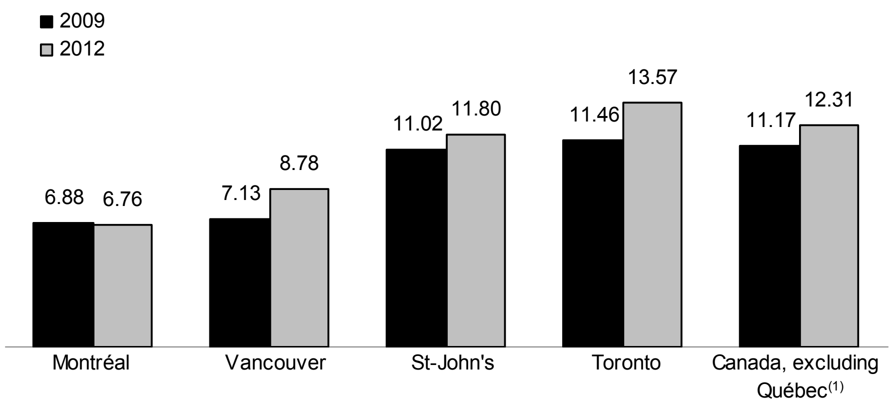
Electricity rates are lower in Québec than elsewhere in Canada on average and the gap has grown wider since 2009.

- Indeed, in 2011 and 2012, the Régie de l'énergie ordered rate reductions of –0.41% and –0.45%.

To illustrate, in 2012, the average residential price of electricity is 6.76 ¢/kWh in Québec, compared with 12.31 ¢/kWh on average in Canada,[1] a difference of 5.55 ¢/kWh, or 45 %.

- In 2009, the difference was 4.30 ¢/kWh, or 38%.

Average residential prices in 2009 and 2012 – Montréal and certain large Canadian cities
(cents per kilowatthour)



(1) Average residential price in large Canadian cities as at April 1, 2009 and April 1, 2012, excluding Québec.
Source: Hydro-Québec, Comparison of Electricity Prices in Major North American Cities, 2009 and 2012.

1 For typical consumption of 1 000 kWh per month.

❑ Impact of the rate increase on consumers

■ Advantages for all consumers

With this new initiative, the average annual rate increase for consumers over the period from 2014 to 2018 will be one third what is currently stipulated.

In addition, Québec will maintain the price advantage it enjoys compared to other North American jurisdictions. Accordingly, the average residential rate in Québec will remain the lowest in North America and the business rate will be below the Canadian average.

■ Overall impact of the increase in the cost of heritage pool electricity

Indexing the price of heritage pool electricity to the consumer price index will result in an average annual rate increase of 1.1% for consumers as a whole, excluding large industrial consumers.[29]

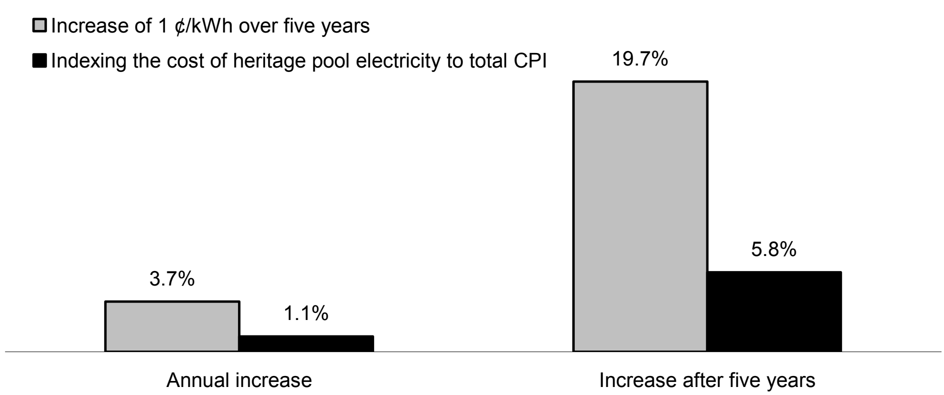
— This rate increase is one third of what would have resulted from the increase of 1 ¢/kWh over five years, i.e. 3.7% per year.

— Accordingly, in 2018-2019, indexing should result in a rate increase of 5.8% compared with 19.7% arising from the increase of 1¢/kWh.

The other rate adjustments authorized by the Régie de l'énergie will be added to the proposed rate increase.

CHART A.32

Average annual increase and increase after five years – Illustration of the 1 ¢/kWh increase over five years and of indexing to the CPI



29 For purposes of illustration, an average annual indexing rate of 2.1% has been applied over the period from 2014 to 2018. The impact has been estimated using a uniform increase for all consumer categories, other than large power industrial customers. This method is similar to the one used by the Régie de l'énergie when it ordered a uniform rate reduction for 2011-2012 and 2012-2013.

■ An advantageous residential rate

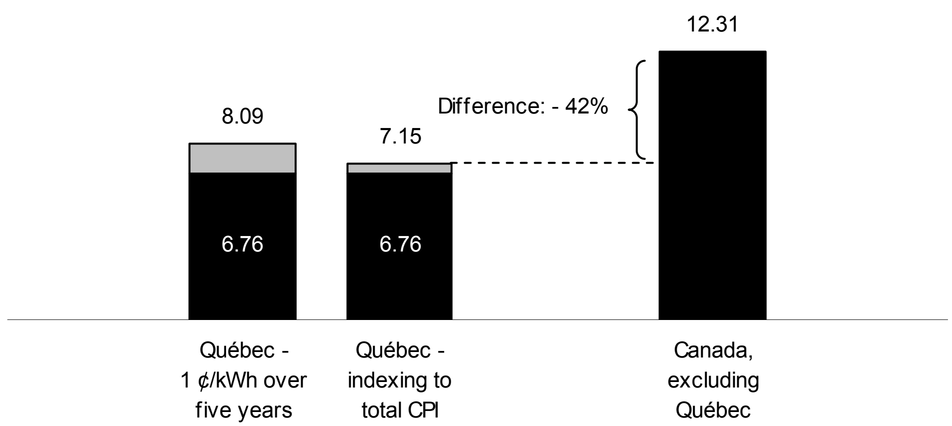
Indexing the cost of heritage pool electricity to Québec's CPI over the period from 2014-2015 to 2018-2019 will result in an average annual rate increase of 1.1% for the residential sector.

Québec consumers will still enjoy an enhanced price advantage compared to the rest of Canada. Indeed, for typical consumption of 1 000 kWh per month, the price of electricity in Québec will rise from 6.76 ¢/kWh on April 1, 2012 to 7.15 ¢/kWh on April 1, 2018. The increase announced in Budget 2010-2011 would have raised the price to 8.09 ¢/kWh.

— The difference in the price of electricity paid by Québec consumers and the average price charged in major Canadian cities on April 1, 2012 will be 42%.

CHART A.33

Difference in residential price compared with the Canadian average(1) - Illustration in 2018-2019 of the increase of 1 ¢/kWh over five years and indexing to total CPI
(cents per kilowatthour)



(1) Average residential price in large Canadian cities as at April 1, 2012, excluding Québec.
Sources: Hydro-Québec, Comparison of Electricity Prices in Major North American Cities, 2012 and Ministère des Finances et de l'Économie du Québec.

After five years, i.e. 2018-2019, the increase in residential rates resulting from indexing will correspond, for a 30-day period, to an impact of roughly:

— $2 for an apartment (953 kWh / 30 days);

— $7 for a small house (1 684 kWh / 30 days);

— $10 for an average house (2 177 kWh / 30 days);

— $13 for a large house (2 635 kWh / 30 days).

Consumers' electricity bills will be lower compared to the increase of 1 ¢/kWh over five years. Accordingly, the monthly saving by type of household will be:

— $6 for an apartment (953 kWh / 30 days);

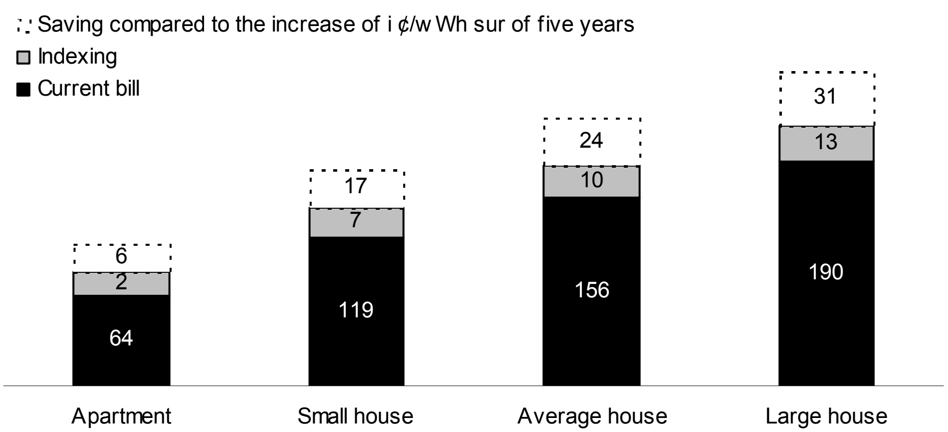
— $17 for a small house (1 684 kWh / 30 days);

— $24 for an average house (2 177 kWh / 30 days);

— $31 for a large house (2 635 kWh / 30 days).

CHART A.34

Illustration of the impact of indexing on the residential electricity rate(1) and saving compared to the increase of 1 ¢/kWh over five years – 2018-2019
Bill for a period of 30 days by type of household
(dollars)



(1) Average annual increase of 1.1% compounded over five years.
Note: Bill for a period of 30 days and price of electricity before taxes.
Sources: Hydro-Québec and Ministère des Finances et de l'Économie du Québec.

■ Small and medium power industrial, institutional and commercial rates below the Canadian average

Companies that pay small and medium power industrial, institutional and commercial rates in Québec will also face a rate increase of about 1.1% annually over the period from 2014-2015 to 2018-2019.

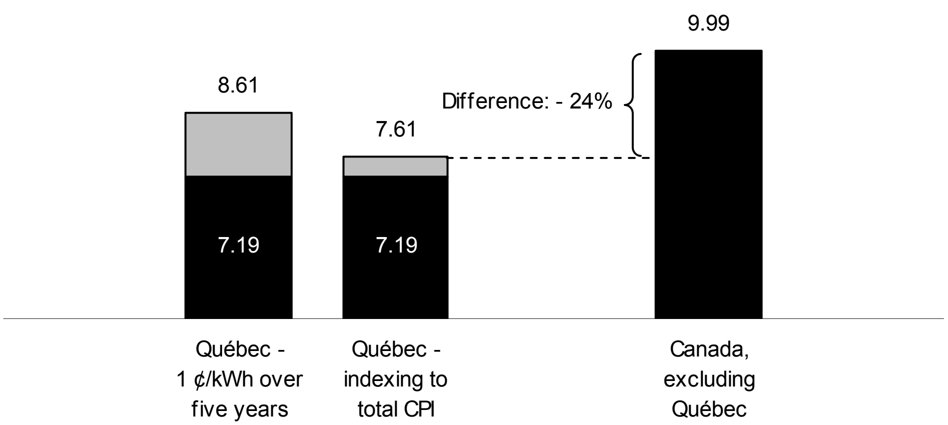
To illustrate, the government's proposal of indexing to CPI will raise the average medium power industrial, institutional and commercial price in effect on April 1, 2012 in Québec from 7.19 ¢/kWh to 7.61 ¢/kWh on April 1, 2018, compared with 8.61 ¢/kWh under the increase currently stipulated.

— Compared to other major cities in the rest of Canada, Québec companies will enjoy a price advantage of 24%.

Furthermore, Québec companies that pay this rate will still enjoy a price advantage compared to companies in North America.

CHART A.35

Difference in medium power industrial, institutional and commercial price compared with the Canadian average(1) – Illustration in 2018-2019 of the increase of 1 ¢/kWh over five years and indexing to total CPI
(cents per kilowatthour)



(1) Average medium power industrial, institutional and commercial price in large Canadian cities as at April 1, 2012, excluding Québec. Typical case for 1 000 kW of power, consumption of 400 000 kWh and a load factor of 56%.
Sources: Hydro-Québec, Comparison of Electricity Prices in Major North American Cities, 2012 and Ministère des Finances et de l'Économie du Québec.

■ Keep large industrial consumers competitive

It is also important to minimize the impact of the rate increase on economic growth and jobs, in particular in the regions, and to maintain the competitive advantage of industries that are large consumers of electricity.

Consequently, the government will continue to exclude large industrial enterprises from the increase in heritage pool electricity. Accordingly, the general rate for large power (rate L) will not be affected by the indexing that will take effect as of 2014.

APPENDIX 4 : OMNIBUS BILL AND OTHER LEGISLATIVE MEASURES

Some measures of the budget require legislative amendments. The Minister of Finance and the Economy will introduce an omnibus bill in the National Assembly during the spring 2013 parliamentary session. This bill will contain the legislative amendments that are not of a fiscal nature. It will include the following measures, in particular. The details of the measures are provided in the budget documents.

❑ Implementation of certain provisions of the Budget Speech of November 20, 2012

■ Cancellation of the increase of 1 cent/kWh in the price of heritage pool electricity

The *Act respecting the Régie de l'énergie* and the *Hydro-Québec Act* will be amended to cancel the increase of 1 cent/kWh over five years in the price of heritage pool electricity that was to take effect in 2014. The legislative amendments will also provide for the indexation of the price of heritage pool electricity starting in 2014.

■ Deposits in the Generations Fund

The *Act to reduce the debt and establish the Generations Fund* and the other legislation concerned will be amended to allow for deposit in the Generations Fund of:

— the sums generated by the indexation of the price of heritage pool electricity, as of 2014-2015;

— $100 million a year from the increase in the specific tax on alcoholic beverages, as of 2014-2015;

— all mining royalties, as of 2015-2016;

— the future savings of $215 million a year resulting from the government's decision to abandon the refurbishment of the Gentilly-2 nuclear power plant, as of 2017-2018.

The proposed legislative amendments are also intended to enable the deposit in the Generations Fund of $300 million in 2012-2013, from the accumulated surplus of the Territorial Information Fund, and of 25% of the amounts derived from the auction of oil, gas and underground reservoir exploration licences.

■ Closure of the Gentilly-2 nuclear power plant

The *Balanced Budget Act* will be amended so that the budgetary balance in 2012-2013 can be established without taking into consideration the accounting impact of Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant.

Funding of school boards

The *Education Act* will be amended to revise the calculation of equalization grants paid to school boards.

Reduction in spending by bodies and special funds

As a result of the bill, the spending growth of bodies and special funds will be subject to control as of 2013-2014. Spending by these entities will be reduced by an average of 2% or, in certain cases, according to the terms determined by the government.

Improvement to Hydro-Québec's performance and profitability

The *Act respecting the Régie de l'énergie* will be amended to introduce a transitional measure so that the productivity gains realized by Hydro-Québec benefit the government corporation and the efforts to restore fiscal balance. Hydro-Québec's earnings will increase at no cost to electricity consumers.

Efficiency of the vehicle registration and driver's licence issuing operations of the Société de l'assurance automobile du Québec

Legislative amendments will be made to the *Act respecting the Société de l'assurance automobile du Québec* and to the *Highway Safety Code*, in particular, to solve the recurring annual deficit in the Société's vehicle registration and driver's licence issuing operations.

Funding for coordination of the development of Northern Québec

The *Act to establish the Northern Plan Fund* will be amended to allow for use of the fund to finance departmental activities whose purpose is to coordinate northern development initiatives of the government, its agencies or its enterprises.

Resource optimization of government enterprises

The *Auditor General Act* and the statutes governing certain bodies will be amended to grant the Auditor General the power to carry out, at his or her discretion, value-for-money auditing mandates in the government enterprises covered by the Act.

Reporting of multi-year transfers

The *Act respecting subsidies for the payment in capital and interest of loans of public or municipal bodies* and the *Financial Administration Act* will be amended to:

- specify that no multi-annual transfers may be entered in the government's account for a given fiscal year other than in accordance with prior authorization of the Parliament of Québec and, in this case, only the payable portion of that transfer for that fiscal year may be entered in the accounts for that year;
- provide that no subsidy or multi-year transfer covered by the *Financial Administration Act* may be entered in the accounts of the recipient public or municipal body other than concordantly with the portion of the subsidy or transfer that would be entered in the government's accounts.

Implementation of certain provisions of the Budget Speech of March 20, 2012

A number of legislative measures introduced in Bill 73, an *Act respecting mainly the implementation of certain provisions of the Budget Speech of 20 March 2012*[30] will be provided for in the omnibus bill.

New licence regime for hydrocarbons

The *Mining Act* will be amended to auction licences for onshore exploration of oil, natural gas and underground reservoirs, as is already the case for offshore exploration. In addition, it will stipulate that part of the revenue from the auctions be paid into the Generations Fund.

Increase in annual exploration licence fees and lease rates

The annual fees for oil and gas exploration licences and the lease rate will be increased to cover the management and development costs of the new licence and lease regime. The increase in exploration licence fees will come into effect in 2014, taking into account the temporary suspension of work requirements and the term of existing licences as a result of the strategic environmental assessment of shale gas. Exploration licence fees will be raised to $50/km^2 for the first five years of the licence and $150/km^2 in subsequent years. The lease rate will increase from $250/km^2 to $350/km^2 as of 2012. In addition, the fees levied for related licences (drilling, well completion, well conversion) will be increased as well as indexed to cover the costs of reviewing applications and monitoring work. The government is also imposing new fees for obtaining exploration licences, production leases and authorizations to close a well in order to recover the total costs issuance and monitoring costs.

30 Bill 73 was introduced on May 15, 2012. It was still being studied at the time of dissolution of the National Assembly.

■ Funding of geographical knowledge

The *Act respecting the Ministère des Ressources naturelles et de la Faune* will be amended so that the Territorial Information Fund is used to, among other things, fund activities relating to geographical knowledge. In addition, financing of the fund will be reviewed, in particular the rate structure for services.

■ Addition of two components to the Natural Resources Fund

The *Act respecting the Ministère des Ressources naturelles et de la Faune* will be amended to allow for the addition of a “hydrocarbon management” component to the Natural Resources Fund. This component will fund oversight activities, in particular administrative and operations management, monitoring and control, as well as knowledge acquisition and research and development activities in the hydrocarbon sector.

A second component will also be introduced, i.e. the “mining management” component, which will fund the mining industry regulation regime. The amounts to be paid into these two new components will be stipulated in the bill.

■ Fonds Capital Mines Hydrocarbures

The *Act respecting Investissement Québec* will be amended to authorize the creation of Fonds Capital Mines Hydrocarbures, a fund devoted to government investment in non-renewable natural resources.

■ Measures concerning the duty on fuel and fossil fuels, the 2013-2020 Climate Change Action Plan and certain investments in the transportation sector

The *Act respecting the Régie de l’énergie* will be amended to exempt major industrial emitters, which are covered by the cost of the greenhouse gas (GHG) emission cap-and-trade system, from the duty, paid into the Green Fund, on gasoline and fossil fuels provided for in the Act for the natural gas, fuel and fossil fuels they purchase, when they pay fees under the cap-and-trade system for those same purchases. Provisions are also planned to keep the rate of the duty applicable for 2013 and 2014 the same as the rate in 2012 and eliminate the duty as of January 1, 2015.

Legislative amendments will be made to the *Environment Quality Act*, the *Act respecting the Ministère du Développement durable, de l’Environnement et des Parcs* and the *Act respecting the Ministère des Transports* to ensure the allocation of revenue from the implementation of the cap-and-trade system for GHG emission rights and the duty on gasoline and fossil fuels on the basis of government objectives, in particular regarding the amounts that will be transferred to the Green Fund and the Land Transportation Network Fund.

Québec Cultural Heritage Fund and Sport and Physical Activity Development Fund

The bill will enable an increase, as of 2012-2013, in the annual amount taken out of the revenues from the specific tax on tobacco products that will be paid to the Québec Cultural Heritage Fund (from $10 million to $15.5 million) and to the Sport and Physical Activity Development Fund (from $52 million to $55 million).

Changes to the Fund to Finance Health and Social Services Institutions (FINESSS)

Amendments will be made to the *Act respecting the Ministère de la Santé et des Services sociaux* to:

— add clarifications regarding the recipients that can receive amounts from FINESSS and thus better meet the needs of health and social services institutions;

— pay into FINESSS a portion of the amounts stipulated in 2013-2014 on account of federal compensation for harmonization of the Québec sales tax with the goods and services tax.

Viability of financing for the Assistance Fund for Independent Community Action

The provisions of the *Act respecting the Société des loteries du Québec* setting the contribution paid by Loto-Québec to the Assistance Fund for Independent Community Action, for the purposes of independent community action and international humanitarian action, will be amended to set the contribution in 2013-2014 and 2014-2015. As of 2015-2016, this contribution will be set by the government. Some provisions of the *Act respecting the Ministère du Conseil exécutif* pertaining to the Assistance Fund for Independent Community Action will be amended accordingly.

Management of immigration applications

The bill will amend the *Act respecting immigration to Québec* and the *Regulation respecting the selection of foreign nationals* to:

— enable the Minister of Immigration and Cultural Communities, as of the date of the 2013-2014 Budget Speech, to make decisions relating to the reception and processing of selection certificate applications;

— regulate and set certain fees relating to immigration.

■ Fight against unreported work in the construction sector

The *Act respecting labour relations, vocational training and workforce management in the construction industry* will be amended to intensify the fight against unreported work:

- the bill will specify the fields of activity of independent contractors to reduce the number of individuals working alone on construction sites not having to report their hours to the Commission de la construction du Québec;
- provisions will be included to facilitate civil and penal recourse regarding non-compliant players who refuse to supply information required in the course of an investigation;
- provisions will be included to stipulate a mandatory period for keeping the record book, invoices and other relevant documents;
- other provisions will be designed to make it easier to prove the employment relationship between employees and their employers.

■ Entrusting the Minister of Finance and the Economy with the powers conferred by the *Act respecting Investissement Québec*

The proposed amendment will enable the government to entrust the Minister of Finance and Economy with the powers in respect of programs and other mandates, including the Economic Development Fund, conferred on him by the *Act respecting Investissement Québec*.

Once the bill has been assented to, and in order to give effect to this provision, the government will make an order setting out the nature, scope and conditions for exercising the powers entrusted to the Minister.

Depending on new situations that may arise over time, the government will have the leeway it needs to review and adapt, where deemed necessary, the scope and terms of the powers entrusted to the Minister.

Already in the past year, various administrative situations have arisen in relation to to the implementation of government decisions or management of the Economic Development Fund. It quickly became apparent that the only means for dealing with these situations was section 21 of the *Act respecting Investissement Québec*, which stipulates that the company must carry out any other mandate given to it by the government. However, given the nature and frequency of such situations, it seems excessive to systematically take them up with Cabinet.

Subject to the adoption of the provision by the National Assembly, the Minister of Finance and the Economy could, for example, recommend that Cabinet given him the power to:

— mandate Investissement Québec, which is responsible for administering the Economic Development Fund, to take the necessary administrative steps to implement existing government decisions;

— entrust Investissement Québec, within the context of the Economic Development Fund, with the reponsibility of administering a government program for which management standards and conditions have been approved by the Conseil du trésor.

■ Renewal, for one year, of the provisions concerning performance pay

The bill renews for another year the provisions of the *Act to implement certain provisions of the Budget Speech of 30 March 2010, reduce the debt and return to a balanced budget in 2013-2014* concerning performance pay for senior executives and management personnel of government bodies, bodies in the health and social services and education networks and universities. The provisions concerning the effort to reduce additional remuneration in state-owned enterprises would also be renewed for another year. A similar measure has already been taken to prohibit, for the third year in a row, the payment of bonuses to government administrators.

■ Deposit in the Land Transportation Network Fund of the additional registration fees for luxury vehicles

When the legislative provisions to create the Road and Public Transit Infrastructure Fund (since renamed the Land Transportation Network Fund) were passed, various fees payable under the *Highway Safety Code*, such as the additional registration fees for luxury vehicles, were to be deposited in the fund. However, this stipulation was not included in the wording and only the fees payable to renew vehicle registrations are included. This omission will be corrected.

■ Fines and monetary administrative sanctions applicable to companies

The *Code of Penal Procedure* will be amended to provide that if a fine is imposed on a partnership, the fine will be the same as the amount that applies to a legal person. The *Environment Quality Act* will be similarly amended to provide that if a monetary administrative sanction is imposed on a natural person, it will be the same as the amount that applies to a legal person.

❑ Creation of the Banque de développement économique du Québec

The Minister for Industrial Policy and the Banque de développement économique du Québec will introduce a bill in the National Assembly during the spring 2013 parliamentary session to create the Banque de développement économique du Québec, whose purpose is to simplify access to financial support. The Bank will consolidate Québec government bodies and programs that deal with economic development.

❑ Framework law on the social economy

The Minister for Industrial Policy and the Banque de développement économique du Québec will introduce a framework law in the National Assembly during the spring 2013 parliamentary session to recognize, promote and develop the social economy.

Section B

THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2013 AND 2014

INTRODUCTION

This section presents the economic forecasts that underpin the government's financial framework.

The year 2012 was marked by a difficult global environment. The risk of weaker growth led several central banks, particularly in the euro area and the United States, to take steps to support economic activity.

While these initiatives of unprecedented scale succeeded in containing the slowdown in growth, the global economy still remains fragile.

This section consists of four parts. The first part details the **economic situation in Québec.**[1] Like many advanced economies, Québec saw continued growth, but at a slower pace than forecast in Budget 2012-2013. The Québec economy is expected to expand by 0.9% in 2012, 1.5% in 2013 and 2.0% in 2014.

— The moderation in growth in 2012 is attributable to a combination of external and internal factors that dampened Québec's economic growth, in particular exports and consumption, which saw only moderate growth.

— However, real gross domestic product (GDP) should grow at a faster pace in 2013 and 2014, due in particular to firmer growth in the United States and gradual improvement in the global economy.

TABLE B.1

Economic growth in Québec
(real GDP, percentage change)

	2011	2012	2013	2014
Budget 2013-2014	**1.7**	**0.9**	**1.5**	**2.0**
Budget 2012-2013	1.6	1.5	1.9	2.1
Revision	0.1	–0.6	–0.4	–0.1

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

[1] The economic data in this section is based on *Québec's economic accounts* released by the Institut de la statistique du Québec on September 24, 2012.

The second part of this section describes the economic situation of **Québec's main trading partners**, i.e. Canada and the United States.

In Canada, economic growth is expected to remain at 1.9% in 2012 and 2013 and then accelerate to 2.3% in 2014.

— Growth in the Canadian economy will be driven primarily by business investment and an increase in consumption.

— On the other hand, government deficit reduction, the anticipated downturn in the real estate sector and modest recovery in the United States will likely limit the pace of growth in economic activity.

In the United States, the economy is continuing to expand and will see a growth rate of 2.1% in 2012, 2.0% in 2013 and 2.5% in 2014. Several economic factors have improved, in particular the U.S. real estate sector and household balance sheets, which should lead to stronger economic activity in the medium term.

The third part describes the **international economic context**. The euro area's continuing debt crisis curtailed global economic growth in 2012, slowing economic activity not only in Europe, but also in emerging economies. A gradual recovery in the euro area will allow the global economy to strengthen. Global growth is expected to stand at 3.0% in 2012, accelerating to 3.3% in 2013 and 3.7% in 2014.

The fourth part discusses the **main risks** related to the economic scenario, more specifically to the economic forecast for Québec.

1. ECONOMIC OUTLOOK FOR QUÉBEC

In 2012, Québec's real GDP grew at a more modest rate than anticipated, gaining 0.9%. More robust economic growth of 1.5% in 2013 and 2.0% in 2014 is expected.

— Real GDP growth is revised downward relative to the growth forecast in Budget 2012-2013, by 0.6 percentage point in 2012 and 0.4 percentage point in 2013.

The slowdown in consumption, a global economy marked by economic and fiscal problems in the euro area, the slow economic recovery in the United States, and weaker growth in emerging economies, which affected exports, all put a drag on growth, particularly in early 2012.

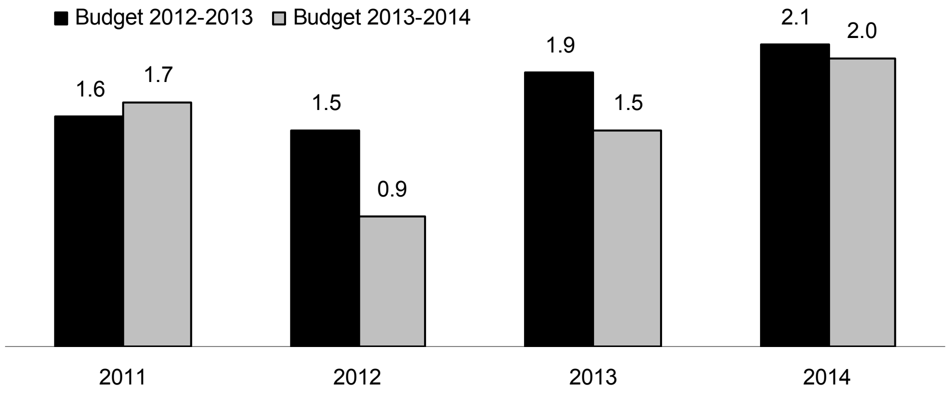
The trends in recent economic indicators nevertheless point to stronger growth in the Québec economy in the coming quarters.

Economic activity in Québec is thus expected to gradually pick up pace, with real GDP growing by 1.5% in 2013 and 2.0% in 2014.

— Despite the anticipated gradual improvement, the global economy will see limited growth in 2013, which will affect the growth outlook for Québec.

CHART B.1

Economic growth in Québec
(real GDP, percentage change)



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

1.1 Components of real GDP

In 2012, economic growth was mitigated by the slowdown in exports and consumption. However, real GDP growth has been sustained by continued expansion of residential investment and buoyant business investment.

External trade lost momentum in 2012, curbed by the sluggish global economy. A gradual improvement in the global economic climate in 2013 should spur global demand for Québec products. Exports are expected to increase by 0.9% in 2012 and 2.8% in 2013.

The contribution of consumers to economic activity decreased in the first half of 2012. Household spending was affected by diminished consumer confidence, given an uncertain international economic climate and the increase in the Québec sales tax (QST).

— Consumer spending is expected to grow at a stronger pace in the second half of the year and then continue to gradually accelerate in 2013.

Contrary to projections, residential investment continued expanding, with 1.4% growth expected in 2012. Despite an anticipated downturn in 2013, residential investment will remain at higher levels than the historical average.

Non-residential business investment remained robust and will rise by 4.0% in 2012. This robust growth is expected to continue. Total spending by all governments will increase by 0.4% in 2012 and 2013.

TABLE B.2

Real GDP and its major components
(percentage change)

	2011	2012	2013	2014
Domestic demand				
Consumption	2.0	1.4	1.8	2.0
Residential investment	1.5	1.4	–4.0	–1.1
Non-residential business investment	10.2	4.0	5.0	5.3
Governments	0.4	0.4	0.4	0.6
External trade				
Total exports	2.1	0.9	2.8	3.3
Total imports	4.0	1.7	1.9	2.6
Real GDP	**1.7**	**0.9**	**1.5**	**2.0**

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

1.2 Labour market

Employment in Québec will rise by 0.6% in 2012 and is expected to pick up pace to 1.0% growth in 2013.

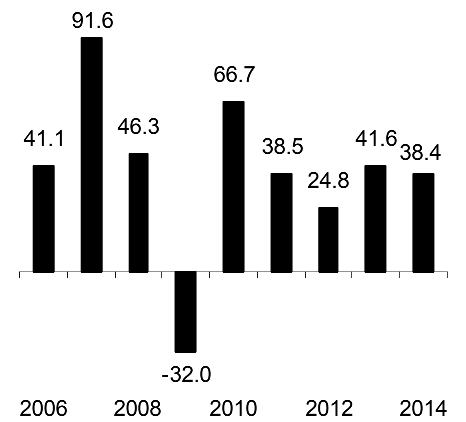
- Following the creation of 66 700 and 38 500 jobs in 2010 and 2011, respectively, another 24 800 jobs will be created in 2012.
- Better economic growth in 2013 should translate to around 40 000 new jobs per year in 2013 and 2014.

The improvement in Québec's labour market has enabled a gradual decline in the unemployment rate since 2009.

- The unemployment rate has fallen from 8.5% in 2009 to 8.0% in 2010 and 7.8% in 2011 and 2012.
- With the brighter economic outlook and continued job creation, the unemployment rate is expected to decline in 2013 and 2014.

CHART B.2

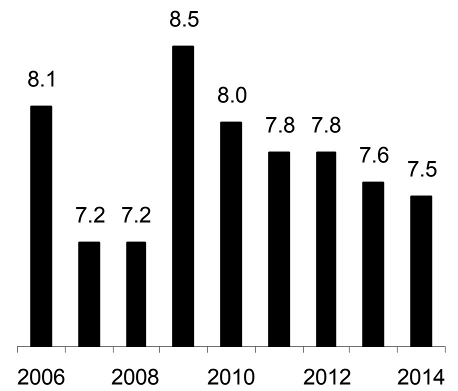
Job creation in Québec
(change in thousands)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.3

Unemployment rate in Québec
(per cent)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Québec's labour market in 2012

A total of 24 800 jobs should be created in Québec in 2012. However, the employment statistics contained in Statistics Canada's Labour Force Survey (LFS) reflect a high degree of volatility in the last several months.

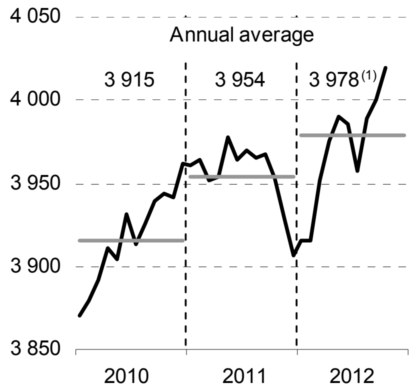
According to the LFS, following the loss of 61 000 jobs in the last three months of 2011, 114 000 jobs were created between December 2011 and October 2012.

− The fluctuating labour market statistics affects average annual job creation rates.

Moreover, Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH), which provides information on payroll employment, shows steadier employment growth in Québec.

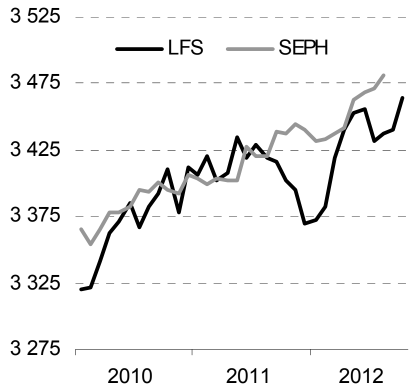
According to the SEPH, payroll employment increased by 43 900 in the first eight months of 2012, compared with the same period in 2011. This survey provides a much more stable picture of employment growth in Québec than does the LFS, particularly in 2012.

Employment level in Québec
(thousands)



(1) Forecast.
Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Payroll employment in Québec
(thousands)



Source: Statistics Canada.

1.3 Domestic demand

❑ Household spending

Household consumption expenditures slowed at the beginning of 2012. After increasing by 2.0% in 2011, they will increase by 1.4% in 2012, making a weaker contribution to economic activity.

In 2012, growth in consumer spending was curtailed by:

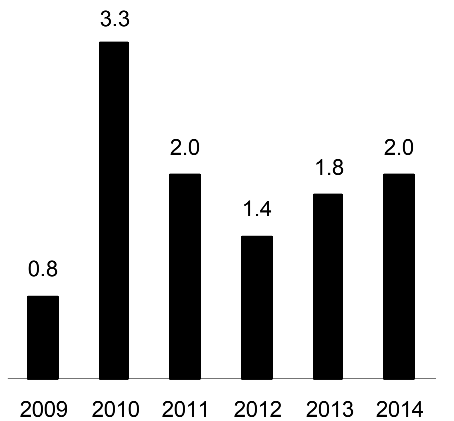
— hastened spending by consumers at the end of 2011, particularly on durable goods, due to the second increase in the Québec sales tax, which took effect on January 1, 2012;

— fragile consumer confidence stemming from, among other things, global economic uncertainty and household debt levels, which causes consumers to be more cautious.

After a slow start in the initial months of 2012, household spending growth is expected to accelerate, driven primarily by employment growth and an increase in household income. Household spending should expand by 1.8% in 2013 and 2.0% in 2014.

CHART B.4

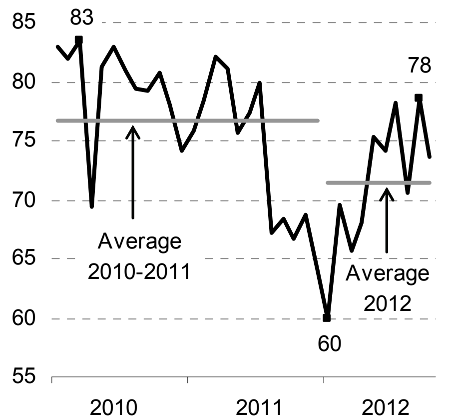
Household consumption expenditures in Québec
(percentage change, in real terms)



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

CHART B.5

Consumer confidence in Québec
(index, year 2002 = 100)



Sources: Conference Board of Canada and Ministère des Finances et de l'Économie du Québec.

Québec household debt

While Canadian household debt has been a source of considerable concern in recent years, economic analysts have rarely mentioned debt levels among Québec households.

Statistics Canada's National Balance Sheet Accounts do not include data on the financial situation of Canadian households by province. Ipsos Reid's *Canadian Financial Monitor*[1] survey is the only data source enabling a comparison of recent trends in household debt in Québec and Canada. According to this survey:

- the average debt-to-income ratio is lower among Québec households than Canadian households;
- Québec households allocate a lower share of their income to meeting their financial obligations (principal and interest repayments) than do Canadian households;
- a lower percentage of Québec households are vulnerable to interest rate hikes or to a drop in income, compared to Canadian households.

Québec households are faring better mainly because of their lower mortgage debt, which is the result of lower property prices, among other things.

- In 2011, the average price of a home in the resale market was $261 342 in Québec, compared to $363 116, or 38.9% higher, in Canada.

Household debt indicators, Québec and Canada
(per cent, change in percentage points)

	2000	2011	Change
Household debt ratio(1)			
Québec	62.8	73.9	11.1
Canada	78.6	96.0	17.4
Debt service ratio(2)			
Québec	11.2	10.0	–1.2
Canada	13.4	11.6	–1.8
Percentage of vulnerable households(3)			
Québec	3.0	3.2	0.2
Canada	5.1	4.3	–0.8

(1) As a percentage of gross income.
(2) Principal and interest repayments as a percentage of gross income.
(3) Percentage of households with a debt service to income ratio equal to or over 40%, as determined by Canada Mortgage and Housing Corporation.
Sources: Ipsos Reid and Ministère des Finances et de l'Économie du Québec.

1 An annual survey of roughly 12 000 Canadian households, including 2 500 Québec households, conducted since 1999.

■ Residential investment

Residential investment in Québec is expected to go up by 1.4% in 2012, supported by renovation spending, and then drop by 4.0% in 2013 and 1.1% in 2014. The downward trend mainly reflects the change in housing starts, which will gradually reach levels that match household formation.

— Housing starts should continue the deceleration begun in 2011.

— Housing starts will decline by 3.9% in 2012, to 46 500 units, and by 10.6% in 2013, to 41 600 units, a level that matches household formation in Québec.

The deceleration in residential investment in 2012 and subsequent downturn in 2013 are mainly attributable to the entry into force of a new series of federal government measures to curb the growth of mortgage credit in Canada.

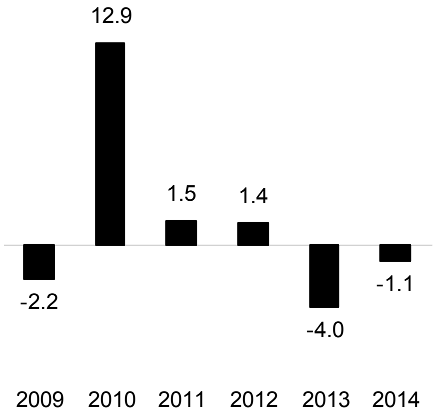
— However, the currently low interest rates will continue to support the residential sector.

— Despite the projected declines, housing starts will remain at higher levels than those seen in the late 1990s, when they were below 30 000 units.

CHART B.6

Residential investment in Québec

(percentage change, in real terms)

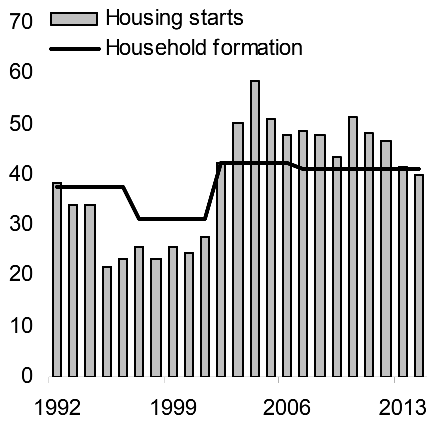


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.7

Housing starts and household formation in Québec

(thousands)



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

New measures regarding insured mortgage loans[1]

On June 21, 2012, Canada's Minister of Finance announced four new measures regarding government-backed insured mortgages. The new measures, which took effect on July 9, 2012:

- reduce the maximum amortization period for new government-backed insured mortgages to 25 years from 30 years;
- lower the maximum amount households can borrow to refinance their mortgages from 85% to 80% of the value of their homes;
- fix the maximum gross debt service ratio (percentage of a household's income required to cover housing costs) at 39% and the maximum total debt service ratio (percentage of a household's income required to cover housing costs and other debt servicing) at 44%;
- limit the availability of government-backed insured mortgages to homes with a purchase price of less than $1 million.

A return to more stringent borrowing conditions

Institutions operating in the mortgage insurance market eased mortgage rules substantially between 2004 and 2007, but there has been a recent reversal of this trend. Since 2008, Canada's Minister of Finance has announced a number of measures aimed at tightening the borrowing conditions for insurable mortgages in order to address the problem of Canada's household debt and the rising real estate prices in certain regions.

- Overall, the borrowing conditions that apply since the adoption of the new measures are similar to those in force prior to 2004.

Change in principal borrowing conditions for insurable mortgages

Effective date	Mortgage rules and borrowing conditions	
2004-2007	Easing of mortgage rules and borrowing conditions initiated by institutions operating in the mortgage insurance market and/or the federal government	
	Maximum amortization period	from 25 to 40 years
	Minimum downpayment	from 5% to 0%
	Maximum loan for mortgage refinancing	from 85% to 95%
	Minimum downpayment required for a non-insured mortgage	from 25% to 20%
2008-2012	Tightening of mortgage rules by the federal government	
2008	Maximum amortization period	from 40 to 35 years
	Minimum downpayment	from 0% to 5%
2010	Maximum loan for mortgage refinancing	from 95% to 90%
2011	Maximum amortization period	from 35 to 30 years
	Maximum loan for mortgage refinancing	from 90% to 85%
2012	Maximum amortization period	from 30 to 25 years
	Maximum loan for mortgage refinancing	from 85% to 80%

Note: Compilation by the Ministère des Finances et de l'Économie du Québec.

1 Federally regulated lending institutions, in particular the big Canadian banks, must require mortgage insurance of home buyers who put down less than 20% of the purchase price.

❑ Non-residential investment

Non-residential investment, especially by businesses, remains a main engine of Québec's economic activity. Québec enjoyed robust growth in non-residential investment in 2010, 2011 and 2012 and this growth is expected to continue in the coming years.

— Total non-residential investment should increase by 5.8% in 2012 and 3.8% in 2013, to reach over $50 billion in 2013.

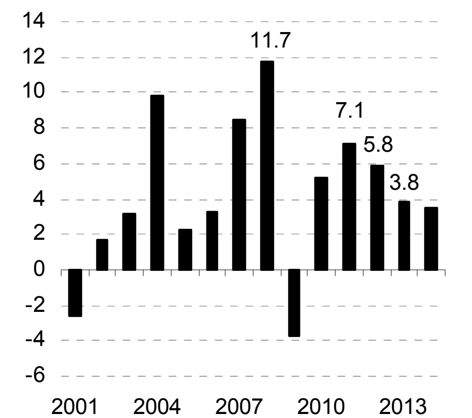
— According to the Commission de la construction du Québec, the construction industry could see record activity in 2012, with a volume of nearly 160 million hours worked. This exceeds the previous record set in 1975, when the construction of hydroelectric generating stations in James Bay and Olympic facilities in Montréal, as well as expansion of Montréal's metro system were underway.

During the recession, public investment boosted economic activity. Businesses subsequently took over from governments in supporting investment.

— Non-residential business investment reached $31.3 billion on average during the first two quarters of 2012.

CHART B.8

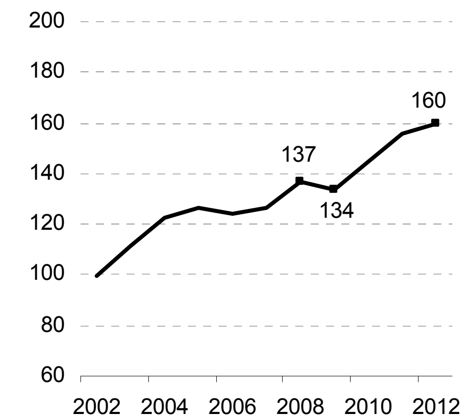
Total non-residential investment in Québec
(percentage change, in nominal terms)



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

CHART B.9

Hours worked in the Québec construction industry
(millions)



Source: Commission de la construction du Québec.

■ Business investment

Business investment is expected to increase by 7.4% in 2012 and 6.9% in 2013, raising its value to nearly $34 billion in 2013. Sustained growth in investments by businesses is attributable to:

- favourable borrowing conditions thanks to low interest rates;
- sound finances and rising corporate profits that are hitting record levels;
- a Canadian dollar that makes it easier to purchase imported equipment;
- high levels of investment in the mining sector.

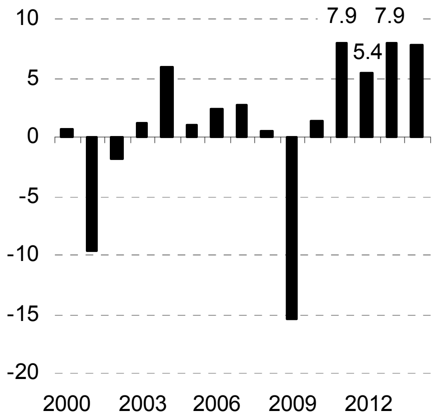
Québec businesses are therefore taking advantage of the current conditions to increase both their capital and their productivity.

- In particular, investments in machinery and equipment are expected to climb by 5.4% in 2012 and 7.9% in 2013, exceeding pre-recession levels.

CHART B.10

Business investment in machinery and equipment in Québec

(percentage change, in nominal terms)

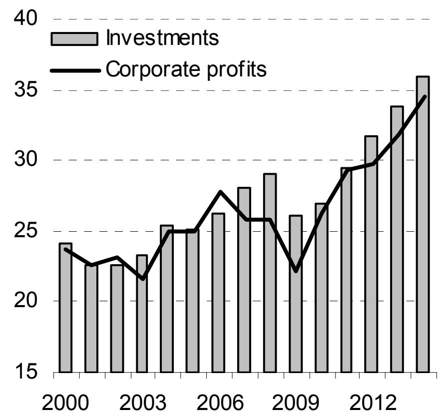


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.11

Corporate profits and non-residential business investment in Québec

(billions of dollars, in nominal terms)



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

Québec metal price index

The rapid growth of emerging economies led to increased demand for Québec commodities. Despite recent fluctuations, commodities prices remain elevated.

Recent trends and outlook for metal prices

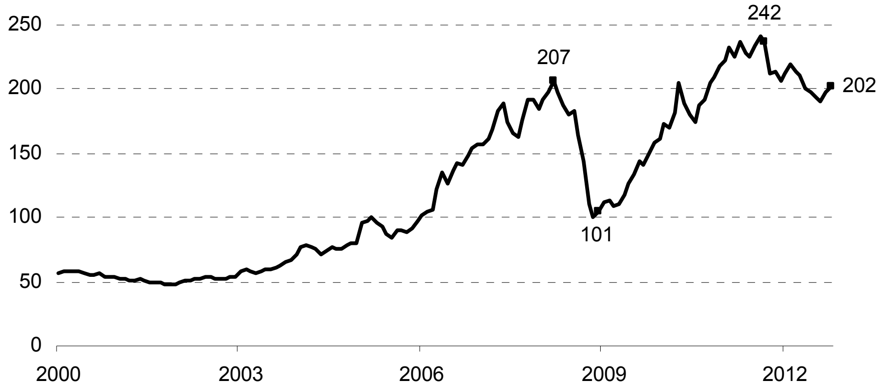
Since the beginning of 2012, the prices of metals produced in Québec have dropped by nearly 5% with the deceleration in global economic activity.

- The recession in Europe combined with the slower growth in emerging economies eased worldwide demand for metals.
- The Québec metal price index (QMPI) fell from 242 points in August 2011 to 202 points in October 2012. It should see an average decrease of 12% in 2012 over the previous year. However, metal prices in 2013 are expected to remain at similar levels to 2012.

Natural resource prices fluctuate widely. Nevertheless, the prices of Québec metals remain twice as high as the lowest prices during the last recession and four times higher than in the early 2000s.

- Development in emerging economies will support worldwide demand in the coming years and this will continue to favour investments in Québec's mining industry.

Québec metal price index, in U.S. dollars
(index, March 2005 = 100)



Sources: Bloomberg, Natural Resources Canada, Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

Composition of the index

The QMPI shows an aggregate of price trends for the six metals with the highest production value in Québec. These metals account for approximately 83% of Québec's total metal production.

- The main component is iron ore (36.4% of the index), followed by gold (23.4%), nickel (20.8%), zinc (10.9%), copper (5.9%) and silver (2.6%).

■ Government investments

Total investments by public administrations and governments are expected to increase by 3.1% in 2012 and then fall by 1.9% in 2013. This decline follows exceptional growth during the recession, when the government stepped in with support measures to boost economic activity.

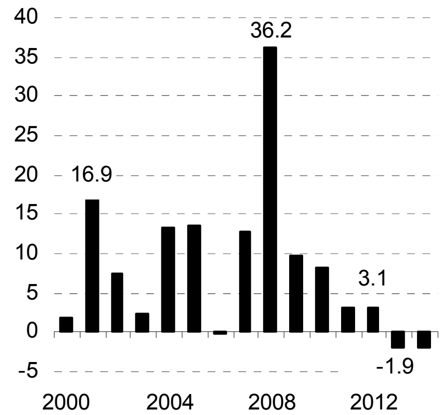
— At over $16 billion in 2013, the level of public investment will nevertheless remain three times higher than the levels seen in the early 2000s.

Furthermore, Québec's public capital stock swelled in the wake of heavy infrastructure investment in recent years.

— The current level of public capital stock compares, in relative terms, to the levels in the early 1980s, at nearly 30% of GDP.

CHART B.12

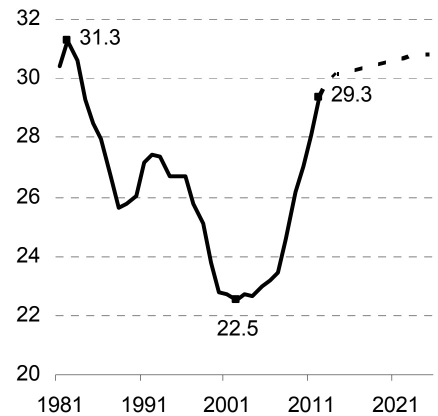
Public investments in Québec
(percentage change, in nominal terms)



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

CHART B.13

Québec's public capital stock
(as a percentage of GDP, in real terms)



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

1.4 Foreign trade

Québec is an open economy that is significantly influenced by the economic situation of its trading partners. In 2011, exports accounted for 45.4% of Québec's GDP.

However, several external factors put a drag on growth in Québec's foreign trade in 2012.

— Moderate economic growth in the United States curtailed U.S. demand for Québec products.

— The continuing sovereign debt crisis in the euro area has heightened financial tensions on world markets and affected trade with Europe.

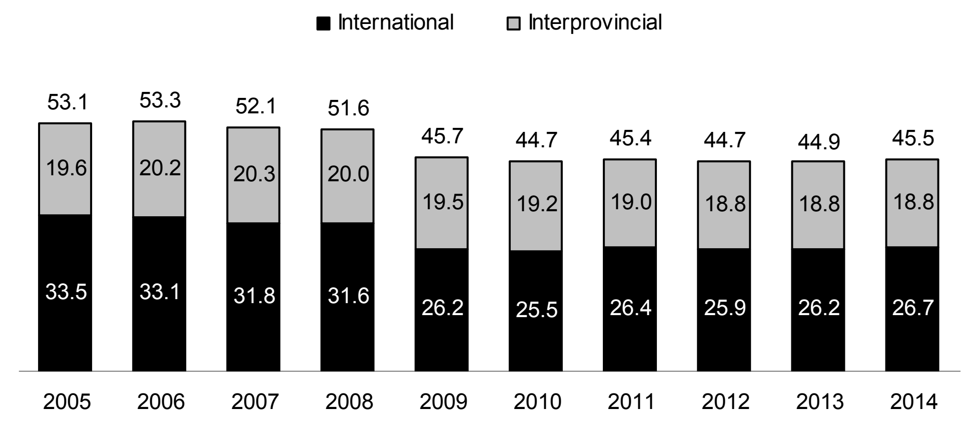
— A slowdown in growth in emerging economies has also been observed.

The impact of these factors should attenuate starting in 2013 with the anticipated acceleration of world growth, enabling Québec's external sector to strengthen.

— Québec businesses will nonetheless need to invest in order to become more competitive and recapture market shares so as to fully benefit from this growth.

CHART B.14

Québec exports
(as a percentage of GDP, in nominal terms)



Sources: Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

❑ Exports

After growing by 2.1% in 2011, total exports are expected to edge up just 0.9% in 2012 due to a less favourable international economic climate.

Québec exports will improve with the anticipated growth of 2.8% in 2013 and 3.3% in 2014, although the recovery in exports will be more gradual than forecast in Budget 2012-2013. Export growth will be boosted by:

— gradual strengthening of the U.S. economy and renewed growth in the U.S. real estate sector;

— the observed increase in orders for aerospace products;

— mining exports, sector which is benefiting from major investments.

In addition, a relatively stable Canadian dollar will affect Québec exporting businesses less.

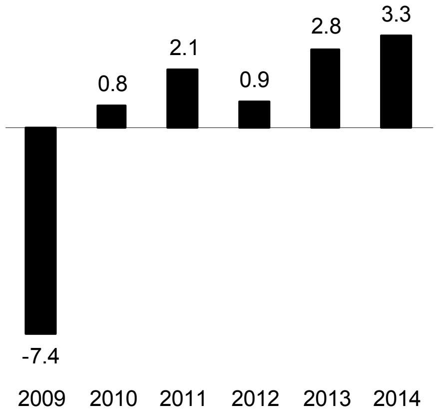
❑ Imports

Québec imports mainly consumer goods, machinery and equipment and inputs for the manufacture of products.

— Imports are expected to climb by 1.7% in 2012, 1.9% in 2013 and 2.6% in 2014, mirroring growth in domestic demand and exports.

CHART B.15

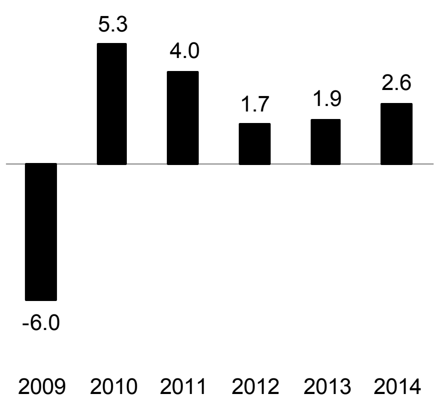
Québec's total exports
(percentage change, in real terms)



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

CHART B.16

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



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

Québec's international exports of goods in 2012

International exports of goods have continued to recover in 2012, growing by 2.1% in the first eight months of 2012, compared with the same period last year.

The vast majority of sectors contributed to the rebound, especially:

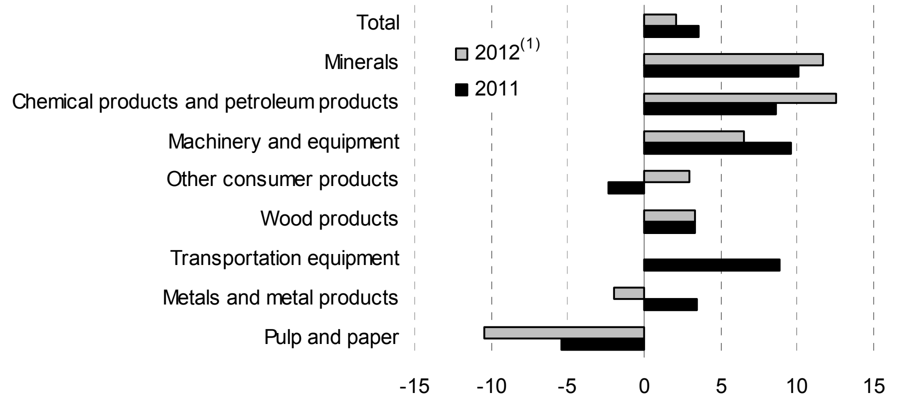
- minerals (+11.7%), stimulated by the demand from emerging economies for natural resources;
- chemical products and petroleum by-products (+12.6%), due to increased shipments to Europe;
- machinery and equipment (+6.5%), supported by demand from China and the United States.

However, exports fell in two sectors in 2012, namely:

- pulp and paper (–10.4%), a sector that has been undergoing restructuring for several years;
- metals and metal products (–2.0%), a sector suffering a slowdown due to a temporary labour dispute.

Exports have slowed in recent months due to continuing global economic uncertainty. However, they should pick up pace with the gradual upturn in economic growth in the United States, the delivery of current orders in the aeronautics and aerospace sector, and the mining investments taking place in Québec.

Québec's international exports of goods
(percentage change, in real terms)



(1) Cumulative, first eight months of 2012, on a customs basis.
Source: Institut de la statistique du Québec.

Outlook for U.S. demand for Québec products

Growth in American economic activity should continue to be good for Québec exports

With Québec exports being closely tied to U.S. demand for Québec products, exports should continue to benefit from the gradual strengthening of the U.S. economy.

- After increasing by 7.3% in 2011, the index of U.S. demand for Québec products (IUSDQP) is projected to rise by 7.3% in 2012, 4.3% in 2013 and 3.0% in 2014.

The rebound in the U.S. manufacturing sector should continue to boost machinery and equipment exports, while demand for transportation products should remain robust. After several difficult years, the turnaround in the U.S. real estate sector is expected to favour building material exports.

- The pulp and paper sector, on the other hand, is expected to continue struggling in the coming years.

U.S. demand for Québec products has not fully recovered

In 2011, the IUSDQP was still 13.5% below its 2006 peak. This situation is attributable to the still-partial recovery of the U.S. economy.

- In the United States, employment remains 3.1% below its previous peak, while industrial production is down 3.7% and real business investment is 7.2% lower than it was five years ago.

U.S. demand for Québec products will be unable to return to its pre-recession highs until the U.S. economy has fully recovered.

- The recovery should take at least two years. The IUSDQP is expected to reach in 2014 the 113-point high of 2006.

Index of U.S. demand for Québec products
(percentage change, unless otherwise indicated)

	Share (%)	**2011**	**2012**	**2013**	**2014**
Machinery and equipment	23.9	4.1	3.9	2.6	3.1
Consumer goods	20.5	2.4	1.3	2.1	2.2
Intermediate products	19.6	12.6	8.5	6.0	4.7
Transportation	19.1	20.7	21.1	5.6	1.3
Pulp and paper	10.2	–4.3	–0.9	–1.4	–2.2
Building materials	6.7	4.5	24.4	31.5	17.4
IUSDQP(1)	**100.0**	**7.3**	**7.3**	**4.3**	**3.0**
Level (year 2002 = 100)		**97.8**	**105.0**	**109.6**	**112.9**

(1) Index of U.S. demand for Québec products.
Sources: Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

Note: For more information on the components of this index, see page 30 of the *Update on Québec's Economic and Financial Situation*, published in fall 2009.

❑ Net exports

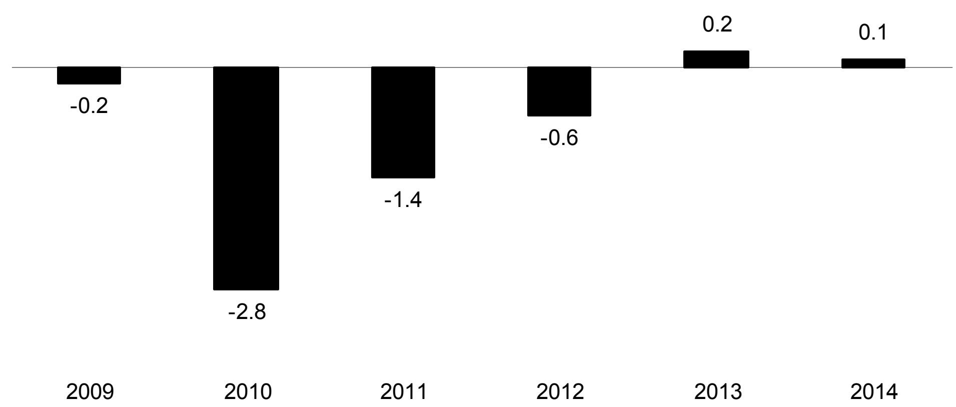
In 2012, external trade is expected to shave 0.6 percentage point off Québec's economic growth.

— This is nevertheless a net improvement over the negative contributions to real GDP growth seen in 2010 and 2011.

The external sector is expected to make a positive contribution to economic growth starting in 2013, owing in particular to a more robust U.S. economy, gradual easing of problems in the euro area and stronger demand from emerging economies for natural resources.

CHART B.17

Contribution of net exports to Québec's economic growth
(percentage points of real GDP)



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

1.5 Change in nominal GDP

Following 5.2% growth in 2011, nominal GDP, which measures the value of output taking the effect of prices into account, is expected to rise by 3.4% in 2012, 3.7% in 2013 and 4.0% in 2014.

- Nominal GDP growth will be fuelled by real GDP growth of 0.9% in 2012 and 1.5% in 2013, as well as by a change of 2.5% in 2012 and 2.2% in 2013 in the price of goods and services produced in or imported into Québec.

The rise in nominal GDP will be reflected by increases in the government's tax bases.

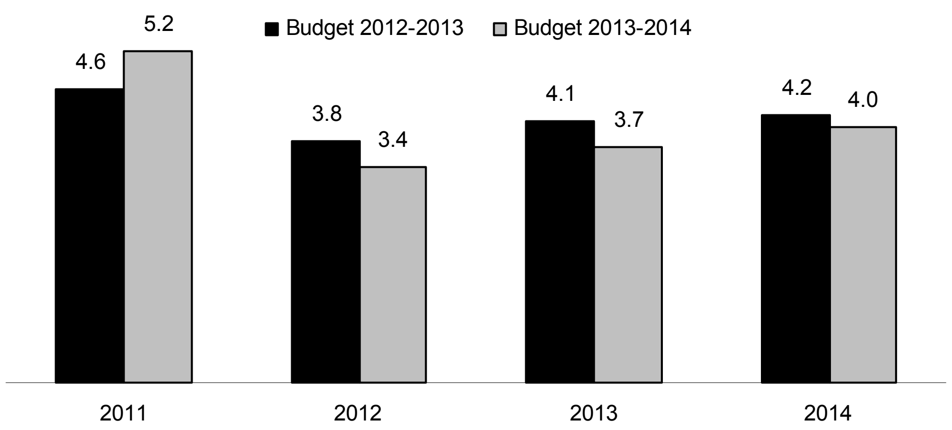
- Corporate profits will climb by 1.7% in 2012, 7.0% in 2013 and 8.5% in 2014.

- Personal household income will grow by 3.3% in 2012, 3.6% in 2013 and 3.5% in 2014.

- Nominal consumption will increase by 2.9% in 2012, 3.2% in 2013 and 3.7% in 2014.

CHART B.18

Nominal GDP growth in Québec
(percentage change)



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

❑ Consumer price index

After increasing by 3.0% in 2011, the consumer price index (CPI) will rise by 2.2% in 2012, 1.6% in 2013 and 2.0% in 2014.

— The slower increase in the CPI in 2013 will be largely attributable to an anticipated drop in gas prices and to the fact that the increase in the QST on January 1, 2012 will no longer affect price changes.

TABLE B.3

Change in GDP and price indexes
(percentage change)

	2011	2012	2013	2014
Real GDP	1.7	0.9	1.5	2.0
Nominal GDP	5.2	3.4	3.7	4.0
GDP price index – GDP deflator	3.5	2.5	2.2	2.0
Consumer price index	3.0	2.2	1.6	2.0

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

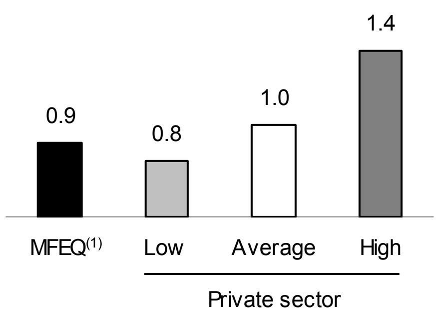
1.6 Comparison with private sector forecasts

The economic growth forecast of the Ministère des Finances et de l'Économie du Québec for 2012 and 2013 is similar to the average of private sector forecasts.

- The forecast 0.9% growth in real GDP in 2012 is slightly below the average growth rate of 1.0% forecast by the private sector.
- The forecast 1.5% growth in real GDP in 2013 is identical to the average private sector forecast.

CHART B.19

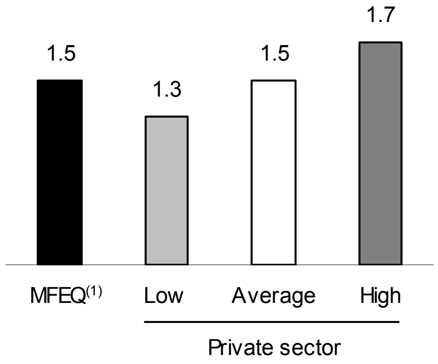
Economic growth in Québec in 2012
(real GDP, percentage change)



(1) Ministère des Finances et de l'Économie du Québec.
Source: Ministère des Finances et de l'Économie du Québec summary as of November 9, 2012, which includes the forecasts of 10 private sector institutions.

CHART B.20

Economic growth in Québec in 2013
(real GDP, percentage change)



(1) Ministère des Finances et de l'Économie du Québec.
Source: Ministère des Finances et de l'Économie du Québec summary as of November 9, 2012, which includes the forecasts of 10 private sector institutions.

TABLE B.4

Québec's economic outlook
(percentage change, unless otherwise indicated)

	2011	2012	2013	2014
Output				
Real gross domestic product	1.7	0.9	1.5	2.0
Nominal gross domestic product	5.2	3.4	3.7	4.0
Nominal gross domestic product ($ billion)	335.9	347.2	360.1	374.7
Components of GDP (in real terms)				
Consumption	2.0	1.4	1.8	2.0
Government expenditures	0.4	0.4	0.4	0.6
Residential investment	1.5	1.4	–4.0	–1.1
Non-residential business investment	10.2	4.0	5.0	5.3
Exports	2.1	0.9	2.8	3.3
Imports	4.0	1.7	1.9	2.6
Population and labour market				
Population (thousands)	7 980	8 049	8 112	8 175
Population aged 15 and over (thousands)	6 576	6 636	6 682	6 723
Jobs (thousands)	3 954	3 978	4 020	4 058
Job creation (thousands)	38.5	24.8	41.6	38.4
Job creation (%)	1.0	0.6	1.0	1.0
Unemployment rate (%)	7.8	7.8	7.6	7.5
Employment rate (%)	60.1	59.9	60.2	60.4
Other economic indicators				
Nominal consumption	3.6	2.9	3.2	3.7
Housing starts (thousands of units)	48.4	46.5	41.6	40.1
Personal income	3.6	3.3	3.6	3.5
Wages and salaries	4.1	2.9	3.4	3.5
Corporate profits	11.8	1.7	7.0	8.5
Consumer prices	3.0	2.2	1.6	2.0
Nominal GDP per capita ($)	42 091	43 130	44 396	45 831
Per capita personal disposable income ($)	26 923	27 487	28 211	28 924

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

1.7 Five-year economic outlook for 2012-2016

The five-year forecast of the Ministère des Finances et de l'Économie du Québec is comparable to that of the private sector regarding real GDP growth, price increases and nominal GDP growth.

— Real GDP is expected to grow at an average rate of 1.6% from 2012 to 2016, which is close to the 1.7% private sector forecast.

— Nominal GDP is expected to see an average growth rate of 3.7% from 2012 to 2016, compared with the private sector forecast of 3.6% growth.

Québec will need to overcome a number of challenges to support economic expansion in the coming years, including a slower-growing labour pool and future sluggish growth in the global economy.

— Québec must offset the impact of these changes by continuing to become more competitive and by developing all of its resources.

TABLE B.5

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

	2011	2012	2013	2014	2015	2016	Average 2012-2016
Real GDP							
Ministère des Finances et de l'Économie du Québec	1.7	0.9	1.5	2.0	1.9	1.9	1.6
Average private sector forecast	1.7	1.0	1.5	2.0	2.0	1.8	1.7
Price increases							
Ministère des Finances et de l'Économie du Québec	3.5	2.5	2.2	2.0	1.9	1.7	2.1
Average private sector forecast	3.5	1.9	1.9	1.9	2.0	2.0	1.9
Nominal GDP							
Ministère des Finances et de l'Économie du Québec	5.2	3.4	3.7	4.0	3.9	3.7	3.7
Average private sector forecast	5.2	2.9	3.4	3.9	4.0	3.8	3.6

Source: Ministère des Finances et de l'Économie du Québec summary as of November 9, 2012, which includes the forecasts from 10 private sector institutions.

A shrinking labour pool

Population aging is a major issue for the Québec economy, particularly because of its impacts on the labour pool, which is expected to shrink in the coming years.

- The population aged 55-64 has outnumbered the population aged 15-24 since 2008, as a result of population aging. There are now fewer people preparing to enter the labour market than people getting ready to leave it.
- The population scenario prepared by the Institut de la statistique du Québec predicts that the population aged 15-64 will peak in 2013.

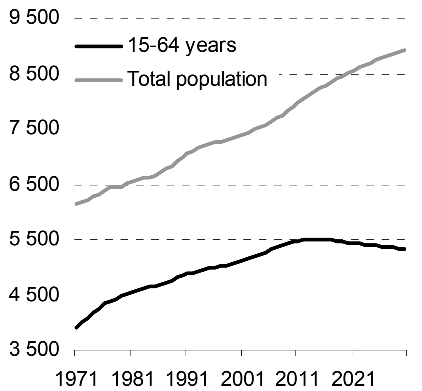
While the same trend has been observed in Canada and Ontario, it is stronger in Québec.

- In Québec, the proportion of people aged 65 and over in the population aged 15 and over rose from 9.6% in 1971 to 19.1% in 2012.
- The 65 and over age group went from 11.3% to 17.8% in Canada and from 11.6% to 17.5% in Ontario over the same period.

In order to make maximum use of the existing labour pool, employment must make a stronger contribution to economic growth. This will depend on the Québec economy's capacity to create jobs, integrate immigrant workers and keep older workers employed longer, but above all on an increase in worker and business productivity.

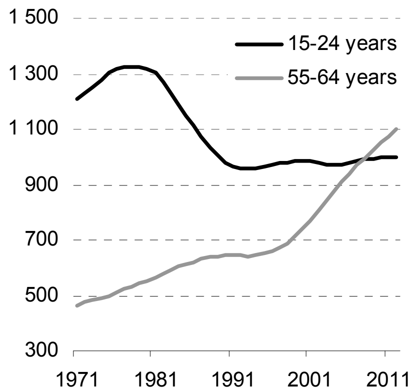
In the medium term, productivity gains will be the principal lever for improving Quebecers' standard of living and making businesses more competitive on their domestic and foreign markets, where they will face increasingly stronger competition.

Change in total population and population aged 15-64 in Québec
(thousands)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec

Change in populations aged 15-24 and 55-64 in Québec
(thousands)



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

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

This part discusses the economic outlook for Canada and the United States.

Québec's economy is open to the world and highly integrated with the North American economy. In 2011, exports accounted for over 45% of Québec's GDP. Thanks to its geographic location and its participation in the North American Free Trade Agreement (NAFTA), Québec enjoys preferential access to a market of 460 million consumers.

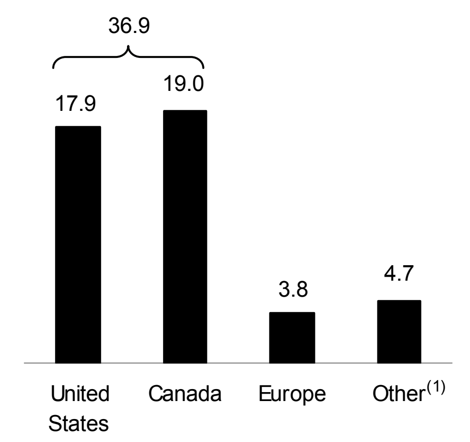
— Canada and the United States remain Québec's main trading partners. In 2011, exports to these two destinations represented 36.9% of its GDP.

In 2012, economic growth in Canada and the United States was restrained by the difficulties in the euro area, weaker growth in emerging economies and the deficit reduction measures introduced by governments.

A gradual upturn in the global economy will support economic activity in Canada and the United States more in 2013 and 2014. However, the two countries' economic growth will continue to be restrained by their public spending cuts.

CHART B.21

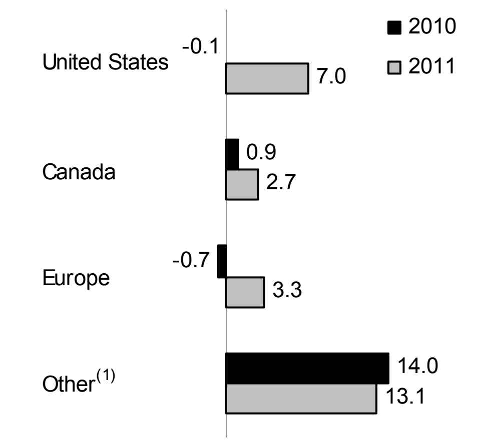
Share of exports in GDP, by Québec's trading partners
(as a percentage of nominal GDP in 2011)



(1) Includes, in particular, China, Japan, Mexico, South Korea, Brazil and India.
Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

CHART B.22

Exports of goods, by Québec's trading partners
(percentage change, in nominal terms)



(1) Includes, in particular, China, Japan, Mexico, South Korea, Brazil and India.
Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances et de l'Économie du Québec.

2.1 The economic situation in Canada

Canada's real GDP is expected to grow by 1.9% in 2012 and 2013, and then accelerate to 2.3% growth in 2014.[2]

The expansion in 2012 was driven by residential and business investment.

— However, the slowdown in consumer and government spending growth has put a drag on growth in economic activity.

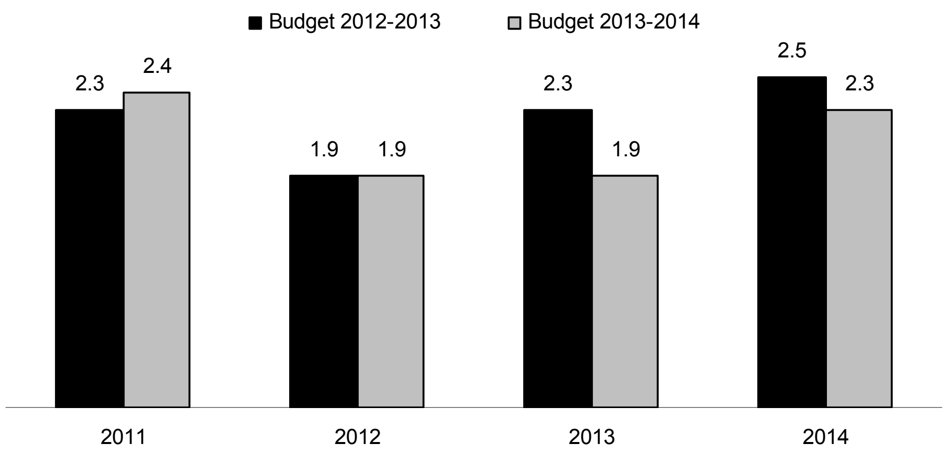
Gradual improvement in the global economic climate in 2013 is expected to provide greater support to the external sector, which will make a positive contribution to growth.

— In addition, economic activity will be supported by business investment and consumer spending, which should gradually pick up.

— However, Canada's economic expansion will be curtailed by governments' continued spending control in an environment where several provinces as well as the federal government are striving to cut their deficits.

CHART B.23

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

2 The economic statistics in this section are based on the *Canadian Economic Accounts* released by Statistics Canada on August 31, 2012.

❑ Household consumption and employment

Following a 2.4% increase in 2011, real consumer spending will rise by 1.7% in 2012, 2.1% in 2013 and 2.4% in 2014. Employment growth will continue to be the primary driver of household spending.

— After a gain of 265 200 jobs in 2011, roughly 170 000 new jobs should be created in each of 2012 and 2013.

— The unemployment rate will continue to improve, dropping from 7.5% in 2011 to 7.3% in 2012 and 7.2% in 2013. However, it will still remain higher than the pre-recession rate of 6.1% posted in 2008.

❑ Residential construction investment

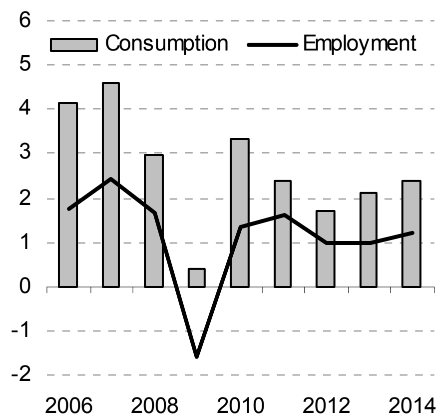
With a 4.2% gain in 2012, residential construction investment was surprisingly robust.

— Low interest rates continue to support demand.

— However, the new federal government measures to restrict mortgage lending and high household debt levels will push residential investment down 5.0% in 2013.

CHART B.24

Job creation and consumer spending in Canada
(percentage change)

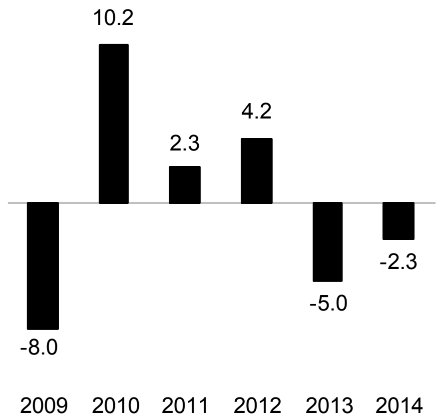


Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.25

Residential investment in Canada

(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Non-residential investment

Business investment will remain an engine of economic growth in Canada in the coming years. After growing by 13.1% in 2011, the value of non-residential investment by businesses is expected to rise by another 8.4% in 2012, 5.4% in 2013 and 5.0% in 2014.

— Businesses continue to benefit from a favourable investment climate, in particular good borrowing conditions and a Canadian dollar hovering around parity, providing an incentive for machinery and equipment imports.

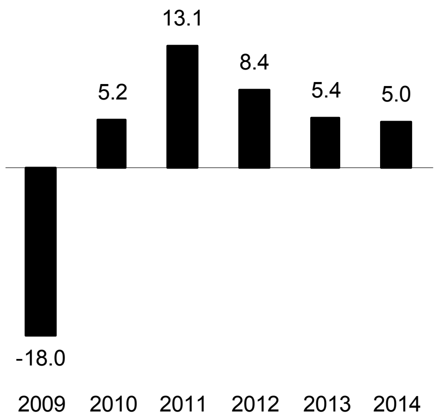
The federal government adopted spending control measures to achieve a balanced budget and other provincial governments have followed suit.

— After rebounding in 2009 and 2010 following government efforts to support the economy during the recession, total government investments decreased by 0.4% in 2011 and are expected to decline by 5.8% in 2012.

— Moderate growth in public procurement of goods and services is expected in the coming years.

CHART B.26

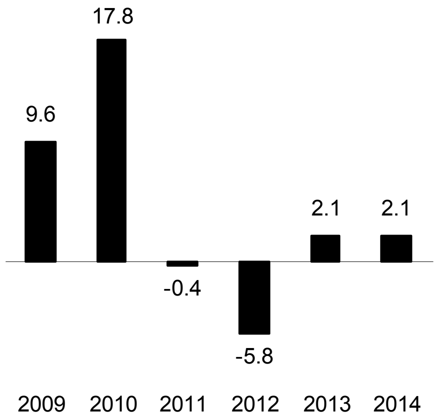
Non-residential business investment in Canada
(percentage change, in nominal terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.27

Government investments in Canada
(percentage change, in nominal terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Canadian household debt

The level of Canadian household credit debt has risen significantly in recent years.

- According to recent revisions to the Canadian economic accounts,[1] the ratio of household debt to disposable income hit 163.4% in the second quarter of 2012, up from 85.1% in the first quarter of 1990.

Although the Bank of Canada has often stressed the risk associated with high household debt levels, measuring household debt relative to disposable income does not necessarily provide a complete picture of the financial position of Canadian households.

For example, changes in debt servicing, i.e. interest payments, show that the percentage of disposable income Canadian households use to meet this financial obligation has dropped from 11.0% to 7.4% over the same period.

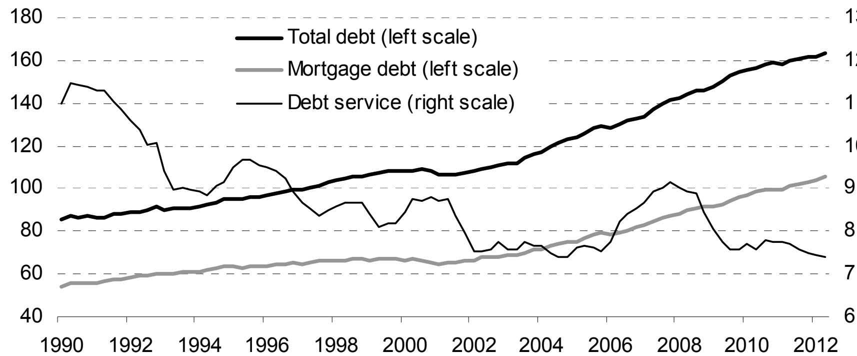
- This decrease indicates that households took advantage of the low interest rates and that their current debt level, while higher, is putting less pressure on their budget than before.

In addition, a comparison of debt and assets of Canadian households reveals only a slight increase in their debt-to-assets ratio, from 17.4% in the first quarter of 1990 to 19.6% in the second quarter of 2012.

- This result is due to the fact that the increase in household debt was accompanied by a significant appreciation in households' assets, especially real estate assets. In addition, the higher real estate prices are one of the main causes of households' higher debt levels.

Nevertheless, the eventual hike in interest rates will create greater financial obligations for households, leaving less money to spend on other consumer goods and services.

Canadian household debt and debt service
(as a percentage of disposable income)



Source: Statistics Canada, National Balance Sheet Accounts as of October 12, 2012.

1 The revisions included a change to the definition of "household sector" used by Statistics Canada. This sector no longer includes the activities of non-profit institutions serving households.

❑ External trade

Canadian exports should continue expanding, climbing by 4.1% in 2012, 3.4% in 2013 and 4.2% in 2014.

— More specifically, Canadian exports of automobiles, oil, and machinery and equipment are rising steadily.

— The Canadian dollar, which is expected to remain relatively stable, will no longer put as big a drag on Canadian exporting businesses.

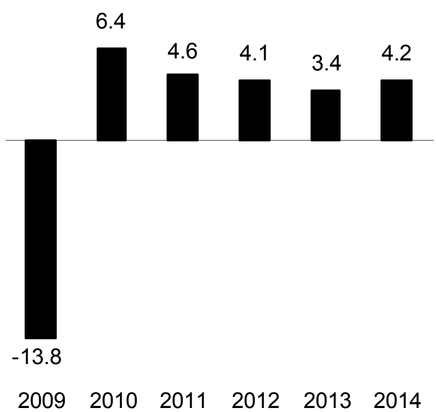
Canadian imports should increase by 3.4% in 2012, 2.5% in 2013 and 3.0% in 2014, in pace with domestic demand growth.

— Gradual strengthening of the U.S. economy, progressive easing of economic and fiscal problems in the euro area, and more-sustained growth in demand from emerging economies, combined with moderation in imports, should enable external trade to make a positive contribution to Canada's economic growth starting in 2013.

CHART B.28

Canadian exports

(percentage change, in real terms)

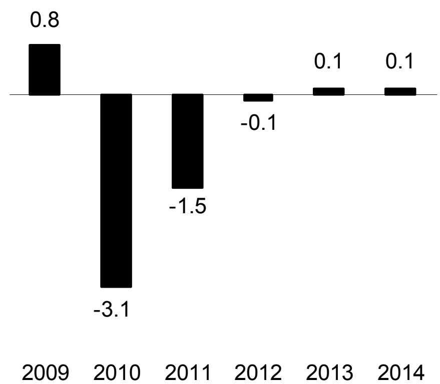


Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.29

Contribution of net exports to Canada's economic growth

(percentage points of real GDP)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Price of oil

The average price of Brent oil in 2012 should be US$112 per barrel. It is expected to drop to nearly US$100 per barrel in 2013 and 2014.

In 2012, the average price of Brent moved within the same range as in 2011. The price of Brent was nevertheless volatile during the year, hitting US$126 in March 2012.

— The price of oil rose in early 2012 due to an intensification of geopolitical risks stemming from the instability in the Middle East and North Africa. It then dropped in the second half of the year.

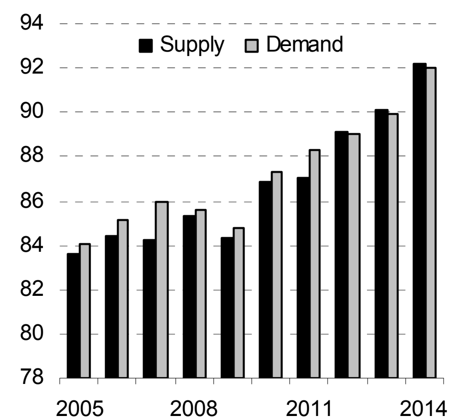
Despite a continuing degree of volatility, oil prices should trend downward in 2013, in line with the muted outlook for the world economy.

— Moderate global economic growth will likely weaken demand for oil among advanced and emerging economies.

— In addition, the oil supply is expected to exceed demand in 2013 owing to higher world oil production, particularly in North America.

CHART B.30

Global supply and demand for oil and other liquid fuels
(millions of barrels per day)

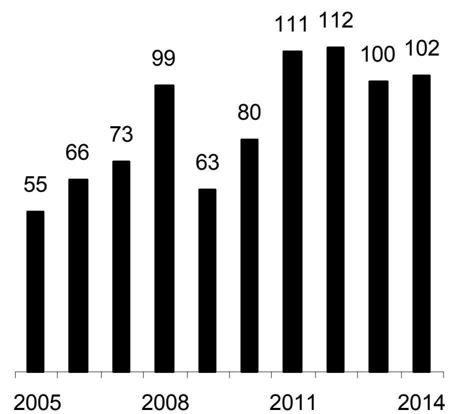


Source: U.S. Energy Information Administration.

CHART B.31

Price of Brent oil

(US dollars per barrel)



Sources: Bloomberg and Ministères des Finances et de l'Économie du Québec.

❑ Canadian dollar

The Canadian dollar is expected to remain close to parity with the U.S. dollar in the coming quarters. It should stand at an average of 100.7 U.S cents in 2012, 99.1 cents in 2013 and 100.7 cents in 2014.

Since the beginning of 2012, the Canadian dollar has, on average, hovered at similar levels to in 2011. However, it has fluctuated with changes in commodity prices and financial market turbulence.

— After falling to nearly 96 U.S. cents in June 2012, the loonie pushed above parity with the greenback in August, primarily as a result of sustained demand for Canadian assets.

The loonie is expected to depreciate slightly by the end of the year and continue a downward trend in 2013. Deceleration in emerging economies should dampen demand for commodities and drag oil prices down.

The Canadian dollar will nevertheless be supported by demand for Canadian assets by foreign investors, owing in particular to:

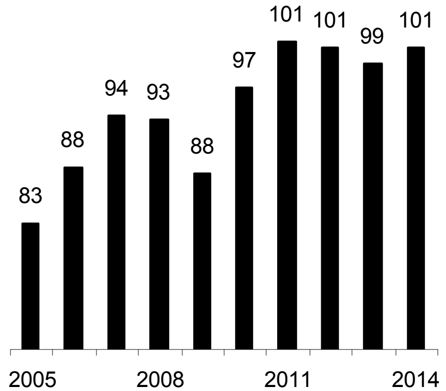
— positive spreads between short-term interest rates in Canada and the United States as a result of Canada's higher key rate;

— the appeal of Canadian government bonds: Canada is one of the seven remaining countries in the world assigned an AAA rating and stable outlook by the main credit-rating agencies.

CHART B.32

Canadian dollar exchange rate

(annual averages, in U.S. cents)

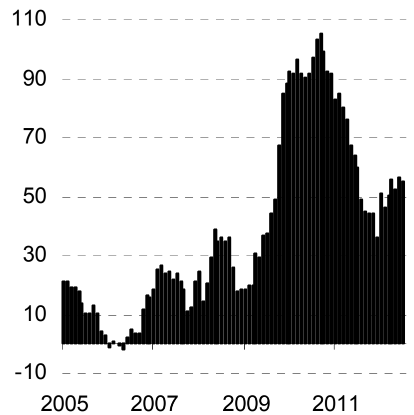


Sources: Bloomberg and Ministère des Finances et de l'Économie du Québec.

CHART B.33

Foreign investment in bonds on the Canadian market

(12-month cumulative, billions of Canadian dollars)



Sources: Bloomberg and Ministère des Finances et de l'Économie du Québec.

❑ Low interest rates over a prolonged period

Worldwide economic and financial uncertainty and the strong Canadian dollar are causing the Bank of Canada to remain cautious in setting its monetary policy. It has kept its key interest rate at 1.0% since September 2010.

Last spring, the Bank of Canada changed its tune slightly, saying that a reduction in monetary easing may eventually become appropriate. Monetary tightening will be possible only if global financial tensions ease and the global economy strengthens.

— The Bank of Canada is not expected to tighten its monetary policy before the first quarter of 2014 and the tightening will be very gradual. The yield on 3-month Treasury bills will increase in tandem with the target rate.

On the bond market, uncertainty with respect to the situation in Europe led to stronger investor demand for less-risky securities in 2012, including Canadian bonds, which resulted in lower Canadian bond rates.

— The yield on 10-year federal government bonds fell from nearly 2.1% in March to a low of 1.6% in July, and then edged up to nearly 1.8% in October.

Bond rates should gradually climb as tensions in financial markets ease and the global economy begins growing at a stronger pace. Demand for government securities will wane as renewed confidence encourages investors to turn to other assets.

— The average yield on 10-year federal government bonds is expected to be 1.9% in 2012, 2.4% in 2013 and 3.2% in 2014.

TABLE B.6

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

	2011	2012	2013	2014
Target for the overnight rate	1.0	1.0	1.0	1.4
Treasury bills – 3-month	0.9	1.0	1.0	1.4
Bonds – 10-year	2.8	1.9	2.4	3.2
Canadian dollar (U.S. cents)	101.3	100.7	99.1	100.7

Sources: Statistics Canada, Bloomberg and Ministère des Finances et de l'Économie du Québec.

2.2 The economic situation in the United States

❑ Moderate expansion of economic activity

U.S. economic activity should grow at a rate of 2.1% in 2012 and 2.0% in 2013, and then pick up the pace to grow by 2.5% in 2014. This represents an upward revision of 0.2 percentage point in 2012 and a downward revision of 0.3 percentage point in 2013 and 2014 to the forecasts in Budget 2012-2013.

— The revised forecast for 2012 is mainly attributable to an upward adjustment to growth in the fourth quarter of 2011, which increased the real GDP level in 2012.

However, U.S. economic growth decelerated in the first half of 2012 and should remain moderate in the short term. It will essentially be sustained by domestic demand, whereas gradual improvement on the labour market and the sound financial position of businesses will favour consumption and investments.

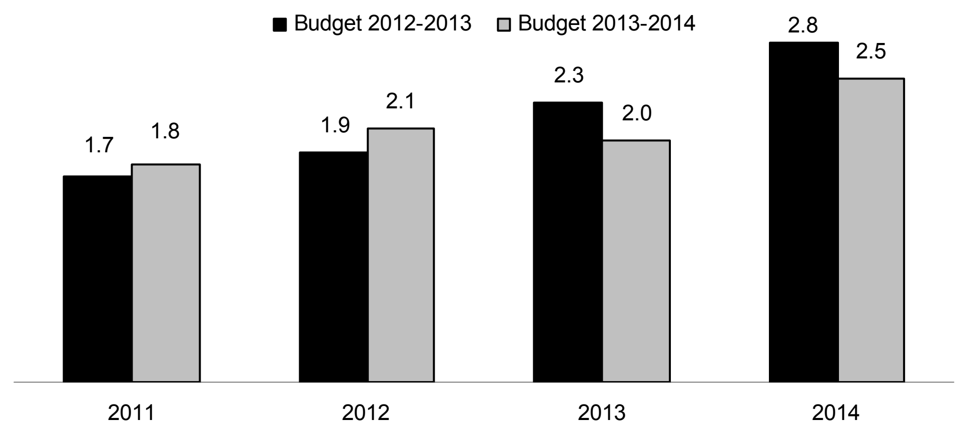
— The still-fragile global economic environment and the uncertainty it creates will nevertheless restrict export growth and encourage households and businesses to remain cautious.

— As well, ongoing fiscal tightening by the different levels of government in the United States will continue to restrain economic growth.

Furthermore, several key indicators in the United States, including household balance sheets and the real estate market, have improved. As a result, economic growth should gradually accelerate as of 2013.

CHART B.34

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



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Job creation remains crucial to growth in consumption

The labour market was hit hard during the last recession and then rebounded more slowly than expected. Unemployment is still high compared to pre-recession levels and jobs are barely being created fast enough to establish a dynamic relationship between employment and consumption.

— Despite the creation of 1.5 million jobs in 2011 and 1.9 million jobs in 2012, the level of employment in 2012 should remain over 4 million below its pre-recession level.

However, the labour market should gradually become more robust in the coming quarters. The U.S. Federal Reserve has announced that it will maintain its exceptionally accommodating monetary policy stance until labour market conditions have improved substantially.

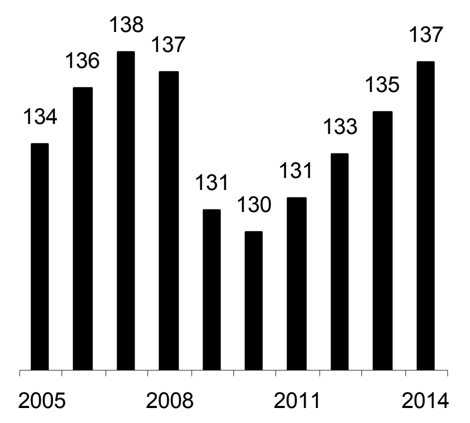
In addition, U.S. households are still deleveraging. The ratio of household debt to personal disposable income has dropped from 134% in 2007 to 114% in the first half of 2012, its lowest level since 2003.

The gradual improvement in labour market conditions and U.S. households' healthier financial situation should lead to moderate growth in consumer spending.

— As a result, real consumption is expected to rise by 1.9% in 2012, 2.1% in 2013 and 2.3% in 2014.

CHART B.35

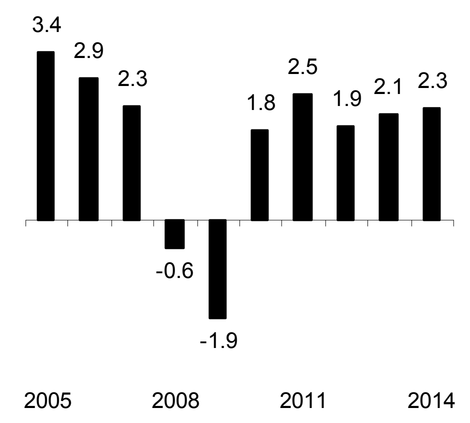
Labour market
(millions of jobs)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.36

Consumer spending
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

Monetary policy measures to stimulate employment

The U.S. Federal Reserve (the Fed) has introduced a number of non-conventional monetary policy measures since 2007 to counter the effects of the financial crisis and support economic recovery.

- Although these measures have been effective, creating two million jobs according to some studies,[1] unemployment remains high and employment has not yet returned to its level prior to the financial crisis.

At its monetary policy meeting in September 2012, the Fed, part of whose mandate is to achieve full employment, announced new targeted measures to bring unemployment in line with full employment. It announced that:

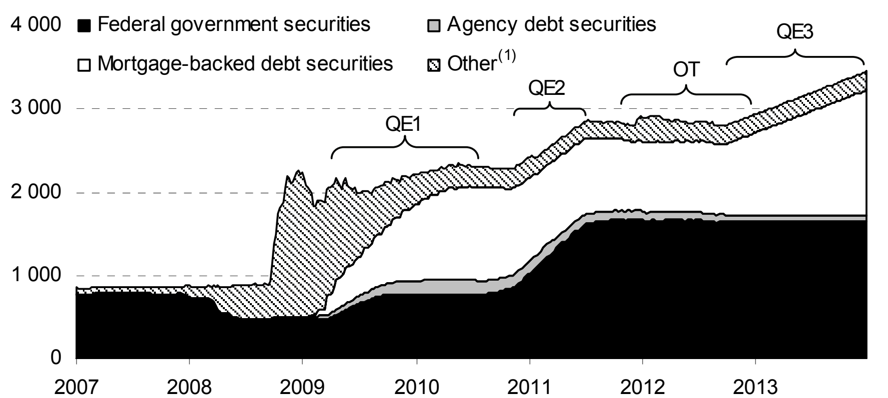
- it is willing to maintain the federal funds rate at exceptionally low levels until at least mid-2015;

- it will purchase US$40 billion worth of mortgage-backed securities per month for an indefinite period of time.

In addition to the positive economic impacts of a low federal funds rate, the Fed's third round of quantitative easing is targeted at the real estate sector, particularly with the aim of stimulating employment growth.

- A strong recovery in the residential sector is essential for a more robust upturn in growth, because it would foster a more sustained expansion of consumption and employment.

U.S. Federal Reserve balance sheet – Total assets
(billions of U.S. dollars)



Notes: QE – Quantitative easing, phases 1, 2 and 3.
OT – Operation Twist.
(1) Mainly liquidity programs to support key credit markets and loans to financial institutions.
Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

1 See Ben BERNANKE, *Monetary Policy since the Onset of the Crisis*, speech given in Jackson Hole, Wyoming, on August 31, 2012.

❑ Favourable investment conditions

After taking advantage of the various government incentives to bolster their investments in 2011, U.S. firms should continue to enjoy substantial liquidity and low financing costs in the coming years.

Despite the still-difficult economic context, U.S. firms are very profitable. This has enabled them to accumulate substantial liquidity and use it to boost investment.

— In 2012, corporate after-tax profits, in nominal terms, are expected to be 22% higher than the pre-financial crisis peak.

However, the uncertainties surrounding the international economic climate as well as the expiry of temporary support measures could cause businesses to remain cautious in their investment decisions.

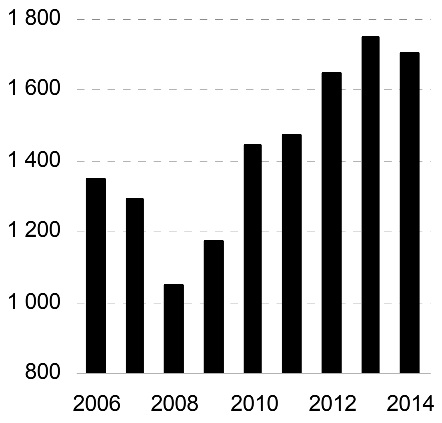
— Consequently, business investment should grow by 7.4% in 2012 and then decelerate to 4.3% in 2013.

The increase in investment should nevertheless continue to make American businesses more competitive in both domestic and international markets.

— This situation should help support growth in U.S. exports in the coming years.

CHART B.37

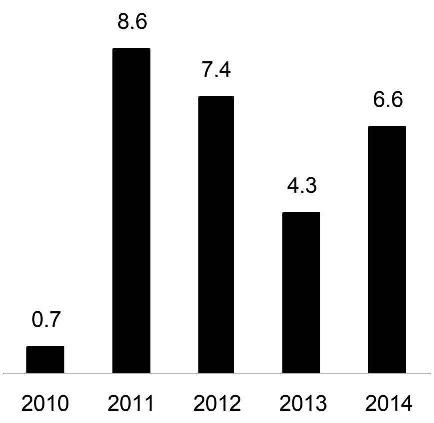
Corporate after-tax profits in the United States
(billions of US dollars, in nominal terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.38

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



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Growth in residential investment

The U.S. real estate market has been going through a serious adjustment for nearly six years. Property prices plummeted and the real estate slump has put considerable pressure on the U.S. economy.

The difficulties in the United States' real estate sector seem to be coming to an end, with a number of recent indicators pointing to a turnaround.

— There has been a marked contraction in the inventory of homes for sale, while the demand for property is continuing to firm up, which is having a positive effect on housing prices.

Construction companies are responding to the favourable conditions by gradually building more homes. This upward trend is expected to continue.

— Housing starts should reach 762 000 units on average in 2012, 1.0 million units in 2013 and 1.2 million units in 2014.

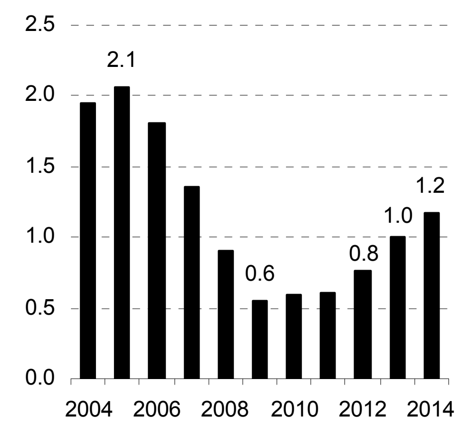
The real estate sector is thus expected to make a positive contribution to economic activity in the United States in the coming years.

— Following six consecutive years of contraction, residential investment should start growing again, climbing by 11.7% in real terms in 2012, 13.9% in 2013 and 15.5% in 2014.

CHART B.39

Housing starts in the United States

(millions of units)

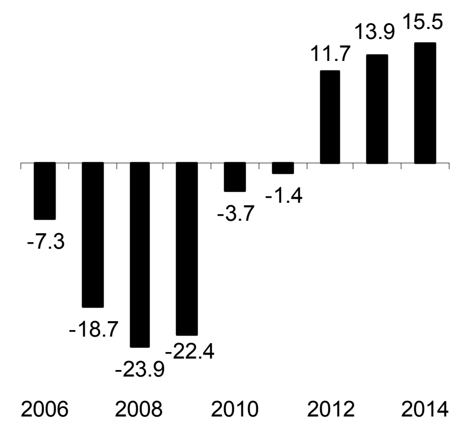


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.40

Residential investment in the United States

(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

U.S. real estate recovery

Recovery in the U.S. real estate market is a key factor in boosting household confidence, consumption and investment, and could be the premise for more-robust economic growth in the coming years.

Several indicators signal continued recovery in the real estate market

Sales of single-family homes are gradually picking up. This is especially true in the case of existing homes, which have been selling at an annualized level of around 4.1 million units since the beginning of 2012. Sales of new homes are rising as well, but remain to a low level.

Home sales are expected to continue expanding in relation to certain factors that support housing demand, in particular:

- properties selling at relatively affordable prices and historically low mortgage rates;
- a faster rate of household formation;
- measures adopted by U.S. authorities to support the real estate market.

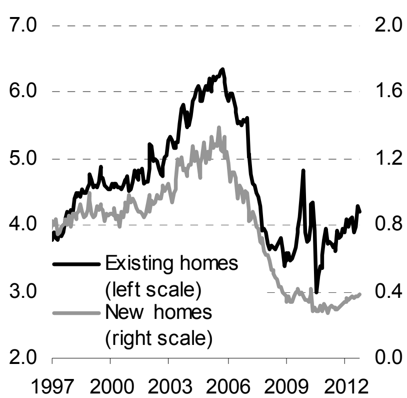
The inventory of homes for sale decreased to two million properties in September 2012, a similar level to that prior to the financial crisis. This decrease encouraged construction companies to build more homes.

- During the first nine months of 2012, housing starts rose by 27% over the same period last year.

The recovery is expected to be gradual

The real estate sector should still pick up gradually. The difficult labour market conditions and high number of property foreclosures continue to put a drag on the real estate recovery.

Sales of single-family homes in the United States
(millions of units)



Source: IHS Global Insight.

Inventory of homes for sale in the United States
(millions of units)

Source: IHS Global Insight.

❑ Progressive deficit reduction

In 2010, the government sector, which supported economic activity during the last recession and the initial phase of recovery, entered a period of budgetary consolidation that will continue for several years. After peaking in 2009, the relative weight of total government spending in the economy is expected to continue contracting.

— The ratio of total government spending to GDP should thus fall from 20.3% in 2011 to 19.5% in 2012 and 18.7% in 2013.

Spending tightening by State and local governments is expected to ease in 2012 and 2013, while federal government spending in real terms should continue falling gradually so as not to jeopardize economic growth.

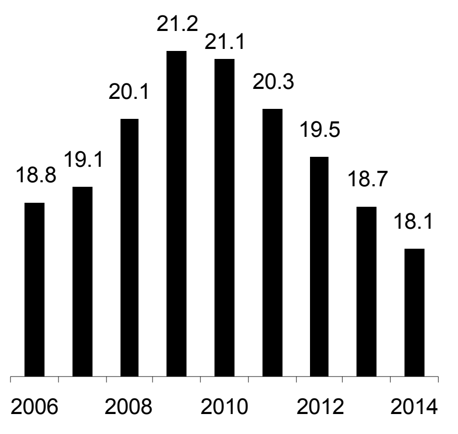
— According to the U.S. government's most recent forecasts, the deficit-to-GDP ratio is expected to drop from 7.8% in fiscal year 2012 to 6.1% in fiscal year 2013.

— Nevertheless, important choices will have to be made between now and the end of 2012 to stop from automatically taking effect in January 2013 the fiscal restraint measures stipulated in current legislation (the "fiscal cliff").

During this period, when the government sector should continue getting its spending under control, the Federal Reserve will maintain its exceptionally accommodating monetary policy in order to boost economic activity.

CHART B.41

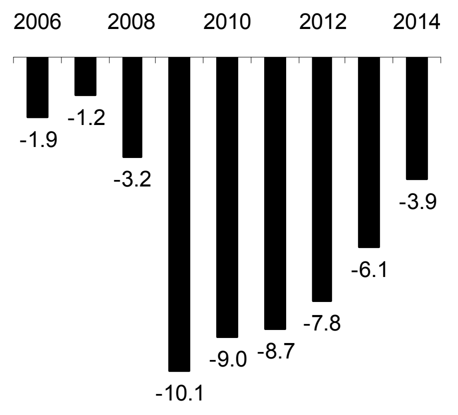
Total government spending in the United States
(based on national accounts, as a percentage of nominal GDP)



Sources: Bureau of Economic Analysis, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.42

U.S. federal government deficit
(fiscal years, as a percentage of nominal GDP)



Source: Office of Management and Budget.

U.S. budget policy: uncertainties over the fiscal cliff

Under current laws, a number of federal economic support programs will expire in January 2013 and other fiscal restraint measures will enter into force.

- These restraint measures, which consist of tax increases and spending cuts, are collectively referred to as the “fiscal cliff”.
- According to the Congressional Budget Office, an agency that conducts nonpartisan analysis for the U.S. Congress, the fiscal cliff measures total US$491 billion,[1] or 3.1% of GDP, in fiscal year 2013.

If Congress does not agree to attenuate the pace of the fiscal tightening under current laws, these measures would slow economic activity considerably in 2013.

However, the fact that the U.S. economy remains fragile should encourage the members of Congress to reach an agreement on reducing the deficit more slowly in order to ensure that the economy continues to expand.

Impact of the fiscal cliff measures on U.S. federal government deficit in 2013

1. End of tax cuts enacted in 2001, 2003 and 2009

The expiry of the reductions in tax rates in December 2012 and the maintenance (no raise) of certain tax thresholds would increase federal revenues by $225 billion in 2013.

2. Increase in employee premiums

The rate for social security premiums was reduced from 6.2% to 4.2% in January 2011. Raising it back to the previous rate in January 2013, as planned, would boost tax receipts by $85 billion in 2013.

3. Automatic spending cuts

The spending cuts provided for in current laws will take effect in January 2013 and will total $54 billion in 2013.

4. Expiry of extended unemployment insurance benefits

Unemployment insurance benefits are normally payable for 26 weeks. The eligibility period was previously extended to 99 weeks. A return to a 26-week eligibility period would reduce spending by $34 billion in 2013.

5. Universal health care coverage (Affordable Care Act)

The *Affordable Care Act*, which provides for broader health care coverage, increases the tax rate for households above a certain income and will raise government revenues by $18 billion in 2013.

6. Other fiscal tightening measures

A number of other measures are to expire in December 2012. Their expiry will increase revenues in 2013 by a total of $75 billion.

Note: The budgetary statistics contained in this text box are in U.S. dollars and fiscal years.
For example, fiscal year 2013 began on October 1, 2012 and will end on September 30, 2013.

1 CONGRESSIONAL BUDGET OFFICE, *An Update to the Budget and Economic Outlook Fiscal Years 2012 to* 2022, August 2012, and compilation by the Ministère des Finances et de l’Économie du Québec.

❑ Gradual recovery in the external sector

Despite the difficult international economic climate, demand for U.S. products remained relatively robust in 2012 because U.S. firms substantially improved their competitiveness.

— Unit labour costs in the U.S. manufacturing sector evolved favourably against other advanced economies.

However, a moderation of economic growth in emerging economies and persistent problems in the euro area led to a slowdown in world trade, which dampened growth in U.S. exports.

— U.S. export growth is expected to fall from 6.7% in 2011 to 3.4% in 2012 and then gradually expand to 4.5% in 2013 and 5.9% in 2014.

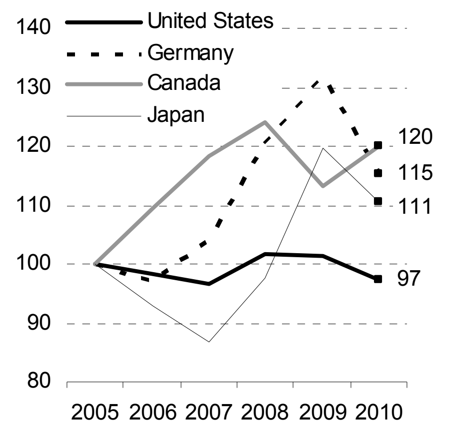
In addition, gradual revival of the U.S. economy in the coming years, as investment and employment return to pre-recession levels, should stimulate imports.

— Thus, after growing by 4.8% in 2011, imports are expected to increase by 2.9% in 2012 and then pick up pace and expand at a rate of 4.1% in 2013 as a result of firmer growth in domestic demand.

The external sector should thus make a limited contribution to economic activity in 2012, 2013 and 2014.

CHART B.43

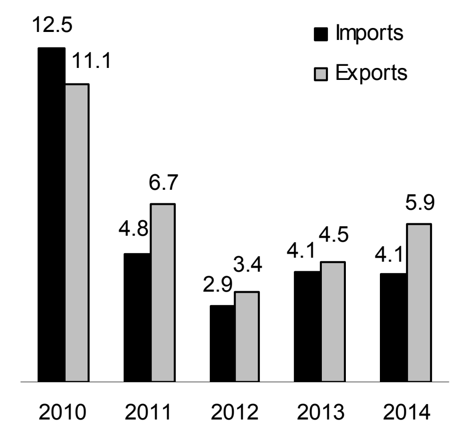
Unit labour costs(1) in the manufacturing sector, in U.S. dollars
(index, year 2005 = 100)



(1) Average cost of labour (mainly wages and benefits) per unit of output.
Source: Bureau of Labor Statistics.

CHART B.44

Change in U.S. imports and exports
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère de Finances et de l'Économie du Québec.

3. THE INTERNATIONAL ECONOMIC CONTEXT

This part describes the international economic situation. After expanding by 3.8% in 2011, global economic growth should decelerate to 3.0% in 2012. The deceleration was forecast in Budget 2012-2013, but it is greater due to the slowdown in emerging economies. Growth will subsequently firm up to 3.3% in 2013 and 3.7% in 2014.

— In relation to Budget 2012-2013, growth forecasts for the global economy have been revised downward by 0.2 percentage point for 2012 and 0.5 percentage point for 2013 and 2014.

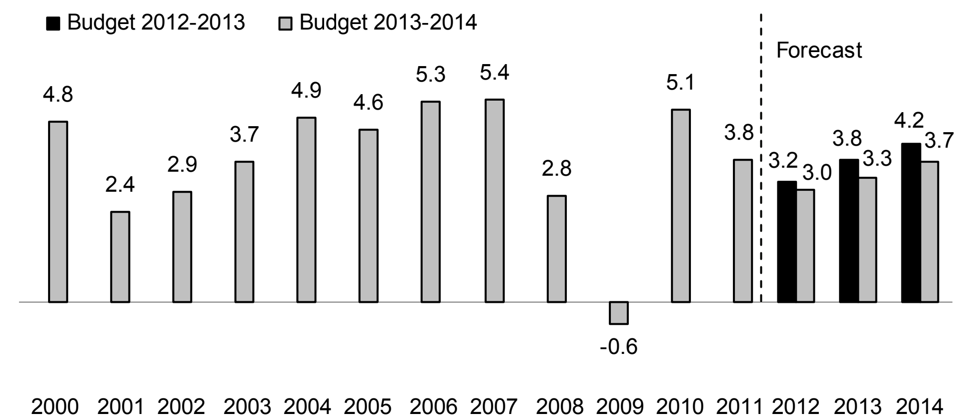
As anticipated, the sovereign debt crisis in the euro area is dampening global economic growth in 2012 by putting a drag on economic activity in Europe as well as on the expansion of emerging economies.

— This crisis, which is lasting longer than anticipated, will continue to weaken world growth prospects, especially in 2013.

The economic and financial adjustments in the euro area, gradual strengthening of the U.S. economy and renewed growth in emerging economies are nevertheless expected to help the world economy pick up pace slightly in 2013 and then see stronger growth in 2014.

CHART B.45

Global economic growth
(real GDP, percentage change, data based on purchasing power parity)



Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

3.1 Moderate growth in the global economy

The pace of global economic growth has decelerated since the beginning of 2012. The problems in the euro area have had a greater-than-expected impact on emerging economies through the heightened effect on their exports.

The continuing economic and fiscal problems in the euro area have:

— caused a slowdown in trade, given Europe's dominant position in world trade, particularly as a large trading partner for emerging economies;

— created a climate of uncertainty that has eroded consumer and business confidence in advanced economies;

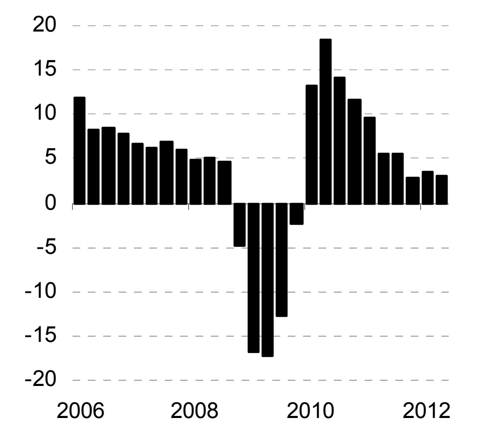
— hampered overall economic activity, reflected in particular in a slowdown of industrial production;

— exacerbated tensions and volatility in international financial markets.

Moreover, several advanced economies are seeing limited growth in domestic demand owing to the fact that, after supporting economic activity during the 2008-2009 recession, several governments now find themselves having to restrain their spending in order to balance their budgets.

CHART B.46

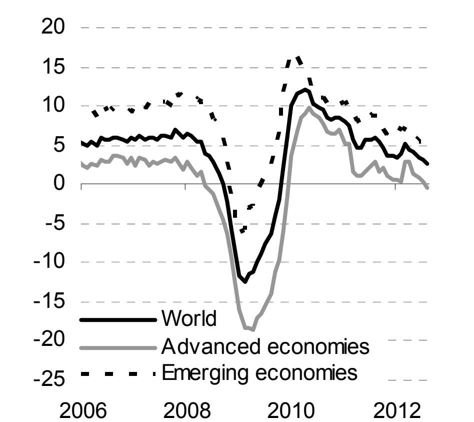
World merchandise trade[1]
(by volume, annual percentage change)



(1) Average of exports and imports.
Sources: World Trade Organization and Ministère des Finances et de l'Économie du Québec.

CHART B.47

Industrial production indices[1]
(annual percentage change)



(1) Weighted according to their share in total industrial production.
Sources: CPB Netherlands Bureau for Economic and Policy Analysis and Ministère des Finances et de l'Économie du Québec.

❑ Growth in advanced economies still dampened by the impacts of the financial crisis

The financial crisis has had a lasting impact on advanced economies. It was followed by only a weak recovery, primarily due to the limited growth in consumer spending, attributable to:

— difficult labour market conditions, high household debt levels and low consumer confidence in several advanced economies;

— tighter credit conditions stemming from stress in the banking system and continuing financial tensions in the euro area.

Moreover, the adjustments undertaken by several advanced economies will weigh on their growth in 2012 and 2013.

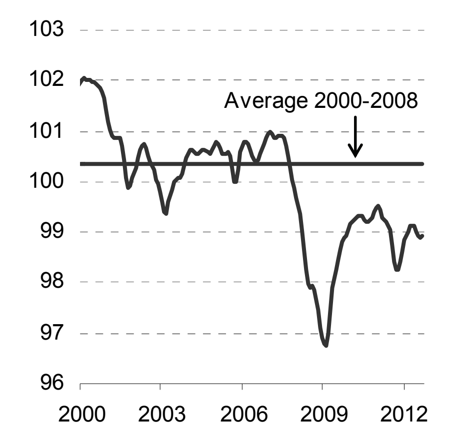
— These adjustments, which result in less spending by households and governments, put a drag on domestic demand, particularly in the euro area.

Growth in advanced economies in 2013 will be boosted by the gradual easing of financial tensions in the euro area, better access to credit and the positive impact of the exceptional asset purchase measures implemented by central banks, which injected substantial liquidity into the economy.

— All told, advanced economies are expected to grow at a modest rate of 1.3% in 2012 and 2013 and then pick up pace in 2014 to a rate of 1.9%.

CHART B.48

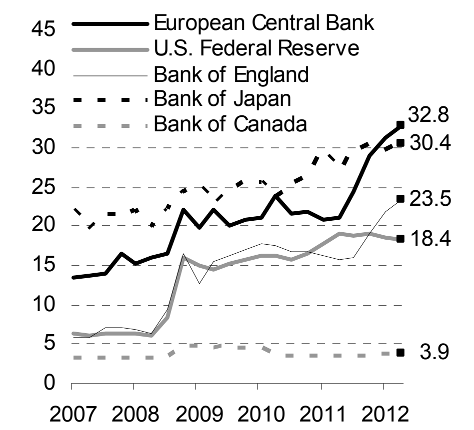
Consumer confidence in the OECD area
(index)



Sources: Organisation for Economic Co-operation and Development (OECD) and Ministère des Finances et de l'Économie du Québec.

CHART B.49

Central bank balance sheets – Total assets
(as a percentage of nominal GDP)



Sources: Bloomberg, Statistics Canada, IHS Global Insight, Eurostat and Ministère des Finances et de l'Économie du Québec.

■ Developments in the euro area sovereign debt crisis

Financial tensions in the euro area worsened in the second quarter of 2012, due to a resurgence of uncertainties over certain countries staying in the monetary union. The tensions prompted investors to move capital to safe havens.

— The withdrawal of capital from struggling countries further weakened their banking systems. Funds held in banks in Greece, Spain and Portugal, in particular, plummeted.

— The withdrawal of capital also resulted in higher financing costs for economic agents and governments in struggling countries.

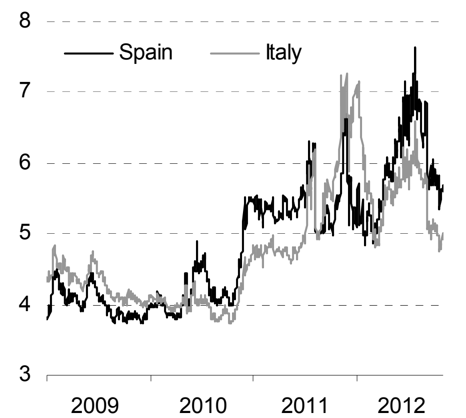
A downward spiral was created. The higher financing costs and major budgetary restrictions caused further contraction of real GDP, making it harder for some countries to achieve their fiscal targets. These negative impacts spread across the euro area by way of the economic and financial relations between the member states.

The sovereign debt crisis will likely continue affecting the euro area's economic activity at the end of 2012 and in 2013. It is expected to ease only gradually owing to the measures implemented by European authorities to ensure the euro's survival.

— However, the new measures announced by the European authorities in summer 2012 need to be accompanied by the financial consolidation of banks and governments.

CHART B.50

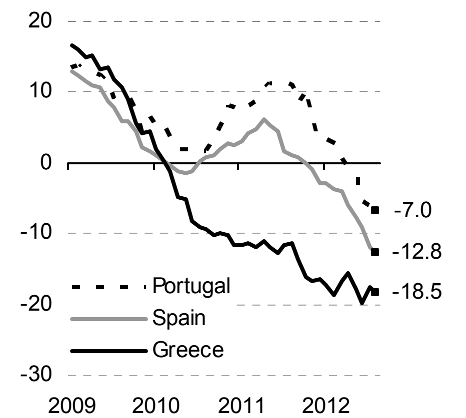
Yield on 10-year sovereign bonds
(per cent)



Source: Bloomberg.

CHART B.51

Bank deposits[(1)]
(annual percentage change)



(1) Funds or securities entrusted to banks that can be kept and restored according to a set contract.
Source: European Central Bank.

Stronger support measures in the euro area

With the resurgence of financial tensions between April and August 2012, the European Central Bank (ECB) and the European Union announced major support measures for struggling countries, which partly eased the tensions.

The new support measures were subject to a series of conditions aimed at consolidating the financial position of bailed-out banks and governments in order to minimize the risk of financial losses for European countries, including the principal contributing countries Germany and France.

Leaders at the European summit in June 2012 reached an agreement on a more effective way to use rescue funds

At the European summit held on June 28-29, 2012, the European governments laid down the broad strokes of the changes to the rules of the European rescue funds. Henceforth, these funds could be used to:

- recapitalize banks directly, thereby avoiding a heavier debt burden for distressed governments, on the condition that a single bank supervisory system run by the ECB is first created;
- partially rescue distressed countries by, among other ways, acquiring debt securities on the primary market, subject to the countries meeting certain economic and fiscal policy conditions.

The ECB announced a new sovereign debt buyback scheme

On September 6, 2012, the ECB announced a new scheme enabling unlimited purchases of short-term sovereign bonds under stringent conditions.

- Governments must apply for European rescue funds before obtaining support from the ECB.
- Purchases will be sterilized, which means the ECB will offset them by removing equivalent amounts of money elsewhere in the financial system to prevent a surge in money supply from creating inflationary risks.

The conditions for obtaining European authorities' support are aimed at consolidating the financial position of banks and governments

The new measures reflect the European authorities' determination to ensure the euro's survival.

- The purpose of the measures is to support distressed European countries, while requiring them to implement the necessary fiscal and structural reforms to consolidate their financial position.

Despite the stringent conditions, however, the measures increase the risks borne by member countries, in particular Germany and France, which are the largest contributors.

- Should a European bank recapitalized using rescue funds still become insolvent, the member States may have to assume losses on their contributions, which will be calculated on the basis of their population and the size of their economy.

❑ Growth in emerging economies

Despite the recent slowdown stemming from the moderation in exports to advanced economies and the impact of previous monetary tightening, emerging economies will continue to grow at an enviable pace. Growth rates of 4.9% in 2012, 5.4% in 2013 and 5.6% in 2014 are forecast.

— Emerging economies will contribute 2.2 percentage points to global economic growth in 2012 and 2.5 percentage points in 2013, equivalent to triple the contribution by advanced economies.

Weaker demand from advanced economies considerably slowed growth in exports by emerging economies in 2012, pushing it down from 8.8% in 2011 to 4.6% in 2012.

With the risk of overheating now diminished, the governments and central banks of several emerging economies have taken steps to stimulate growth. For example:

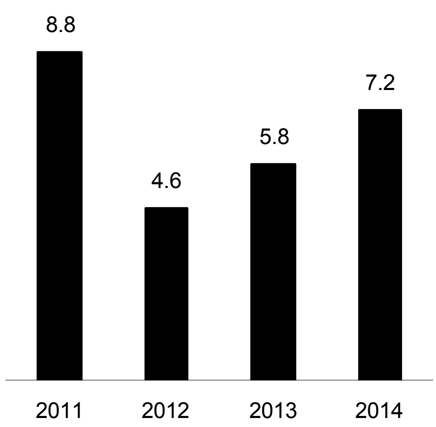
— China launched a 1-trillion-yuan economic stimulus plan representing 2.1% of its GDP;

— Brazil and India also announced a series of economic stimulus measures in recent quarters.

CHART B.52

Exports of emerging economies

(annual percentage change, in real terms)

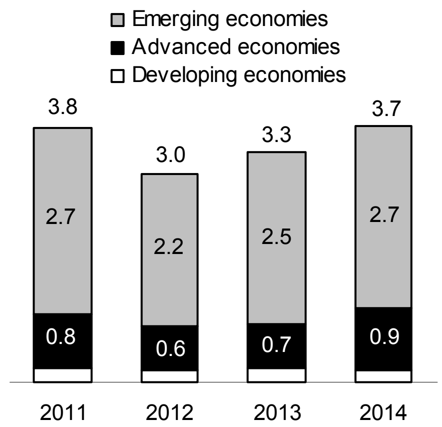


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.53

Contribution to global economic growth

(percentage points)



Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

3.2 Outlook by country

In **Canada**, economic growth will be supported by consumption and business investment. However, fiscal tightening by governments and the anticipated downturn in residential investment are expected to limit growth. As a result, real GDP should increase by 1.9% in 2012 and 2013 and then accelerate to 2.3% in 2014.

In the **United States**, the economy should continue gradually getting stronger, with an expected growth rate of 2.1% in 2012, 2.0% in 2013 and 2.5% in 2014. The economic expansion in 2012 and 2013 will be driven primarily by the gradual upturn in employment and consumption, business investment and residential construction. In 2014, the external trade will likely make a greater contribution to growth.

TABLE B.7

Global economic growth
(real GDP, percentage change, unless otherwise indicated)

	Weight in global GDP(1)	2011	2012	2013	2014
World	**100.0**	**3.8**	**3.0**	**3.3**	**3.7**
Advanced economies	**50.5**	**1.6**	**1.3**	**1.3**	**1.9**
Canada	1.8	2.4	1.9	1.9	2.3
United States	19.1	1.8	2.1	2.0	2.5
Euro area	14.1	1.4	–0.7	–0.2	0.7
United Kingdom	2.9	0.9	–0.1	0.9	1.3
Japan	5.6	–0.8	2.1	0.9	1.4
Emerging economies	**44.7**	**6.1**	**4.9**	**5.4**	**5.6**
China	14.3	9.3	7.6	7.8	7.9
India(2)	5.6	6.9	5.5	6.2	6.9

(1) Figures for 2011, based on purchasing power parity.
(2) India's real GDP is for fiscal years, at market price.
Sources: Datastream, IHS Global Insight, International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

In the **euro area**, while financial tensions and uncertainty over the sovereign debt crisis will still be present, they should gradually ease. The austerity measures announced by the different governments and the record high unemployment rate will weigh on household and government spending as well as erode household and business confidence.

Real GDP in the euro area is expected to slide by 0.7% in 2012 and 0.2% in 2013, and then rise by 0.7% in 2014.

The **United Kingdom's** economy began expanding again in the third quarter of 2012, after contracting for three consecutive quarters. The renewed growth is mainly attributable to the impact of the London Olympic Games, which contributed to a general rebound in the service sector, which accounts for over 75% of the economy. The government's fiscal austerity measures and the euro area's sluggish growth will nevertheless curtail expansion in real GDP.

Thus, after stagnating in 2012 (–0.1%), economic activity is expected to edge up 0.9% in 2013 and 1.3% in 2014.

In **Japan**, real GDP growth should decelerate from 2.1% in 2012 to 0.9% in 2013 primarily as a result of the impact of slower European and Chinese demand for its exports and the decline in reconstruction operations following the natural disaster in March 2011. Real GDP should expand at a faster pace in 2014, with 1.4% growth expected.

China's economic growth will be driven by a more moderate increase in exports owing to the continuing problems in the euro area and a progressive strengthening in domestic demand, fostered by the government's economic support measures. Real GDP should increase by 7.6% in 2012, 7.8% in 2013 and 7.9% in 2014.

India saw slower economic growth in 2012, at 5.5%, after expanding by 6.9% in 2011. The pace of growth should pick up to a rate of 6.2% in 2013 and 6.9% in 2014, despite the moderation in world trade and a more modest increase in consumption and private investment.

The investment stimulation measures recently announced by the government, along with the measures to restore investor confidence in the government's fiscal position, should help boost economic growth.

4. RISKS RELATED TO THE ECONOMIC FORECAST

The economic scenario is subject to several risks that could influence Québec's economic growth. Several of these risks were discussed in Budget 2012-2013 and still apply.

❑ Resurgence of financial tensions in the euro area

Even though the European authorities pledged to support struggling governments and banks, there is still uncertainty about the implementation of the promised measures and the capacity of certain countries to stabilize their debt load. European countries grappling with fiscal problems need to end the spiral of fiscal tightening hampering the economy, but this can be a long and laborious process.

If the concerns about maintaining the euro area intact were to resurface, financial tensions related to the sovereign debt crisis could arise anew, resulting in another movement of capital to safe havens and a more marked slowdown in global economic activity.

— Québec's economy would be affected, in particular by exports and financial channels, while increased investor interest in safe havens, including Canadian bonds, would cause the dollar to appreciate.

❑ A sudden reduction in U.S. deficit

Under current laws, a number of fiscal and budget measures are supposed to take effect in January 2013, reducing the federal deficit by around US$491 billion in fiscal year 2013, or the equivalent of 3.1% of GDP.

This significant tightening would put a drag on the U.S. economy, which remains fragile and is dealing with high unemployment. Given this risk, and following intense negotiations, the most-likely scenario is that the U.S. Congress will agree upon a more gradual deficit reduction.

However, reaching an agreement of this kind is complicated and could be delayed, or maybe only cover fewer measures.

— In this case, the U.S. could see weaker-than-expected economic growth in 2013. Considering the United States' weight in Québec's exports, this could lead to a downward revision in Québec's economic growth.

❑ Spike in oil prices

Given the ongoing and intense geopolitical tensions in the Middle East, oil prices could suddenly soar if the risk of major conflict or confrontations were to become a reality.

- The price increase would have a significant negative impact on households' purchasing power and on global economic growth, affecting every region of the world.
- Québec's economy would be directly affected by the price of imports and indirectly by weaker economic growth among its trading partners.

❑ A marked slowdown in Asia's economic growth

The Asian economies are a major pillar of global economic growth. China, Japan and India are the epicentre owing to their weight and involvement in Asia's manufacturing sector.

However, all of these countries are facing challenges of their own that risk dampening their growth more than anticipated, which could curb the growth dynamic of all Asian economies.

- Currently, China must reduce its dependence on foreign markets and strike a better balance between its sources of growth by directing them more to domestic demand.
  - This re-engineering of the Chinese model, against a backdrop of slowing demand from advanced economies and a saturated real estate market, calls for major structural adjustments. This process could temporarily result in much weaker growth than expected in the Chinese economy.
- Japan's economic recovery could be interrupted by weaker-than-expected exports to Europe and China at the same time as domestic demand is slowing.
- India may encounter problems in implementing the major reforms recently announced by the government, which could cause a greater decline in economic growth.

In addition to having negative repercussions on global economic growth, depressed growth in Asian economies could push down commodity prices, which could dampen Québec exports of natural resources.

Section C

THE GOVERNMENT'S FINANCIAL FRAMEWORK

INTRODUCTION

This section of the Budget Plan presents the forecasts for fiscal 2012-2013 and the government's budgetary and financial stance for 2013-2014 and 2014-2015.[1]

The information provided concerns:

— consolidated financial and budgetary transactions for the period from 2012-2013 to 2014-2015, including the impact of the various measures announced in this budget;

— the change in budgetary revenue and expenditure, as well as adjustments made since the March 2012 budget;

— consolidated expenditure;

— the results of the consolidated entities, particularly the special funds, non-budget-funded bodies and the health and social services and education networks;

— the government's capital investments as a whole;

— the government's non-budgetary transactions and net financial requirements.

Lastly, the five-year financial framework for Budget 2013-2014, or the government's financial forecasts up to 2017-2018, is presented in section A.

1 Throughout this section, the budgetary data for 2011-2012 are actual data and those for 2012-2013 and subsequent years are forecasts.

1. RETURN TO FISCAL BALANCE IN 2013-2014

1.1 Change in the budgetary balance

As forecast, the budgetary balance for 2012-2013 is in deficit by $1.5 billion, excluding the $1.8-billion accounting impact of Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant.

As of 2013-2014, the level of spending will be comparable with that of revenue, making it possible to restore fiscal balance. The financial framework also includes a contingency reserve of $200 million in 2012-2013, $400 million in 2013-2014 and $500 million a year thereafter. A difference of $430 million will still have to be offset as of 2014-2015. This is an improvement over the $875-million difference forecast in Budget 2012-2013.

TABLE C.1

Summary of consolidated budgetary transactions from 2012-2013 to 2014-2015
(millions of dollars)

	2012-2013	2013-2014	2014-2015
BUDGETARY REVENUE			
Own-source revenue	53 192	56 215	58 580
Federal transfers	15 705	16 145	15 892
Total	**68 897**	**72 360**	**74 472**
BUDGETARY EXPENDITURE			
Program spending	–62 642	–63 791	–65 350
Debt service	–7 917	–8 601	–8 735
Total	**–70 559**	**–72 392**	**–74 085**
CONSOLIDATED ENTITIES			
Non-budget-funded bodies and special funds	462	432	–317
Networks – Health and social services and education	–100	—	—
Generations Fund	879	1 039	1 386
Total	**1 241**	**1 471**	**1 069**
Contingency reserves	–200	–400	–500
Difference to be offset	—	—	430
Extraordinary loss – Closure of Gentilly-2	–1 805	—	—
SURPLUS (DEFICIT)	**–2 426**	**1 039**	**1 386**
BALANCED BUDGET ACT			
SURPLUS (DEFICIT)	**–2 426**	**1 039**	**1 386**
Deposits of dedicated revenues in the Generations Fund	–879	–1 039	–1 386
Exclusion of extraordinary loss	1 805	—	—
BUDGETARY BALANCE[(1),(2)]	**–1 500**	—	—

(1) For 2012-2013, the budgetary balance excludes the $1.8-billion accounting impact of Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant. The ultimate impact will be established in Hydro-Québec's financial statements as at December 31, 2012.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

❑ Addition of contingency reserves

The financial framework of Budget 2012-2013 included a contingency reserve of $300 million for 2012-2013 and $200 million for 2013-2014.

Budget 2013-2014 provides for the use of $100 million from the contingency reserve in 2012-2013, thus reducing the reserve to $200 million.

As a precaution, a contingency reserve of $400 million is now established for 2013-2014, which represents a increase of $200 million compared with Budget 2012-2013. In addition, a reserve of $500 million will be introduced as of 2014-2015.

TABLE C.2

Contingency reserves
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Budget 2012-2013	300	200	—
Adjustments	–100	200	500
Budget 2013-2014	**200**	**400**	**500**

Results for 2011-2012

According to Public Accounts 2011-2012, the budgetary balance for the purposes of the *Balanced Budget Act*, was in deficit by $2.6 billion for the year ended March 31, 2012. This represents an improvement of $672 million in the budgetary balance relative to the deficit of $3.3 billion forecast in the March 2012 budget. This improvement is due primarily to:

- a downward adjustment of $104 million in debt service;
- an improvement of $403 million in the results of the consolidated entities, due essentially to the fact that certain infrastructure projects are being implemented less rapidly than expected;
- the elimination of the $300-million contingency reserve, since the government did not use it.

These improvements have been partially offset by a $119-million increase in program spending, resulting mainly from additional spending for medical services.

Adjustments to the budgetary balance for 2011-2012 since Budget 2012-2013[1]
(millions of dollars)

	Budget 2012-2013	Adjustments	Actual results 2011-2012
Own-source revenue	45 600	–77	45 523
Government enterprises	4 764	–15	4 749
Federal transfers	15 175	68	15 243
Total budgetary revenue	**65 539**	**–24**	**65 515**
Program spending	–61 384	–119	–61 503
Debt service	–7 452	104	–7 348
Total budgetary expenditure	**–68 836**	**–15**	**–68 851**
Consolidated entities	**1 145**	**403**	**1 548**
Contingency reserve	–300	300	—
SURPLUS (DEFICIT)	**–2 452**	**664**	**–1 788**
BALANCED BUDGET ACT			
SURPLUS (DEFICIT)	**–2 452**	**664**	**–1 788**
Deposits of dedicated revenues in the Generations Fund	–848	8	–840
BUDGETARY BALANCE[1]	**–3 300**	**672**	**–2 628**
As a % of GDP	*1.0*		*0.8*

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
Source: Public Accounts 2011-2012.

1.2 Adjustments to the financial framework

The government confirms that the budgetary target of $1.5 billion will be achieved in 2012-2013 and fiscal balance will be restored as of 2013-2014.

❑ Budgetary restraint efforts

The adjustments to the financial framework stemming from the economic outlook, as well as certain decisions made by the government in the past, call for major budgetary efforts.

— These efforts will total $1.4 billion in 2013-2014 and $2.8 billion in 2014-2015.

For this purpose, the government is introducing a balanced approach that involves increased control of spending, including the reduction of public capital investment levels, as well as revenue efforts. The details of these measures are described in Section A.

TABLE C.3

Adjustments to the budgetary balance since Budget 2012-2013
(millions of dollars)

	2012-2013	2013-2014	2014-2015
BUDGETARY BALANCE – BUDGET 2012-2013	**–1 500**	**—**	**—**
Budgetary shortfall			
Adjustments stemming from the economic outlook	–195	–605	–287
Gaps relative to the spending objectives in Budget 2012-2013	—	–829	–1 625
Gap to be offset – Budget 2012-2013	—	—	–875
Total budgetary shortfall	**–195**	**–1 434**	**–2 787**
Spending efforts	—	954	2 035
Efficiency initiatives	—	438	535
Revenue efforts	95	310	441
Cost of the other measures in Budget 2013-2014	—	–68	–54
Deposit in the Generations Fund of revenue from the increase in the specific tax on alcoholic beverages	—	—	–100
Contingency reserves	100	–200	–500
Difference to be offset	—	—	430
BUDGETARY BALANCE IN BUDGET 2013-2014(1)	**–1 500**	**—**	**—**

(1) For 2012-2013, the budgetary balance excludes the $1.8-billion accounting impact of Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant. The ultimate impact will be established in Hydro-Québec's financial statements as at December 31, 2012.

2. UPDATING OF THE FINANCIAL FRAMEWORK

This section presents the updated budgetary revenue and expenditure for 2012-2013 to 2014-2015, and the principal adjustments made since the last budget.

2.1 Budgetary revenue

The government's budgetary revenue is expected to total $68.9 billion in 2012-2013, i.e. $53.2 billion in own-source revenue and $15.7 billion de dollars in federal transfers.

Budgetary revenue should grow by 5.0% in 2013-2014 and 2.9% in 2014-2015.

TABLE C.4

General fund
Change in budgetary revenue
(millions of dollars)

	Budget 2012-2013		Budget 2013-2014		
	2012-2013	**Adjustments**	**2012-2013**	**2013-2014**	**2014-2015**
Own-source revenue					
Own-source revenue excluding government enterprises	48 703	–431	48 272	51 107	53 376
% change	*6.8*		*6.0*	*5.9*	*4.4*
Government enterprises	4 895	25	4 920	5 108	5 204
% change	*2.7*		*3.6*	*3.8*	*3.7* (1)
Subtotal	**53 598**	**–406**	**53 192**	**56 215**	**58 580**
% change	***6.4***		***5.8***	***5.7***	***4.2***
Federal transfers	15 797	–92	15 705	16 145	15 892
% change	*4.1*		*3.0*	*2.8*	*–1.6*
TOTAL	**69 395**	**–498**	**68 897**	**72 360**	**74 472**
% change	***5.9***		***5.2***	***5.0***	***2.9***

(1) Excludes the impact of revenue from Hydro-Québec allocated to the Generations Fund.

2.1.1 Own-source revenue excluding government enterprises

❑ Downward adjustments in 2012-2013

The forecasts for fiscal 2012-2013 show that own-source revenue, excluding government enterprises, is adjusted downward by $431 million compared with the forecast in the March 2012 budget. It posts an increase of 6.0% compared with 7.4% the previous year.

■ Adjustments to own-source revenue by source

The forecasts for fiscal 2012-2013 show that revenue from personal income tax will be revised downward by $179 million compared with the level forecast in Budget 2012-2013, reflecting in particular the recurrence of the lower level of tax payable for 2011.

Contributions to the health services fund are adjusted upward by $121 million, reflecting the tax receipts observed since the beginning of 2012.

As for revenue from corporate taxes, it is revised downward by $115 million compared with the level forecast in Budget 2012-2013, reflecting essentially the lower-than-anticipated growth in corporate profits in 2012.

Consumption tax revenue is adjusted downward by $240 million in 2012-2013. This adjustment is due in particular to the $265-million decrease in sales tax revenue, stemming notably from the recurrence of the lower revenue recorded in 2011-2012 and the downward adjustment in household consumption in 2012.

- The additional revenue from the increase in the specific tax on tobacco products and that on alcoholic beverages will make it possible to partially offset this adjustment.
  - The increase of $4.00 per carton of 200 cigarettes in the specific tax on tobacco products, on November 21, 2012, will bring in $43 million in additional revenue in 2012-2013.
  - As for the increase in the specific tax on alcoholic beverages, on November 21, 2012, it will generate $33 million in revenue in 2012-2013.

Revenue in respect of natural resources is revised downward by $124 million, essentially because of a higher-than-expected decline in mining revenue.

— This adjustment can be attributed in particular to a reduction in the output of certain mining corporations, owing to weakening demand, and a decrease in the price of mineral substances, including metals, since the beginning of 2012.

Other revenue is adjusted upward by $106 million, and can be attributed notably to interest income and revenue from fines, forfeitures and recoveries.

TABLE C.5

General fund
Change in own-source revenue excluding government enterprises
(millions of dollars)

	Budget 2012-2013		Budget 2013-2014		
	2012-2013	**Adjustments**	**2012-2013**	**2013-2014**	**2014-2015**
Personal income tax	19 547	–179	19 368	20 365	21 442
% change	*3.4*		*2.0*	*5.1*	*5.3*
Health services fund	6 386	121	6 507	6 752	6 987
% change	*3.6*		*4.2*	*3.8*	*3.5*
Corporate taxes	4 324	–115	4 209	4 652	5 120
% change	*6.0*		*8.1*	*10.5*	*10.1*
Consumption taxes	16 450	–240	16 210	17 231	17 579
% change	*13.1*		*12.4*	*6.3*	*2.0*
Natural resources	357	–124	233	300	401
% change	*–2.5*		*–31.5*	*28.8*	*33.7*
Other revenue	1 639	106	1 745	1 807	1 847
% change	*5.8*		*6.1*	*3.6*	*2.2*
TOTAL	**48 703**	–431	**48 272**	**51 107**	**53 376**
% change	***6.8***		***6.0***	***5.9***	***4.4***

❑ Change in revenue by source in 2013-2014 and 2014-2015

In 2013-2014 and 2014-2015, own-source revenue, excluding government enterprises, will increase by 5.9% and 4.4% respectively. This growth rate, which is above that of the economy, is due in particular to efforts to fight tax evasion and to the increases in the compensatory tax on financial institutions and the specific taxes on tobacco products and alcoholic beverages.

More specifically, personal income tax, the main source of government revenue, is expected to grow by 5.1% in 2013-2014 and 5.3% in 2014-2015, to $20.4 billion and $21.4 billion respectively.

- This change reflects notably the growth in personal income combined with the the progressive nature of the tax system. It also reflects the growing contribution of pension income to the growth in income subject to tax, particularly income from private pension plans.

Contributions to the health services fund will climb by 3.8% in 2013-2014 and 3.5% in 2014-2015, in accordance with the anticipated growth in salaries and wages.

Revenue from corporate taxes should increase by 10.5% in 2013-2014 and 10.1% in 2014-2015, to $4.7 billion and $5.1 billion respectively.

- This change is due essentially to the growth in corporate profits, which will translate into an increase in the taxable income and tax payable of corporations, as well as to additional efforts to fight tax evasion.

Revenue from consumption taxes will grow by 6.3% and 2.0% in 2013-2014 and 2014-2015 respectively.

- In 2013-2014, the increase in revenue is explained in particular by the growth in household consumption in 2013.
  - It is also explained by the impact of the agreement on the harmonization of the QST with the GST.
    - Accordingly, as of January 1, 2013, Québec will no longer grant input tax refunds (ITRs) on supplies used for the sale of financial services. This will have a positive impact on consumption tax revenue.
  - In addition, the growth in revenue will be stimulated by the increase in the specific tax on tobacco products and that on alcoholic beverages.
- In 2014-2015, revenue from consumption taxes will rise by 2.0% because of the combined impact of growth in consumption and the anticipated decline in residential construction in 2014.

Revenue from natural resources will climb by $67 million in 2013-2014 and $101 million in 2014-2015, to $300 million and $401 million respectively.

— The growth in 2013-2014 stems essentially from the gradual increase in mining duties and the rise in forest royalties. Indeed, the coming into force of the new forest regime will result in particular in an increase in the volumes of timber harvested and in the auctioning of part of the timber available on public land.

— The growth in revenue in 2014-2015 is explained primarily by the increase in mining royalties attributable to the anticipated growth in mining output and profits.

❑ Change in revenue compatible with that of the economy

Overall, for the next two years, anticipated growth in own-source revenue, excluding government enterprises, is compatible with nominal economic growth, leaving aside the financial impact of the fiscal measures in this budget and the efforts to fight tax evasion.

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages

The specific taxes on fuel, tobacco products and alcoholic beverages are consumption taxes. Revenue from these specific taxes is allocated in part to various funds dedicated to financing specific activities, such as the funding of the road network, public transit and culture or to certain public services (incentives for physical activity and the adoption of a healthy lifestyle).

Fuel taxes

For 2012-2013, the government's own-source revenue from the specific taxes on fuel totals $2.2 billion. This amount includes:

- revenue from the specific tax of 3 cents per litre on kerosene fuel (domestic), aviation fuel and fuel oil for locomotives, paid into the general fund to finance the government's missions ($18 million);
- revenue from the specific tax of 18.2 cents and 19.2 cents per litre on gasoline and diesel fuel (non-coloured fuel oil) respectively, paid into the Land Transportation Network Fund (FORT) to finance the road network and public transit infrastructure ($2 086 million):
  - revenue from FORT, which also includes revenue from the specific tax of 1 cent per litre sold within the territory of the Gaspésie–Îles-de-la-Madeleine, administrative region, in place since July 1, 2012, to improve public transportation services in this region ($1 million);
- revenue from the specific tax of 3 cents per litre of gasoline sold within the territory of the Agence métropolitaine de transport (AMT) for public transportation services in the metropolitan Montréal region ($97 million).

Allocation of revenue from the specific taxes on fuel
(millions of dollars)

	2012-2013	2013-2014	2014-2015
General fund	18	19	19
FORT	2 086	2 266	2 301
AMT	97	98	99
TOTAL REVENUE	**2 201**	**2 383**	**2 419**

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages (cont.)

Tax on tobacco products

Tax revenue from the sale of tobacco products amounts to $878 million for 2012-2013, including:

- $757 million paid into the general fund, including additional revenue of $43 million resulting from the increase in the tax on tobacco products;
- $121 million allocated to various special funds.

Allocation of revenue from the specific tax on tobacco products
(millions of dollars)

	2012-2013	2013-2014	2014-2015
General fund	**714**	**733**	**707**
– Impact of the tax increase	43	130	130
Subtotal	**757**	**863**	**837**
Special funds			
– Sports and Physical Activity Development Fund(1)	55	55	55
– Québec Cultural Heritage Fund(1)	16	16	16
– Fund for the Promotion of a Healthy Lifestyle	20	20	20
– Early Childhood Development Fund	15	15	15
– Caregiver Support Fund	15	15	15
Subtotal	**121**	**121**	**121**
TOTAL REVENUE	**878**	**984**	**958**

(1) Includes the fiscal measures contained in Budget 2012-2013.

Allocation of revenue from the specific taxes on fuel, tobacco products and alcoholic beverages (cont.)

Specific tax on alcoholic beverages

Tax revenue from the sale of alcoholic beverages will total $471 million in 2012-2013 and $544 million in 2013-2014.

- Indeed, following the increase in the tax on alcoholic beverages, the revenue paid into the general fund will be enhanced by $33 million for 2012-2013 and $100 million for 2013-2014.
- As of 2014-2015, the new revenue derived from the increase in the tax on alcoholic beverages will be deposited in the Generations Fund.

Allocation of revenue from the specific tax on alcoholic beverages
(millions of dollars)

	2012-2013	2013-2014	2014-2015
General fund	**438**	**444**	**452**
– Impact of the tax increase	33	100	—
Subtotal	**471**	**544**	**452**
Special fund			
– Generations Fund	—	—	100
TOTAL REVENUE	**471**	**544**	**552**

Revenue from natural resources

The government uses various means to enable Quebecers to benefit fully from their natural resources. For example, it collects royalties on resource development, as well as revenue from the attribution of licences.

- An exploration licence confers on the holder an exclusive right for exploration and the future development of the resource concerned and a lease (or right) to develop enables the holder to develop the resource in exchange for the payment of an annual rent.

In addition, to enable future generations to benefit from natural resource development and to ensure the sustainable development of our resources, the government has decided to devote a portion of the revenue derived from natural resources to:

- reducing the debt through deposits in the Generations Fund. As of 2015-2016, all mining duties will be deposited in the Generations Fund. This will represent about $325 million per year;
- funding geoscientific work and data acquisition, as well as research on and the development of techniques for the exploration, development, redevelopment and rehabilitation of mining sites (Natural Resources Fund (NRF) – Mining heritage component);
- forest management work to ensure the sustainability of Québec's forest (silvicultural work and production of seedlings).

The natural resource revenue of the general fund is estimated at $233 million in 2012-2013, $300 million in 2013-2014 and $401 million in 2014-2015.

Revenue from natural resources
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Gross royalties					
– Mining	305	334	245	260	385
– Forest	120	115	162	231	252
– Water-power	653	686	685	749	747
– Oil and natural gas	—	—	—	—	—
Total gross royalties	**1 078**	**1 135**	**1 092**	**1 240**	**1 384**
Duties and licences	**19**	**19**	**16**	**42**	**43**
Deposits in the Generations Fund	**–650**	**–682**	**–682**	**–746**	**–789**
Other					
NRF – Mining heritage component	–20	–20	–20	–20	–20
Silvicultural work and production of seedlings	–120	–115	–176	–200	–200
Other	3	3	3	–16	–17
Total – Other	**–137**	**–132**	**–193**	**–236**	**–237**
REVENUE FROM NATURAL RESOURCES PAID INTO THE GENERAL FUND	**310**	**340**	**233**	**300**	**401**

2.1.2 Revenue from government enterprises

❑ Results for 2012-2013

Revenue from government enterprises is adjusted upward by $25 million for 2012-2013 thanks to the better-than-anticipated performance of the Société des alcools du Québec.

TABLE C.6

General fund
Change in revenue from government enterprises
(millions of dollars)

	Budget 2012-2013		Budget 2013-2014		
	2012-2013	**Adjustments**	**2012-2013[1]**	**2013-2014**	**2014-2015**
Hydro-Québec	2 625	—	2 625	2 725	2 820
Loto-Québec	1 221	—	1 221	1 270	1 310
Société des alcools du Québec	990	31	1 021	1 067	1 119
Other	59	–6	53	46	50
Subtotal	**4 895**	**25**	**4 920**	**5 108**	**5 299**
% change	***2.7***		***3.6***	***3.8***	***3.7***
Revenue from Hydro-Québec allocated to the Generations Fund[2]	—	—	—	—	–95
TOTAL	**4 895**	**25**	**4 920**	**5 108**	**5 204**

(1) Data excluding the extraordinary loss of $1 805 million related to the closure of the Gentilly-2 nuclear power plant. When this loss is included, Hydro-Québec's net earnings amount to $820 million and revenue from government enterprises to $3 115 million.
(2) Corresponds to the sums related to the indexation of the price of heritage pool electricity.

❑ Outlook for 2013-2014 and 2014-2015

Revenue from government enterprises for 2013-2014 and 2014-2015 will amount to $5.1 billion and $5.2 billion respectively. Accordingly, anticipated revenue will grow by 3.8% in 2013-2014 and 3.7% in 2014-2015, before allocation to the Generations Fund of $95 million of Hydro-Québec's revenue from the indexation of the price of heritage pool electricity.

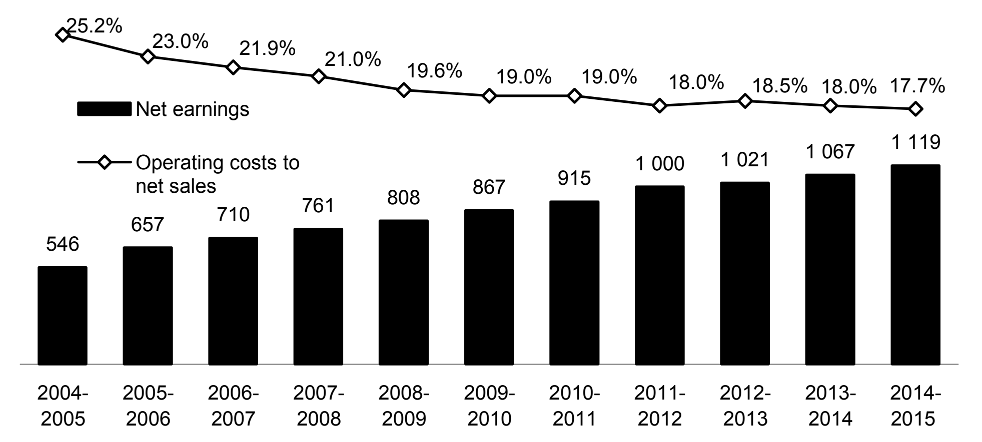
■ Efforts on the part of government enterprises

Revenue from government enterprises will be sustained by efforts to reduce spending and improve the productivity, as well as by the new measures put in place.

For instance, attention should be drawn to the major efforts made by the Société des alcools du Québec, whose ratio of operating costs to net sales fell from 25.2% in 2004-2005 to 18.0% in 2011-2012 and should reach 17.7% in 2014-2015. Control of these expenditures has contributed to the substantial growth in the net earnings of the Société des alcools du Québec in recent years. Moreover, these improvements will enable it in particular to make the additional efforts of $15 million, starting in 2013-2014, required by the government.

CHART C.1

Net earnings and ratio of operating costs to net sales of the Société des alcools du Québec
(millions of dollars and per cent)



In addition, Loto-Québec will implement a new marketing initiative to leverage investments made in its assets.[2] These measures will help to generate additional earnings of $50 million in 2013-2014 and $90 million in 2014-2015.

❑ Broadening of the powers of the Auditor General of Québec

The government intends to bolster parliamentary control over the use and management of public funds and other public property entrusted to government enterprises,[3] except the Caisse de dépôt et placement du Québec because it carries out fiduciary activities for its depositors.[4] Accordingly, the government will propose legislative amendments to grant the Auditor General of Québec the power to carry out, at his or her discretion, value-for-money auditing mandates in these enterprises and their subsidiaries, regardless of whether he or she is the auditor of their books and accounts.

- In exercising this broader power, the Auditor General will determine which mandates should be given priority, in accordance with the resources currently allocated to him or her for the purpose of performing his or her mission.

- The Auditor General will thus enjoy, in this area, similar powers to those of other legislative auditors in Canada.

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2 The details of the measures are described in Section A.

3 The concept of government enterprise corresponds to the definition given in the *Auditor General Act* (S.Q., chapter V-5.01). It includes notably Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

4 This situation is comparable to that of the Canada Pension Plan (CPP) Investment Board, which is not subject to special examinations by the Auditor General of Canada.

Value-for-money audits

The *Auditor General Act* (S.Q., chapter V-5.01), adopted in 1985, grants the Auditor General the power to carry out, to the extent that he or she considers appropriate, value-for-money auditing mandates in public bodies, including government departments and agencies.

Value-for-money audits aim to foster parliamentary control by shedding light on the means that an entity's executive puts in place in order to administer, with **economy, efficiency and effectiveness**, the public funds and other public property entrusted to it.

- **Economy** refers to the acquisition, at the lowest cost and at the appropriate time, of financial, human and physical resources in appropriate quantity and quality.
- **Efficiency** refers to the use, in the best ratio, of these resources for the supply of goods and services.
- **Effectiveness** refers to the achievement, to the best degree, of the objectives or anticipated results.

Generally speaking, the current Act does not allow the Auditor General to perform a value-for-money audit of a government enterprise, at his or her discretion, unless he or she has obtained prior authorization from the corporation's board of directors. This situation also applies to the subsidiaries of government enterprises.

2.1.3 Revenues from federal transfers

In 2012-2013, prior to the payment of federal compensation for harmonization of the QST with the GST, federal transfer revenues should reach nearly $15 billion, or $92 million less than forecast in the March 2012 budget.

— With the addition of the first payment of $733 million in federal compensation for harmonization of the QST with the GST, federal transfer revenues will grow by 3.0%, to $15.7 billion in 2012-2013.

— The decrease of $92 million in 2012-2013 compared with the March 2012 budget can be explained essentially by the downward revisions of $59 million in health transfers and $36 million in transfers for post-secondary education and other social programs. These adjustments are due mainly to an increase in the value of the special Québec abatement, which is subtracted from these transfers.

TABLE C.7

General fund
Change in federal transfer revenues
(millions of dollars)

	Budget 2012-2013		Budget 2013-2014		
	2012-2013	**Adjustments**	**2012-2013**	**2013-2014**	**2014-2015**
Equalization	7 391	—	7 391	7 578	8 361
% change	*–5.4*		*–5.4*	*2.5*	*10.3*
Protection payment	362	—	362	—	—
Health transfers	4 821	–59	4 762	5 118	5 208
% change	*6.9*		*5.6*	*7.5*	*1.8*
Transfers for post-secondary education and other social programs	1 515	–36	1 479	1 539	1 563
% change	*1.8*		*–0.6*	*4.1*	*1.6*
Other programs	975	3	978	873	760
% change	*–1.7*		*–7.7*	*–10.7*	*–12.9*
Subtotal	**15 064**	**–92**	**14 972**	**15 108**	**15 892**
% change	***–0.7***		***–1.8***	***0.9***	***5.2***
Harmonization of the QST with the GST – Compensation	733	—	733	1 467	—
Allocation to FINESSS of a portion of the compensation for harmonization of the QST with the GST	—	—	—	–430	—
TOTAL	**15 797**	**–92**	**15 705**	**16 145**	**15 892**
% change	***4.1***		***3.0***	***2.8***	***–1.6***

Federal transfers will be fairly stable at $15.1 billion in 2013-2014. This represents an increase of 0.9%.

— Furthermore, taking into account the second payment of $1 467 million in federal compensation for harmonization of the QST with the GST and the allocation of $430 million from this compensation to the Fund to Finance Health and Social Services Institutions (FINESSS), federal transfers will reach $16.1 billion.

Federal transfers should increase by 5.2% in 2014-2015, to $15.9 billion. This increase can be explained primarily by:

— an anticipated increase of 10.3% in equalization payments owing mainly to a substantial rise in Ontario's share of the corporate income tax base starting in 2011, which reduces its equalization payments to the benefit of the other recipient provinces, including Québec, and to the impact of the decrease in Hydro-Québec's dividend in 2012-2013 because of the closure of the Gentilly-2 nuclear power plant;

— weaker growth in health transfers, which can be attributed to the end of the Wait Times Reduction Transfer ($58 million for Québec) and the fact that the value of tax points transferred to the provinces in 1977 are no longer taken into account in the allocation of the Canada Health Transfer (CHT) envelope, which represents a shortfall of $172 million for Québec;

— the decrease of 12.9% in other programs, which is due mainly to the end of the Canada-Québec Labour Market Agreement in 2013-2014.

2.2 Budgetary expenditure

The government's budgetary expenditure, which includes program spending and debt service, is expected to reach $70.6 billion in 2012-2013, i.e. $62.6 billion for program spending and $7.9 billion for debt service.

Program spending should increase by 1.8% in 2013-2014 and 2.4% in 2014-2015.

TABLE C.8

General fund
Change in budgetary expenditure
(millions of dollars)

	Budget 2012-2013		Budget 2013-2014		
	2012-2013	**Adjustements**	**2012-2013**	**2013-2014**	**2014-2015**
Program spending	62 642	—	62 642	63 791	65 350
% change	*2.0*		*1.9*	*1.8*	*2.4*
Debt service	8 237	–320	7 917	8 601	8 735
% change	*10.5*		*7.7*	*8.6*	*1.6*
TOTAL	**70 879**	**–320**	**70 559**	**72 392**	**74 085**
% change	***3.0***		***2.5***	***2.6***	***2.3***

2.2.1 Spending by government departments

❑ 2012-2013

Program spending in 2012-2013 stands at $62.6 billion. Growth for that year amounts to 1.9% compared with the actual results for 2011-2012.

The government has taken the necessary steps to keep the objective for program spending at the level set in Budget 2012-2013.

TABLE C.9

Change in program spending
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015
PROGRAM SPENDING OBJECTIVE IN BUDGET 2012-2013	**61 384**	**62 642**	**63 751**	**65 635**
% change	***2.0***	***2.0***	***1.8***	***3.0***
Adjustments to expenditure				
Reduction of $1.5 billion in public capital investments per year	—	—	—	–125
Other items	119	—	40	–160
ADJUSTMENTS	**119**	**—**	**40**	**–285**
PROGRAM SPENDING OBJECTIVE IN BUDGET 2013-2014	**61 503**	**62 642**	**63 791**	**65 350**
% change	***2.5***	***1.9***	***1.8***	***2.4***

❑ 2013-2014 and 2014-2015

In 2013-2014, program spending growth will stand at 1.8%. Compared with the March 2012 budget, the level of program spending has risen by $40 million.

— This amount will ensure the transition between the end of the 2010-2013 Québec Research and Innovation Strategy and the implementation of Québec's new research and innovation policy.

In 2014-2015, program spending growth will fall from 3.0% to 2.4%, particularly because of the impact of the reduction in the annual level of public capital investments.

❑ Efforts on the part of all government departments

Achievement of the budgetary objectives is conditional on rigorous control of spending by government departments and the other entities included in the government's reporting entity.

TABLE C.10

Growth in program spending in 2013-2014
(millions of dollars)

			Change	
	2012-2013	**2013-2014**	$ million	%
Santé et Services sociaux	30 219	31 258	1 039	3.4 (1)
Éducation, Loisir et Sport	10 022	10 205	183	1.8
Enseignement supérieur, Recherche, Science et Technologie	6 215	6 337	122	2.0
Famille	2 397	2 474	77	3.2
Other departments	13 789	13 517	–272	–2.0
TOTAL	**62 642**	**63 791**	**1 149**	**1.8**

Note: Since figures are rounded, the sum of the amounts may not correspond to the total.
(1) Including the contribution of $1 449 million from FINESSS, funding for the Ministère de la Santé et des Services sociaux will grow by 4.8% in 2013-2014.
Source: Secrétariat du Conseil du trésor.

In 2013-2014, program spending will increase by 1.8%, or $1 149 million, to $63.8 billion.

— Program spending for the Ministère de la Santé et des Services sociaux will rise by $1 039 million, or 3.4%.

  — Including projected spending of $1 449 million by FINESSS, health funding will grow by 4.8%.

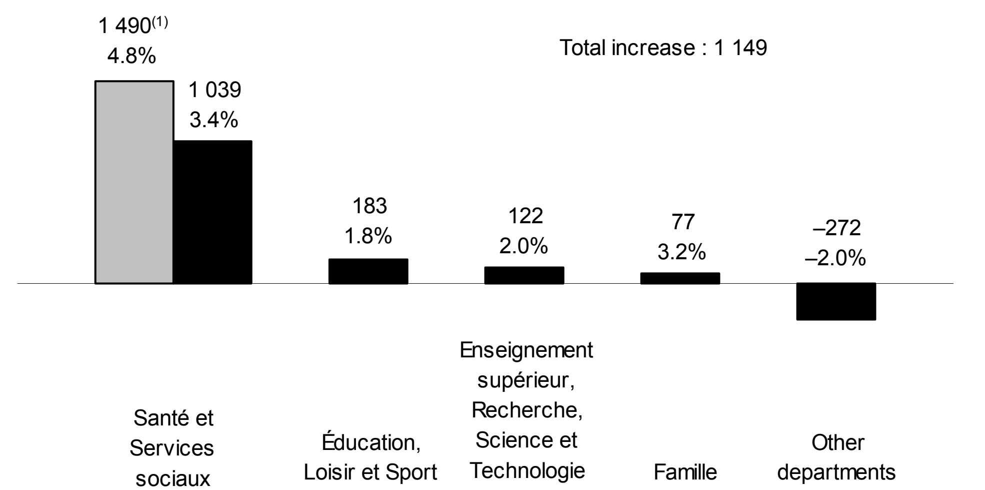
— Spending allocated to the Ministère de l'Éducation, du Loisir et du Sport will be raised by $183 million, or 1.8%, while that granted to the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie will be raised by $122 million, or 2.0%.

— Spending by the Ministère de la Famille will increase by $77 million, or 3.2%.

— Spending by other departments will be reduced overall by $272 million, or 2.0%.

CHART C.2

Increase in program spending in 2013-2014
(millions of dollars)



(1) Increase in program spending including FINESSS for an amount of $451 million.

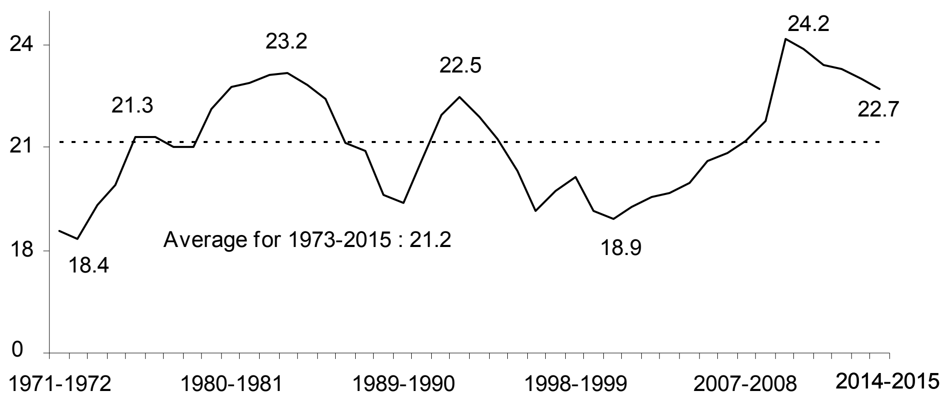
❑ Weight of government spending in the economy

The forecast for spending in 2013-2014 is in line with the government's overall objective to restore fiscal balance by 2013-2014.

After reaching a peak of 24.2% in 2009-2010 during the recession, the weight of government spending in the economy will be gradually reduced to 22.7% of GDP in the context of restoring fiscal balance. This amounts to a difference of 1.5 percentage points in relation to the historical average from 1973-1974 to 2014-2015.

CHART C.3

Consolidated expenditure excluding debt service
(as a percentage of GDP)



2.2.2 Debt service

In 2012-2013, debt service should stand at $7.9 billion, i.e. $4.9 billion for direct debt service and $3.0 billion for interest ascribed to the retirement plans.

Overall, debt service is revised downward by $320 million in 2012-2013 compared with the forecast in the March 2012 budget, mainly because of lower-than anticipated interest rates.

Debt service is expected to climb by 7.7% in 2012-2013, primarily as a result of growth in the debt and the impact of the returns of the Caisse de dépôt et placement du Québec on the income of the Retirement Plans Sinking Fund (this income is applied against the interest ascribed to the retirement plans).

In addition, in 2012-2013, owing to the fact that interest rates are not expected to fall as much as they did in 2011-2012, the Sinking Fund for Government Borrowings will not realize as many gains on the disposal of securities as it did in 2011-2012, such that the income of this fund, which is applied against direct debt service, will be lower than in the previous year.

The 8.6% growth in debt service in 2013-2014 is due to the projected increase in interest rates, growth of the debt and the impact of the returns of the Caisse de dépôt et placement du Québec on the income of the Retirement Plans Sinking Fund.

An increase of 1.6% is forecast for 2014-2015, essentially because of the rise in interest rates.

TABLE C.11

General fund
Change in debt service
(millions of dollars)

	Budget 2012-2013		Budget 2013-2014		
	2012-2013	**Adjustments**	**2012-2013**	**2013-2014**	**2014-2015**
Direct debt service	5 217	–289	4 928	5 335	5 581
Interest ascribed to the retirement plans	3 032	–24	3 008	3 287	3 179
Interest ascribed to employee future benefits(1)	–12	–7	–19	–21	–25
TOTAL	**8 237**	**–320**	**7 917**	**8 601**	**8 735**
% change	***10.5***		***7.7***	***8.6***	***1.6***

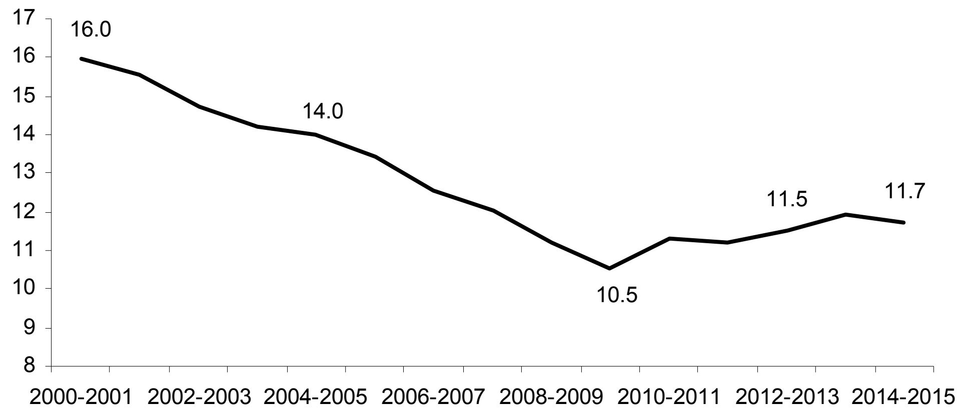
(1) Including the interest on the obligation relating to the survivor's pension plan minus the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave minus the investment income of the Accumulated Sick Leave Fund.

❑ Proportion of revenue devoted to the debt service of the general fund

The share of budgetary revenue devoted to the debt service of the general fund should stand at 11.7% in 2014-2015, compared with 16.0% in 2000-2001.

CHART C.4

Debt service of the general fund
(as a percentage of revenue)



2.3 Consolidated expenditure

In addition to the program spending of the departments and budget-funded bodies presented earlier, the following table presents the expenditures of the special funds, non-budget-funded bodies, organizations in the health and social services and education networks and the specified purpose accounts, as well as tax-funded expenditures.

This presentation reflects the level and growth of the government's total spending, i.e. its consolidated expenditure. This table makes it possible to compare this expenditure with the data in Québec's public accounts and the data of the other Canadian provinces.

TABLE C.12

Change in consolidated expenditure
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Program spending	62 642	63 791	65 350
% change	*1.9*	*1.8*	*2.4*
Special funds	7 480	8 347	8 588
% change	*13.8*	*11.6*	*2.9*
Non-budget-funded bodies	17 471	18 530	19 769
% change	*4.6*	*6.1*	*6.7*
Health and social services and education networks	35 885	36 853	37 943
% change	*1.7*	*2.7*	*3.0*
Specified purpose accounts	1 368	1 201	994
% change	*– 7.4*	*–12.2*	*–17.2*
Tax-funded expenditures(1)	6 215	6 196	6 204
% change	*3.3*	*–0.3*	*0.1*
Consolidation adjustments(2)	–50 080	–52 034	–53 759
Consolidated expenditure excluding debt service	**80 981**	**82 884**	**85 089**
% change	*2.8*	*2.3*	*2.7*
Debt service			
General fund	7 917	8 601	8 735
% change	*7.7*	*8.6*	*1.6*
Consolidated entities(3)	2 148	2 268	2 449
% change	*2.1*	*5.6*	*8.0*
Consolidated debt service	**10 065**	**10 869**	**11 184**
% change	*6.5*	*8.0*	*2.9*
CONSOLIDATED EXPENDITURE	**91 046**	**93 753**	**96 273**
% change	***3.2***	***3.0***	***2.7***

(1) Includes doubtful tax accounts.
(2) The consolidation adjustments stem mainly from the elimination of transactions between entities in different sectors.
(3) Includes consolidation adjustments.

❑ Consolidated expenditure excluding debt service

Consolidated expenditure excluding debt service includes program spending and the expenditures of the special funds, non-budget-funded bodies, organizations in the health and social services and education networks and the specified purpose accounts, as well as tax-funded expenditures.

Consolidated expenditure excluding debt service is expected to grow by 2.8% in 2012-2013, 2.3% in 2013-2014 and 2.7% in 2014-2015, or by less than the average annual rate of 5.6% recorded from 2005-2006 to 2009-2010 and the annual rates of 3.6% and 3.1% observed in 2010-2011 and 2011-2012 respectively.

■ Special funds

Spending by the special funds from 2012-2013 to 2014-2015 will grow by 13.8%, 11.6% and 2.9 % per year. These increases reflect the high growth of certain special funds, particularly:

— FINESSS, for the funding of health-care institutions;

— FORT, for the funding of road network and public transit infrastructures.

■ Non-budget-funded bodies

Non-budget-funded bodies show annual spending growth of 4.6%, 6.1% and 6.7% from 2012-2013 to 2014-2015.

As with the special funds, the priority mission of certain non-budget-funded bodies explains the higher growth in their spending. This is the case, for example, of the Régie de l'assurance maladie du Québec (RAMQ) and the Fonds de l'assurance médicaments (FAM).

TABLE C.13

Non budget-funded bodies – Spending excluding debt service
(millions of dollars)

	2012-2013	2013-2014	2014-2015
RAMQ	6 838	7 364	7 942
FAM	3 485	3 750	4 044
Subtotal	**10 323**	**11 114**	**11 986**
% change	*7.1*	*7.7*	*7.8*
Other non-budget-funded bodies	**7 148**	**7 416**	**7 783**
% change	*1.3*	*3.7*	*5.0*
TOTAL	**17 471**	**18 530**	**19 769**
% change	***4.6***	***6.1***	***6.7***

■ Health and social services and education networks

Organizations in the health and social services and education networks show spending growth of 1.7%, 2.7% and 3.0% per year from 2012-2013 to 2014-2015. This change reflects the fact that a large share of the growth allocated to the health sector is helping to finance the remuneration granted to physicians, which is accounted for in the results of the Régie de l'assurance maladie du Québec (RAMQ).

■ Specified purpose accounts

Spending by the specified purpose accounts will fall by 7.4% in 2012-2013, 12.2% in 2013-2014 and 17.2% in 2014-2015. The decline observed is due, for the most part, to the end of federal infrastructure stimulus programs.

■ Tax-funded expenditures

Refundable tax credits for individuals and corporations, which are similar to tax-funded expenditures, are classified in spending rather than as reductions in revenue. Doubtful account expenditures in respect of these tax revenues are added to these expenditures.

Tax-funded expenditures will rise by 3.3% in 2012-2013, fall by 0.3% in 2013-2014 and increase by 0.1% in 2014-2015.

❑ Consolidated expenditure

The growth of consolidated expenditure comprises total government spending, including consolidated debt service, i.e. the debt service of the general fund and the consolidated entities as a whole.

Annual growth in consolidated expenditure will amount to 3.2% in 2012-2013, 3.0% in 2013-2014 and 2.7% in 2014-2015.

3. CONSOLIDATED REVENUE AND EXPENDITURE

The consolidated financial forecasts include the budgetary revenue and expenditure of the general fund as well as the budgetary revenue and expenditure of all the entities in the government's reporting entity.

They provide more detailed information on the revenue and expenditure included in the government's financial projections. In addition, these financial forecasts enable reconciliation with the actual results presented in the public accounts.

3.1 Change in consolidated revenue and expenditure from 2012-2013 to 2014-2015

Table C.14 presents the government's consolidated financial framework for fiscal 2012-2013 to 2014-2015.

More specifically, tables C.15, C.16 and C.17 present the consolidated results by sector for 2012-2013 to 2014-2015.

This sector-based information shows separately the transactions carried out by the general fund, special funds, non-budget-funded bodies, health and social services and education networks and specified purpose accounts.

In addition, since April 1, 2012, a new public sector accounting standard in Canada has required that refundable tax credits for individuals and corporations, which are similar to tax-funded transfer expenditures be classified in spending rather than as reductions in revenue. This change in the presentation of financial information has no impact on the government's budgetary balance.

— In addition, doubtful tax accounts, which represent tax revenue that the government does not expect to recover, are also presented separately under the heading "tax-funded expenditures".

Lastly, to determine consolidated revenue and expenditure levels, financial transactions between entities in the government's reporting entity have been eliminated.

The financial framework of Budget 2013-2014 for consolidated revenue and expenditure from 2011-2012 to 2017-2018 is presented in Section A.

TABLE C.14

Financial framework for consolidated revenue and expenditure

(millions of dollars)

	2012-2013	2013-2014	2014-2015
Revenue			
General fund	68 897	72 360	74 472
Special funds	8 865	10 041	9 908
Generations Fund	879	1 039	1 386
Non-budget-funded bodies	18 993	19 961	21 229
Health and social services and education networks	36 642	37 764	38 941
Specified purpose accounts	1 368	1 201	994
Tax-funded transfers(1)	6 215	6 196	6 204
Consolidation adjustments(2)	–51 234	–53 370	–55 405
Consolidated revenue	**90 625**	**95 192**	**97 729**
Expenditure			
General fund	–62 642	–63 791	–65 350
Special funds	–7 480	–8 347	–8 588
Non-budget-funded bodies	–17 471	–18 530	–19 769
Health and social services and education networks	–35 885	–36 853	–37 943
Specified purpose accounts	–1 368	–1 201	–994
Tax-funded transfers(1)	–6 215	–6 196	–6 204
Consolidation adjustments(2)	50 080	52 034	53 759
Consolidated expenditure excluding debt service	**–80 981**	**–82 884**	**–85 089**
Debt service			
General fund	–7 917	–8 601	–8 735
Consolidated entities(3)	–2 148	–2 268	–2 449
Consolidated debt service	**–10 065**	**–10 869**	**–11 184**
Consolidated expenditure	**–91 046**	**–93 753**	**–96 273**
Contingency reserves	–200	–400	–500
Extraordinary loss – Closure of Gentilly-2	–1 805	—	—
Difference to be offset	—	—	430
SURPLUS (DEFICIT)	**–2 426**	**1 039**	**1 386**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–879	–1 039	–1 386
Exclusion of the extraordinary loss	1 805	—	—
BUDGETARY BALANCE(4)	**–1 500**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) The consolidation adjustments stem mainly from the elimination of transactions between entities in different sectors.
(3) Includes consolidation adjustments.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE C.15

Detailed consolidated financial framework
(millions of dollars)

	2012-2013			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Income and property taxes	30 084	1 808		
Consumption taxes	16 210	2 275		
Duties and permits	505	1 219		
Miscellaneous	1 473	1 355		211
Government enterprises	4 920			
Other revenue sources			879	
Own-source revenue	**53 192**	**6 657**	**879**	**211**
Québec government transfers		2 121		
Federal transfers	15 705	87		1 157
Total revenue	**68 897**	**8 865**	**879**	**1 368**
Expenditure				
Expenditure	–62 642	–7 480		–1 368
Debt service	–7 917	–1 156		
Total expenditure	**–70 559**	**–8 636**	**—**	**–1 368**
Contingency reserve	–200			
Extraordinary loss – Closure of Gentilly-2	–1 805			
SURPLUS (DEFICIT)	**–3 667**	**229**	**879**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–879	
Exclusion of the extraordinary loss	1 805			
BUDGETARY BALANCE[(3)]	**–1 862**	**229**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2012-2013				
Tax-funded expenditures (1)	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments (2)	Consolidated results
5 921	872	1 554	–314	39 925
294	97		–1 917	16 959
	417		–78	2 063
	4 560	3 574	–2 995	8 178
				4 920
				879
6 215	**5 946**	**5 128**	**–5 304**	**72 924**
	11 745	31 250	–45 116	—
	1 302	264	–814	17 701
6 215	**18 993**	**36 642**	**–51 234**	**90 625**
–6 215	–17 471	–35 885	50 080	–80 981
	–1 206	–857	1 071	–10 065
–6 215	**–18 677**	**–36 742**	**51 151**	**–91 046**
				–200
				–1 805
—	**316**	**–100**	**–83**	**–2 426**
				–879
				1 805
—	**316**	**–100**	**–83**	**–1 500**

TABLE C.16

Detailed consolidated financial framework

(millions of dollars)

	2013-2014			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Income and property taxes	31 769	1 903		
Consumption taxes	17 231	2 455		
Duties and permits	580	1 303		
Miscellaneous	1 527	1 574		205
Government enterprises	5 108			
Other revenue sources			1 039	
Own-source revenue	**56 215**	**7 235**	**1 039**	**205**
Québec government transfers		2 242		
Federal transfers	16 145	564		996
Total revenue	**72 360**	**10 041**	**1 039**	**1 201**
Expenditure				
Expenditure	–63 791	–8 347		–1 201
Debt service	–8 601	–1 415		
Total expenditure	**–72 392**	**–9 762**	**—**	**–1 201**
Contingency reserve	–400			
SURPLUS (DEFICIT)	**–432**	**279**	**1 039**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 039	
BUDGETARY BALANCE(3)	**–432**	**279**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2013-2014				
Tax-funded expenditures [(1)]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments [(2)]	Consolidated results
5 902	939	1 580	–382	41 711
294	98		–1 955	18 123
	399		–67	2 215
	4 974	3 672	–3 117	8 835
				5 108
				1 039
6 196	**6 410**	**5 252**	**–5 521**	**77 031**
	12 539	32 246	–47 027	—
	1 012	266	–822	18 161
6 196	**19 961**	**37 764**	**–53 370**	**95 192**
–6 196	–18 530	–36 853	52 034	–82 884
	–1 204	–911	1 262	–10 869
–6 196	**–19 734**	**–37 764**	**53 296**	**–93 753**
				–400
—	**227**	**—**	**–74**	**1 039**
				–1 039
—	**227**	**—**	**–74**	**—**

TABLE C.17

Detailed consolidated financial framework

(millions of dollars)

	2014-2015			
	Consolidated Revenue Fund			
	General fund	Special funds	Generations Fund	Specified purpose accounts
Revenue				
Income and property taxes	33 549	1 987		
Consumption taxes	17 579	2 490		
Duties and permits	693	1 370		
Miscellaneous	1 555	1 826		198
Government enterprises	5 204			
Other revenue sources			1 386	
Own-source revenue	**58 580**	**7 673**	**1 386**	**198**
Québec government transfers		2 078		
Federal transfers	15 892	157		796
Total revenue	**74 472**	**9 908**	**1 386**	**994**
Expenditure				
Expenditure	–65 350	–8 588		–994
Debt service	–8 735	–1 698		
Total expenditure	**–74 085**	**–10 286**	**—**	**–994**
Contingency reserve	–500			
Difference to be offset	430			
SURPLUS (DEFICIT)	**317**	**–378**	**1 386**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 386	
BUDGETARY BALANCE(3)	**317**	**–378**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2014-2015				
Tax-funded expenditures (1)	**Non-budget-funded bodies**	**Health and social services and education networks**	**Consolidation adjustments** (2)	**Consolidated results**
5 910	1 010	1 608	–444	43 620
294	99		–2 004	18 458
	404		–60	2 407
	5 119	3 771	–3 345	9 124
				5 204
				1 386
6 204	**6 632**	**5 379**	**–5 853**	**80 199**
	13 410	33 293	–48 781	—
	1 187	269	–771	17 530
6 204	**21 229**	**38 941**	**–55 405**	**97 729**
–6 204	–19 769	–37 943	53 759	–85 089
	–1 323	–998	1 570	–11 184
–6 204	**–21 092**	**–38 941**	**55 329**	**–96 273**
				–500
				430
—	**137**	**—**	**–76**	**1 386**
				–1 386
—	**137**	**—**	**–76**	**—**

3.2 Consolidated entities

In addition to the financial transactions of the general fund, the government's budgetary forecasts take into account all of the consolidated entities in the government's reporting entity, namely:

- the special funds;
- the Generations Fund;
- non-budget-funded bodies;
- the health and social services and education networks.

The following table shows the net results of the consolidated entities.

TABLE C.18

Detailed consolidated financial framework
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Special funds[1]	229	279	–378
Generations Fund (dedicated revenues)	879	1 039	1 386
Non-budget-funded bodies	316	227	137
Health and social services and education networks	–100	—	—
Consolidation adjustments	–83	–74	–76
SURPLUS (DEFICIT)	**1 241**	**1 471**	**1 069**

(1) Excludes the Generations Fund.

3.2.1 Special funds

The special funds consist of 35 entities set up within government departments or organizations. Their mission is to deliver services and sell goods or to fund government programs.

The activities of the special funds may be financed through fees, tax revenues or budgetary appropriations allocated annually by Parliament.

The table below presents the net results of the special funds for 2012-2013 to 2014-2015. The special funds show surpluses of $229 million and $279 million for 2012-2013 and 2013-2014 respectively and a deficit of $378 million for 2014-2015.

TABLE C.19

Special funds(1)
Statements of results
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Revenue			
Income and property taxes	1 808	1 903	1 987
Consumption taxes	2 275	2 455	2 490
Duties and permits	1 219	1 303	1 370
Miscellaneous	1 355	1 574	1 826
Own-source revenue	**6 657**	**7 235**	**7 673**
Québec government transfers	2 121	2 242	2 078
Federal transfers	87	564	157
Total revenue	**8 865**	**10 041**	**9 908**
Expenditure			
Expenditure	–7 480	–8 347	–8 588
Debt service	–1 156	–1 415	–1 698
Total expenditure	**–8 636**	**–9 762**	**–10 286**
SURPLUS (DEFICIT)	**229**	**279**	**–378**

(1) Excludes the Generations Fund presented in the next section.

List of special funds

Access to Justice Fund

Assistance Fund for Independent Community Action

Fonds d'aide aux victimes d'actes criminels

Territorial Information Fund

Labour Market Development Fund

Regional Development Fund

Financing Fund

Fund to Finance Health and Social Services Institutions (FINESSS)

Fonds de fourniture de biens ou de services du ministère de l'Emploi et de la Solidarité sociale

Rolling Stock Management Fund

Fund of the Commission des lésions professionnelles[1]

Fund of the Commission des relations du travail[1]

Highway Safety Fund

Tourism Partnership Fund

Caregiver Support Fund

Generations Fund

Register Fund of the Ministère de la Justice

Land Transportation Network Fund (FORT)

Natural Resources Fund

Police Services Fund

Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale

Fund of the Bureau de décision et de révision[1]

Fonds du centre financier de Montréal

Economic Development Fund

Québec Cultural Heritage Fund

Northern Plan Fund

Fund of the Administrative Tribunal of Québec[1]

Fund for the Promotion of a Healthy Lifestyle

Early Childhood Development Fund

Sports and Physical Activity Development Fund

University Excellence and Performance Fund

Fonds québécois d'initiatives sociales

Natural Disaster Assistance Fund

Tax Administration Fund (FRAF)

Green Fund

1 Includes the operations of the body that performs an adjudicative role.

3.2.2 Generations Fund

Revenues dedicated to the Generations Fund are expected to reach $879 million in 2012-2013.

In 2013-2014 and 2014-2015, revenues dedicated to the Generations Fund are expected to amount to $1 039 million and $1 386 million respectively. As a result, the book value of the Generations Fund will reach $6 881 million as at March 31, 2015. The results of and change in the Generations Fund are presented in greater detail in Section G.

TABLE C.20

Revenues dedicated to the Generations Fund
(millions of dollars)

	2012-2013 (1)	2013-2014 (2)	2014-2015
Dedicated revenues			
Water-power royalties	682	746	744
Indexation of the price of heritage pool electricity	—	—	95
Mining, oil and gas royalties	—	—	45
Tax on alcoholic beverages	—	—	100
Unclaimed property	12	12	12
Investment income	185	281	390
TOTAL	**879**	**1 039**	**1 386**

(1) Excludes the deposit of $300 million from the Territorial Information Fund. For more information, see Section G.
(2) Excludes the use of $1 billion to repay maturing borrowings.

3.2.3 Non-budget-funded bodies

Non-budget-funded bodies were created to provide specific public services. These bodies include:

— La Financière agricole du Québec in the agricultural sector;

— the Agence métropolitaine de transport and the Société des traversiers du Québec in the transportation sector;

— government museums and the Société de développement des entreprises culturelles in the cultural sector.

The 62 non-budget-funded bodies are expected to show surpluses of $316 million in 2012-2013, $227 million in 2013-2014 and $137 million in 2014-2015.

TABLE C.21

Non-budget-funded bodies
Statements of results
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Revenue			
Income and property taxes	872	939	1 010
Consumption taxes	97	98	99
Duties and permits	417	399	404
Miscellaneous	4 560	4 974	5 119
Own-source revenue	**5 946**	**6 410**	**6 632**
Québec government transfers	11 745	12 539	13 410
Federal transfers	1 302	1 012	1 187
Total revenue	**18 993**	**19 961**	**21 229**
Expenditure			
Expenditure	–17 471	–18 530	–19 769
Debt service	–1 206	–1 204	–1 323
Total expenditure	**–18 677**	**–19 734**	**–21 092**
SURPLUS (DEFICIT)	**316**	**227**	**137**

List of non-budget-funded bodies

Agence du revenu du Québec
Agence métropolitaine de transport
Autorité des marchés financiers
Bibliothèque et Archives nationales du Québec
Centre de la francophonie des Amériques
Centre de recherche industrielle du Québec
Centre de services partagés du Québec
Commission de la capitale nationale du Québec
Commission des normes du travail
Commission des services juridiques
Conseil des arts et des lettres du Québec
Conservatoire de musique et d'art dramatique du Québec
Corporation d'urgences-santé
École nationale de police du Québec
École nationale des pompiers du Québec
Financement-Québec
Fondation de la faune du Québec
Fonds d'aide aux recours collectifs
Fonds de l'assurance médicaments
Fonds de recherche du Québec – Nature et technologies
Fonds de recherche du Québec – Santé
Fonds de recherche du Québec – Société et culture
Héma-Québec
Infrastructure Québec
Institut de la statistique du Québec
Institut de tourisme et d'hôtellerie du Québec
Institut national de la santé publique du Québec
Institut national des mines
Institut national d'excellence en santé et services sociaux
La Financière agricole du Québec
Musée d'art contemporain de Montréal
Musée de la civilisation
Musée national des beaux-arts du Québec
Office de la sécurité du revenu des chasseurs et piégeurs cris
Office des professions du Québec
Office Québec-Amériques pour la jeunesse
Office Québec-Monde pour la jeunesse
Régie de l'assurance maladie du Québec
Régie de l'énergie
Régie des installations olympiques
Régie du bâtiment du Québec
Régie du cinéma
Services Québec
Société de développement de la Baie-James
Société de développement des entreprises culturelles
Société de financement des infrastructures locales du Québec
Société de la Place des Arts de Montréal
Société de l'assurance automobile du Québec
Société de la Place des Arts de Montréal
Société des établissements de plein air du Québec
Société des parcs de sciences naturelles du Québec
Société des traversiers du Québec
Société de télédiffusion du Québec
Société d'habitation du Québec
Société du Centre des congrès de Québec
Société du Grand Théâtre de Québec
Société du Palais des congrès de Montréal
Société du parc industriel et portuaire de Bécancour
Société immobilière du Québec
Société nationale de l'amiante
Société québécoise d'assainissement des eaux
Société québécoise de récupération et de recyclage
Société québécoise d'information juridique

3.2.4 Health and social services and education networks

The health and social services network is made up of 197 entities. These entities comprise 15 agencies and one regional authority in health and social services, as well as 181 public health and social services institutions.

As for the education network, it is made of up 132 entities, including 73 school boards, 48 CEGEPs and the Université du Québec and its 10 constituent universities.

The health and social services and education networks show a deficit of $100 million for 2012-2013. These networks will show balanced budgets as of 2013-2014.

TABLE C.22

Health and social services and education networks
Statements of results
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Revenue			
Income and property taxes	1 554	1 580	1 608
Miscellaneous	3 574	3 672	3 771
Own-source revenue	**5 128**	**5 252**	**5 379**
Québec government transfers	31 250	32 246	33 293
Federal transfers	264	266	269
Total revenue	**36 642**	**37 764**	**38 941**
Expenditure			
Expenditure	–35 885	–36 853	–37 943
Debt service	–857	–911	–998
Total expenditure	**–36 742**	**–37 764**	**–38 941**
SURPLUS (DEFICIT)	**–100**	**—**	—

4. PUBLIC CAPITAL INVESTMENTS

The government's capital investments have grown significantly in recent years.This substantial increase in investments raises two major issues that the government must consider:

- current and projected levels of capital expenditures are generating strong pressure on the government's debt and expenditure;
- certain aspects of the processes involved in planning and managing capital expenditures can be improved.
  - Therefore, the government mandated the firm SECOR-KPMG to study the current management of the Québec Infrastructures Plan (QIP) and the project planning process.

In Budget 2013-2014, the government is presenting new policy directions to reconcile the need to renew and develop infrastructure with the government's ability to pay.

Accordingly, the government is announcing two major changes right now:[5]

- a maximum is being set for total public capital investments until 2025-2026. Over the next five years, the maximum will stand at $9.5 billion on average per year, which represents a reduction of $1.5 billion per year compared with the levels forecast in the March 2012 budget;
- the government will improve the planning and management of infrastructure as a whole.

In the coming year, the Secrétariat du Conseil du trésor will make public all of the actions chosen to implement these new policy directions. In addition, it will describe the details of public capital investments, particularly by sector and type of investment, at a later date.

Other investments are also made by government enterprises, namely, Hydro-Québec, the Société des alcools du Québec and Loto-Québec. The details of these investments are described in Appendix 1.

[5] For more information on the measures announced, see Section A.

❑ Setting a maximum for public capital expenditures

In 2012-2013, the maximum envelopes allocated total $12.5 billion. From 2013-2014 to 2017-2018, the average annual level of these investments will amount to $9.5 billion.

Moreover, even if public capital investments decrease by $1.5 billion as of 2013-2014, the levels will remain very high compared with the 2003-2004 level.

TABLE C.23

Maximum envelopes allocated for capital investments as a whole
(billions of dollars)

	Investments under the old QIP	Investments outside the old QIP	Subtotal	Reductions	New envelopes allocated	
2003-2004	3.3	0.9	**4.2**	—	**4.2**	
2004-2005	3.5	0.8	**4.3**	—	**4.3**	
2005-2006	4.0	0.8	**4.8**	—	**4.8**	
2006-2007	4.2	1.0	**5.2**	—	**5.2**	
2007-2008	5.0	1.3	**6.3**	—	**6.3**	
2008-2009	6.6	1.5	**8.1**	—	**8.1**	
2009-2010	7.8	1.8	**9.6**	—	**9.6**	
2010-2011	7.6	1.8	**9.4**	—	**9.4**	
2011-2012	7.9	1.9	**9.8**	—	**9.8**	
2012-2013	9.8	2.7	**12.5**	—	**12.5**	
2013-2014	9.4	2.6	**12.0**	–1.5	**10.5**	
2014-2015	9.1	2.5	**11.6**	–1.5	**10.1**	
2015-2016	8.0	2.2	**10.2**	–1.5	**8.7**	$9.5 billion on average
2016-2017	8.4	2.3	**10.7**	–1.5	**9.2**	
2017-2018	8.3	2.3	**10.6**	–1.5	**9.1**	
2018-2019	8.3	2.3	**10.6**	–1.5	**9.1**	
2019-2020	8.2	2.3	**10.5**	–1.5	**9.0**	
2020-2021	8.1	2.3	**10.4**	–1.5	**8.9**	
2021-2022	8.0	2.2	**10.2**	–1.5	**8.7**	
2022-2023	8.2	2.3	**10.5**	–1.5	**9.0**	
2023-2024	8.4	2.3	**10.7**	–1.5	**9.2**	
2024-2025	8.7	2.4	**11.1**	–1.5	**9.6**	
2025-2026	8.9	2.5	**11.4**	–1.5	**9.9**	

5. NON-BUDGETARY TRANSACTIONS

Non-budgetary transactions consist of the transactions of the general fund and those of the consolidated entities. They are presented by activity, namely:

— investments, loans and advances;

— capital expenditures;

— retirement plans and employee future benefits;

— other accounts.

For 2012-2013, non-budgetary requirements stand at $3.3 billion. In 2013-2014 and 2014-2015, non-budgetary requirements are expected to total $1.2 billion and $2.7 billion respectively.

TABLE C.24

Summary of non-budgetary transactions(1)
(millions of dollars)

	2012-2013	2013-2014	2014-2015
General fund			
Investments, loans and advances	–1 335	–951	–1 718
Capital expenditures	–242	–249	–260
Retirement plans and employee future benefits	2 646	2 625	2 611
Other accounts	71	1 577	764
Total	**1 140**	**3 002**	**1 397**
Consolidated entities			
Investments, loans and advances	682	–551	361
Capital expenditures	–4 721	–3 886	–3 695
Retirement plans and employee future benefits	—	—	—
Other accounts	–436	224	–760
Total	**–4 475**	**–4 213**	**–4 094**
Summary of non-budgetary transactions			
Investments, loans and advances	–653	–1 502	–1 357
Capital expenditures	–4 963	–4 135	–3 955
Retirement plans and employee future benefits	2 646	2 625	2 611
Other accounts	–365	1 801	4
TOTAL NON-BUDGETARY TRANSACTIONS	**–3 335**	**–1 211**	**–2 697**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

❑ Investments, loans and advances

Net financial requirements for investments, loans and advances for 2012-2013, amount to $0.7 billion. The forecasts for 2013-2014 and 2014-2015 are $1.5 billion and $1.4 billion respectively.

For 2012-2013, the investments, loans and advances of the general fund show financial requirements of $1.3 billion.

The investments, loans and advances of the consolidated entities should contribute to reducing financing needs by $0.7 billion in 2012-2013.

❑ Retirement plans and employee future benefits

For 2012-2013, the balance of non-budgetary transactions for the retirement plans and employee future benefits is $2.6 billion, which reduces the government's financing needs.

For 2013-2014 and 2014-2015, the retirement plans and employee future benefits should help to reduce financing needs by $2.6 billion a year for each of these fiscal years as well.

❑ Other accounts

Financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable, accounts payable and deferred revenue.

In 2012-2013, the change in these other accounts constitutes a financial requirement of $0.4 billion.

❑ Capital expenditures

In 2012-2013, financial requirements associated with capital expenditures will total $5.0 billion.

Forecast financial requirements for 2013-2014 and 2014-2015 stand at $4.1 billion and $4.0 billion respectively.

TABLE C.25

Net capital investments[1]
(millions of dollars)

	2012-2013	2013-2014	2014-2015
General fund			
Investments	–402	–413	–423
Depreciation	160	164	163
Net investments – General fund	**–242**	**–249**	**–260**
Consolidated entities			
Investments	–9 434	–8 365	–8 391
Depreciation	3 205	3 568	3 851
Net investments – Consolidated entities	**–6 229**	**–4 797**	**–4 540**
CONSOLIDATED			
Investments	–9 836	–8 778	–8 814
Depreciation	3 365	3 732	4 014
Net investments – Consolidated	**–6 471**	**–5 046**	**–4 800**
Less: PPP investments[2]	1 508	911	845
NET CAPITAL INVESTMENTS	**–4 963**	**–4 135**	**–3 955**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) PPP investments correspond to new commitments that are taken into account in the government's gross debt.

Capital investments made under public-private partnership (PPP) agreements do not entail financial requirements for the government for the portion of financing borne by the private partner. In accordance with the government's accounting policies, PPP investments are recognized in the government's assets as well as in its debt.

6. NET FINANCIAL REQUIREMENTS

Surpluses or net financial requirements represent the difference between the government's cash inflow and disbursements. This measure takes into account not only changes in the budgetary balance on an accrual basis, but also resources or requirements arising from the acquisition of fixed assets, loans, investments and advances, and from other activities such as paying accounts payable and collecting accounts receivable. The difference between the budgetary balance and net financial requirements is recognized in non-budgetary transactions.

As a whole, the government's net financial requirements stand at $5.8 billion for 2012-2013, $0.2 billion for 2013-2014 and $1.3 billion for 2014-2015.

TABLE C.26

Net financial requirements(1)
(millions of dollars)

	2012-2013	2013-2014	2014-2015
SURPLUS (DEFICIT)	**–2 426**	**1 039**	**1 386**
Non-budgetary transactions			
Investments, loans and advances	–653	–1 502	–1 357
Capital expenditures	–4 963	–4 135	–3 955
Retirement plans and employee future benefits	2 646	2 625	2 611
Other accounts	–365	1 801	4
Total non-budgetary transactions	**–3 335**	**–1 211**	**–2 697**
NET FINANCIAL REQUIREMENTS	**–5 761**	**–172**	**–1 311**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

The net financial requirements shown in the previous table come from the following sources:

- The net financial requirements of the general fund amount to \$2.5 billion for 2012-2013. The general fund will show a surplus of \$2.6 billion in 2013-2014 and \$1.7 billion in 2014-2015. These variations mainly reflect the deficit forecast for 2012-2013 and the return to a balanced budget in 2013-2014.

- The net financial requirements of the consolidated entities, excluding the Generations Fund, stand at \$4.4 billion for 2012-2013, \$3.8 billion for 2013-2014 and \$4.4 billion for 2014-2015. These net financial requirements stem largely from infrastructure investments projected by the Land Transportation Network Fund and by the health and social services and education networks.

The net financial surpluses of the Generations Fund amount to \$1.2 billion for 2012-2013, \$1.0 billion for 2013-2014 and \$1.4 billion for 2014-2015.

TABLE C.27

Net financial requirements by entity[1]
(millions of dollars)

	2012-2013	2013-2014	2014-2015
General fund	–2 527	2 570	1 714
Consolidated entities[2]	–4 413	–3 781	–4 411
Generations Fund	1 179 [3]	1 039 [4]	1 386
NET FINANCIAL REQUIREMENTS	**–5 761**	**–172**	**–1 311**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Excludes the Generations Fund.
(3) Includes a deposit of \$300 million from the accumulated surpluses of the Territorial Information Fund.
(4) Excludes the use of \$1 billion to repay maturing borrowings.

APPENDIX 1: INVESTMENT PROJECTS BY GOVERNMENT ENTERPRISES

Government enterprises will continue to make investments that will contribute to Québec's economic growth. In 2013-2014, investments by these corporations will increase by $746 million compared with 2012-2013, to $5.3 billion. They will amount to $5.2 billion in 2014-2015.

❑ Hydro-Québec

In 2013, despite the abandonment of the project to refurbish the Gentilly-2 nuclear power plant, Hydro-Québec will boost its investments by $701 million compared with the previous year, for a total of $4.9 billion. In 2014, Hydro-Québec's total investments will rise slightly and reach $5.1 billion.

The funding devoted to the La Romaine hydroelectric complex will reach $936 million in 2013 and $1 040 million in 2014. As well, $85 million will be allocated to the Eastmain-1-A/Sarcelle/Rupert project in 2013. In addition to making a significant contribution to Québec's economy, these two projects will play an important role in securing Québec's energy future.

Investments of $288 million in 2013 and 2014 will also be devoted to integrating wind-energy production into the power transmission grid, while investments of $146 million in 2013 and $100 million in 2014 will be devoted to boosting Québec's energy efficiency.

Overall, Hydro-Québec's other investment projects will reach $3.1 billion in 2013 and $3.4 billion in 2014.

❑ Loto-Québec and the Société des alcools du Québec

Investments by Loto-Québec will reach $304 million in 2013-2014 and $78 million in 2014-2015, compared with $244 million in 2012-2013. In 2013-2014, $57 million will be allocated to completing the Casino de Montréal renovation project. These investments will enable the Casino de Montréal to better meet the needs expressed by its clientele.

In 2013-2014 as well, $150 million will be invested to replace video lottery terminals by so-called third-generation terminals. These new terminals will enable Loto-Québec to not only better manage its network but also to adopt a larger number of responsible gambling measures than it could with the second-generation terminals, which have now reached the end of their useful life.

Investments by the Société des alcools du Québec will total $45 million in 2013-2014 and 2014-2015, compared with $60 million in 2012-2013. These investments will be devoted mainly to its outlet network, to real estate projects relating to distribution and administrative centres, and to computer system development projects.

TABLE C.28

Forecast investments by government enterprises
(millions of dollars)

	2012-2013	2013-2014	2014-2015
HYDRO-QUÉBEC[1]			
Major projects			
Eastmain-1-A/Sarcelle/Rupert	202.0	85.0	38.0
La Romaine complex	786.0	936.0	1 040.0
Transmission integration – Wind turbines (990 MW and 2 000 MW)	390.0	288.0	288.0
La Romaine – Integration into the power transmission grid	222.0	380.0	226.0
Global Energy Efficiency Plan	158.0	146.0	100.0
Subtotal – Major projects	**1 758.0**	**1 835.0**	**1 692.0**
Other projects			
HQ Production	513.0	484.0	532.0
HQ TransÉnergie	1 158.0	1 569.0	1 624.0
HQ Distribution	657.0	824.0	1 068.0
Other units	148.0	223.0	175.0
Subtotal – Other projects	**2 476.0**	**3 100.0**	**3 399.0**
Total – Hydro-Québec	**4 234.0**	**4 935.0**	**5 091.0**
LOTO-QUÉBEC			
Modernization of the Casino de Montréal	94.5	57.0	—
Replacement of video lottery terminals	64.8	150.0	—
Other projects	85.0	97.4	78.1
Total – Loto-Québec	**244.3**	**304.4**	**78.1**
SOCIÉTÉ DES ALCOOLS DU QUÉBEC			
Outlet network	15.1	10.8	10.8
Other projects	44.7	34.2	34.2
Total – Société des alcools du Québec	**59.8**	**45.0**	**45.0**
TOTAL	**4 538.1**	**5 284.4**	**5 214.1**

(1) For the fiscal year ending December 31.

APPENDIX 2: GOVERNMENT TRANSFERS

The Québec government deems compliance with public sector accounting standards to be a priority. Over the past six years, the Auditor General has not issued any restrictions or comments about the government's financial statements. The government intends to pursue this course and follow the evolution of accounting standards in order to implement the necessary changes this entails.

❑ A revised accounting standard came into effect on April 1, 2012

The Public Sector Accounting Board of Canada (PSAB) has revised the accounting standard on the recording of transfer revenues and expenditures, commonly known as "subsidies". Governments have had to apply the revised standard starting April 1, 2012.

The standard requires that the government which pays a transfer, or the transferring government, recognize the transfer expenditure once it has been authorized by the transferring government and the eligibility criteria have been met.

In the case of the government that receives the transfer, or the recipient government, the same criteria must be met in order to recognize the transfer revenue.

- However, when the transferring government stipulates the terms and conditions for using transferred resources or the actions that the recipient must perform in order to keep the resources, the recipient government must record a deferred revenue liability.

- The recipient government recognizes the transfers in revenue as the terms and conditions are met.

In September 2012, the PSAB approved the creation of a discussion group whose mandate will be to discuss questions related to the application of the new accounting standards and the revised standards. The Ministère des Finances et de l'Économie du Québec will request that the revised standard on government transfers be one of the topics studied by this discussion group, which should begin its work in 2013.

❑ The Québec government's budgetary policy

For over 30 years now, the Québec government has funded a share of the capital investments of municipalities in, for example, sewers, water supply systems and public transit, and the capital expenditures of universities by granting annual subsidies to cover reimbursements of principal and interest on the borrowings contracted by municipalities and universities to finance these capital expenditures.

The goal is to match government spending with the use of fixed assets, which is fair for taxpayers from an intergenerational standpoint. The annual subsidies are stipulated in each of the agreements signed with municipalities and universities. They must be submitted annually to the National Assembly of Québec for approval through the adoption of appropriation acts.

The revised standard on government transfers will allow the government to maintain its current practice with regard to subsidies granted annually to repay the principal and interest on the long-term funding of capital expenditures. Indeed, when the PSAB adopted this revised standard, it did not think that it was introducing major changes in relation to the former standards.

When the transferor is a government department or budget-funded body, the funds for covering the transfers are taken from the Consolidated Revenue Fund, in accordance with the appropriations that may be granted to it only by the Parliament of Québec, i.e. the National Assembly and the Lieutenant-Governor.

This corresponds to an **authorization**, since no transfers may be made without these appropriations. This revised standard, which stipulates that transfer expenditures have to be recognized when they are **authorized** by the transferring government, must be interpreted as implying the need for the transfers to first be authorized by Parliament before the government may record transfer expenditures. The Canadian Constitution confers on the Parliament of Québec the power to authorize the government to make expenditures from the Consolidated Revenue Fund. Consequently, the recording of transfer expenditures must be aligned with parliamentary authorization, which must reflect the legal commitment contracted by the government in respect of the recipients, that is, the granting of annual subsidies to cover reimbursements of principal and interest.

❑ Current practice confirmed by independent public accounting firms

The position of the Ministère des Finances et de l'Économie du Québec has been confirmed by the independent opinions of four internationally renowned public accounting firms consulted in this regard, namely, KPMG, Ernst & Young, PricewaterhouseCoopers and Samson Bélair / Deloitte & Touche. In addition, the department has obtained legal opinions in support of its interpretation to the effect that it is the Parliament of Québec and not the government that has the power to authorize expenditures within the meaning of the revised accounting standard.

❑ Impact of the revised accounting standard

Nonetheless, this revised standard has made it necessary to review the accounting treatment of programs administered by bodies such as the Société de financement des infrastructures locales du Québec (SOFIL) and the Société d'habitation du Québec (SHQ), whose financial assistance does not require annual authorization of appropriations by the National Assembly since the latter has granted the boards of directors of these bodies, under their statutes of incorporation, the power to authorize their financial commitments. In this context, the government estimated in its 2012-2013 budget that, because of the revised standard, accumulated deficits and liabilities should be restated by $1.2 billion as at April 1, 2012. Moreover, the financial framework for that budget provided for spending adjustments to take into account the application of the standard by these two bodies.

❑ Legislative measures to reinforce the notion of authorization

Recipients of the subsidies granted by the Québec government, particularly municipalities, universities and institutions in the health and social services and education networks, must also have a thorough knowledge of the authorization process within the Québec government in order to recognize their subsidy revenues.

To eliminate any ambiguity about the notion of authorization, the Québec government will table legislative amendments shortly to clearly explain that no transfers made by a department may be entered in the government's accounts other than in accordance with prior authorization of the Parliament of Québec.

Conclusions of the opinions of the public accounting firms

KPMG

"According to our analysis of the current standard, the former standard and the various exposure drafts, the standard setter did not intend to make major changes to the notions of authorization for government transfers.

Considering the arguments presented in our report, we are of the opinion that the accounting analysis for the recording of transfers stemming from the two agreements must be made on the basis of the requirements established in Section PS 3410 *Government Transfers*. We are also of the opinion that payment authorization is an integral part of the authorization process and that the absence of such payment authorization for transfers payable in subsequent fiscal years indicates that the authority required under paragraph PS 3410.28 was not fully exercised for all of the financial assistance provided under these two agreements.

Therefore, the government transfers for subsequent periods provided for in the two agreements examined should not be recognized in the government's financial statements before authorization to pay is attested by an appropriation act adopted by parliamentarians."

Ernst & Young

"Based on our work, we have concluded that the new standard on the recording of government transfers was applied and interpreted by the Contrôleur des finances in an appropriate manner for the two agreements we analyzed. Therefore, the Québec government is required to record, in the fiscal year ending March 31, 2012, only those government transfers for which appropriations were voted for 2011-2012 in accordance with the eligibility criteria that will be met."

PricewaterhouseCoopers

"In the case of the contract with the NPO, we believe that it is reasonable to conclude that PS 3410 makes it possible to consider the approval of appropriations as the legal mechanism that establishes the authority to make the government transfer. This then becomes an acceptable accounting policy choice that must be applied in a consistent fashion under PS 3410.

Therefore, it would be appropriate to record as expenses and liabilities the government transfers for financial assistance for which the eligibility criteria have been met and for which funding has been voted for the period covered by the appropriations.

We have come to a coherent and similar conclusion for the subsidy contract with the educational institution."

Samson Bélair / Deloitte & Touche

"We are of the opinion that in the specific case of government transfers the new accounting standard attaches considerable importance to the legal provisions for determining whether or not authorization has been given. Consequently, in the case of the agreement that is conditional on the approval of budgetary appropriations and that we analyzed in our report of June 27, 2011, a liability and an expense must be recognized only when the appropriate funding is voted by the Parliament of Québec. Indeed, it was determined that the government retains discretionary authority as long as the annual appropriations have not been voted."

Section D

DEBT, FINANCING AND DEBT MANAGEMENT

1. DEBT

Several concepts of debt can be used to measure a government's indebtedness. The following table presents data on the Québec government's debt according to the two main concepts the government employs, namely, gross debt and debt representing accumulated deficits.

TABLE D.1

Debt of the Québec government as at March 31
(millions of dollars)

	2012	2013F	2014F	2015F	2016F	2017F	2018F
GROSS DEBT(1)	**183 384**	**193 337**	**197 111**	**202 021**	**204 939**	**207 372**	**208 093**
As a % of GDP	*54.6*	*55.7*	*54.7*	*53.9*	*52.7*	*51.4*	*49.8*
Less: Financial assets, net of other liabilities	–16 273	–16 122	–12 589	–14 085	–14 660	–15 121	–15 693
Less: Non-financial assets	–52 989	–59 460	–64 506	–69 306	–73 533	–77 633	–80 398
DEBT REPRESENTING ACCUMULATED DEFICITS	**114 122**	**117 755**	**120 016**	**118 630**	**116 746**	**114 618**	**112 002**
As a % of GDP	***34.0***	***33.9***	***33.3***	***31.7***	***30.0***	***28.4***	***26.8***

F: Forecasts.
(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

1.1 Gross debt

The gross debt corresponds to the sum of the debt contracted on financial markets and the net liabilities for the retirement plans and for the future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2012, the gross debt stood at $183 384 million, or 54.6% of GDP. As at March 31, 2013, the gross debt is expected to amount to $193 337 million, or 55.7% of GDP. As of 2013-2014, the ratio of gross debt to GDP should gradually decline to 49.8% as at March 31, 2018.

TABLE D.2

Gross debt as at March 31
(millions of dollars)

	2012	2013F	2014F	2015F	2016F	2017F	2018F
Consolidated direct debt(1)	158 887	169 390	172 457	178 261	182 760	187 186	190 769
Plus: Net retirement plans liability	28 727	29 403	30 149	30 641	30 944	31 079	30 833
Plus: Net employee future benefits liability	47	—	—	—	—	—	—
Less: Generations Fund	–4 277	–5 456	–5 495	–6 881	–8 765	–10 893	–13 509
GROSS DEBT(1)	**183 384**	**193 337**	**197 111**	**202 021**	**204 939**	**207 372**	**208 093**
As a % of GDP	***54.6***	***55.7***	***54.7***	***53.9***	***52.7***	***51.4***	***49.8***

F: Forecasts.
(1) The consolidated direct debt and the gross debt exclude pre-financing.

The consolidated direct debt represents the debt that has been contracted on financial markets. It includes the government's debt and the debt of entities whose financial statements are consolidated line by line with those of the government. As at March 31, 2012, the consolidated direct debt stood at $158 887 million.

The main consolidated entities are Financement-Québec, the Land Transportation Network Fund (FORT), the Société d'habitation du Québec (SHQ) and the Société immobilière du Québec (SIQ).

As at March 31, 2012, the net retirement plans liability amounted to $28 727 million and the net employee future benefits liability, $47 million. These two liabilities are discussed in the boxes on the next pages.

As at March 31, 2012, the sums accumulated in the Generations Fund stood at $4 277 million. These sums are allocated exclusively to repaying the debt.

Retirement plans liability

The net retirement plans liability is calculated by subtracting from the retirement plans liability the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees.

The retirement plans liability represents the present value of the retirement benefits that the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. This liability stood at $74 079 million as at March 31, 2012.

The government created the RPSF in 1993. As at March 31, 2012, the book value of the RPSF was $45 352 million.

Accordingly, the net retirement plans liability was $28 727 million as at March 31, 2012.

Net retirement plans liability as at March 31, 2012
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	43 198
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 148
Other plans(1)	20 733
Subtotal	**74 079**
Less: Retirement Plans Sinking Fund	–45 352
NET RETIREMENT PLANS LIABILITY	**28 727**

(1) The liability for the other plans takes into account the assets of the other plans, including those of the pension plan of the Université du Québec.

Employee future benefits liability

The government records in its debt the value of its commitments regarding future benefits programs for its employees, namely, programs for accumulated sick leave and for pensions paid to the survivors of a government employee. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2012, the employee future benefits liability stood at $1 243 million.

As at March 31, 2012, the value of the sums accumulated to pay for employee future benefits programs (Accumulated Sick Leave Fund and Survivor's Pension Plan Fund) was $1 196 million.

Taking these funds into account, the net employee future benefits liability amounted to only $47 million as at March 31, 2012.

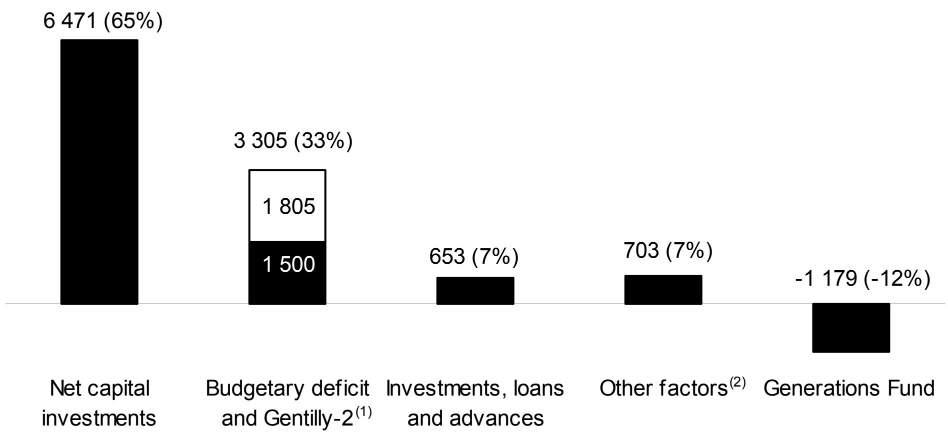
Net employee future benefits liability as at March 31, 2012
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	663
Survivor’s pension plan	406
Université du Québec programs	174
Subtotal	**1 243**
Less:	
Accumulated Sick Leave Fund	–747
Survivor's Pension Plan Fund	–449
Subtotal	**–1 196**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**47**

In 2012-2013, the government's gross debt should increase by $10.0 billion mainly because of capital investments.

CHART D.1

Factors responsible for growth in the gross debt in 2012-2013
(millions of dollars)



(1) The budgetary deficit includes the extraordinary loss of $1 805 million stemming from the closure of the Gentilly-2 nuclear power plant. The impact on the gross debt amounts to $1 354 million, which corresponds to the decrease in the dividend paid to the government by Hydro-Québec (75% of $1 805 million). The extraordinary loss results in a decrease of $451 million (25% of $1 805 million) in investments, loans and advances.
(2) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

More specifically, the gross debt is increasing in 2012-2013 for the following reasons:

— The budgetary deficit of $3 305 million, which includes the deficit of $1 500 million within the meaning of the *Balanced Budget Act* and the extraordinary loss of $1 805 million related to the closure of the Gentilly-2 nuclear power plant.

— Government investments in fixed assets (e.g. roads) that require borrowings. When these capital expenditures are made, they are posted to the government's balance sheet. Subsequently, they are gradually recorded as expenditures based on the useful life of the assets concerned. In 2012-2013, capital expenditures, net of the depreciation expenditure, should entail a $6 471-million increase in the gross debt.

— Government investments in its corporations. These investments are made through advances, direct cash contributions or by allowing these corporations to keep part of their earnings to finance their own investments.

For example, Hydro-Québec pays 75% of its net earnings[1] as dividends to the government and keeps 25% to fund its own investments, notably hydroelectric dams. The portion of earnings that the government leaves Hydro-Québec ($242 million in 2012-2013) constitutes an investment by the government in Hydro-Québec, which creates a financial requirement for the government and thus leads to an increase in the gross debt.

In addition, loans made by Financement-Québec to universities not included in the government's reporting entity (roughly $200 million in 2012-2013) to enable them to fund their capital investments are included in investments, loans and advances.

Overall, the government's investments, loans and advances should entail a $653-million increase in the gross debt in 2012-2013.

— Other factors, including in particular the change in some of the government's other asset and liability items, such as accounts receivable and accounts payable. Overall, other factors should lead to a $703-million increase in the gross debt in 2012-2013.

— Deposits in the Generations Fund, which should reduce the debt by $1 179 million in 2012-2013.

The table on the following page shows how the government's gross debt has changed since March 31, 2000.

[1] The amount of the dividend is calculated according to section 15.2 of the *Hydro-Québec Act*:

"The distributable surplus for a financial period is equal to 75% of the Company's net profit. The net profit is computed on the basis of the annual consolidated financial statements established according to generally accepted accounting principles.

However, no dividend may be declared in respect of a financial period if the payment thereof would result in a reduction of the rate of capitalization of the Company to less than 25% at the end of that period."

TABLE D.3

Factors responsible for growth in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Investments, loans and advances	Net investment in the networks(1)	Net capital expenditures(2)	Other factors(3)	Generations Fund(4)	Total change	Debt, end of year	As a % of GDP
With networks consolidated at modified equity value										
2000-2001	116 761	–427	1 701	841	578	1 108		3 801	120 562	53.6
2001-2002	120 562	–22	1 248	934	1 199	–9		3 350	123 912	53.5
2002-2003	123 912	728	1 921	631	1 706	237		5 223	129 135	53.5
2003-2004	129 135	358	1 367	560	1 186	625		4 096	133 231	53.1
2004-2005	133 231	664	1 303	1 486	1 006	–796		3 663	136 894	52.1
2005-2006	136 894	–37	1 488	1 013	1 179	–809		2 834	139 728	51.4
2006-2007	139 728	–109	2 213	1 002	1 177	1 078	–584	4 777	144 505	51.2
2007-2008	144 505	—	2 658	487	1 457	767	–649	4 720	149 225	50.4
2008-2009	149 225	—	966	622	2 448	–28	–719	3 289	152 514	50.1
With networks consolidated line by line(5)										
2009-2010	157 630	3 174	1 746		4 226	–2 733	–725	5 688	163 318	53.6
2010-2011	163 318	3 150	2 507		4 923	298	–760	10 118	173 436	54.3
2011-2012	173 436	2 628	1 888		5 350	922	–840	9 948	183 384	54.6
2012-2013	183 384	3 305(6)	653		6 471	703	–1 179	9 953	193 337	55.7
2013-2014	193 337	—	1 502		5 046	–1 735	–1 039	3 774	197 111	54.7
2014-2015	197 111	—	1 357		4 800	139	–1 386	4 910	202 021	53.9
2015-2016	202 021	—	1 265		4 227	–690	–1 884	2 918	204 939	52.7
2016-2017	204 939	—	1 593		4 100	–1 132	–2 128	2 433	207 372	51.4
2017-2018	207 372	—	1 630		2 765	–1 058	–2 616	721	208 093	49.8

(1) The net investment in the networks includes mainly loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions in the health and social services and education networks. Since 2009-2010, these items have been part of net capital expenditures.
(2) Investments made under private-public partnership agreements are included in net capital expenditures.
(3) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.
(4) Deposits in the Generations Fund in 2012-2013 include $879 million in dedicated revenues and $300 million coming from the accumulated surpluses of the Territorial Information Fund.
(5) The line-by-line consolidation of the financial statements of institutions in the health and social services and education networks raised the gross debt by $5 116 million as at March 31, 2009. This amount represents the debt contracted by the networks in their own name. The data prior to 2009-2010 could not be restated and are thus not comparable.
(6) The budgetary deficit includes the extraordinary loss of $1 805 million stemming from the closure of the Gentilly-2 nuclear power plant. The impact on the gross debt amounts to $1 354 million, which corresponds to the decrease in the dividend paid to the government by Hydro-Québec (75% of $1 805 million).

Revisions to the gross debt compared with the March 2012 budget

The forecast for the gross debt as at March 31, 2017 in the March 2012 budget was $210 802 million. The revised forecast is $207 372 million, or $3 430 million less. As a percentage of GDP, the gross debt has been adjusted downward by 0.7 percentage points (from 52.1% to 51.4%) as at March 31, 2017.

This downward adjustment is explained mainly by the government's decision to adjust projected capital investments downward.

The closure of the Gentilly-2 nuclear power plant will raise the gross debt by $1 354 million as at March 31, 2013. This amount corresponds to the decrease in the dividend that will be paid to the government at the end of this fiscal year. Indeed, the decrease in Hydro-Québec's net earnings in 2012-2013 because of the closure of the power plant ($1 805 million) will lead to a decrease of $1 354 million (75% of $1 805 million) in the dividend paid to the government.

However, this represents only a short-term impact, for over the longer term, abandoning the project to refurbish the power plant will increase Hydro-Québec's annual net earnings by $215 million per year starting in 2017-2018. Since this additional revenue will be deposited in the Generations Fund, it will help to reduce the government's gross debt.

Revisions to the gross debt as at March 31 since the March 2012 budget
(millions of dollars)

	2012	2013	2014	2015	2016	2017
March 2012 budget	183 780	191 717	197 130	203 032	207 138	210 802
As a % of GDP	*55.0*	*55.3*	*54.6*	*54.0*	*53.0*	*52.1*
November 2012 budget	183 384	193 337	197 111	202 021	204 939	207 372
As a % of GDP	*54.6*	*55.7*	*54.7*	*53.9*	*52.7*	*51.4*
Revisions	**–396**	**1 620**	**–19**	**–1 011**	**–2 199**	**–3 430**
As a % of GDP	***–0.4***	***0.4***	***0.1***	***–0.1***	***–0.3***	***–0.7***

Explanation of the revisions		
Downward adjustment of the dividend paid by Hydro-Québec because of the closure of the Gentilly-2 nuclear power plant		1 354
November 2012 budget measures:		
Cancellation of the increase of 1 cent/kWh over five years in the price of heritage pool electricity		1 890
Reduction in capital investments from 2013-2014 to 2016-2017		–4 724
Deposit of all mining royalties in the Generations Fund	–550	
Deposit of the sums generated by the indexation of the price of heritage pool electricity in the Generations Fund	–575	
Deposit of the increase in the specific tax on alcoholic beverages in the Generations Fund	–300	
Subtotal		–1 425
Total for the November 2012 budget measures		–4 259
Other		–525
Total revisions		**–3 430**

1.2 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

As at March 31, 2012, the debt representing accumulated deficits was $114 122 million, or 34.0% of GDP.

The debt representing accumulated deficits will stop rising once the budget is balanced in 2013-2014. As of 2014-2015, it will decline year after year at the rate of increase of the Generations Fund. As a proportion of GDP, the debt representing accumulated deficits will decline as of 2012-2013.

TABLE D.4

Factors responsible for growth in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budgetary deficit	Impact of the closure of Gentilly-2	Deposits in the Generations Fund	Other	Total change	Debt, end of year	As a % of GDP
2011-2012	111 946	2 628		–840	388	2 176	114 122	34.0
2012-2013F	114 122	1 500	1 805	–879	1 207(1)	3 633	117 755	33.9
2013-2014F	117 755	—		–1 039	3 300	2 261	120 016	33.3
2014-2015F	120 016	—		–1 386	—	–1 386	118 630	31.7
2015-2016F	118 630	—		–1 884	—	–1 884	116 746	30.0
2016-2017F	116 746	—		–2 128	—	–2 128	114 618	28.4
2017-2018F	114 618	—		–2 616	—	–2 616	112 002	26.8

F: Forecasts.
(1) This amount corresponds to the restatement stemming from the new accounting standard for government transfers.

In 2012-2013, the debt representing accumulated deficits will be adjusted by $1 207 million because of the new accounting standard for government transfers, which changes the way the Société de financement des infrastructures locales (SOFIL) and the Société d'habitation du Québec record subsidies in respect of debt service.

The debt representing accumulated deficits also takes into account an allowance for the impact of the eventual transition of Hydro-Québec to International Financial Reporting Standards (IFRS). In the March 2012 budget, it was estimated that the transition to these standards would reduce the balance of Hydro-Québec's retained earnings by $3.3 billion, which would in turn reduce the value of the government's participation in Hydro-Québec and increase the debt representing accumulated deficits by the same amount as at April 1, 2011. However, on two occasions since the March 20, 2012 budget, the Canadian Institute of Chartered Accountants (CICA) has deferred the date of the compulsory changeover to IFRS for companies like Hydro-Québec that engage in rate-regulated activities. The projected date of the changeover is now January 1, 2014, which would have an impact on the government's 2013-2014 fiscal year.

On the basis of the most recent information, the impact of the changeover to IFRS by Hydro-Québec would amount to roughly $5 billion. However, it is important to note that enterprises similar to Hydro-Québec in British Columbia and Ontario (BC Hydro and Hydro One) have decided to adopt US accounting standards rather than IFRS for their rate-regulated activities. Given the uncertainty surrounding the ultimate impact of this change in accounting standards for Hydro-Québec, a decision has been made to maintain the $3.3-billion restatement, but to apply it to the year 2013-2014. It should be pointed out that Hydro-Québec's eventual transition to IFRS will not have any impact on the government's gross debt.

Revisions to the debt representing accumulated deficits compared with the March 2012 budget

The forecast for the debt representing accumulated deficits as at March 31, 2017 in the March 2012 budget was $112 300 million. The revised forecast is $114 618 million, or $2 318 million more. As a percentage of GDP, the debt representing accumulated deficits has been adjusted upward by 0.7 percentage points (from 27.7% to 28.4%) as at March 31, 2017. This upward adjustment stems in particular from the closure of the Gentilly-2 nuclear power plant.

The government's decision to close the Gentilly-2 nuclear power plant will raise the debt representing accumulated deficits by $1 805 million as at March 31, 2013. This amount corresponds to the decrease in the value of the Québec government's investment in Hydro-Québec resulting from the closure of the power plant.

However, this represents only a short-term impact, for over the longer term, abandoning the project to refurbish the power plant will increase Hydro-Québec's annual net earnings by $215 million per year starting in 2017-2018. Since this additional revenue will be dedicated to the Generations Fund, it will help to reduce the government's debt representing accumulated deficits.

Accordingly, after nine years starting in 2017-2018, the $1 805-million impact on the government's accumulated deficit will be entirely offset.

Revisions to the debt representing accumulated deficits as at March 31 since the March 2012 budget
(millions of dollars)

	2012	2013	2014	2015	2016	2017
March 2012 budget	117 654	119 450	118 409	116 834	114 804	112 300
As a % of GDP	*35.2*	*34.5*	*32.8*	*31.1*	*29.4*	*27.7*
November 2012 budget	114 122	117 755	120 016	118 630	116 746	114 618
As a % of GDP	*34.0*	*33.9*	*33.3*	*31.7*	*30.0*	*28.4*
Revisions	**–3 532**	**–1 695**	**1 607**	**1 796**	**1 942**	**2 318**
As a % of GDP	***–1.2***	***–0.6***	***0.5***	***0.6***	***0.6***	***0.7***

Explanation of the revisions		
Downward adjustment of revenue from Hydro-Québec because of the closure of the Gentilly-2 nuclear power plant		1 805
November 2012 budget measures:		
Cancellation of the increase of 1 cent/kWh over five years in the price of heritage pool electricity		1 890
Deposit of all mining royalties in the Generations Fund	–550	
Deposit of the sums generated by the indexation of the price of heritage pool electricity in the Generations Fund	–575	
Deposit of the increase in the specific tax on alcoholic beverages in the Generations Fund	–300	
Subtotal		–1 425
Total for the November 2012 budget measures		465
Other		48
Total revisions		**2 318**

1.3 Debt burden

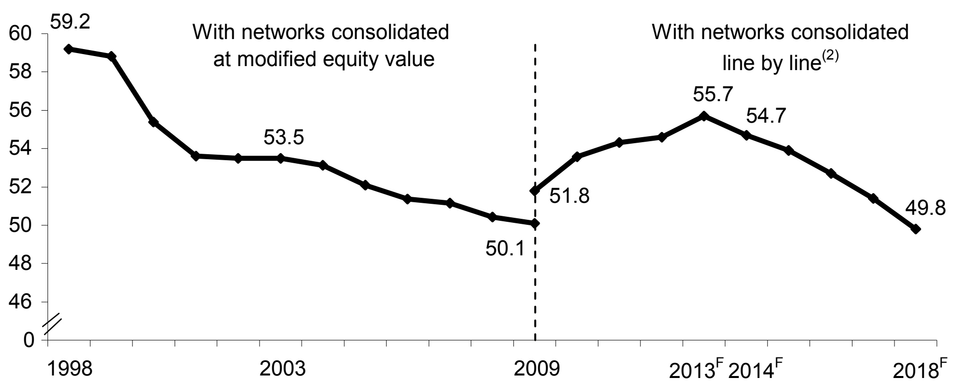
Québec's debt has grown substantially in recent years, from $129.1 billion as at March 31, 2003 to $183.4 billion as at March 31, 2012. This represents an increase of nearly $54.3 billion in nine years.

Between 1998 and 2009, the Québec government's debt/GDP ratio fell significantly. While the gross debt was equivalent to 59.2% of GDP as at March 31, 1998, this ratio stood at 53.5% as at March 31, 2003 and 50.1% as at March 31, 2009. The line-by-line consolidation of the network institutions' financial statements with those of the government raised the debt/GDP ratio to 51.8% as at March 31, 2009.

The ratio has risen since 2009 mainly because of the increase in capital expenditures and the recession. The ratio is expected to reach 55.7% of GDP as at March 31, 2013. Thereafter, the debt/GDP ratio should decline to 49.8% as at March 31, 2018.

CHART D.2

Gross debt as at March 31(1)
(as a percentage of GDP)



F: Forecasts.
(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) The gross debt takes into account the debt that the health and social services and education networks have contracted in their own name. Therefore, the data as of 2009 are not comparable with those for previous years since they do not include this debt.

1.4 Debt reduction objectives

Following the March 2010 Budget Speech, new debt reduction objectives for 2025-2026 were included in the *Act to reduce the debt and establish the Generations Fund*:

— 45% of GDP for the gross debt;

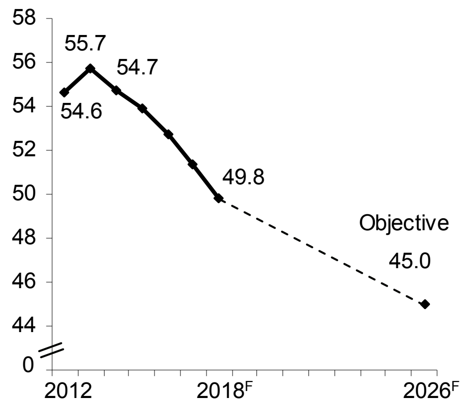
— 17% of GDP for the debt representing accumulated deficits.

Reducing the debt burden is a priority for the government. This budget confirms that these two objectives will be maintained.

CHART D.3

Gross debt as at March 31

(as a percentage of GDP)



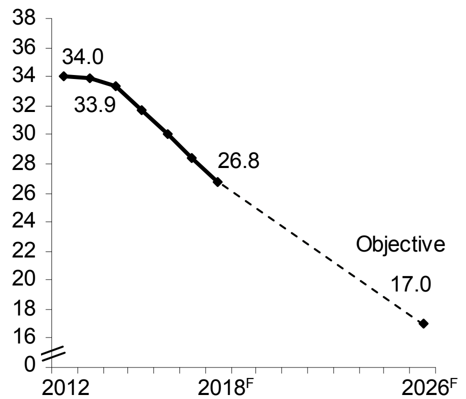
F: Forecasts for 2013 to 2018 and projections for subsequent years.

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

CHART D.4

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



F: Forecasts for 2013 to 2018 and projections for subsequent years.

To achieve these objectives the previous government had announced, in particular:

- that the price of heritage pool electricity would be increased by 1 cent/kWh over five years starting in 2014 and that the revenue generated by this increase would be deposited in the Generations Fund (announcement made in the March 2010 budget), i.e. $315 million in 2014-2015, $630 million in 2015-2016, $945 million in 2016-2017, $1 260 million in 2017-2018 and $1 575 million in 2018-2019;

- that 25% of mining, oil and gas royalties in excess of $200 million would be deposited in the Generations Fund as of 2014-2015 (announcement made in the March 2011 budget), which represented $45 million in 2014-2015 and $50 million in subsequent years;

- that the sums coming from the auctioning of exploration licences for oil, gas and underground reservoirs, up to a level of 25%, as in the case of other mining, oil and gas royalties, and an amount of $300 million coming from the accumulated surpluses of the Territorial Information Fund would be deposited in the Generations Fund (announcements made in the March 2012 budget).

To achieve the debt reduction objectives, the government has decided to adopt a more balanced approach and to cancel the increase of 1 cent/kWh over five years in the price of heritage pool electricity that had been projected until now.

In this budget, the government is announcing that it will deposit in the Generations Fund:

- The revenue that will be generated by the indexation of the price of heritage pool electricity starting in 2014. This will represent $95 million in 2014-2015, $190 million in 2015-2016, $290 million in 2016-2017 and $395 million in 2017-2018.

- All mining royalties as of 2015-2016. This will represent $325 million per year.

- The revenue, as of 2017-2018, that will stem from the increase in Hydro-Québec's net earnings as a result of the government's decision to abandon the project to refurbish the Gentilly-2 nuclear power plant. This will represent $215 million per year.

- An amount of $100 million per year, as of 2014-2015, that will be generated by the increase in the specific tax on alcoholic beverages.

The government is also announcing a $1.5-billion annual reduction as of 2013-2014 in projected capital investments.

These debt reduction measures will enable the government to achieve the objectives set in the *Act to reduce the debt and establish the Generations Fund*.

Lastly, the government will use $1 billion from the Generations Fund in 2013-2014 to repay maturing borrowings. As shown below, the use of $1 billion from the Generations Fund will reduce the consolidated direct debt, or the debt contracted on financial markets, by an equivalent amount. However, this will not have an impact on the gross debt, because the Generations Fund is subtracted from the gross debt. This debt repayment will make it possible to save $25 million in 2013-2014 and $40 million per year afterwards on debt service.

TABLE D.5

Gross debt as at March 31, 2014[F]
(millions of dollars)

	Before the use of $1 billion from the Generations Fund to repay the debt	Debt repayment	After the use of $1 billion from the Generations Fund to repay the debt
Consolidated direct debt	173 457	–1 000	172 457
Plus: Net retirement plans liability	30 149	—	30 149
Plus: Net employee future benefits liability	—	—	—
Less: Generations Fund	–6 495	1 000	–5 495
GROSS DEBT	**197 111**	—	**197 111**
As a % of GDP	***54.7***	—	***54.7***

F: Forecasts.

Owing to these new revenue sources, which are over and above those currently dedicated to the Generations Fund, this fund should total $13.5 billion as at March 31, 2018.

To implement the above measures, amendments will be made to the *Act to reduce the debt and establish the Generations Fund* and to the other statutes concerned.

The proposed legislative amendments will also be aimed at enabling the deposit in the Generations Fund of $300 million in 2012-2013 coming from the accumulated surplus of the Territorial Information Fund, as well as the deposit of 25% of the sums coming from the auctioning of licences to explore for oil, gas and underground reservoirs.

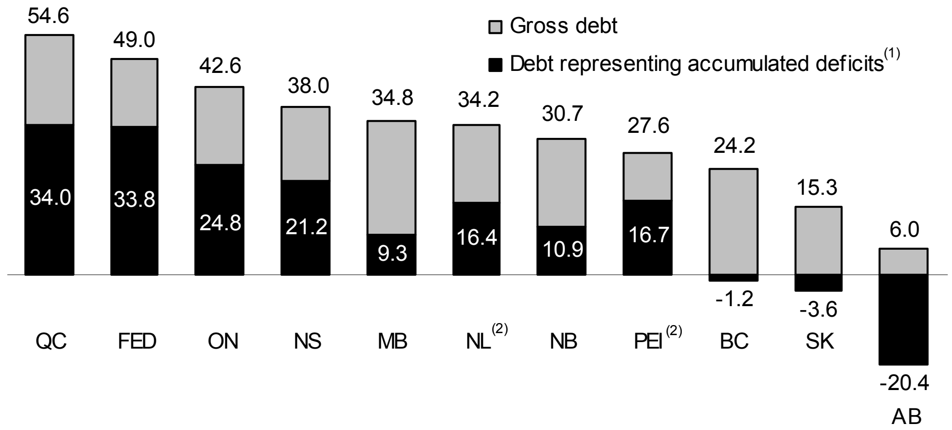
1.5 Comparison of the debt of governments in Canada

Be it on the basis of the gross debt or on that of the debt representing accumulated deficits, as a percentage of GDP, Québec is the most heavily indebted province.

As at March 31, 2012, the ratio of gross debt to GDP was 54.6% in Québec, compared with 42.6% in Ontario (second most heavily indebted province) and 38.0% in Nova Scotia (third most heavily indebted province).

CHART D.5

Gross debt and debt representing accumulated deficits as at March 31, 2012
(as a percentage of GDP)



(1) A negative entry means that the government has an accumulated surplus.
(2) Debt as at March 31, 2011, given that the 2011-2012 public accounts had not been published as at November 13, 2012.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

The table on the following page shows the debt of the federal government and each of the provinces as at March 31, 2012. The boxes indicate the concept of debt used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

Contrary to net debt and debt representing accumulated deficits, gross debt is not a concept that can be observed directly in the public accounts of the other governments in Canada. However, the public accounts show the components of the gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. It is possible, therefore, to calculate the level of the gross debt.

TABLE D.6

Debt as at March 31, 2012 according to various concepts
(millions of dollars)

	QC	FED	ON	BC	AB	NB	NL(1)	MB	SK	NS	PEI(1)
Consolidated direct debt	**158 887**	**633 285**	**267 471**	**49 463**	**6 692**	**9 371**	**5 696**	**17 788**	**4 628**	**12 665**	**1 378**
Net retirement plans liability	28 727	148 911	–6 313	110	10 556	–260	2 667	1 634	6 317	102	52
Net employee future benefits liability	47	60 515	11 115	1 690		339	1 909	413		1 622	3
Generations Fund	–4 277										
Gross debt	**183 384**	**842 711**	**272 273**	**51 263**	**17 248**	**9 450**	**10 272**	**19 835**	**10 945**	**14 389**	**1 433**
As a % of GDP	*54.6*	*49.0*	*42.6*	*24.2*	*6.0*	*30.7*	*34.2*	*34.8*	*15.3*	*38.0*	*27.6*
Less:											
Financial assets, net of other liabilities	–16 273	–192 576	–36 691	–15 290	–36 239	596	–2 143	–5 324	–6 402	–1 146	262
Net debt(2)	**167 111**	**650 135**	**235 582**	**35 973**	**–18 991**	**10 046**	**8 129**	**14 511**	**4 543**	**13 243**	**1 695**
As a % of GDP	*49.8*	*37.8*	*36.9*	*17.0*	*–6.6*	*32.6*	*27.0*	*25.5*	*6.3*	*35.0*	*32.7*
Less:											
Non-financial assets	–52 989	–67 959	–77 172	–38 430	–40 122	–6 678	–3 208	–9 206	–7 160	–5 203	–829
Debt representing accumulated deficits(2)	**114 122**	**582 176**	**158 410**	**–2 457**	**–59 113**	**3 368**	**4 921**	**5 305**	**–2 617**	**8 040**	**866**
As a % of GDP	*34.0*	*33.8*	*24.8*	*–1.2*	*–20.4*	*10.9*	*16.4*	*9.3*	*–3.6*	*21.2*	*16.7*

Note: The boxes indicate the debt concept(s) used in the budget documents of the governments concerned.
(1) Data as at March 31, 2011, given that the 2011-2012 public accounts had not been published as at November 13, 2012.
(2) A negative entry indicates that the government has net assets or an accumulated surplus.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.6 Public sector debt

Public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, municipalities, universities other than the Université du Québec and its constituent universities, and other government enterprises. This debt has served notably to finance public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2012, Québec’s public sector debt stood at $246 153 million, or 73.3% of GDP. These figures must be put into perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLE D.7

Public sector debt as at March 31
(millions of dollars)

	2009	2010	2011	2012
Government’s gross debt(1)	157 630	163 318	173 436	183 384
Hydro-Québec	36 668	36 385	37 723	38 514
Municipalities(2)	18 639	19 538	20 424	21 004
Universities other than the Université du Québec and its constituent universities(3)	1 966	1 930	1 979	1 888
Other government enterprises(4)	434	697	1 363	1 363
PUBLIC SECTOR DEBT	**215 337**	**221 868**	**234 925**	**246 153**
As a % of GDP	***70.7***	***72.8***	***73.6***	***73.3***

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government ($4 377 million as at March 31, 2012).
(3) These amounts correspond to the debt contracted by universities other than the Université du Québec and its constituent universities in their own name. Part of this debt is subsidized by the government ($137 million as at March 31, 2012). The results as at March 31, 2012 are preliminary.
(4) These amounts correspond to the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity.

1.7 Retirement plans

The Québec government participates financially in the retirement plans of its employees. These plans had 566 983 active participants and 313 962 beneficiaries as at December 31, 2011.

TABLE D.8

Retirement plans of public and parapublic sector employees as at December 31, 2011

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	520 000	211 331
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	28 650	24 821
Other plans:		
– Teachers Pension Plan (TPP)(1) and Pension Plan of Certain Teachers (PPCT)(1)	122	46 010
– Civil Service Superannuation Plan (CSSP)(1)	50	21 268
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 550	4 836
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 450	1 625
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	273	339
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)(2)	210	134
– Pension Plan of the Members of the National Assembly (PPMNA)	121	386
– Pension plan of the Université du Québec (PPUQ)	8 557	3 212
Total for other plans	18 333	77 810
TOTAL	**566 983**	**313 962**

(1) These plans have not accepted any new participants since July 1, 1973.
(2) This plan has not accepted any new participants since it came into effect on January 1, 1992.
Sources: Commission administrative des régimes de retraite et d’assurances (CARRA) and Public Accounts 2011-2012.

❑ Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans, which means that they guarantee participants a certain level of income upon retirement.

Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension usually represents 2% of an employee's average income per year of service. Benefits are partially indexed to inflation.

RREGOP and the PPMP, which account for nearly 97% of active participants, are cost-sharing plans: the government is responsible for paying 50% of the benefits, and the participants are responsible for paying the other 50%.[2]

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

TABLE D.9

Change in the employee contribution rate of certain retirement plans
(per cent)

	RREGOP(1)	PPMP(2)	SPMSQ(3)	PPPOCS(4)
2004	5.35	4.50	8 / 6.2 / 8	4.0
2005	7.06	7.78	8 / 6.2 / 8	4.0
2006	7.06	7.78	8 / 6.2 / 8	4.0
2007	7.06	7.78	8 / 6.2 / 8	4.0
2008	8.19	10.54	8 / 6.2 / 8	4.0
2009	8.19	10.54	8 / 6.2 / 8	4.0
2010	8.19	10.54	8 / 6.2 / 8	4.0
2011	8.69	11.54	8 / 6.2 / 8	4.0
2012	8.94	12.30	8 / 6.2 / 8	4.0

(1) Rate applicable to the excess of 35% of the maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). For 2012, the rate applies to the excess of 33% of the MPE. The equivalent rate according to the old formula would be 9.19%. In 2012, the MPE is $50 100.
(2) Rate applicable to the excess of 35% of the MPE.
(3) Rate applicable up to the annual basic exemption under the Québec Pension Plan ($3 500) / rate applicable to the excess up to the amount of the MPE / rate applicable to the excess of the MPE.
(4) Rate applicable to the excess of 25% of the employee's salary or of the MPE if it is lower.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans.[3]

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2 This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for paying 7/12 of the benefits.

3 Except for the pension plan of the Université du Québec (PPUQ).

❑ Recent changes

To retain qualified workers and delay their retirement, the government has modified RREGOP and the PPMP to enable participants to accumulate up to 38 years of service.[4] This change, which was agreed upon during the latest renewal of the collective agreements with government employees, is aimed at ensuring that employees nearing the end of their career stay longer in the labour market, thus facilitating the transfer of expertise.

Bill 58, *An Act to amend the Act respecting the Pension Plan of Management Personnel and other legislative provisions*, was passed by the National Assembly on May 2, 2012. It is the product of consultations with participant representatives and includes several amendments that will foster the financial health of the PPMP. In particular, the pension eligibility criteria have been tightened. As of January 1, 2013, new participants will have to complete an additional five-year period of membership in the plan for their retirement benefit to be calculated in accordance with the provisions of the PPMP. In addition, the reduction of the benefit for early retirement will be increased.

1.7.1 Retirement plans liability

In its financial statements, the government discloses the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans, as well as their years of service. This value is called the retirement plans liability. It does not take into account the sums accumulated to pay retirement benefits, particularly the Retirement Plans Sinking Fund (RPSF), which will be discussed later on.

The actuarial valuations of the liability of the various retirement plans are carried out by CARRA,[5] following the rules of the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA) for the public sector.

In the case of cost-sharing plans (e.g. RREGOP and the PPMP), only the portion payable by the government is included in the government liability. In the case of cost-balance plans, the total retirement plans liability is included in the government's liability.

As at March 31, 2012, the liability for the retirement plans of public and parapublic sector employees stood at $74 079 million. This amount is recognized in the government's gross debt.

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4 This measure is being implemented gradually until January 1, 2014.

5 Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE D. 10

Retirement plans liability
(millions of dollars)

	March 31, 2012
Government and Public Employees Retirement Plan (RREGOP)	43 198
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 148
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 918
– Civil Service Superannuation Plan (CSSP)	4 011
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 596
– Pension plan of the Université du Québec (PPUQ)	2 743
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	812
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	520
– Pension credits under supplemental pension plans	382
– Supplemental pension plan arising from the transfer of the pension plan for non-teaching personnel of the Commission des écoles catholiques de Montréal (SPP of the CECM) to RREGOP	257
– Pension Plan of the Members of the National Assembly (PPMNA)	182
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	128
– Supplemental pension plan arising from the transfer of the pension plan for certain employees of the Commission scolaire de la Capitale (SPP of the CSC) to RREGOP	42
– Plan assets(1)	–3 858
Total for other plans	20 733
RETIREMENT PLANS LIABILITY	**74 079**

(1) Assets of the SPMSQ, PPUQ, SPP pension credits, SPP of the CECM, PPFEQ and the SPP of the CSC.

❑ Annual retirement plans expenditure

Every year, the government also records its expenditure as an employer with regard to the retirement plans. This expenditure comprises two components:

— the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, i.e. $1 826 million in 2011-2012;

— the amortization of revisions to the government's actuarial obligations that result from previous updates of actuarial valuations, for a cost of $663 million in 2011-2012.

In 2011-2012, government spending in respect of the retirement plans stood at $2 489 million.

TABLE D.11

Spending in respect of the retirement plans
(millions of dollars)

	2011-2012
Net cost of vested benefits	1 826
Amortization of adjustments arising from actuarial valuations	663
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**2 489**

In addition, the government must record an interest charge on the obligation relating to the retirement plans from which the investment income of the RPSF is subtracted. This charge is included in debt service.

TABLE D.12

Interest ascribed to the retirement plans
(millions of dollars)

	2011-2012
Interest on the actuarial obligation(1)	4 889
Less: Investment income of the RPSF	–2 087
INTEREST ASCRIBED TO THE RETIREMENT PLANS	**2 802**

(1) Net of the income of funds other than the RPSF.

Moreover, in 2011-2012, the government paid $4 777 million to cover its share of the benefits paid to its retired employees. These disbursements do not affect either the government's expenditures or its deficit, because they correspond to expenditures that were already recorded in the past. They are part of the government's non-budgetary transactions.

1.7.2 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) is an asset that was created in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

As at March 31, 2012, the book value of the RPSF stood at $45 352 million.

TABLE D.13

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Investment income imputed	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	–5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095 (1)	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437 (1)	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749 (2)	2 100	2 176	36 025
2009-2010	36 025	—	2 175	38 200
2010-2011	38 200	2 000	2 065	42 265
2011-2012	42 265	1 000	2 087	45 352

(1) These amounts take into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.
(2) This amount takes into account an adjustment arising from consideration of the expected average remaining service life (EARSL) of participants in the PPMP.

The information on the RPSF shown in the preceding table is based on the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector.

The book value of the RPSF as at March 31, 2012 was higher than its market value. As a result of the accounting policies, the difference between these two items will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated into the government's financial framework over the entire planning horizon. Sub-section 1.10 describes these items in greater detail.

The government's accounting policies apply when the return on the RPSF is higher than anticipated as well as when it is lower. As shown by the following table, the book value of the RPSF has been lower than its market value 8 times in the past 18 years.

TABLE D.14

Book value and market value of the Retirement Plans Sinking Fund as at March 31
(millions of dollars)

	Book value	Market Value	Difference
1994-1995	849	831	18
1995-1996	923	954	–31
1996-1997	1 014	1 095	–81
1997-1998	1 179	1 321	–142
1998-1999	2 209	2 356	–147
1999-2000	5 040	5 703	–663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	–479
2006-2007	26 877	28 859	–1 982
2007-2008	31 764	32 024	–260
2008-2009	36 025	25 535	10 490
2009-2010	38 200	29 559	8 641
2010-2011	42 265	35 427	6 838
2011-2012	45 352	38 222	7 130

❑ Amounts deposited in the RPSF have no impact on the gross debt

The government issues bonds on financial markets in order to make deposits in the RPSF. Nevertheless, the amounts deposited in the RPSF do not affect the government's gross debt.

Even though the amount of borrowings contracted to make deposits increases the direct debt, these deposits in turn reduce the net retirement plans liability by the same amount. Therefore, the net impact on the gross debt is nil.

TABLE D.15

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets in order to deposit it in the RPSF(1)
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	158 887	159 887	1 000
	Retirement plans liability	74 079	74 079	—
	Less: Book value of the RPSF	–45 352	–46 352	–1 000
(B)	Net retirement plans liability	28 727	27 727	–1 000
(C)	Net employee future benefits liability	47	47	—
(D)	Less: Generations Fund	–4 277	–4 277	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**183 384**	**183 384**	—

(1) Illustration based on results as at March 31, 2012.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec (the Caisse) are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

Since the RPSF was created, the return obtained by the Caisse has been higher than the cost of new borrowings by the government 13 years out of 18.

TABLE D.16

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent)

	Return of the RPSF [1]	**Cost of new borrowings** [2]	**Difference** (percentage points)
1994-1995	–3.3 [3]	5.9	–9.2
1995-1996	17.0	5.3	11.7
1996-1997	16.1	6.3	9.8
1997-1998	13.4	5.7	7.7
1998-1999	10.4	5.8	4.6
1999-2000	15.3	7.2	8.1
2000-2001	7.2	6.2	1.0
2001-2002	–4.7	5.5	–10.2
2002-2003	–8.5	4.7	–13.2
2003-2004	14.9	4.6	10.3
2004-2005	11.4	4.4	7.0
2005-2006	13.5	4.4	9.1
2006-2007	13.5	4.4	9.1
2007-2008	5.2	4.8	0.4
2008-2009	–25.6	4.2	–29.8
2009-2010	10.7	4.6	6.1
2010-2011	13.4	4.4	9.0
2011-2012	3.5	4.0	–0.5

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) From February to December 1994.

❑ A flexible deposit policy

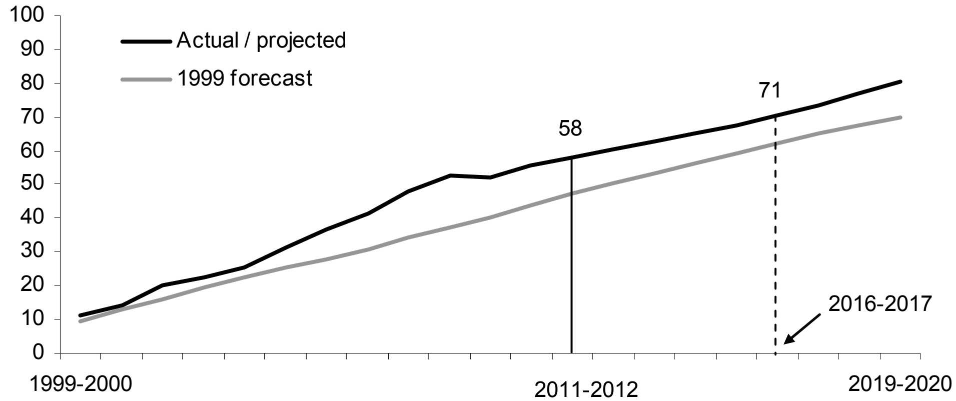
In December 1999, as part of an agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the funds accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the flexibility needed to apply this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues. For example, the government did not make any deposits in 2009-2010, but deposited $2 billion in 2010-2011 and $1 billion in 2011-2012.

The RPSF's book value represented 58% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees as at March 31, 2012. If deposits of $1 billion per year were made in the RPSF, the target of 70% would be attained three years earlier than anticipated, i.e. in 2016-2017.

CHART D.6

The RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



1.8 Generations Fund

The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated exclusively to repaying the debt.

As at March 31, 2012, the book value of the Generations Fund was $4 277 million.

The sums accumulated in the Generations Fund are expected to reach $13 509 million as at March 31, 2018.

TABLE D.17

Generations Fund
(millions of dollars)

	2011-2012	2012-2013F	2013-2014F	2014-2015F	2015-2016F	2016-2017F	2017-2018F
Book value, beginning of year	**3 437**	**4 277**	**5 456**	**5 495**	**6 881**	**8 765**	**10 893**
Dedicated revenues							
Water-power royalties							
Hydro-Québec	591	592	653	648	667	682	699
Private producers	91	90	93	96	98	100	102
	682	682	746	744	765	782	801
Indexation of the price of heritage pool electricity	—	—	—	95	190	290	395
Mining, oil and gas royalties	—	—	—	45	325	325	325
Tax on alcoholic beverages	—	—	—	100	100	100	100
Savings related to the non-refurbishment of Gentilly-2	—	—	—	—	—	—	215
Unclaimed property	9	12	12	12	12	12	12
Investment income	149	185	281	390	492	619	768
Total dedicated revenues	**840**	**879**	**1 039**	**1 386**	**1 884**	**2 128**	**2 616**
Deposit coming from the Territorial Information Fund	—	300	—	—	—	—	—
Total deposits	**840**	**1 179**	**1 039**	**1 386**	**1 884**	**2 128**	**2 616**
Use of the Generations Fund to repay maturing borrowings	—	—	–1 000	—	—	—	—
Book value, end of year	**4 277**	**5 456**	**5 495**	**6 881**	**8 765**	**10 893**	**13 509**

F: Forecasts.

The following table shows the book and market values of the Generations Fund since its creation.

TABLE D.18

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

	Book value	Market value	Difference
2006-2007	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	–87
2011-2012	4 277	4 375	–98

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than or equivalent to the cost of new borrowings by the government four years out of five.

TABLE D.19

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent)

	Return of the Generations Fund (1)	Cost of new borrowings (2)	Difference (percentage points)
2007-2008	5.6 (3)	4.8	0.8
2008-2009	–22.4	4.2	–26.6
2009-2010	11.3	4.6	6.7
2010-2011	12.3	4.4	7.9
2011-2012	4.0	4.0	—

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) Return realized from February to December 2007, since the first deposit was made in the Generations Fund on January 31, 2007.

1.9 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances et de l'Économie

In 2011, the return on funds deposited by the Ministère des Finances et de l'Économie with the Caisse de dépôt et placement du Québec (the Caisse) was 3.50% for the RPSF, 3.98% for the Generations Fund and 3.40% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page D.37.

TABLE D.20

Market value and return in 2011 of funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances et de l'Économie

	Return	Market value as at December 31, 2011
	(%)	($ million)
Retirement Plans Sinking Fund	3.50	36 351
Generations Fund	3.98	4 024
Accumulated Sick Leave Fund	3.40	769

1.9.1 Retirement Plans Sinking Fund

The RPSF showed a return of 3.50% in 2011. Its market value was $36 351 million as at December 31, 2011.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Minister of Finance and the Economy in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the RPSF consists of 36.25% fixed-income securities (bonds, real estate debt, etc.), 14.50% inflation-sensitive investments (real estate, infrastructure, etc.), 45.75% equities and 3.50% other investments. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE D.21

Investment policy of the RPSF as at January 1, 2012
(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	36.25	35.8
Inflation-sensitive investments	14.50	15.4
Equities	45.75	46.6
Other investments	3.50	2.2
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2011. *Annual Report 2011* of the Caisse de dépôt et placement du Québec.

With its investment policy, the RPSF should generate a short- and medium-term annual return of 6.50%; the average annual long-term (10-year or longer) return is approximately 6.75%. It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's benchmark portfolio would have generated a return of 3.72% in 2011.

1.9.2 Generations Fund

The Generations Fund posted a return of 3.98% in 2011. Its market value was $4 024 million as at December 31, 2011.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Minister of Finance and the Economy in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and the recommendations of the Caisse.

The investment policy of the Generations Fund consists of 42.0% fixed-income securities (bonds, real estate debt, etc.), 12.5% inflation-sensitive investments (real estate, infrastructure, etc.), 42.5% equities and 3.0% other investments.

TABLE D.22

Investment policy of the Generations Fund as at January 1, 2012
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	42.0	35.8
Inflation-sensitive investments	12.5	15.4
Equities	42.5	46.6
Other investments	3.0	2.2
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2011. *Annual Report 2011* of the Caisse de dépôt et placement du Québec.

The investment policy of the Generations Fund aims to achieve a long-term (10-year or longer) annual return of about 6.5%. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The benchmark portfolio of the Generations Fund would have generated a return of 4.23% in 2011.

1.9.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) showed a return of 3.40% in 2011. Its market value was $769 million as at December 31, 2011.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Minister of Finance and the Economy in cooperation with the Caisse. Since January 1, 2009, the ASLF’s investment policy has been identical to that of the RPSF, as the creation of the ASLF stems from a long-term commitment made by the government in regard to employee future benefits, which is similar to the commitment regarding the retirement plans. The ASLF’s benchmark portfolio would have generated a return of 3.72% in 2011.

Comparison of investment policies

Investment policies as at January 1, 2012
(per cent)

Specialized Portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole (1)
Short-Term Investments	1.0	1.0	1.2
Bonds	29.25	35.0	26.4
Long-Term Bonds	0.0	0.0	2.3
Real Estate Debt	6.0	6.0	5.9
Total – Fixed Income	**36.25**	**42.0**	**35.8**
Real Return Bonds	0.0	0.0	0.8
Infrastructure	4.5	4.0	3.9
Real Estate	10.0	8.5	10.7
Total – Inflation-Sensitive Investments	**14.5**	**12.5**	**15.4**
Canadian Equity	13.25	10.0	12.9
Global Equity	6.05	5.1	5.8
Québec International	2.45	3.9	3.2
US Equity	5.0	5.0	4.9
Foreign Equity	5.0	6.5	6.1
Emerging Markets Equity	4.0	4.0	3.9
Private Equity	10.0	8.0	9.8
Total – Equity	**45.75**	**42.5**	**46.6**
Hedge Funds	3.5	3.0	2.2
Asset Allocation	0.0	0.0	0.0
Total – Other Investments	**3.5**	**3.0**	**2.2**
TOTAL	**100.0**	**100.0**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.
(1) Data as at December 31, 2011. *Annual Report 2011* of the Caisse de dépôt et placement du Québec.

1.10 Impact of the returns of the Retirement Plans Sinking Fund on debt service

As indicated in sub-section 1.7.2, the income of the RPSF is applied against the government's debt service. The returns of the Caisse affect RPSF income and therefore debt service.

The returns realized by the Caisse on the RPSF are taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting in accordance with generally accepted accounting principles (GAAP).

> When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently. CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, *CICA Public Sector Accounting Handbook*, Section PS 3250, paragraph .035.

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on the returns realized on the fund. If, for a given year, the realized return differs from the anticipated long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower.[6]

[6] Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it is adjusted every year.

In addition, the differences between the realized and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 13 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.[7] This amortization mechanism and the period used are prescribed by GAAP.[8]

Therefore, the losses incurred by the Caisse in 2008-2009 reduced the income of the RPSF as of 2009-2010. The returns realized by the Caisse in 2009-2010, which were higher than anticipated, led to an increase in the RPSF's income as of 2010-2011. Similarly, the returns realized by the Caisse in 2010-2011, which were also higher than expected, led to an increase in the RPSF's income as of 2011-2012. In 2011-2012, a rate of return that was lower than the projected long-term rate of return led to a decline in RPSF income as of 2012-2013.

TABLE D.23

Impact of the returns of the Caisse de dépôt et placement du Québec on debt service(1)
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013F	2013-2014F	2014-2015F
Before 2008-2009	–48	–78	–57	11	10	16
From 2008-2009	307	629	972	1 337	1 726	1 726
From 2009-2010		–65	–134	–207	–285	–369
From 2010-2011			–53	–110	–171	–236
From 2011-2012				15	30	47
IMPACT ON DEBT SERVICE	**259**	**486**	**728**	**1 046**	**1 310**	**1 184**

F: Forecasts.
Note: A positive entry indicates an increase in debt service and a negative entry, a decrease.
(1) These amounts represent the impact on RPSF income, and therefore on debt service, of returns of the Caisse that are lower or higher than the projected rate for that period and that are amortized.

7 As with recognition of the retirement plans liability, the RPSF accounting method draws a distinction between the Pension Plan of Management Personnel (PPMP) and the other plans. The EARSL under the PPMP is 9 years compared with 14 years under the other plans.

8 "…actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, *CICA Public Sector Accounting Handbook*, Section PS 3250, paragraph .062. For the purposes of retirement assets, the CICA defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and projected results.

2. FINANCING

As at November 13, 2012, the government had contracted borrowings totalling $9 339 million in 2012-2013.

2.1 Financing strategy

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

2.1.1 Diversification by market

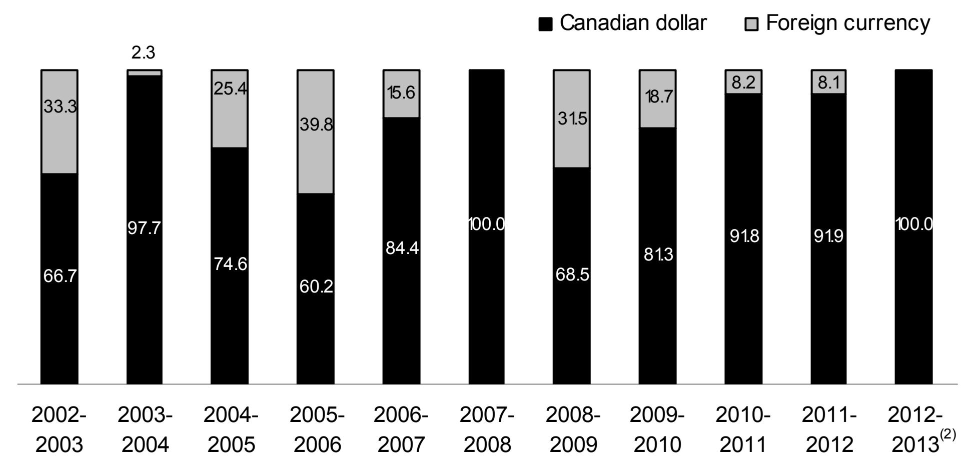
Financing transactions are conducted regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

From 2002-2003 to 2011-2012, 19% of borrowings were contracted in foreign currency. Nonetheless, the government maintains only a very low exposure to these currencies: the exposure was only 0.2% as at March 31, 2012 (see sub-section 3.1).

Thus far in 2012-2013, the government has contracted all of its borrowings on the Canadian market.

CHART D.7

Borrowings by currency(1)
(per cent)



(1) Borrowings of the government's general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.
(2) Borrowings contracted as at November 13, 2012.

2.1.2 Diversification by instrument

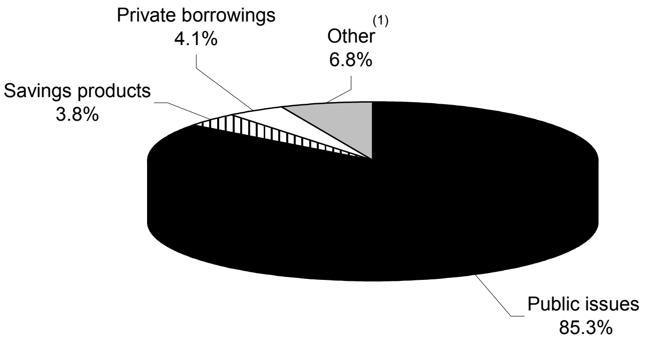
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues, private borrowings and savings products.

The long-term instruments used in 2012-2013 consist mainly of public issues (85.3%).

CHART D.8

Borrowings in 2012-2013 by instrument



Note: Borrowings contracted as at November 13, 2012.

(1) Includes the Business Assistance ─ Immigrant Investor Program and borrowings from the Canada Pension Plan Investment Fund.

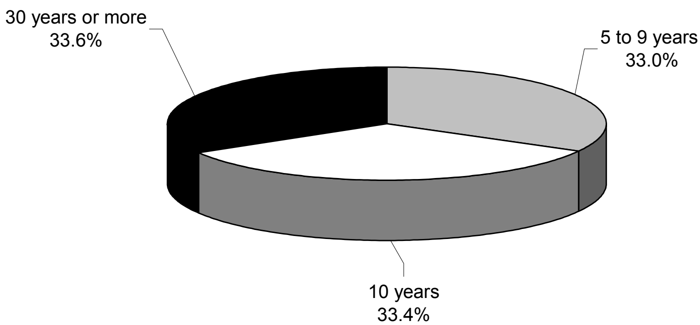
2.1.3 Diversification by maturity

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

In 2012-2013, 33.0% of contracted borrowings had a maturity of less than 10 years; 33.4%, a maturity of 10 years; and 33.6%, a maturity of 30 years or more.

CHART D.9

Borrowings in 2012-2013 by maturity

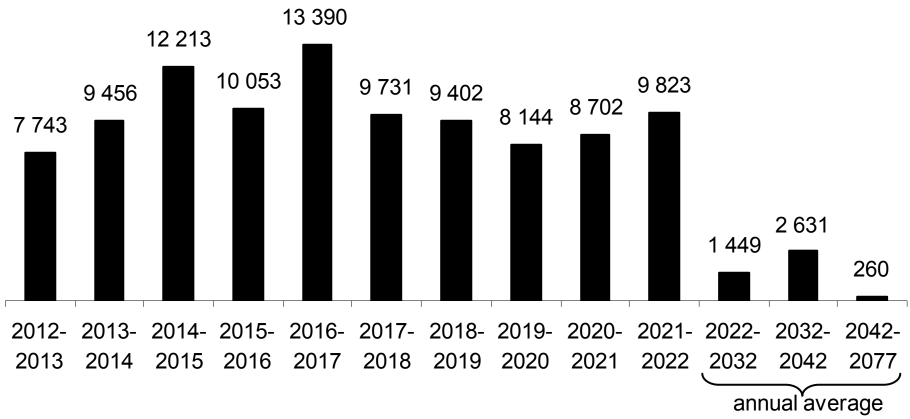


Note: Borrowings contracted as at November 13, 2012.

This diversification by maturity has an impact on the maturity of the debt shown in the following chart. As at March 31, 2012, the average maturity of the debt was 12 years.

CHART D.10

Maturity of the long-term debt as at March 31, 2012
(millions of dollars)



Note: Direct debt of the general fund, debt contrated to make advances to the Financing Fund and debt of Financement-Québec.

2.2 Financing program

The financing program of the general fund makes it possible to refinance maturing borrowings, contribute to the Retirement Plans Sinking Fund and meet new financial requirements, particularly for capital investments and investments in government corporations.

The Financing Fund makes loans to consolidated entities (e.g. Land Transportation Network Fund, Société immobilière du Québec, etc.) and to certain government enterprises.

Financement-Québec makes borrowings on financial markets to meet the needs of institutions in the health and social services and education networks.

In 2012-2013, the financing program is expected to amount to $17 303 million. As at November 13, 2012, borrowings totalling $9 339 million had been made. The amount of the borrowings that remain to be made for 2012-2013 is $7 964 million.

The financing program is expected to amount to $15 037 million in 2013-2014 and $17 265 million in 2014-2015. The increase in the financing program in 2014-2015 reflects the increase in the repayment of borrowings.

TABLE D.24

The government's financing program

(millions of dollars)

	2012-2013F				
	November 2012 budget	Carried out(1)	To be carried out	2013-2014F	2014-2015F
GENERAL FUND(2)					
Net financial requirements(3),(4)	4 545			–700	393
Repayment of borrowings	4 623			4 487	7 572
Use of the Generations Fund to repay maturing borrowings	—			–1 000	—
Change in cash position	–4 436			—	—
Deposits in the Retirement Plans Sinking Fund	—(5)			—(5)	—(5)
Transactions under the credit policy(6)	471			—	—
Additional contributions to the Sinking Fund for borrowings	3 000			3 000	—
Subtotal	**8 203**			**5 787**	**7 965**
FINANCING FUND	**5 100**			**3 900**	**3 500**
Including: repayment of borrowings	1 254			1 247	1 130
Subtotal – General fund and Financing Fund	**13 303**	**7 797**	**5 506**	**9 687**	**11 465**
FINANCEMENT-QUÉBEC	**4 000**	**1 542**	**2 458**	**5 350**	**5 800**
Including: repayment of borrowings	1 866			3 722	3 511
TOTAL	**17 303**	**9 339**	**7 964**	**15 037**	**17 265**
Including: repayment of borrowings	7 743			9 456	12 213

F: Forecasts.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) Borrowings contracted as at November 13, 2012.
(2) The general fund corresponds to what used to be called the Consolidated Revenue Fund.
(3) These amounts exclude the net financial requirements of the consolidated entities, which are financed through Financing Fund and Financement-Québec financing programs.
(4) Net financial requirements are adjusted to take into account the non-receipt of RPSF revenues and of funds dedicated to employee future benefits.
(5) Deposits in the RPSF are optional.
(6) Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government disbursed $471 million in 2012-2013 because of the change in foreign exchange rates. These disbursements do not affect the debt.

❑ Additional contributions to the Sinking Fund for government borrowings

As indicated in the March 2012 budget, the Ministère des Finances et de l'Économie is implementing a new policy this year aimed at raising the level of prudential liquidity. The goal is to increase the government's liquid assets by $6 billion over two years. These liquid assets will be available for use in the event of major turbulence in financial markets.

To that end, $3 billion will be borrowed in 2012-2013 and $3 billion in 2013-2014.

The federal government announced a similar policy in its June 2011 budget. Borrowings by the federal government will be increased by $35 billion over three years (2011-2012 to 2013-2014) in order to boost its liquid assets. Ontario has also increased its liquid assets substantially in recent years.

In the case of Québec, the $6 billion in additional liquid assets corresponds to roughly one third of the government's annual financing requirements in the coming years.

The $6 billion that is to be borrowed will be paid into the Sinking Fund for government borrowings, already in existence (see the box on the next page), and invested in very liquid, government short-term securities, such as federal Treasury bills. This will make it possible, in the event of major financial market turbulence where it is difficult to contract short- or long-term borrowings, to sell these securities and rapidly recover the liquid assets. These assets could then be used to buy short-term securities issued by the Québec government, thus enabling it to meet its financial obligations. Once the turbulence is over and the short-term securities issued by the Québec government have matured, the Sinking Fund for government borrowings could again buy short-term securities such as federal Treasury bills.

Since the $6 billion in borrowings over two years will be paid into the Sinking Fund for government borrowings, there will be no impact on the government's gross debt. This is because the value of a borrowings sinking fund is subtracted from the debt in accordance with accounting standards.

Sinking funds for borrowings

Some borrowings come with provisions that require borrowers to put sums aside annually for repaying the borrowings at maturity. These sums are paid into "sinking funds for borrowings." As at March 31, 2012, there was a total of $6.4 billion in the sinking funds for government borrowings, invested for the most part in securities issued by Québec's public sector (Québec government, Financement-Québec, Hydro-Québec, universities, municipalities, etc.). Sinking funds for borrowings are managed in a prudent manner by the Ministère des Finances et de l'Économie in order to preserve the principal and earn income.

Investments of the sinking funds for borrowings[1]
(as at March 31, 2012)

	$ million	%
Québec bonds and bonds guaranteed by Québec	4 978	77.7
Network and municipal bonds	720	11.2
Bonds from other governments[2]	417	6.5
Money market securities, cash on hand and other	293	4.6
TOTAL	**6 408**	**100.0**

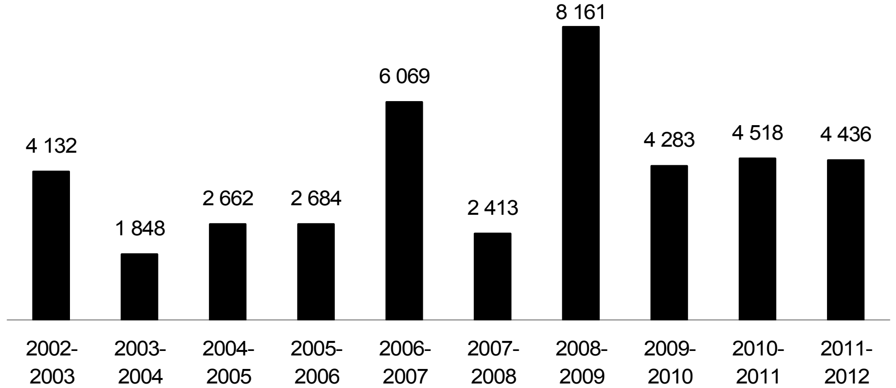
(1) Includes the sinking funds for borrowings by the government and by the health and social services and education networks.
(2) Includes bonds from the federal government, the CMHC (guaranteed by the federal government), the other provinces and the US government.

Pre-financing

The government makes advance borrowings, i.e. borrowings that would normally be made in the following fiscal year. The government carries out pre-financing to take advantage of favourable market conditions.

Over the past 10 years, the government has carried out an average of $4 121 million in pre-financing per year.

Pre-financing
(millions of dollars)

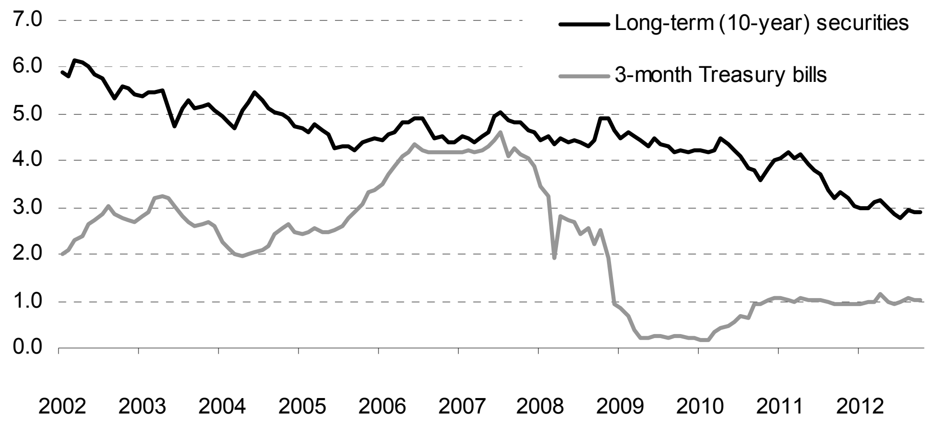


2.2.1 Yield

The yield on long-term Québec securities is currently about 3.0%, and short-term interest rates are 1.0%.

CHART D.11

Yield on Québec securities
(per cent)

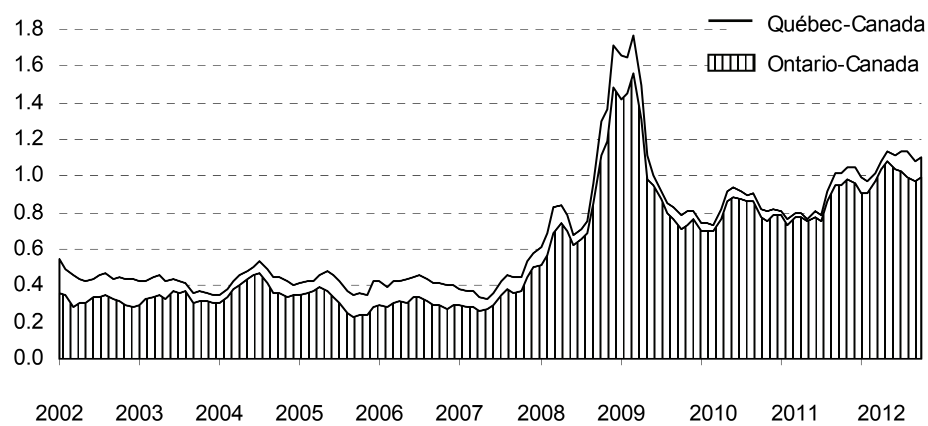


Sources: PC-Bond and Ministère des Finances et de l'Économie du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in summer 2008, has been considerably reduced since then, without returning, however, to the levels observed prior to 2008. The same situation has been observed in the case of the other provinces.

CHART D.12

Yield spread on long-term (10-year) securities
(in percentage points)



Source: PC-Bond.

3. DEBT MANAGEMENT

The government's debt management strategy aims to minimize the cost of the debt and limit the risks related to fluctuations in foreign exchange and interest rates.

The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

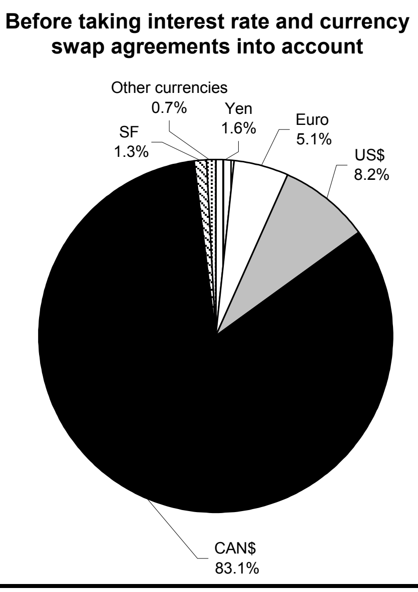
3.1 Structure of the debt by currency

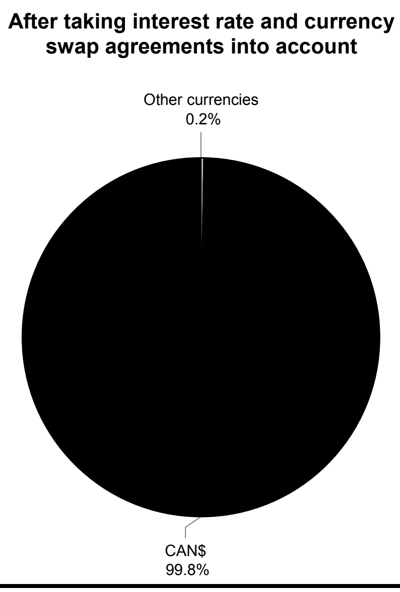
As at March 31, 2012, the proportion of the government's gross debt in Canadian dollars stood at 99.8% and the proportion in foreign currency, at 0.2%.

Before interest rate and currency swap agreements are taken into account, the proportion of the debt in foreign currency as at March 31, 2012 was 16.9%. After interest rate and currency swap agreements were taken into account, the proportion was 0.2%. As at March 31, 2011, the proportion was 0.5%.

CHART D.13

Structure of the gross debt by currency as at March 31, 2012





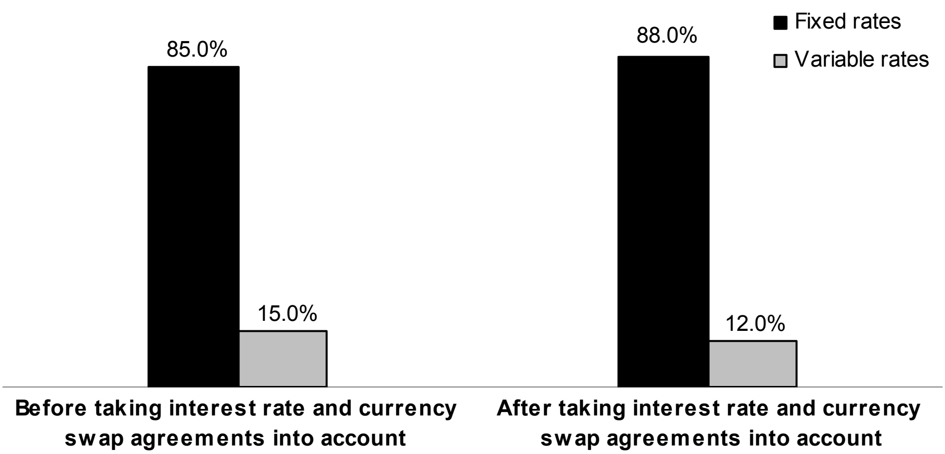
3.2 Structure of the debt by interest rate

The government keeps part of its debt at variable rates and part at fixed rates.

Before interest rate and currency swap agreements are taken into account, the proportion of the gross debt at variable rates was 15.0% as at March 31, 2012. After interest rate and currency swap agreements are taken into account, the proportion was 12.0%, compared with 20.9% as at March 31, 2011.

CHART D.14

Structure of the gross debt by interest rate as at March 31, 2012



4. CREDIT RATINGS

4.1 The Québec government's credit ratings

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze a series of economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

The following table shows the rating scales used by agencies for long-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.25

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch Ratings	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1	AA+	AA (high)	AA+	**AA+**
	Aa2	AA	AA	AA	AA
	Aa3	AA-	AA (low)	**AA-**	AA-
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1	**A+**	**A (high)**	A+	A+
	A2	A	A	A	A
	A3	A-	A (low)	A-	A-
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1	BBB+	BBB (high)	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB (low)	BBB-	BBB-
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1	BB+	BB (high)	BB+	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB-	BB (low)	BB-	BB-
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1	B+	B (high)	B+	B+
	B2	B	B	B	B
	B3	B-	B (low)	B-	B-

Agencies add an “outlook” to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative. In the case of Québec, all of the agencies assign a “stable” outlook to its credit rating.

TABLE D.26

The Québec government’s current credit ratings

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA-	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable

The following table shows the rating scales used by agencies for short-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.27

Credit rating scales for short-term debt[1]

Definition	Moody's	Standard & Poor's	DBRS	Fitch Ratings
Very strong capacity to pay interest and repay principal over the short term.	**P-1**	**A-1+** A-1	R-1^{High} $\mathbf{R\text{-}1}^{\textbf{Middle}}$ R-1^{Low}	**F1+** F1
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than the upper level.	P-2	A-2	R-2^{High}	F2
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P-3	A-3	$\text{R-2}^{\text{Middle}}$ R-2^{Low} R-3	F3
Uncertain capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime[2]	B-1 B-2 B-3 C	R-4 R-5	B C
Incapacity to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime[2]	D	D	D

(1) Not applicable in the case of JCR.
(2) Moody’s uses the “Not Prime” category for all securities not included in the upper categories.

❑ Change in Québec's credit ratings

The following charts show the change in the Québec government's credit ratings. The credit ratings for 2012 are those in effect when the budget is tabled.

CHART D.15

Credit rating assigned to Québec by Moody's

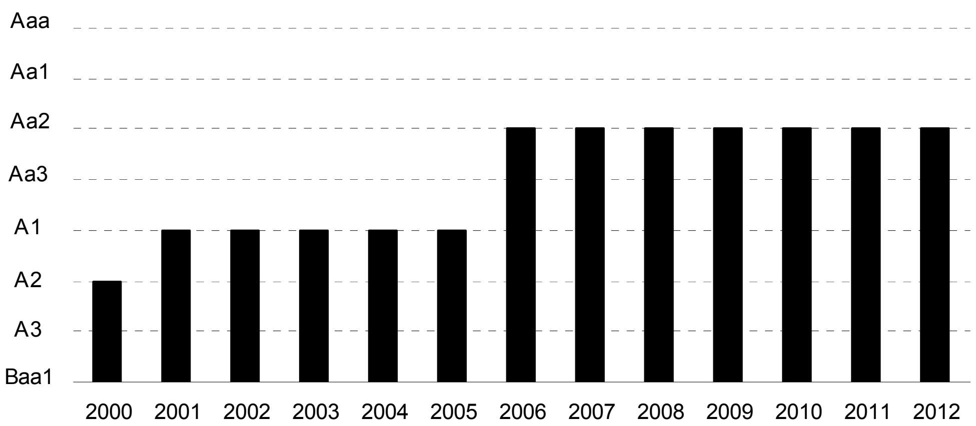


CHART D.16

Credit rating assigned to Québec by Standard & Poor's

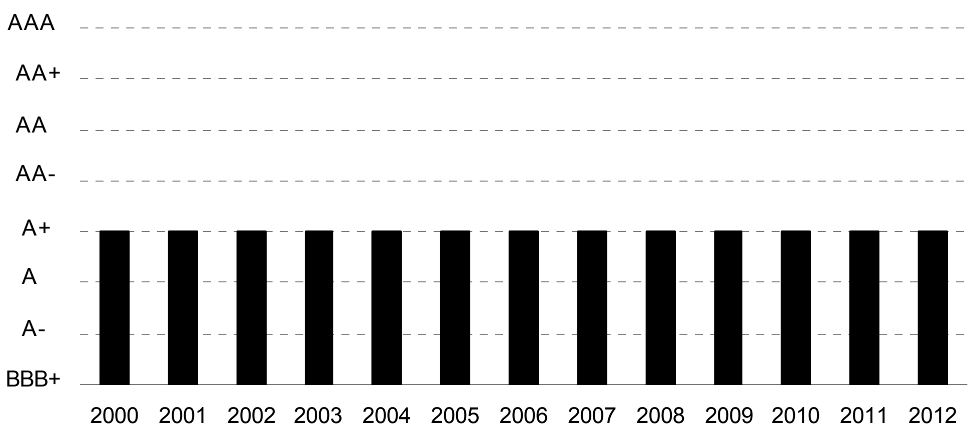
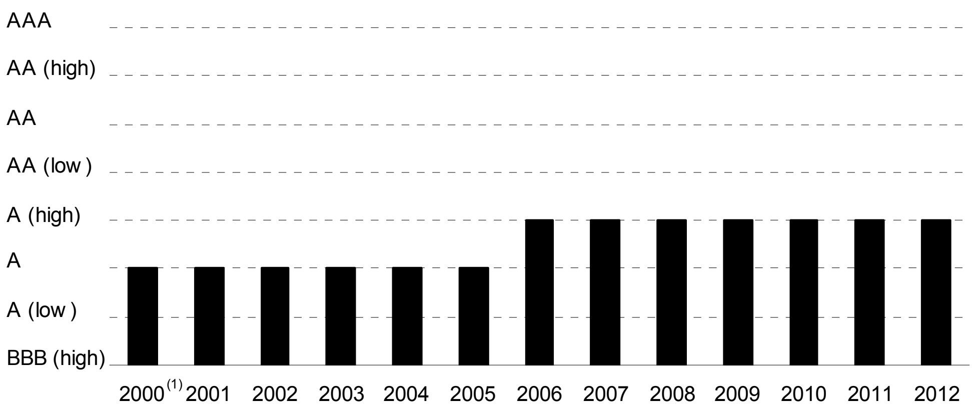


CHART D.17

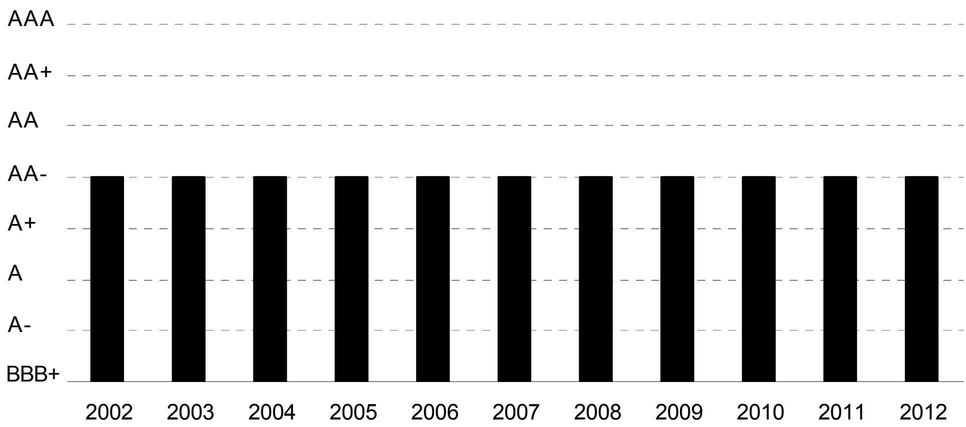
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART D.18

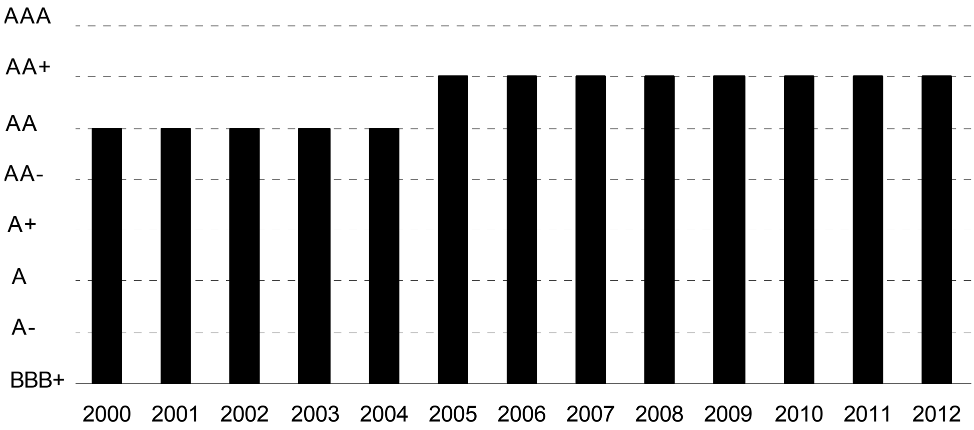
Credit rating assigned to Québec by Fitch



Note: Fitch's credit rating agency has assigned Québec a credit rating since 2002.

CHART D.19

Credit rating assigned to Québec by JCR

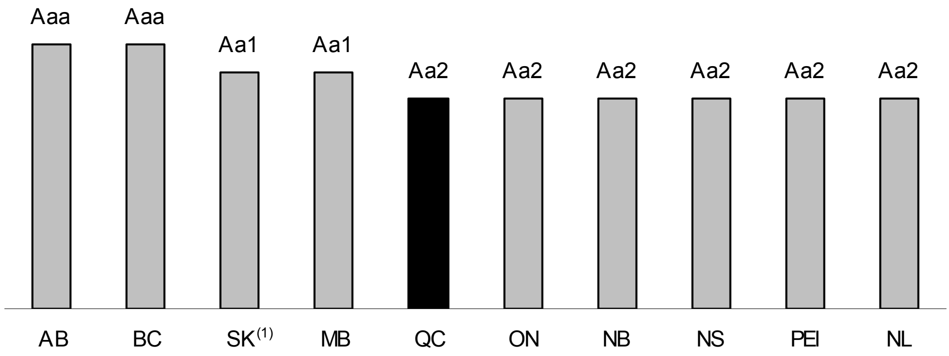


4.2 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces as at November 13, 2012. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART D.20

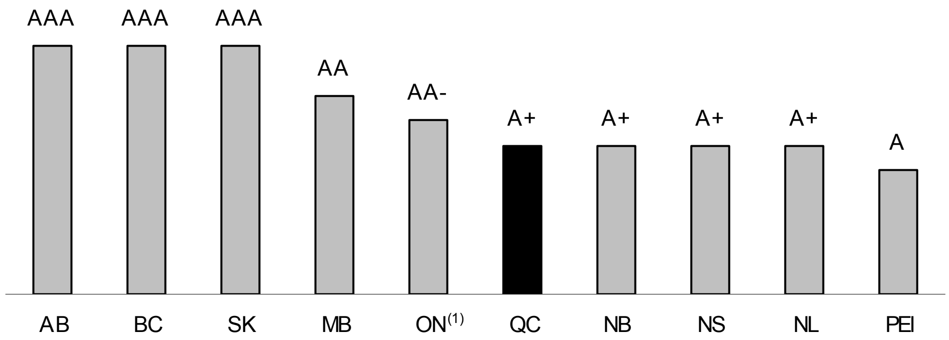
Credit ratings of Canadian provinces — Moody's



(1) Positive outlook.

CHART D.21

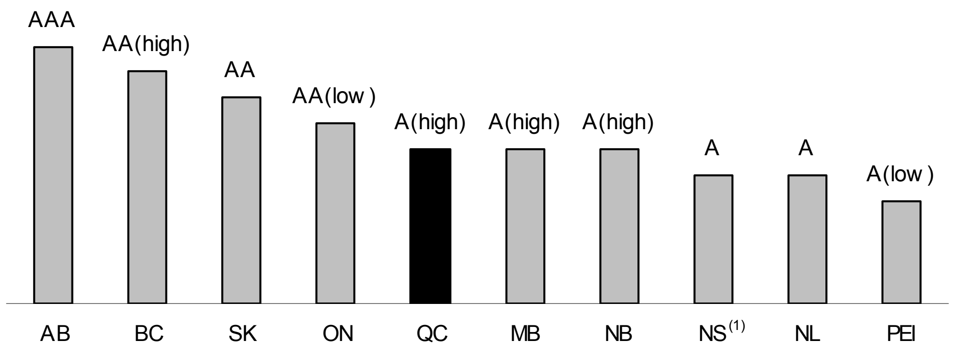
Credit ratings of Canadian provinces — Standard & Poor's



(1) Negative outlook.

CHART D.22

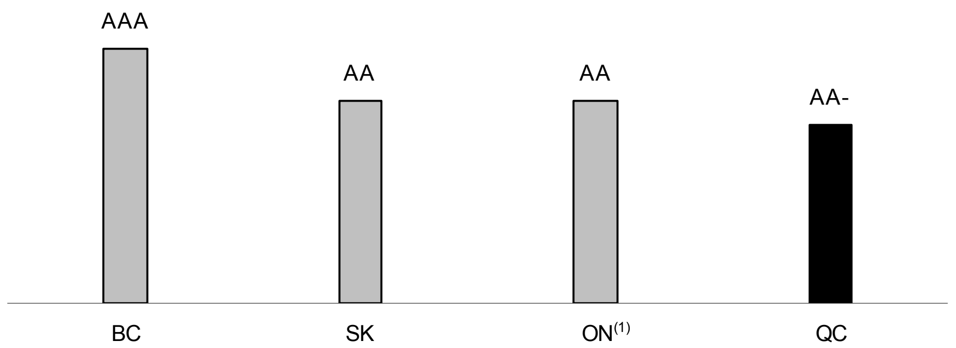
Credit ratings of Canadian provinces ─ DBRS



(1) Positive outlook.

CHART D.23

Credit ratings of Canadian provinces ─ Fitch



Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces that receive credit ratings from this agency.
(1) Negative outlook.

5. INFORMATION ON BORROWINGS CONTRACTED

TABLE D.28

Québec government
Summary of long-term borrowings in 2012-2013(1)

Currency	$ million	%
CANADIAN DOLLAR		
Public issues	7 968	85.3
Private borrowings	387	4.1
Savings products	355	3.8
Business Assistance — Immigrant Investor Program	620	6.7
Canada Pension Plan Investment Fund	9	0.1
TOTAL	**9 339**	**100.0**

(1) The amounts include borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec as at November 13, 2012.

TABLE D.29

Québec government
Borrowings for the general fund and the Financing Fund in 2012-2013

Amount received in Canadian dollars (1)	Face value in foreign currency	Interest rate (2)	Date of issue	Date of maturity	Price to investor	Yield to investor (3)
millions		%			$	%
554	—	4.25	April 3	2043-12-01	110.863	3.667
513	—	3.50	April 17	2022-12-01	102.663	3.202
549	—	4.25	April 27	2043-12-01	109.798	3.720
515	—	3.50	May 4	2022-12-01	103.008	3.163
554	—	4.25	May 8	2043-12-01	110.707	3.674
116 (4)	—	Various	May 22	2065-06-01	105.648	3.434
522	—	3.50	June 12	2022-12-01	104.317	3.016
108 (4)	—	Various	June 18	2065-06-01	107.915	3.316
524	—	3.50	June 26	2022-12-01	104.769	2.965
526	—	3.50	September 25	2022-12-01	105.155	2.911
571	—	4.25	September 28	2043-12-01	114.284	3.494
561	—	4.25	October 16	2043-12-01	112.165	3.597
562	—	4.50	October 19	2017-12-01	112.298	1.962
525	—	3.50	November 6	2022-12-01	105.089	2.913
113 (4)	—	Various	November 13	2075-06-01	112.716	3.279
355 (5)	—	Various	Various	Various	Various	Various
620 (6)	—	Zero coupon	Various	Various	Various	Various
9 (7)	—	Various	Various	Various	Various	Various
7 797						

Note: Borrowings contracted as at November 13, 2012.
(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is determined on the basis of interest payable semi-annually.
(4) Private borrowings.
(5) Savings products issued by Épargne Placements Québec.
(6) Business Assistance — Immigrant Investor Program.
(7) Borrowings from the Canada Pension Plan Investment Fund.

TABLE D.30

Québec government
Borrowings by Financement-Québec in 2012-2013[1]

Amount received in Canadian dollars	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
millions		%			$	%
50 [4]	—	Variable [5]	April 20	2017-04-25	99.762	Variable
492	—	2.40	April 24	2018-12-01	98.410	2.664
500	—	2.45	July 13	2019-12-01	99.911	2.463
500	—	2.45	October 10	2019-12-01	100.083	2.437
1 542						

(1) Borrowings contracted as at November 13, 2012.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is determined on the basis of interest payable semi-annually.
(4) Private borrowings.
(5) Interest payable quarterly.

TABLE D.31

Borrowings by Hydro-Québec in 2012[1]

Amount received in Canadian dollars	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
millions		%			$	%
8	—	Zero coupon	April 25	2017-04-15	88.543	2.476
1 017	US$1 000	1.375	June 19	2017-06-19	99.884	1.399
663	—	5.00	July 24	2050-02-15	132.648	3.444
1 688						

(1) Borrowings contracted from January 1 to November 13, 2012.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is determined on the basis of interest payable semi-annually.

Section E

UPDATE ON FEDERAL TRANSFERS

INTRODUCTION

The existing rules of the major federal transfers, i.e. the equalization program, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) remain in force until March 31, 2014. New rules will apply to these federal transfers as of April 1, 2014.

The Building Canada plan will expire at the same time. The federal government has announced that it intends to implement a new long-term infrastructure plan as of 2014.

In this context, this section summarizes the new government's positions on federal transfers, infrastructures and certain disputes with the federal government, namely:

— the withdrawal of the caps on the equalization program, since they prevent it from adequately playing its role, i.e. enabling the provinces to provide public services at reasonably comparable levels of quality and taxation;

— an increase in federal share of health funding corresponding to 25% of provincial health spending;

— funding of the CST restored to the 1994-1995 level as a minimum, allowing for inflation, as well as a fairer allocation of this transfer taking the number of social assistance recipients into account;

— a "block" transfer that enables Québec to receive its share of the new federal infrastructure plan effectively and consistent with its jurisdictions;

— quick settlement of certain priority financial issues that are still in dispute with the federal government.

Without these changes proposed by Québec, the fiscal imbalance will re-emerge because the federal government will be in a recurring surplus position while the provinces continue to post deficits.

Before examining the longer-term impacts of the federal government's decisions and describing in detail Québec's position in this regard, it is worthwhile re-establishing certain facts concerning the role and importance of federal transfers in Québec.

1. THE FACTS CONCERNING THE EQUALIZATION PROGRAM

1.1 A reminder of the principles

For equalization to truly play its role, Québec is of the view that the program must be based on four clear principles that are generally applicable.

- The standard of comparison must correspond to the average of the ten provinces.
- Equalization must reflect the reality of the taxation practices of the provinces.
- All provincial revenues must be included.
- All the provinces must be treated fairly.

Consequently, Québec cannot support the implementation of caps imposed on the equalization program in 2008, since they go against these principles. The reasons why these caps are unfair are described in detail in section 3.2.

1.2 Ensure comparable fiscal capacity: an objective under threat

The equalization program is the sole federal transfer whose objective is written into the Constitution Act, 1982, i.e. to ensure that the equalization payments received by the recipient provinces are sufficient to raise their fiscal capacity to the average of the ten provinces so that they can "provide reasonably comparable levels of public services at reasonably comparable levels of taxation".[1] As such, the equalization program is the major transfer to the provinces whose goal is to redistribute wealth.

- Accordingly, a province whose fiscal capacity, in dollars per capita, is below the average of the ten provinces will receive equalization payments from the federal government. These payments are unconditional: the provinces are free to use them according to their own priorities without having to render account to the federal government.
- On the other hand, a province whose fiscal capacity, in dollars per capita, is above the average of the ten provinces will not receive an equalization payment. However, that province does not pay anything to the provinces receiving equalization since the program is funded from the revenue collected by the federal government.

1 Constitution Act, 1982, section 36(2).

How is fiscal capacity determined?

Fiscal capacity is defined as the revenue a province could obtain if it applied to its tax bases (personal income tax (PIT), corporate income tax (CIT), consumption taxes, natural resources and property taxes) the average tax rates in effect in the ten provinces. In other words, it is its capacity to collect revenue.

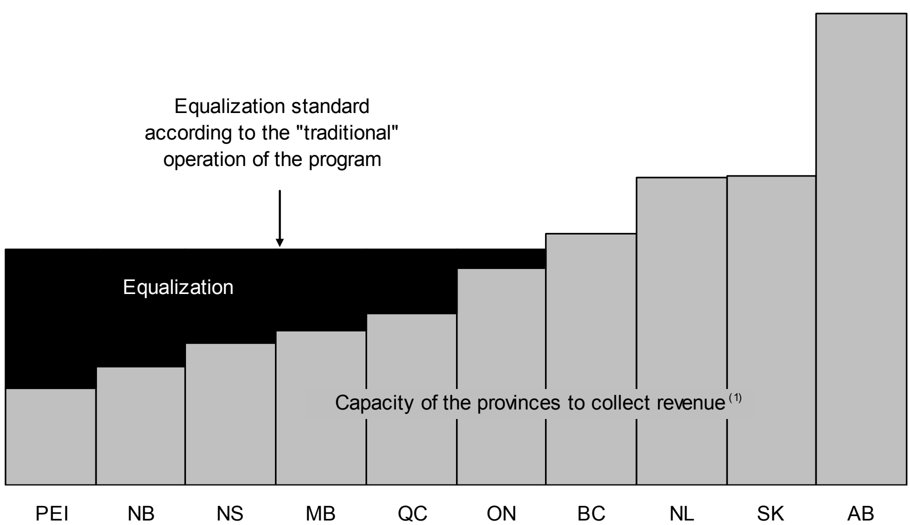
- The fiscal capacity arising from the five tax bases of a province is measured using a number of indicators such as the basic federal tax for the PIT base, taxable corporate income for the CIT base, the market value of properties for the property tax base, etc.
- The average tax rate of a tax base corresponds to the ratio between the revenue actually collected by the provinces and the estimated fiscal capacity of all the provinces for such tax base.

A province's fiscal capacity thus differs from the revenue it actually collects, which results from the tax rates it imposes according to its own societal choices.

This "traditional" operation of the equalization program, as illustrated in Chart E.1, has been applied from 1957 to 2004, allowing the recipient provinces to have the same fiscal capacity after equalization to supply public services.

CHART E.1

Illustration of the "traditional" operation of the equalization program



(1) This capacity excludes 50% of the revenue earned from natural resources and protection arising from offshore agreements.
Source: Department of Finance Canada.

However, the implementation of caps on the equalization program starting in 2009-2010 goes against this "traditional" operation. Section 3.3 goes into greater detail on the financial consequences of the imposition of these caps.

1.3 Equalization: Quebecers are not the biggest recipients

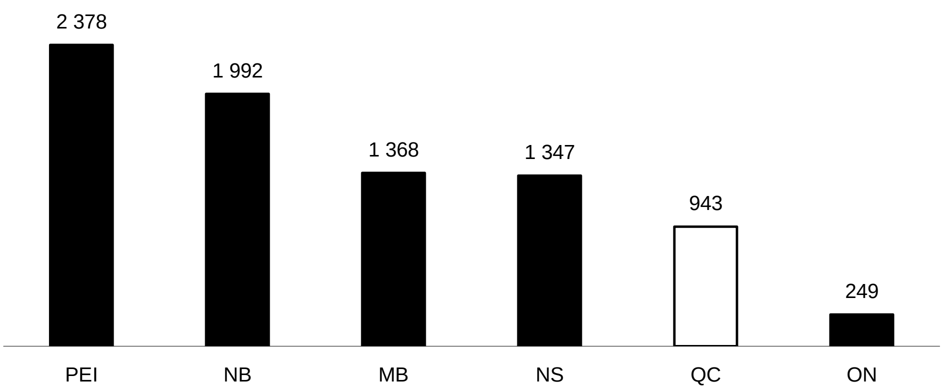
Québec receives a substantial share of the equalization envelope. In passing, this share lies behind a misunderstanding of the redistribution mechanism on which the equalization program is based, namely that it is based on an allocation in proportion to the population.

— Québec, with payments of $943 per capita, receives the lowest amount per capita after Ontario.

— For example, if Québec had received the same equalization payments, in dollars per capita, as Nova Scotia, they would have amounted to $10.6 billion in 2012-2013, i.e. $3.2 billion more.

CHART E.2

Equalization payments – 2012-2013
(dollars per capita)



Source: Department of Finance Canada.

Québec's share of the equalization envelope (48%) is attributable to the fact that Québec is the most populous province (8 million people) among the provinces that receive equalization, with the exception of Ontario.

— In 2012-2013, Québec is receiving $7.4 billion of the total envelope of $15.4 billion.

1.4 More extensive public services funded by Quebecers

According to some critics, equalization enables Québec to offer services not available in the other provinces. What are the facts?

As mentioned earlier, under the "traditional" operation of the equalization program, the equalization payments received by the recipient provinces raise their fiscal capacity to the average of the ten provinces so that they can "provide reasonably comparable levels of public services at reasonably comparable levels of taxation".

However, the services that are "supplementary" to the services "comparable" to the Canadian average that Québec offers its citizens are funded by the supplementary revenue it collects from its level of taxation that is higher than the Canadian average.

This is a societal choice, as in the case of Alberta, which decided not to impose a provincial sales tax and have a single 10% personal income tax rate. Indeed, this has been acknowledged in a recent publication of the Canada West Foundation:[2]

> [Equalization's] purpose is not to ensure a uniform level of provincial government services across Canada, but rather to ensure that provinces have the ability to provide comparable services at comparable tax rates. Each province can choose how much – and on what – to spend, but they have to pay for those choices. Yes, Quebec has more generous social programs than Alberta.

Moreover, Alberta publishes each year in its budget papers[3] the difference in tax burden attributable to the application of the tax systems of the other provinces to Alberta's population. This analysis indicates that were Alberta's government to apply Québec's tax system to its taxpayers, it would obtain almost $21 billion in additional revenue in 2012:

- $5.9 billion in personal income tax;
- $5.4 billion in corporate income tax;
- $9.4 billion for the sales tax and other taxes.

Alberta could therefore choose to offer its citizens similar and even more generous public services than those of Québec.

2 CANADA WEST FOUNDATION, "*Are Albertans Really Paying for Quebec's Social Programs?*", in News & Events, Commentaries, on the CWF website, April 20, 2012, http://cwf.ca/commentaries/are-albertans-really-paying-for-Quebec-s-social-programs.

3 GOVERNMENT OF ALBERTA, "Alberta's Tax Advantage, 2012" in Treasury Board and Finance, Budget 2012, Budget Document, Tax Plan, p. 97 on the *Budget 2012* website, February 8, 2012, http://budget2012.alberta.ca/details/index.html.

Federal transfers as a share of provincial revenue: a lower proportion in Québec than in many other provinces

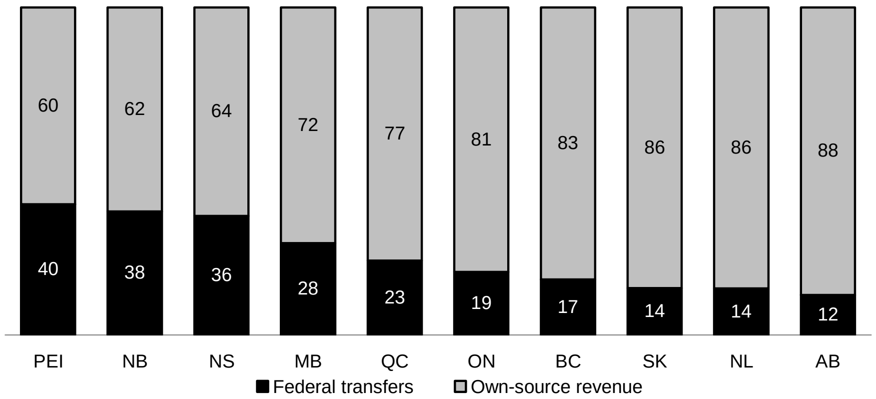
The provinces obtain their revenue from two sources: own-source revenue from the tax effort of their taxpayers (for instance, taxes, fees and royalties) and federal transfers.

- Québec's revenue consists mainly of own-source revenue, i.e. in a proportion of 77% in 2012-2013.

According to the most recent provincial budgets and economic updates for 2012-2013, federal transfers as a percentage of total revenue range from 40% in Prince Edward Island to 12% in Alberta.

- Québec, at 23%, ranks fifth among the provinces.

Federal transfers and own-source revenue as a proportion of total provincial revenue – 2012-2013
(per cent)



Note: Excludes Québec's special abatement.
Sources: Provincial budgets and economic updates.

2. THE RETURN OF THE FISCAL IMBALANCE

The unilateral changes made by the federal government in recent years to the equalization program, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), will result in a significant fiscal gap, on the one hand between the federal government and the provinces (vertical imbalance) and, on the other, among the provinces themselves (horizontal imbalance). As we will see further on, these federal decisions are resulting and will result in substantial financial losses for the provinces.

Over the past year, two reports have pointed to a vertical fiscal imbalance in the medium and long term if the current situation persists.

— It is worth noting that a vertical fiscal imbalance represents a structural situation in which provinces whose revenue is insufficient to supply necessary public services, while the federal government collects more revenue than it needs to fulfil its responsibilities.

In its *Fiscal Sustainability Report 2012*, the Office of the Parliamentary Budget Officer shows unequivocally that the federal government's financial situation will remain favourable in the long run, in large part because of the decline, beginning in 2017-2018, in the growth of the CHT announced in December 2011. Conversely, the financial situation of the provinces will deteriorate in the long run.

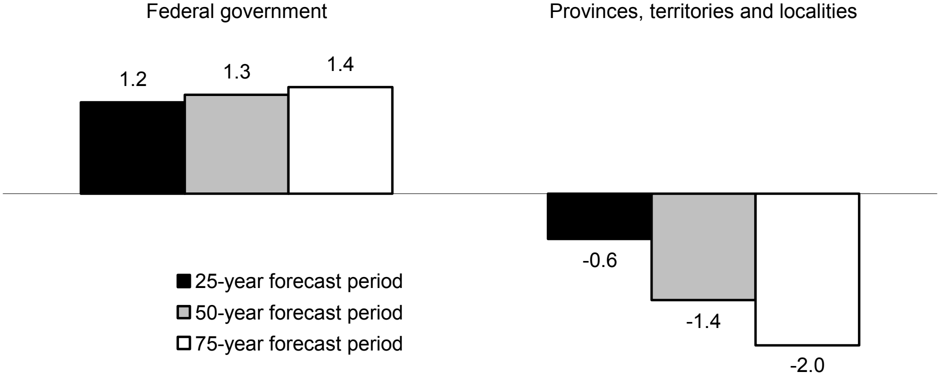
— The report estimates a fiscal gap favourable to the federal government of 1.2% to 1.4% of GDP over a forecast period of 25 to 75 years. The federal government could thus reduce its revenue, increase its program spending or both, while maintaining its fiscal sustainability.[4]

— However, the report shows that the fiscal gap of the provinces, territories and localities, taken together, is unfavourable. This revenue shortfall is estimated at –0.6% to –2.0% of GDP over a forecast period of 25 to 75 years. To offset it, the report points out that permanent measures should be taken, i.e. raising taxes, reducing program spending as a whole or both.

4 "A sustainable fiscal structure is one that does not lead to a government's debt growing faster than the economy over the long term." OFFICE OF THE PARLIAMENTARY BUDGET OFFICER, *Fiscal Sustainability Report 2012*, September 27, 2012, p. 6, in Publications, on the website of the Parliamentary Budget Officer, www.pbo-dpb.gc.ca/en/.

CHART E.3

Estimate of the fiscal gap
(as a percentage of GDP)



Source: Office of the Parliamentary Budget Officer.

Another report, by the Finance Ministers of the provinces and territories and tabled with the Council of the Federation in July 2012, also illustrates a situation of fiscal imbalance in the medium term between the federal government and the provinces.

> According to the Conference Board, the reduction in CHT support will increase the federal government's projected annual surplus in 2030/31 to $61 billion; almost double the expected $34 billion surplus had the CHT escalator remained at 6 per cent throughout the projection period. However, in light of the cuts announced in the 2012 federal budget plan, the potential federal surplus is likely greater than what was projected by the Conference Board […].

Only under the most optimistic[5] revenue-expenditure scenario of provincial/territorial fiscal prospects developed by the Conference Board do the jurisdictions achieve and maintain an aggregate budgetary balance over the longer term, and this requires 6 per cent annual CHT growth […] under this scenario.[6]

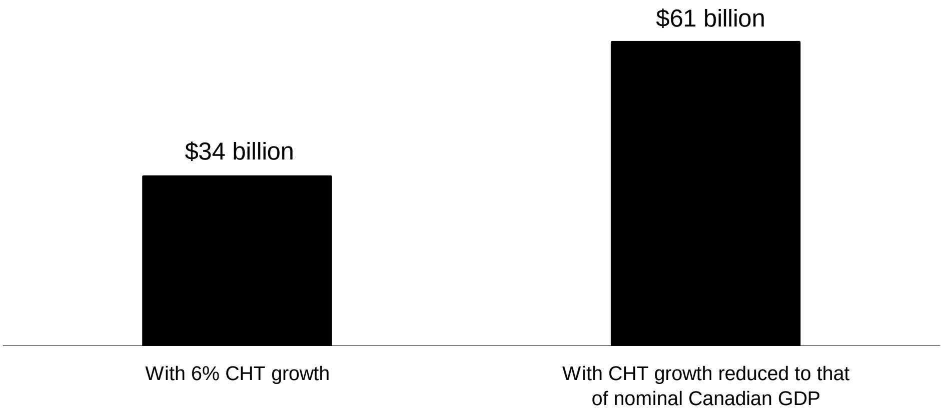
---

5 From 2011-2012 to 2013-2014, annual growth in health (4.1%) and education (2.0%) spending is below what would be needed to maintain the quality of services. As of 2014-2015, it would grow at 5.0% for health and 3.7% for education.

6 COUNCIL OF THE FEDERATION, "Report of the Council of the Federation Working Group on Fiscal Arrangements", July 27, 2012, in the Newsroom on the website of the Council of the Federation, www.councilofthefederation.ca

CHART E.4

Projected federal surplus in 2030-2031



Sources: Council of the Federation and Conference Board of Canada.

The federal government's recent unilateral decisions bring us back 10 years, indeed a return to a fiscal imbalance that places the provinces in a precarious financial situation.

It is therefore essential that the shortcomings identified in the following sections be corrected adequately to prevent the return of a fiscal imbalance from forcing the provinces to further raise their tax burden to maintain the quality of public services.

The studies referred to above also show that the federal government enjoys sufficient leeway to increase transfers to the provinces.

A look back at Québec's Commission on Fiscal Imbalance

In the mid-1990s, the federal government made significant cuts to federal transfers, without consulting the provinces, in particular when implementing the Canada Health and Social Transfer (CHST). The federal government thus transferred the tax burden to the provinces, allowing it to reduce its budget deficit.

- Federal transfers for health and other social programs fell by almost one third between 1994-1995 and 1997-1998.

This reduction in the CHST occurred while the provinces had to deal with significant growth in their social spending.

- Between 1994-1995 and 2001-2002, provincial spending on health, education and social services rose by 26%.

During this time, the federal government posted substantial annual surpluses, reaching nearly $36 billion between 1997-1998 and 2000-2001.

In this context, Québec set up the Commission on Fiscal Imbalance, chaired by Yves Séguin, in May 2001 "to identify and study the causes of fiscal imbalance between the federal government and Québec, its actual consequences and the practical solutions that could be implemented to correct it."[1]

- The three main political parties represented in the National Assembly at the time acknowledged the existence of a substantial fiscal imbalance between the federal government and the provinces.

1 COMMISSION ON FISCAL IMBALANCE, *A New Division of Canada's Financial Resources*, Summary, 2001, p. vii.

3. THE EQUALIZATION PROGRAM NO LONGER PLAYS ITS ROLE

3.1 A broken balance

In its 2007 budget, the federal government implemented "balanced" measures regarding the fiscal arrangements and affirmed that it was thus correcting the fiscal imbalance and re-establishing the basic principle of fairness.

> Taken together, these measures […] ensure that the new transfer system is more generous than before and that fundamental fairness is brought back to fiscal arrangements.[7]

This reform proposed the following two changes:

— on the one hand, an enhancement to the equalization program based on a formula and fair principles that benefited the provinces receiving equalization;

— on the other, the value of tax points would no longer be taken into account in the allocation (allocation on an equal per capita basis) of the CST as of 2007-2008 and of the CHT as of 2014-2015, a measure that benefited the most affluent provinces.

Accordingly, given that the implementation of the "balanced" 2007 measures enabled the equalization program to play its role, the fact that the CHT and the CST no longer have a redistributive effect, because the value of each province's tax points is no longer taken into account, could be accepted.

However, in November 2008, the federal government unilaterally announced the implementation of caps on equalization, so that the program is no longer based on a formula and fair principles, while maintaining an equal per capita allocation of the CST and the CHT.

The balance achieved in 2007 between the main federal transfers was thus broken, to the detriment of the provinces receiving equalization, including Québec.

— Québec has therefore lost substantial amounts of equalization since 2009-2010 that will be in addition to the losses relating to the CHT beginning in 2014-2015.

3.2 Unfair caps

Less than two years after announcing its reform, the federal government has imposed an individual cap and a GDP cap on the equalization program, with the result that it is no longer adequately playing its role.

7 Department of Finance Canada, *The Budget Plan 2007. Aspire to a Stronger, Safer, Better Canada*, March 19, 2007, p. 114.

❑ Individual cap

At the time of the 2007 reform, the federal government implemented most of the recommendations of the report tabled in 2006 by the Expert Panel on Equalization (O'Brien report).[8] This report stipulated in particular the implementation of a cap ("2007 cap") to prevent a recipient province from becoming "richer" than the least "rich" province not receiving equalization.

— As a result of the 2007 cap, after equalization, the recipient provinces had the same fiscal capacity.

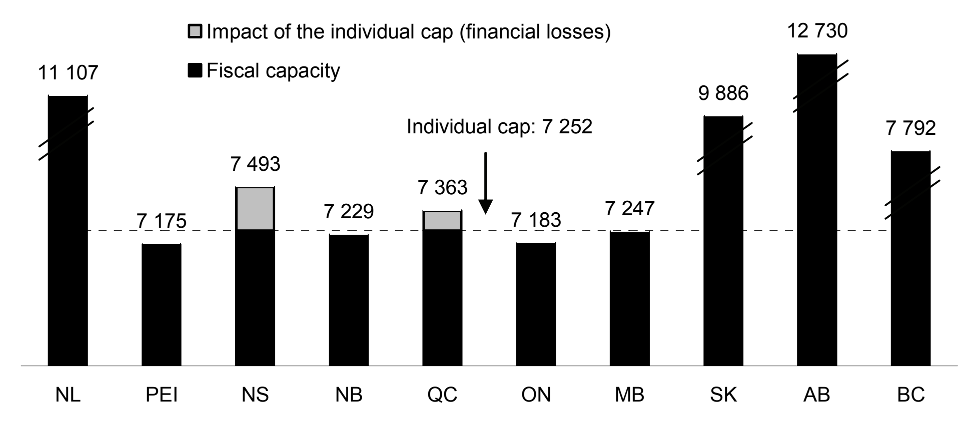
However, in November 2008, the federal government replaced the 2007 cap with another one ("individual cap") as a result of which a recipient province cannot be "richer" than the average of the provinces receiving equalization.

As a result of this cap, Québec's fiscal capacity ($7 363 per capita) and that of Nova Scotia ($7 493 per capita), two provinces with more revenue arising from natural resources than the average of the recipient provinces, are unfairly reduced to that of the average of the recipient provinces ($7 252 per capita) before the application of the caps.

— For Québec, this loss amounts to $110[9] per capita, i.e. $864 million in 2012-2013.

CHART E.5

Fiscal capacity and impact of the individual cap(1) – 2012-2013
(dollars per capita)



(1) Includes 100% of revenue earned from natural resources and protection arising from offshore agreements.
Source: Department of Finance Canada.

8 EXPERT PANEL ON EQUALIZATION AND TERRITORIAL FORMULA FINANCING, *Achieving a National Purpose: Putting Equalization Back on Track, [Report], May 2006.*

9 Figures have been rounde off, so the $110 loss does not correspond exactly to the difference calculated using Chart E.5 ($7 363 - $7 252).

The reduction in equalization payments of these two provinces benefits the other recipient provinces since the envelope's growth is capped at nominal Canadian GDP.

Accordingly, after equalization, the recipient provinces do not have the same fiscal capacity, which is unfair.

— Note that in 2012-2013, no recipient province would have been penalized had the 2007 cap been applied, because their fiscal capacity is less than that of the least "rich" of the non-recipient provinces, i.e. British Columbia ($7 792 per capita).

Québec's position on the individual cap imposed in 2009 on the equalization program
In the interests of fairness, Québec judges it essential that all the recipient provinces have the same fiscal capacity after equalization and is therefore asking for the return to the 2007 equalization formula.

❑ GDP cap

Under the GDP cap the federal government imposed on the program in 2008, the annual increase in the equalization envelope is limited to the three-year moving average of the growth in Canada's nominal GDP.

— Regardless of the factors that could impact disparities in fiscal capacity among the provinces, such as the 2009 economic slowdown, the equalization envelope cannot increase more quickly than Canada's nominal GDP.

— With this cap, the federal government has protected itself against any financial risk at the expense of the less affluent provinces.

Furthermore, because of the GDP cap, the increase in equalization entitlements of one province necessarily occurs at the expense of those of the other recipient provinces. Consequently, any change in fiscal capacity disparities among the recipient provinces results in a "zero-sum game".

— Québec's share of the equalization envelope can thus decline from one year to the next, without its fiscal capacity having come closer to the average fiscal capacity of the provinces.

— The average fiscal capacity of the recipient provinces need only fall more than that of Québec for its share to be cut. In other words, the other recipient provinces, not the federal government, suffer the consequences of the deterioration in the economic situation of a recipient province.

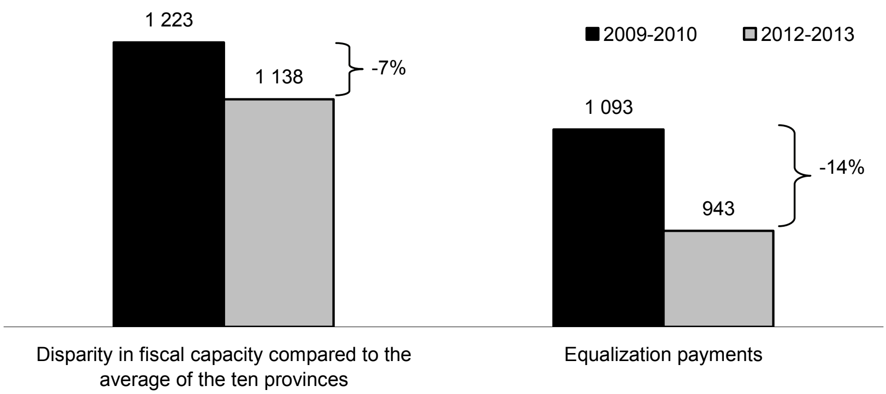
This closed envelope therefore causes significant distortions and no longer ensures a fair redistribution of equalization payments. To illustrate, consider the following example:

— between 2009-2010 and 2012-2013, the difference between Québec's fiscal capacity and that of the average of the ten provinces fell from $1 223 to $1 138 per capita. Accordingly, Québec's fiscal capacity has moved 7% closer to the average of the ten provinces. Québec's relative position has therefore improved;

— during the same period, Québec's per capita equalization payments have declined from $1 093 to $943, a decrease of 14%. This decrease should instead have been in the same proportion as the relative improvement in Québec's fiscal capacity during this period, i.e. 7%.

CHART E.6

Change in Québec's fiscal capacity disparity and equalization payments, from 2009-2010 to 2012-2013
(dollars per capita)



Source: Department of Finance Canada.

It is unacceptable that Québec's equalization payments decrease proportionally more than the true increase in its relative wealth.

— An equalization program based on a formula and principles means that a province's equalization payments depend on the change in its fiscal capacity compared with that of the average of the ten provinces.

Québec's position on the GDP cap imposed on the equalization program
For the equalization program to adequately offset fiscal capacity disparities, Québec is asking for the withdrawal of the GDP cap and a return to the 2007 equalization formula.

3.3 Substantial financial losses

Since 2009-2010, the equalization envelope should have grown by 20.1% compared to the formula implemented by the federal government in 2007, which represents cumulative losses of $14.8 billion.

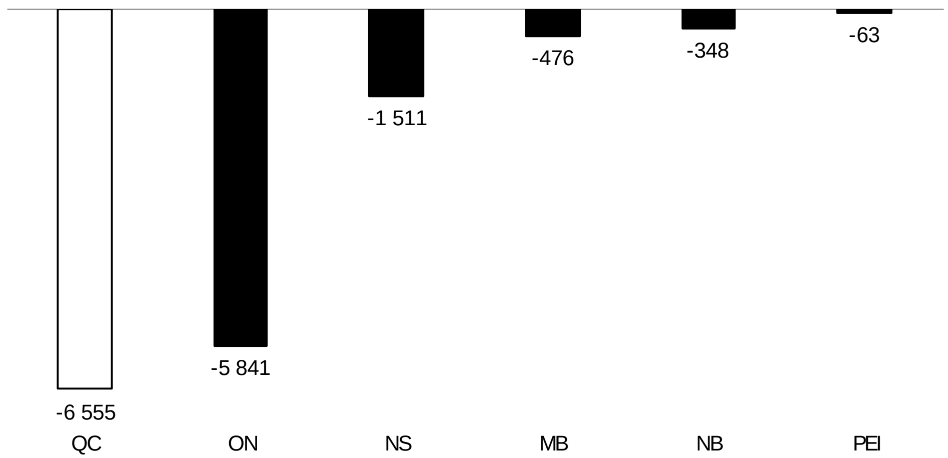
Among the provinces receiving equalization payments, Québec has been penalized most heavily by the imposition of the caps, accounting for 44% of total losses. That represents losses of $6.6 billion from 2009-2010 to 2012-2013, meaning that:

— over the last four years, Québec has had to do without $6.6 billion to offer a reasonably comparable level of public services at a level of taxation reasonably comparable with the Canadian average;

— Québec, like the other recipient provinces, has had to maintain an additional tax burden to offset these losses.

CHART E.7

Cumulative financial losses of the provinces receiving equalization arising from the caps imposed in 2008, from 2009-2010 to 2012-2013
(millions of dollars)



Source: Department of Finance Canada.

3.4 The cost of the equalization program: a return to the historical average

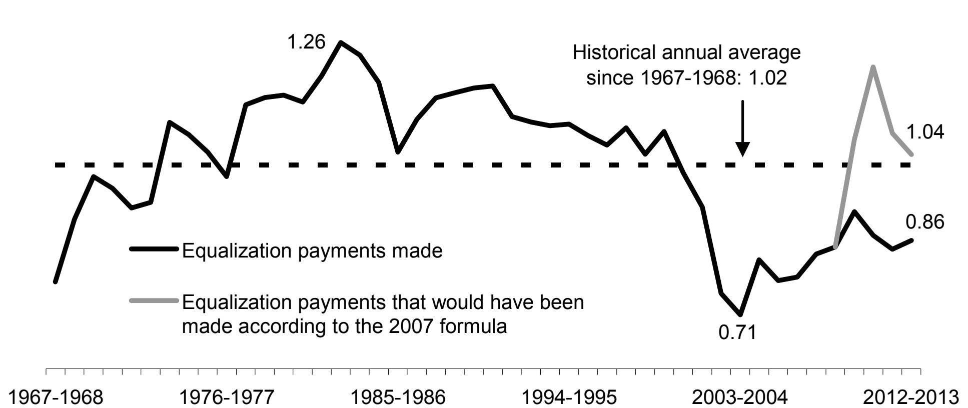
In 2008, the federal government justified its imposition of the GDP cap on the equalization program by the non-viable, in its view, long-term growth of the program's envelope.

However, in 2012-2013, the equalization represents 0.86% of Canada's nominal GDP. This proportion is well below the annual historical average of 1.02% from 1967-1968[10] to 2012-2013.

By way of comparison, the cost of an equalization program representing 1.02% of Canada's nominal GDP in 2012-2013 would amount to $18.2 billion, almost $3 billion more than what will be paid that year.

CHART E.8

Equalization as a proportion of Canada's nominal GDP
(per cent)



Sources: Department of Finance Canada, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Had the federal government not introduced the caps in 2008, the cost of the equalization program in 2012-2013 according to the 2007 formula, would be comparable (1.04%) to what has been paid historically in recent decades as a proportion of Canada's nominal GDP (1.02%).

10 The year 1967-1968 corresponds to the implementation of the average of the ten provinces as the standard of comparison among the provinces.

❑ Gradual rise

Québec considers that the GDP cap must be withdrawn in view of the significant problems discussed earlier. However, to mitigate the impact of a sudden rise in the equalization envelope, use of a capping mechanism could constitute an exception rather than the rule.

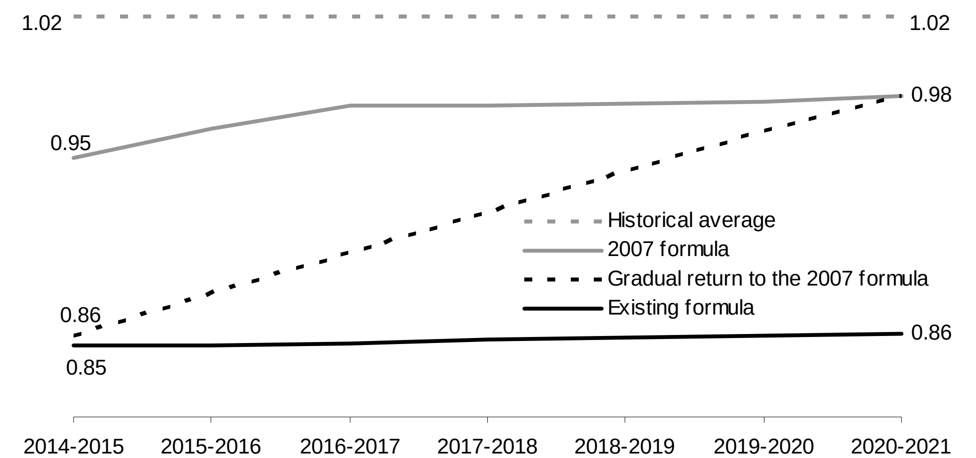
— According to current estimates, had the federal government maintained the 2007 formula, the cost of the program in 2012-2013 would be near the historical average for the period from 2014-2015 to 2020-2021.

In this context, the federal government could gradually increase the equalization envelope calculated using the 2007 formula to bring it closer to the program's historical annual average as a proportion of Canada's nominal GDP (1.02%).

— Compared to the existing program, this proposal would have raised the equalization envelope by $9.6 billion or 14.1% from 2009-2010 to 2012-2013.

CHART E.9

Equalization as a proportion of Canada's nominal GDP according to various formulas
(per cent)



Sources: Department of Finance Canada, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Should the equalization envelope exceed the historical average of 1.02%, an equivalent reduction in dollars per capita of the equalization payments of the recipient provinces could be applied to bring the envelope back to the historical average.

— This method of reducing the envelope, proposed in 2006 by the Advisory Committee on the Fiscal Imbalance[11] set up by the Council of the Federation, would offer the advantage of being fair for the recipient provinces since they would have the same fiscal capacity after equalization, unlike the existing situation.

11 ADVISORY COMMITTEE ON THE FISCAL IMBALANCE, *Reconciling the Irreconcilable – Addressing Canada's Fiscal Imbalance*, [Report], Council of the Federation, 2006, p. 86-87.

4. SIGNIFICANT DISENGAGEMENT BY THE FEDERAL GOVERNMENT

At the December 2011 meeting of Finance Ministers, the federal government unilaterally announced that:

— growth in the CHT would be maintained at its current rate of 6% per year until 2016-2017 and that from then on, growth in nominal Canadian GDP (roughly 4% per year) will apply, subject to a floor of 3%;

— as of 2014-2015, the value of the tax points transferred to the provinces in 1977-1978 will no longer be taken into account in allocating the CHT;

— as of 2014-2015, the CST will increase at its current rate, i.e. 3%;

— the equalization program will continue to grow at the same rate as Canada's nominal GDP until 2018-2019 and that technical changes could be made to it as part of the 2014 renewal.

4.1 The federal government's unilateral changes to the Canada Health Transfer (CHT)

In December 2011, i.e. more than two years before the renewal of federal transfers in 2014, the federal government announced, without consulting the provinces, changes to the CHT that will have a major financial impact for Québec and the other provinces.

— The CHT's existing 6% growth will be maintained until 2016-2017. Thereafter, the CHT will increase at the growth rate of Canada's nominal GDP, estimated at roughly 4% per year, subject to a floor of 3%.

— As of 2014-2015, the value of the tax points transferred to the provinces in 1977-1978 will no longer be taken into account in allocating the envelope. Henceforth, the CHT would be allocated on an equal per capita basis.

  — A protection payment will also be provided so that no province receives a health transfer lower than its 2013-2014 transfer.

While the federal government has not imposed greater accountability along with these changes, that should not be used to justify its financial disengagement in this field.

— It should be noted that during the 1950s and 1960s, the federal government shared 50% of the provinces' "eligible" health expenditures.

The federal government must ensure stable and appropriate health funding, while respecting provincial jurisdiction.

In addition, Québec considers that the federal government should have consulted the provinces before announcing changes that will have substantial financial repercussions on their public finances.

❑ Slower growth in the CHT: a loss of almost $800 million per year for Québec

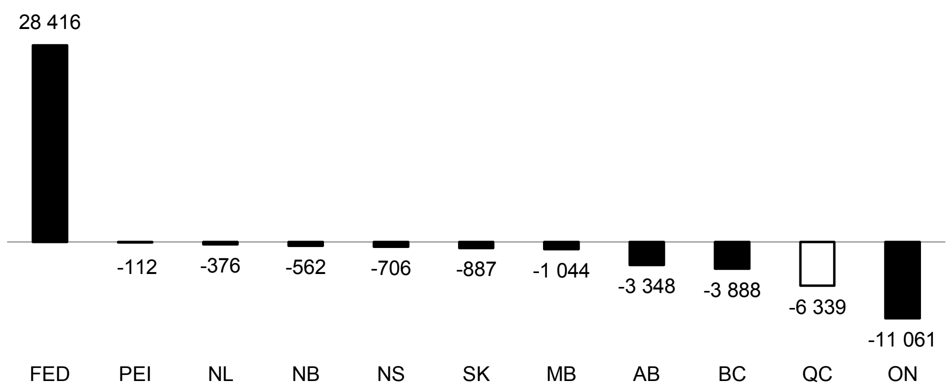
For the period from 2017-2018 to 2024-2025, the decline in the growth of the CHT will result in substantial losses for Québec estimated at $792 million per year on average, for a total of $6.3 billion.

— During this period, the federal government will save roughly $3.6 billion per year on average, for a total of $28.4 billion.

This loss in health revenue will occur at a time when Québec is dealing with major demographic changes that will exert upward pressure on the health system's costs.

CHART E.10

Cumulative impact of CHT growth declining to that of nominal Canadian GDP, from 2017-2018 to 2024-2025
(millions of dollars)



Source: Ministère des Finances et de l'Économie du Québec.

❑ Allocation of the CHT on an equal per capita basis: $209 million less per year for Québec

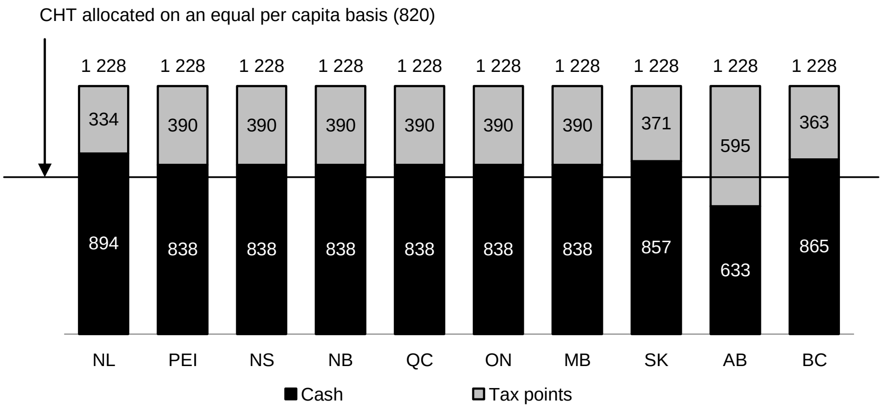
Currently, total CHT entitlements ($1 228 per capita), which include transfers in cash and tax points, are allocated on a per capita basis.

— As a result of taking the value of tax points transferred to the provinces in 1977 into account, a province's per capita cash transfer depends on the value of its tax points.

As a result of this allocation of the CHT, a province like Alberta, whose tax points represent a per capita amount ($595 per capita) greater than for the other provinces, receives a lower cash transfer ($633 per capita).

CHART E.11

Allocation of total CHT entitlements – 2012-2013
(dollars per capita)



Source: Department of Finance Canada.

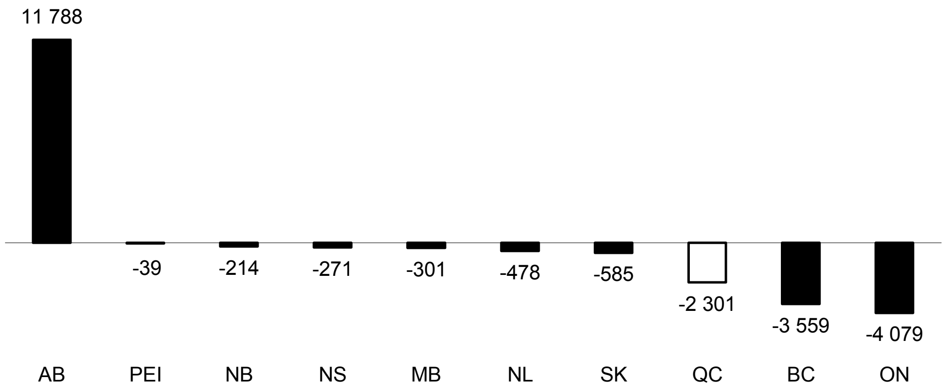
The federal government will incur no cost as a result of ceasing to take CHT tax points into account (allocation on an equal per capita basis) as of 2014-2015 since it will simply redistribute the envelope differently. However, for the provinces, this change will have major financial repercussions. As an example, had this new allocation been applied in 2012-2013, all the provinces would have received a cash transfer of $820 per capita.

— For the period from 2014-2015 to 2024-2025, only Alberta will see an increase in its CHT revenue, amounting to $11.8 billion, at the expense of the other provinces.

— During this period, Québec will suffer cumulative losses of $2.3 billion compared to the existing formula, i.e. an average annual loss of $209 million.

CHART E.12

Cumulative impact of an equal per capita allocation of the CHT, from 2014-2015 to 2024-2025
(millions of dollars)



Source: Ministère des Finances et de l'Économie du Québec.

It should be recalled that in the 2007 budget, the federal government announced that the equal per capita approach would apply to the CST in 2007-2008 and to the CHT in 2014-2015. These announcements, which favoured the more affluent provinces, might have been acceptable provided the equalization program were enhanced and adequately reduced disparities in fiscal capacity among the provinces.

As mentioned earlier, this balance was broken with the imposition of caps on the equalization program in November 2008. Consequently, the equal per capita approach applied in the CHT and the CST is unfair in a context where the equalization program remains capped to GDP.

❑ An insufficient protection payment: an additional loss of $172 million in 2014-2015 for Québec

The federal government also indicated, in December 2011, that the allocation of the CHT on an equal per capita basis would be accompanied by a protection payment, so that no province would receive a lower health transfer compared to the transfer for 2013-2014.

— Under this approach, only Newfoundland and Labrador will be able to receive a protection payment, estimated at $18 million in 2014-2015. Thereafter, no province would obtain such a payment.

Yet, the federal government, in its 2007 budget, had undertaken to make a protection payment calculated using a completely different approach such that no province would receive a smaller payment than what it would have received had tax points continued to be included in the allocation of the CHT envelope.

— The federal government's 2007 approach would enable the provinces to receive a protection payment estimated at $906 million in 2014-2015.

— For Québec, that means that the forecast loss of $172 million in 2014-2015 will not be offset by the federal government.

Given that the CHT and the CST are two programs that historically are related (see sidebar on page E.32), that the same federal policy is applied to them (tax points abandoned) and that the federal government undertook in its 2007 budget to compensate the provinces the same way regarding the CST and the CHT, Québec considers that the 2007 federal approach for determining protection payments must apply to the CHT.

Québec's position on the CHT protection payment
Québec is asking that the 2007 federal approach for determining CHT protection payments be applied, given that the value of tax points is no longer taken into account.

4.2 Financial losses in excess of $8 billion over 10 years

Limiting the growth in the CHT to that of GDP, together with the allocation of this transfer on an equal per capita basis, will result in a shortfall of almost $8.6 billion for Québec between 2014-2015 and 2024-2025, i.e.:

— a loss of $2.3 billion because of the equal per capita allocation of the CHT;

— a loss of $6.3 billion stemming from the decline in the annual growth of the CHT from its current 6% to that of nominal Canadian GDP.

TABLE E.1

Impact for Québec of changes made to the CHT
(millions of dollars)

	2014-2015	2017-2018	2020-2021	2024-2025	Cumulative
Decline in growth of the CHT	0	–124	–620	–1 657	–6 339
Equal per capita allocation	–172(1)	–197	–216	–243	–2 301
TOTAL	**–172**	**–321**	**–836**	**–1 900**	**–8 640**

(1) Had the 2007 federal government commitment been maintained, Québec would receive a protection payment of $172 million in 2014-2015 to offset any loss.
Source: Ministère des Finances et de l'Économie du Québec.

These substantial financial losses are unacceptable, especially in a context where health spending by the provinces is under significant pressure. This is a major financial disengagement by the federal government in health.

Federal health funding: an ever-decreasing share

In 2012-2013, the federal government is funding 21.2% of the provinces' health spending.

This federal contribution to health funding is clearly insufficient compared to the initial situation that gave rise to the public health, education and social assistance systems in Canada.

- During the 1950s and 1960s, the federal government set up a number of transfers to the provinces to share, on an equal basis, "eligible" expenditures regarding these programs.
- In 1977, the federal government replace cost-sharing in these programs with a "block" transfer by creating Established Programs Funding for health and post-secondary education. This "block" transfer had no connection with how much the provinces spent in these fields. The federal government was thus able to protect its financial framework against the risks associated with the growth in costs of these public services, leaving the provinces to bear the entire financial burden of these expenditures.
- Accordingly, regardless of the cost increases the provinces must deal with, the federal government takes no notice, setting the parameters of transfers to the provinces on the basis of its own financial situation and its political choices. The federal government's unilateral announcements in December 2011 regarding the CHT are a striking example of this situation that will result in accelerating the federal financial disengagement.

In its *Fiscal Sustainability Report 2012*,[1] the medium and long-term projections carried out by the Office of the Parliamentary Budget Officer clearly show this federal disengagement in health.

- The report forecasts that the federal share of health spending by the provinces, territories and localities will average 17.7% over the period from 2011-2012 to 2035-2036 and decline to an average of 13.3% over the next 25 years.

1 Office of the Parliamentary Budget Officer, *Fiscal Sustainability Report 2012*, September 27, 2012, in Publications, on the website of the Parliamentary Budget Officer, www.pbo-dpb.gc.ca/en.

4.3 A fairer allocation of the CHT: taking the aging of the population into account

Many studies have concluded that caring for persons age 65 or over costs much more than for those under age 65 and that consequently, the CHT should be allocated more fairly by taking into account the additional costs relating to the demographic weight of persons age 65 or over in each province.

— A recent analysis,[12] based on data from the Canadian Institute for Health Information, shows that the average cost for caring for persons under age 65 was $2 275 in 2009 compared with $11 175 for those age 65 or over. It thus costs five times more to care for persons age 65 or over than for those under age 65. Accordingly, the pressure of population aging on health spending is greatest in Nova Scotia (almost 16% of its population is age 65 or over) and weakest in Alberta (almost 11% age 65 or over).

— In its latest economic report on Canada, the Organisation for Economic Cooperation and Development (OECD) concludes that "since per-capita health spending is on average six times higher for Canadians age over the age 65 than for others this favours provinces with younger populations, at the expense of those which are ageing more quickly, such as British Columbia, Québec and the Atlantic provinces".[13]

Accordingly, with a CHT allocation that ignores the demographic weight of people age 65 or over, a province with an older population would not receive enough health transfers from the federal government and vice versa.

12 Jean-Pierre AUBRY, Pierre FORTIN and Luc GODBOUT, "Revoir le transfert fédéral en santé pour tenir compte du poids démographique des aînés", in Options politiques, June-July 2012, p. 102-106.

13 OECD: OECD Economic Surveys: Canada, June 2012, p. 17.

Demographic changes

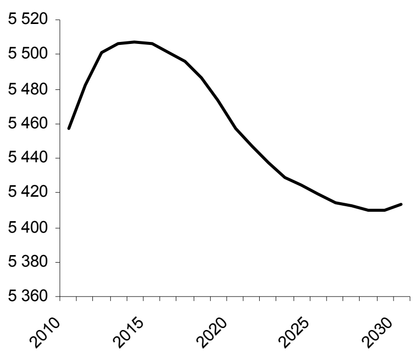
Québec like many provinces, will have to deal with significant demographic changes: slower growth in its population and labour force as well as an increasingly older population.

- According to Statistics Canada, 15.3% of Québec's population was age 65 or over in 2010, whereas in Canada, this group accounted for 14.2% of the population. By 2030, the proportion of Quebecers age 65 or over should reach 24.4% and that of Canadians, 22.6%.

Moreover, between 2010 and 2030, Québec's potential labour pool (from age 15 to 64) is expected to decline slightly. During the same period, that of Canada is expected to rise by 7.7%.

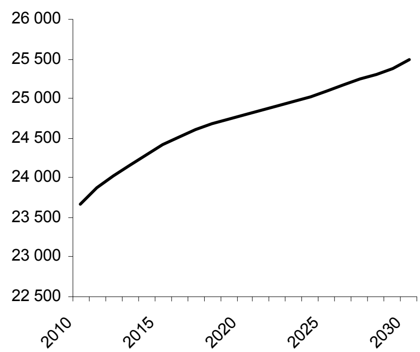
These demographic changes that Québec is undergoing, will necessarily increase the pressure on the costs of the health system.

Projection of the potential labour pool in Québec – From 2010 to 2030
(thousands)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Projection of the potential labour pool in Canada – From 2010 to 2030
(thousands)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

4.4 Increase federal funding for health

As a result of the changes announced in December 2011, rather than being part of the solution, the federal government is making the problem of health funding worse. Yet, the federal government must contribute more fairly to the provinces' health spending and thus gradually restore its funding to 25% of such spending within ten years, i.e. a level comparable to that of 1977-1978. In this regard, it is worthwhile noting:

- that when Established Programs Financing was implemented, in 1977, the share of federal funding of the provinces' spending on health and post-secondary education was 25%;

- that at the February 2004 meeting of the Council of the Federation, the Premiers had asked the federal government to restore its contribution to 25% of the provinces' health spending[14] since the federal government then covered only 16% of the provinces' social spending (health, education and social assistance).

Without an increase in federal health funding and a fairer allocation taking into account the additional costs relating to the demographic weight of persons age 65 or over in each province, the financial situation of public health systems in Canada will only grow more precarious.

Québec's position on federal health funding
Québec is asking that the federal share of health funding be restored gradually to a fairer share corresponding to 25% of the provinces health spending within ten years.

4.5 Correct federal under-funding for social programs

In December 2011, the federal government announced that it would maintain the annual growth rate of the Canada Social Transfer (CST) at 3% as of 2014-2015.

- The CST will thus be the only one of the three major transfers whose growth will not keep pace with that of nominal Canadian GDP.

In addition, Québec considers that the CST has been under-funded for many years and must, as a minimum, be restore to its 1994-1995 level, allowing for inflation. This under-funding of the CST represents a shortfall of roughly $800 million for Québec in 2012-2013.

14 COUNCIL OF THE FEDERATION, "Council of the Federation Sets Course for First Ministers' Health Summit", [News Release], February 24, 2004, in the Newsroom on the Council of the Federation website, www.counciloffederation.ca.

Short history of the CST
In the 1995 federal budget, the government announced that Established Programs Financing (health and post-secondary education) and the Canada Assistance Plan (social programs) would be merged as of 1996-1997 to form a single transfer, the Canada Health and Social Transfer (CHST). Between 1994-1995 and 1997-1998, cash transfers paid to the provinces and territories as a whole were reduced by one third, from \$18.7 to \$12.5 billion. At the time, the federal government described the creation of the CHST as a positive arrangement that provided the provinces and territories with greater flexibility in exchange for a reduction in transfers. In 2004-2005, the CHST was split in two: the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). Henceforth, federal health funding was concentrated in a separate transfer, while that for post-secondary education was grouped with other social programs (social assistance and daycare). In the March 2007 federal budget, the government announced a \$1 050-million increase in the CST in 2008-2009, i.e. \$800 million for post-secondary education and \$250 million for daycare. Beginning in 2009-2010, the CST envelope was indexed by 3% per year. Despite these improvements, the level of the CST is still below (allowing for inflation) what it was prior to the federal cuts in 1994-1995. Indeed, in its April 2006 report, the Council of the Federation's Advisory Panel on the Fiscal Imbalance, formulated a recommendation to that effect.

Québec also considers it important that the "social assistance" component of the CST be allocated more fairly, i.e. on the basis of the number of social assistance recipients rather than on the basis of an equal per capita allocation.

— On the one hand, the federal contribution per social assistance recipient varies widely from province to province, which is unfair.

— On the other, the federal contribution is protected from any fluctuation in the economic situation. In the event of an economic downturn, the provinces will bear the bulk of the burden relating to higher social assistance costs.

Québec's position on the CST
Québec is asking that the level of the CST be restored, as a minimum, to that of 1994-1995, allowing for inflation, and that it be allocated more fairly by taking the number of social assistance recipients into account.

5. THE INFRASTRUCTURE PLAN THAT MUST RESPECT QUÉBEC'S JURISDICTION

5.1 A new long-term federal plan

In view of the coming expiry of the Building Canada plan (BCP), the federal government announced, in its June 2011 budget, that it intended to put in place a long-term public infrastructure plan as follows: "the Government will work with the provinces […] to develop a long-term plan for public infrastructure that extends beyond the expiry of the Building Canada plan".[15]

— It is worth noting that in September 2008, the Québec government and the federal government entered into the Canada-Québec Framework Agreement on Infrastructure that allocates almost $4 billion to Québec government for the 2007-2014 period under a number of federal programs spawned by the BCP.

— Constraints relating to the implementation of the BCP in Québec resulted in particular in widespread duplication, delay, reduced efficiency and additional costs.

Under the current federal approach, Québec intends to put forward its position on infrastructure to ensure that the next federal plan avoids the pitfalls encountered in the implementation of past federal programs.

5.2 Main observations

The problems Québec has encountered with the implementation of the numerous federal programs spawned by the BCP include the following difficulties:

— the approval of projects on a piecemeal basis depending on federal program criteria and the negotiation of tedious bilateral agreements, two factors that delayed the start of work;

— program criteria resulted in changes to Québec's priorities;

— the negotiation of new terms and conditions during the course of agreements;

— inefficient duplication in project assessment;

— excessive accountability requiring the preparation of reports in addition to those already produced by Québec and tabled in the National Assembly.

15 DEPARTMENT OF FINANCE CANADA, *The Next Phase of Canada's Economic Action Plan, A Low-Tax Plan for Jobs and Growth*, June 6, 2011, p. 99.

Lengthy and complex implementation of the Building Canada plan

In March 2007, the federal government announced, in the budget, its long-term infrastructure plan, namely the Building Canada plan (BCP).

After having tried, unsuccessfully, to obtain a “block” transfer for all funds flowing from the BCP, Québec entered into the Canada-Québec Infrastructure Agreement (framework agreement) on September 3, 2008. The agreement stipulated investments of nearly $4 billion for Québec for the period 2007-2014.

- Signature of a framework agreement was a requirement of the federal government and was to apply the same way for all the provinces. Accordingly, no province was able to obtain a “block” transfer.
- According to the federal government, a framework agreement made it possible to agree on a number of obligations and requirements (reporting, audit and evaluation protocol, communications protocol, etc.) to facilitate negotiation of the many subsequent Canada-Québec contribution agreements (on a "project-by-project" basis).
- To satisfy the federal government’s requirement, 17 months elapsed between the announcement of the BCP and the signature of the framework agreement. These negotiations required analysis of more than ten different versions of the draft agreement, three meetings and at least six letters sent between the various authorities of the departments.

It must be concluded that the signature of the framework agreement did not help accelerate negotiation of subsequent agreements, or the launch of projects.

Just for the Major Infrastructure component of the BCP, more than twenty contribution agreements were negotiated over more than three months for each of them. Each project put forward by Québec had to wait for a federal confirmation that, in some cases, took up to five months. During this time, projects could not get underway because the costs incurred would have been ineligible for federal reimbursement.

- For example, more than six months elapsed between the signature of the framework agreement and the signature of the first contribution agreement under the Major Infrastructure component of the BCP.
- Questions such as reporting, consultations with aboriginal people and compliance with environmental legislation were questioned many times by the federal government, though in principle they should have been settled in the framework agreement.
- The conclusion of this initial contribution agreement did not accelerate negotiation of the other contribution agreements.

These points argue in favour of setting up a “block” transfer in response to the federal government’s intention to create a new long-term infrastructure plan.

5.3 Québec's principles regarding infrastructure

The development of a new federal infrastructure plan offers an opportunity to propose certain principles designed to make optimal use of federal funds.

— Payment of federal funds in the infrastructure field must comply with Québec's jurisdiction.

— The terms and conditions of payment of federal funds must ensure effective and efficient management of infrastructure projects carried out in Québec.

— Federal funding must be stable, sustained, sufficient and correspond to Québec's fair share.

— The terms and conditions of payment of federal funds must not result either in creating undue financial pressure on Québec, in prompting it to revise its ongoing priorities or in focusing on sectors that are not consistent with its priorities. It is Québec's responsibility to determine how federal funds are used on its territory.

Québec is therefore asking for complete control over the execution and monitoring of infrastructure projects on its territory. However, Québec acknowledges that it is normal that the federal government be granted adequate visibility for its financial contribution.

5.4 A "block" transfer that meets Québec's priorities and jurisdictions

In light of the main observations and principles described above, Québec considers that the most effective approach that most completely complies with its jurisdictions is for the federal government to pay its funds as a "block" transfer rather than under several administrative agreements covering specific projects.

— It should be noted that this is not a new position. The former government had already requested a "block" transfer in the 2007-2008 Budget Plan of May 2007.

In addition to guaranteeing the federal government adequate visibility, a "block" transfer offers several advantages:

— it is simple, transparent and predictable;

— it avoids duplication and delay caused by negotiating multiple agreements;

— the terms of the launch, implementation, monitoring and accountability of projects are simplified and minimized;

— it helps reduce, and even eliminate, the problems described earlier.

The validity of unconditional transfers according to the federal government

An extract from the December 2008 *Report of the Auditor General of Canada to the House of Commons*[1] mentions the reasons given by the federal government justifying the fact that it is not necessary, for certain types of transfers to the provinces, to put conditions on them. Québec considers that these reasons should apply to federal funds for infrastructure and thus lead to the creation of a "block" transfer.

> Government officials whom we interviewed cited a number of reasons for choosing transfer mechanisms with limited or no conditions. In a mature federation, provincial and territorial governments have flexibility in matters involving their own jurisdictions, and report directly to their own legislatures and citizens rather than to the federal government. As well, in many areas, provinces and territories are best positioned to determine program priorities and implement programs in response to them. Another reason given by the officials was that the federal government can achieve its objectives in ways other than by imposing conditions on transfers.

1 OFFICE OF THE AUDITOR GENERAL OF CANADA, *Report of the Auditor General of Canada to the House of Commons*, December 2008, chapter 1, p. 16-17.

Québec's position on infrastructures

Québec is asking that its share of federal funds of the new federal infrastructure plan be paid as a "block" transfer, in compliance with its priorities and jurisdictions. Québec also acknowledges that it is normal that the federal government be granted adequate visibility for its financial contribution.

6. OTHER PRIORITY ISSUES REQUIRING FAIR SETTLEMENT

In addition to Québec's positions mentioned above regarding the equalization program the CHT, the CST and infrastructures, Québec is seeking a fair settlement in the near future of certain priority issues.

6.1 Treatment of Hydro-Québec's dividends in the equalization program

In the wake of the reform of the equalization program in 2007, the federal government decided to treat all dividends paid by government-owned corporations operating in natural resource development, including hydro-electricity, under the natural resources base.

However, in 2008, the federal government changed its mind by affording different treatment for the dividends paid by Hydro One, an Ontario government-owned corporation that transmits and distributes electricity, in calculating equalization.

— The dividends this government-owned corporation derives from transmission and distribution activities are now included in the corporate income tax base.

— This decision by the federal government has reduced Ontario's relative fiscal capacity for the natural resources base. Accordingly, its equalization payments have risen at the expense of the other recipient provinces, Québec in particular, because of the cap on the equalization envelope.

Yet Hydro-Québec's dividends from the same activities are still considered under the natural resources base.

— This unfair treatment reduces Québec's equalization payments by more than $300 million per year.

Although Québec has provided all the information needed to make the requested change, the federal government wants to settle this matter in the course of the 2014 renewal. However, it should be noted that the federal government did not wait for that renewal to make changes to the treatment of Hydro One's dividends.

Québec's position on the treatment of Hydro-Québec's dividends in the equalization program
Québec is asking that Hydro-Québec's dividends derived from its transmission and distribution activities be treated without delay the same way as those of Hydro One under the equalization program.

6.2 Systematic use of protection payments

The federal government has paid protection payments since 2010-2011 so that the total of a province's major transfers (CHT, CST and equalization) does not decrease compared to the preceding year.

Québec obtained protection payments twice, i.e. a payment of $369 million in 2011-2012 and one of $362 million in 2012-2013.

Québec's position on protection payments
Québec is asking that the federal government pay protection payments to the provinces systematically for as long as caps on the equalization program are maintained.

6.3 Favourable settlement in the near future of the dispute pertaining to the revenue stabilization program

The revenue stabilization program, established in 1967, enables a province to be eligible for federal compensation when it suffers a decline in its revenue caused by the economic situation and that is unrelated to changes in the province's tax structure.

— Despite two decisions in favour of Québec by the Federal Court and the Federal Court of Appeal in 2007 and 2008 respectively, the federal government has yet to make a payment of $127 million to Québec under the revenue stabilization program for 1991-1992.

Québec's position on the revenue stabilization program
Québec is asking for quick resolution of the dispute regarding the revenue stabilization program, a dispute that has lasted more than fifteen years despite two judgments in favour of Québec.

CONCLUSION

While the federal government stated that it has resolved the fiscal imbalance in 2007, the changes it has made subsequently to federal transfers mean that it can no longer be maintained "that fundamental fairness is brought back to fiscal arrangements", as mentioned in its budget of that year.

The federal government's unilateral announcements in November 2008 regarding equalization and in December 2011 regarding the CHT result in a substantial federal financial disengagement from the provinces. The reduction in the CHT's growth alone will, in the medium term, result in a recurring budget surplus even larger than forecast by the federal government. Conversely, the provinces will continue to post deficits.

The solutions advanced by the Québec government would enable the provinces, including Québec, to ensure and maintain delivery of quality public services and avoid plunging the provinces back into a significant fiscal imbalance. The aim of these solutions is that:

— the equalization program play the role for which it was put in place, i.e. adequately offset disparities in fiscal capacity so that the recipient provinces, including Québec, can "provide reasonably comparable levels of public services at reasonably comparable levels of taxation";

— the share of federal funding for provincial health spending be fairer;

— the federal under-funding of the CST be corrected.

In addition, Québec is asking the federal government for a fair settlement of certain priority disputes between the two governments and to put in place a new infrastructure plan that is more flexible, simpler and more consistent with the provinces' priorities and jurisdictions.

The 2014 renewal of federal transfers provides an opportunity for the federal government to re-establish principles of fairness regarding federal transfers, principles that must help avoid fiscal imbalance that would be harmful and unproductive for the entire population.

Section F

THE FIGHT AGAINST TAX EVASION

INTRODUCTION

It is essential that the government be rigorous and fair in collecting the revenue it needs to continue funding public services. To do so, the government must combat tax evasion.

The fight against tax evasion makes a significant contribution to restoring balance to public finances.

Overall, the government effort to fight tax evasion is focused on two major avenues:

— tax inspection at Revenu Québec;

— concerted work by government departments and organizations.

This section of the budget plan describes the results of the efforts taken to curb tax evasion as well as the new initiatives announced for Budget 2013-2014.

1. REVENU QUÉBEC'S ACTIVITIES TO FIGHT TAX EVASION

Revenu Québec is the main player involved in the tax recovery effort.

1.1 Tax recovery at Revenu Québec

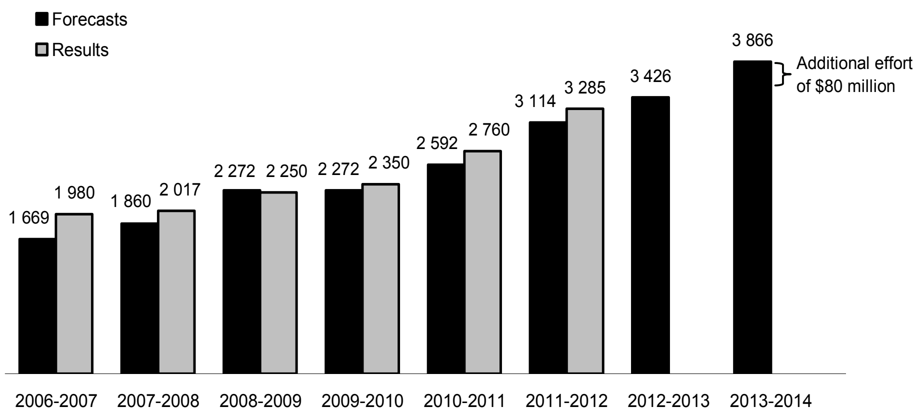
Tax recovery by Revenu Québec has risen substantially in recent years.

— From 2006-2007 to 2008-2009, tax recovery rose by $270 million, an average annual growth of 6.6%.

— From 2009-2010 to 2011-2012, the increase was $935 million, an average annual growth of 18.2%.

CHART F.1

Tax recovery at Revenu Québec
(millions of dollars)



Source: Revenu Québec.

In 2011-2012, Revenu Québec's tax inspection activities enabled the recovery of $3 285 million, i.e. $171 million more than the target of $3 114 million.

In 2012-2013, preliminary figures for the period from April 1 to September 30, 2012 indicate that Revenu Québec is on track to achieve its target of $3 426 million for the year.

— Indeed, the results obtained as at September 30 for tax inspection activities amount to $1 601 million, i.e. 98% of the target for that date.

TABLE F.1

Preliminary results of the fight against tax evasion – 2012-2013
(millions of dollars)

			As at September 30, 2012			
	Result 2011-2012	Target 2012-2013	Target	Result	Difference	Success rate
Tax recovery	3 285	3 426	1 629	1 601	–28	98%

Source: Revenu Québec.

For 2013-2014, the government is raising Revenu Québec's tax recovery target by $80 million. It therefore stands at $3 866 million, i.e. $440 million more than the target for 2012-2013.

TABLE F.2

Tax recovery – Budget 2013-2014
(millions of dollars)

	Results			Targets	
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Tax recovery	2 350	2 760	3 285	3 426	3 866
Annual increase	—	*410*	*525*	*141*	*440*

Note: The 2013-2014 tax recovery target includes, in particular, regular activities ($2.3 billion), the plan to restore fiscal balance ($1.4 billion) and the additional increase in Budget 2013-2014 ($80 million).
Source: Revenu Québec.

In addition to raising more revenue and thus helping restore fiscal balance, the fight against tax evasion helps to:

— improve tax fairness for taxpayers by ensuring that everyone pays their fair share;

— clean up practices in certain at-risk sectors, mainly by fostering fair competition among businesses.

Tax evasion: everyone must make an effort

Revenu Québec suggests that taxpayers act in ways that limit tax evasion and foster self-assessment. It is of crucial importance that everyone supports the efforts to fight tax evasion. Everyone can participate in this fight in various ways:

- Pay by cheque, credit card or debit card to leave a trail of transactions. This encourages merchants to remit the taxes they collect on purchases and report all their income.
- Select licensed contractors to carry out construction work or renovations. This leads to better protection.
- Obtain a written contract before work starts. This protects against potential problems, such as breach of warranty.
- Demand invoices. This encourages the merchant to report all his income. In addition, the invoice is proof that a transaction occurred. It provides a form of guarantee for the goods or services acquired.
- Pay the taxes due on purchases. In doing so, this upholds the basic principle of our tax system.
- Report merchants or contractors who break the law. This helps to improve fairness and competition.

1.2 New measures to fight tax evasion

The government wants to make every effort necessary to collect the amounts owed to it, hence its intention to step up its efforts to fight tax evasion.

— It should be noted that tax losses relating to unreported work are still too high since they still amount to $3.5 billion each year.

That is why the government is asking Revenu Québec, through new initiatives, to recover $80 million more in 2013-2014, $90 million more in 2014-2015 and $100 million more in 2015-2016.

Revenu Québec's objectives include:

— fostering voluntary compliance with tax obligations by maintaining quality services for taxpayers and simplifying the process of filing tax returns;

— changing the behaviour of taxpayers who fail to follow the tax rules by developing innovative approaches and making use of new technologies.

In working to achieve these two objectives, the government is announcing the implementation of four new initiatives to:

— make detection and auditing of non-compliance with the tax laws more effective;

— expand the use of sales recording modules to other activity sectors;

— require certain trusts to file a return;

— require employment agencies to obtain a certificate from Revenu Québec.

1.2.1 Make detection and auditing of non-compliance with the tax laws more effective

To improve the effectiveness of its operations, Revenu Québec will implement a new approach in dealing with failure to file tax returns by setting up a specialized team.

— Accordingly, failure to file will be detected more quickly, helping to accelerate the remedies for recovering amounts of tax due.

In addition, a new audit coverage strategy for individuals in business will be deployed to target taxpayers most at risk.

1.2.2 Expand the use of sales recording modules to other activity sectors

Installation of sales recording modules (SRMs) in restaurants helped to modernize work methods and tools in this sector.

The Resto project is a concrete example of Revenu Québec's efforts to implement innovative tax inspection measures. This project fosters voluntary compliance with the tax obligations of businesses and an increase in self-assessment.

— As at August 31, 2012, 32 026 SRMs had been installed in 18 841 restaurant establishments.

Thanks to this measure taken to fight tax evasion in the restaurant sector, Revenu Québec expects to recover $2.3 billion by 2018-2019, i.e. almost $300 million per year.

The effectiveness of SRMs depends on four essential elements
This project's effectiveness depends not only on the presence of SRMs in restaurants, but also on four essential elements: − the requirement that customers be presented with their bill; − the requirement that the bill be produced using an SRM; − the implementation of a specialized inspection team; − the raising of public awareness of the importance of leaving with the bill.

As part of the ongoing implementation of innovative tax inspection measures, Revenu Québec will continue its analysis to target new sectors that may also benefit from these new technologies. These technologies make it easier to satisfy tax obligations and significantly reduce the time needed for inspections and investigations.

1.2.3 Require certain trusts to file a return

Generally, a trust[1] liable for Québec tax does not have to file a tax return or information return if:

- it has no tax payable;
- it did not allocate income to an individual residing in Québec or to a corporation having an establishment there;
- it did not realize a taxable capital gain or dispose of a capital property.

This is the case, in particular, where a trust that resides in Québec allocates its income to beneficiaries who do not reside in Québec.

In addition, some trusts may have a significant link with Québec (e.g.: own an immovable property) without being liable for Québec tax and without having to file an information return. Accordingly, Revenu Québec is not in a position to identify them or ensure that they are truly not liable for Québec tax.

It is worth noting that in the 2012-2013 budget speech, amendments concerning the liability for Québec tax of inter vivos trusts that are not resident in Canada were announced. Accordingly, such trusts are now liable for Québec tax on their property income derived from the rental of immovable properties located in Québec.[2] They are required to file a tax return for each taxation year in which they own such an immovable property, whether or not they have tax payable.

At the same time, it was mentioned that Revenu Québec would continue the analysis of new measures to gain a more complete picture of trusts with activities in Québec.

The government, following up on this work, is announcing amendments to the tax legislation concerning the obligation for certain trusts liable for Québec tax to file a tax return and for certain trusts resident in Canada outside Québec that own a rental immovable property in Québec to file an information return. The details of these amendments are given in the Additional Information on the Fiscal Measures.

These legislative amendments will help provide a more complete picture of trusts with activities in Québec and validate their compliance with the tax laws.

These amendments to the tax legislation will apply to a trust for its taxation years beginning after the day of the budget speech.

1 Under Québec civil law, a trust results from an act by which a person, the grantor, transfers from his patrimony to another patrimony that he constitutes, property that he allocates for a particular purpose and that a trustee binds himself, by the fact of his acceptance, to hold and administer.

2 They were already liable for Québec tax if, instead, their income constituted income of a business carried on in Québec.

1.2.4 Require employment agencies to obtain a certificate from Revenu Québec

Employment agencies can quickly supply, on a temporary basis, workers that employers need. They are essential to our economy.

However, some unreported work networks sometimes organize themselves as employment agencies. Doing so enables them in particular to evade source withholdings and social contributions paid by workers.

— The leaders of these networks exploit workers who know little of their rights: they sometimes offer remuneration below the minimum wage, fail to comply with labour standards and deprive workers of social protection in the event of illness or job loss.

To curb the problem of employment agencies that make use of such schemes, the government is announcing that it will make additional efforts to counter tax evasion and better protect workers.

— Teams of investigators and inspectors have been working on the ground since October 2011. Emploi-Québec is coordinating these activities, working closely with the Ministère du Travail, the Commission de la santé et de la sécurité du travail, the Commission des normes du travail and Revenu Québec.

— An interdepartmental working group is studying various ways that could be used to better target companies that make use of tax evasion schemes and to ensure better protection for workers.

  — It is also examining ways to better oversee the practices of these agencies to improve protection of workers.

Indeed, Revenu Québec has stepped up audits of these agencies.

— In 2011-2012, Revenu Québec's actions in this sector generated $20.7 million in tax recoveries. For the period from April 1 to August 31, 2012, results amount to $8.0 million.

In addition, as part of this budget, the government is announcing that it will soon require that employment agencies obtain a certificate from Revenu Québec.[3] They will have to provide it to business clients with a temporary staffing requirement.

— The Revenu Québec certificate is a document that confirms that a business has filed the returns required under Québec's tax laws and has no outstanding accounts with the Minister of Revenue of Québec.

[3] The details of this measure will be announced at a later date.

2. JOINT ACTIVITIES TO FIGHT TAX EVASION IN AT-RISK SECTORS

Working together and, in particular, to support Revenu Québec in the course of its activities to counter tax evasion, many government departments and organizations are cooperating through the following committees: ACCES[4] construction, ACCES tobacco and ACCEF.[5] This cooperation has been productive in recent years.

2.1 Fight against unreported work in the construction sector

Tax losses in the construction sector amount to roughly $1.5 billion annually. Efforts have been made, under ACCES construction[6] among others, to curb tax evasion in this sector. The objectives of these new actions include:

- acting more effectively on construction sites by increasing the number of major worksites where Revenu Québec will maintain a sustained presence:
  - the objective is to ensure that companies on construction sites fulfil their tax obligations regarding withholdings at source and taxes,
  - the effectiveness of this approach stems from the real-time monitoring, by the auditors, of all the activities on the worksite while the work is being done;
- carrying out joint operations (Revenu Québec, Régie du bâtiment du Québec, Commission de la construction du Québec and Commission de la santé et de la sécurité du travail) targeting certain at-risk trades:
  - in particular, this strategy seeks to clean up practices in certain sectors,
  - these operations will help prevent tax evasion, audit the tax data filed and ensure collection of amounts owing;
- intensifying joint interventions in the residential renovation sector.

4 ACCES: Actions concertées pour contrer les économies souterraines (concerted action to counter the underground economy).

5 ACCEF: Actions concertées pour contrer les crimes économiques et financiers (concerted action to counter economic and financial crime).

6 ACCES construction brings together the Commission de la construction du Québec, the Director of Criminal and Penal Prosecutions, the Régie du bâtiment du Québec, Revenu Québec, the Ministère des Finances et de l'Économie du Québec, the Commission de la santé et de la sécurité du travail, the Unité permanente anticorruption, the Secrétariat du Conseil du trésor and the Canada Revenue Agency.

Moreover, other actions are underway to, in particular:

- facilitate the exchange of information among control organizations;
- improve the prevention strategy among major clients;
- tighten the *Act respecting Labour relations, vocational training and workforce management in the construction industry*[7] to prevent unfair competition and refusal to cooperate and to ensure a higher level of compliance among players. The objectives are:
  - to specify the fields of activity of independent contractors to reduce the number of individuals working alone on construction sites as subcontractors not having to report their hours to the Commission de la construction du Québec,
  - to facilitate civil and penal recourse regarding non-compliant players who refuse to supply information required in the course of an investigation,
  - to include provisions stipulating a mandatory period for keeping the record book, invoices and other relevant documents,
  - to set provisions designed to make it easier to prove the employment relationship between employees and their employers;
- specify amendments to the Penal Code[8] so that the liability of corporations is the same as that of legal persons rather than natural persons.

❑ Results of recent measures

A pilot project involving joint interventions on residential renovation worksites by Revenu Québec, the Régie du bâtiment du Québec, the Commission de la santé et de la sécurité du travail and the cities of Québec, Montréal and Trois-Rivières was implemented in 2011-2012. Last spring, it was broadened to other cities, in particular Laval and Rimouski, as well as the borough of Rivière-des-Prairies–Pointe-aux-Trembles in Montréal.

Since April 1, 2012, Revenu Québec has carried out more than 350 operations on major worksites, resulting in the recovery of $8.5 million.

Under the project relating to the tax certificate, more than 1 100 businesses have brought their tax situation with Revenu Québec into order, yielding revenue of $39.2 million. In addition, through its tax inspection activities, Revenu Québec has recovered $2.4 million.

Lastly, under the project to ensure the integrity of contractors, the status of 52 licenses has changed (cancellation, suspension or restricted license issued).

7 S.Q., chapter R-20.

8 S.Q., chapter C-25.1.

TABLE F.3

Projects in the construction sector
(results from April 1 to August 31, 2012)

Projects	Results
Broaden sustained presence on major worksites (target of 100 public and private worksites)	355 operations carried out. 78 cases studied for audit purposes. $2.8 million in tax recovered. $5.7 million collected thanks to the increase in self-assessment by businesses.
Intensive operations targeting certain trades (excavation, masonry and interior finishing)	4 781 letters sent to businesses operating in target sectors and 27 letters to professional associations informing them of the intensification of tax inspection actions. Many players, in particular specialized trade unions, want to contribute to the efforts of partners.
Broaden of joint operations in residential renovation, in particular Laval, Rimouski and the Rivière-des-Prairies–Pointe-aux-Trembles borough of the Ville de Montréal	995 operations carried out: – 151 cases in the process of being audited by the Commission de la santé et de la sécurité du travail; – 118 cases in the process of being audited by the Régie du bâtiment du Québec.
Other recent actions	
Joint operations on worksites (target of 300)(1)	79 joint visits carried out.
Attestation de Revenu Québec (Revenu Québec certificate)	19 773 certificates have been issued to 11 146 businesses. 1 162 businesses have put their file in order, yielding a total of $39.2 million. $2.4 million in tax recovered.
Contractor integrity	234 investigations carried out. 6 190 systematic requests for information of criminal records sent to the Sûreté du Québec. 20 licenses cancelled in relation to criminal acts. 2 licenses suspended in relation to tax violations. 30 restricted licenses issued for the purposes of obtaining a public contract.

(1) The data are as of May 31, 2012 because of the strike at the Commission de la construction du Québec.
Sources: Commission de la construction du Québec, Commission de la santé et de la sécurité du travail, Régie du bâtiment du Québec and Revenu Québec. Compilation by the Ministère des Finances et de l'Économie du Québec.

2.2 Fight against the illicit tobacco trade

❑ The means taken to fight tobacco smuggling

In 2001, Québec adopted a wide-ranging policy to combat the illegal tobacco trade through ACCES tobacco.[9]

— ACCES tobacco aims primarily to dismantle smuggling networks, recover the tax losses linked to the illicit trade in tobacco and thus increase revenue from the tax on tobacco products.

On December 9, 2010, the Commission des finances publiques, acting under section 149 of the Standing Orders of the National Assembly, adopted an order of initiative entitled Étude des mesures pour contrer la consommation du tabac de contrebande.

Some of the Commission's recommendations have been implemented in recent months, namely:

- continue discussions with aboriginal communities to oversee the sale of tobacco on reserves:
  - talks have started. The objective is to develop a common approach to curb the illicit trade in tobacco that affects both aboriginal communities and the Québec government;
- improve security in the Salaberry-de-Valleyfield region and on the shores of the St. Lawrence by adding to existing staff and thus increasing pressure on smugglers:
  - new teams have been assigned to this region, helping in particular to increase surveillance of the sector in cooperation with the Royal Canadian Mounted Police;
- increase the number of investigation teams assigned to neighbourhood smuggling networks to cover a larger number of municipalities:
  - three additional investigation teams have been deployed. Nine teams of investigators now cover roughly 80 municipalities.

9 ACCES tobacco brings together Revenu Québec, the Ministère de la Santé et des Services sociaux, the Ministère de la Sécurité publique, the Director of Criminal and Penal Prosecutions, the Ministère des Finances et de l'Économie du Québec, police forces, as well as the Canada Revenue Agency and the Canada Border Services Agency.

The other measures announced in the spring of 2012 were incorporated into Bill 5, *An Act to amend the Act respecting the Québec sales tax and other legislative provisions.* These measures aim to:

— establish a mechanism for the conservation of evidence and quick destruction of incriminating evidence after seizure;

— increase certain fines stipulated in the *Tobacco Tax Act*;[10]

— give police officers powers of investigation similar to those stipulated in section 40.1.1 of the *Tax Administration Act*;[11]

— empower inspectors of the Ministère de la Santé et des Services sociaux to inspect retail points of sale regarding the application of certain provisions of the *Tobacco Tax Act* regarding product identification;

— implement a new tobacco product identification system:

  — this new identification system, the "Québec" stamp, will satisfy the requirement for a unique, secure and indelible identification mark.

For 2011-2012, ACCES tobacco actions resulted in:

— the seizure of $2.8 million in cash and of tobacco products valued at more than $17.5 million;

— the recovery of $8.6 million;

— the issuing of $30.8 million in fines;

TABLE F.4

Results of the fight against tobacco smuggling
(millions of dollars)

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013 (1)	TOTAL
Value of seizures	8.2	11.3	15.2	23.2	22.6	20.3	9.5	**110.3**
Tax recovery	45.1	38.3	18.3	17.2	8.0	8.6	2.3	**137.8**
Fines	1.7	12.1	7.1	10.3	11.2	30.8	8.1	**81.3**

(1) As of August 31, 2012, except for tax recovery, as of September 30, 2012.
Sources: Ministère de la Sécurité publique and Revenu Québec. Compilation by the Ministère des Finances et de l'Économie du Québec.

10 S.Q., chapter I-2.

11 S.Q., chapter A-6.002.

❑ Estimate of tax losses associated with contraband tobacco

Contraband tobacco products were estimated to account for 15% of the market in 2011, i.e. half of what it was in 2008.

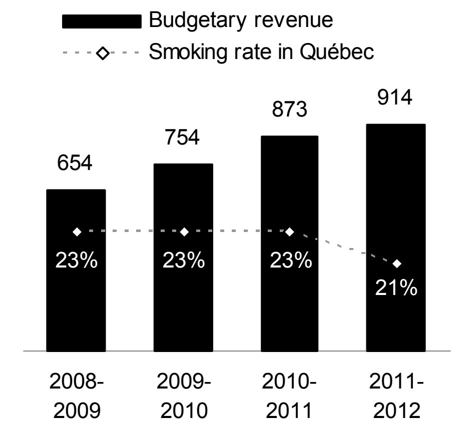
— Tax losses for 2011 are estimated at $125 million, a drop of almost $180 million since 2008.

This decline has resulted in an increase in revenue from the specific tax on tobacco products, even though Québec's smoking rate has remained stable.[12]

— From 2008-2009 to 2011-2012, revenue from the specific tax rose from $654 million to $914 million, an increase of $260 million, while Québec's smoking rate declined by 2 percentage points over the same period.

CHART F.2

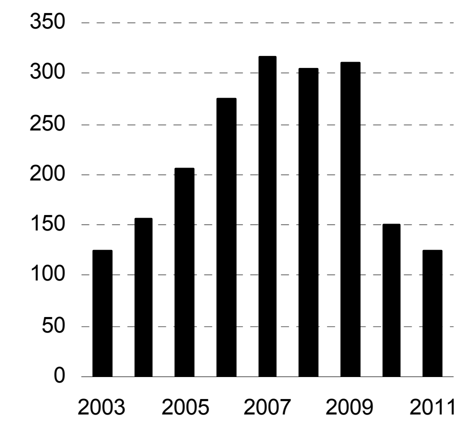
Change in revenue and smoking rate
(millions of dollars and per cent)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART F.3

Change in tax losses associated with contraband tobacco
(millions of dollars)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

The decline in contraband makes today's increase in the specific tax on tobacco products possible.

— This increase will be accompanied by close monitoring of the market to quickly detect any increase in contraband.

— Efforts to fight contraband will be adjusted as needed.

12 STATISTICS CANADA, Table 105-0501, CANSIM, www5.statcan.gc.ca/cansim/a05?id=1050501&lang=en.

2.3 Fight against economic and financial crime

The ACCEF[13] program, set up in 2004, is designed to optimize the resources available to detect and curb organized economic and financial crime.

Concerted action among partners makes it possible to undertake more complex investigations and use more sophisticated methods in order to dismantle highly organized networks.

Since April 2012, ACCEF has helped to recover $1.8 million and seize $5.6 million in cash and $5.6 million in legal hypothecs on immovables.

ACCEF has originated a number of operations (Étau, Dorade I, II and III, Béquille and Diligence) that have uncovered certain schemes in the construction industry. The work of these investigations is being used by the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction.

Recent ACCEF operations

Garrot

This investigation, carried out by the economic crimes division of the Sûreté du Québec, followed the first phase of the operation carried out in 2011. This operation, under which a sweep was carried out on October 30, 2012, shut down a tax fraud scheme estimated at $9 million in the construction sector. Seventeen individuals were arrested in Greater Montréal and in Shawinigan.

Étau

This investigation relates to the use of a false invoicing scheme in the construction industry. Using dummies, the perpetrators created more than 515 shell companies with a multitude of business names. In addition to 44 searches and 14 arrests, notices of assessment amounting to $1.1 million have been issued since April 1, 2012.

Bungalow

This investigation by the Service de police de la Ville de Montréal sought to dismantle a criminal organization involved in large-scale indoor marijuana grow-ops. The project's first phase resulted in searches of seven grow-ops within Montréal. The second phase helped freeze eight commercial buildings located in Ontario with a value of $3.4 million.

13 ACCEF brings together the Sûreté du Québec, Revenu Québec, the Autorité des marchés financiers, the Director of Criminal and Penal Prosecutions, the Ministère de la Sécurité publique, the Ministère des Finances et de l'Économie du Québec and the Service de police de la Ville de Montréal.

2.4 Actions the government has taken concerning public procurement

In addition to tax evasion, corruption and collusion can result in significant losses for the government.

Accordingly, in recent years, actions have been taken to counter poor practices in the public procurement process through, among others, the creation of the Unité permanente anticorruption (UPAC) and the implementation of the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction.

- UPAC is contributing to curb activities that may lead to tax evasion, in particular by carrying out investigations and audits on allegations of corruption and collusion in the public procurement process.

- The mandate of the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction is to:

  - examine the existence of schemes and, if need be, produce a picture of those involving possible collusion and corruption in the awarding and management of public contracts in the construction industry including the enterprises and organizations of the government and municipalities and possible links with political party financing;

  - produce a picture of the possible infiltration of the construction industry by organized crime;

  - examine possible solutions and make recommendations.

To further raise standards of integrity and probity, a bill (Bill 1) regarding public contracts has recently been tabled. Under this bill, a company that wants to contract with a public body, government corporation or municipality will have to show that it and its officers conduct their affairs with integrity and deserve the public's trust.

In addition to exclusion because of a conviction for certain specified violations, the bill also considers other items to check whether the public's trust is affected because of the company's lack of integrity, in particular when it has behaved reprehensibly in conducting its affairs.

The Autorité des marchés financiers would be responsible for issuing an authorization to contract to any business that seeks to do business with the state. This authorization may be withdrawn at any time if the business fails to satisfy the conditions under which it was issued. The UPAC, working with the Sûreté du Québec and Revenu Québec, would be charged with checking the integrity and probity of these businesses.

Section G

REPORT ON THE APPLICATION OF THE LEGISLATION RESPECTING A BALANCED BUDGET AND THE GENERATIONS FUND

1. THE *BALANCED BUDGET ACT*

Under the *Balanced Budget Act* (S.Q., chapter E-12.00001), the Minister of Finance must, in particular, report to the National Assembly, in the budget speech, on the achievement of the objectives of the Act and any variance recorded.

In this context, Budget 2013-2014 presents the government's strategy for returning to a balanced budget as of 2013-2014. The strategy provides for the implementation of the measures for meeting the budget targets established in accordance with the *Balanced Budget Act*, as well as the action to be taken to offset the budgetary shortfall caused by the economic downturn and past decisions.

1.1 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 budgetary forecasts.

Given the amendments to the Act[1] designed, in particular, to deal with the most severe global recession since the 1930s, the *Balanced Budget Act*:

— allowed the government to temporarily suspend the obligation to achieve a balanced budget for fiscal years 2009-2010 and 2010-2011;

— provides that, for the purposes of gradually returning to a balanced budget in 2013-2014, the government must meet objectives for decreasing budgetary deficits for fiscal years 2011-2012 and 2012-2013, established no later than the tabling of Budget 2011-2012;

— stipulates that the revenue and expenditure established in accordance with the government's accounting policies must be balanced for fiscal year 2013-2014.

As of 2011-2012, the government must fulfil the obligation under the Act to offset any overrun in respect of the set objectives.

For example, if the government records an overrun of less than $1 billion in relation to the budgetary deficit objective for 2012-2013, or the balanced budget objective for the following fiscal years, it must achieve the budgetary objective for the subsequent fiscal year, adjusted by the amount of that overrun.

1 The *Balanced Budget Act* was amended in 2009 by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (2009, chapter 38).

The *Balanced Budget Act*

The *Balanced Budget Act* (S.Q., chapter E-12.00001) was passed unanimously by the National Assembly of Québec on December 19, 1996. The Act stipulates that the government must table balanced budget estimates and sets forth the applicable rules in the case of an overrun.

In 2009, the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (2009, chapter 38) substantially amended the *Balanced Budget Act* to, among other things, introduce specific provisions to allow the government to weather the recession.

Consequently, the provisions prohibiting a budgetary deficit do not apply from March 19, 2009 to March 31, 2013. The Act allows for the temporary suspension of the obligation to achieve a balanced budget for 2009-2010 and 2010-2011 without being required to offset deficits by achieving surpluses in the following fiscal years.

In addition, the Act provides that the government must achieve the objectives for decreasing budgetary deficits established in the March 2011 budget, that is, $3 800 million in 2011-2012 and $1 500 million in 2012-2013. It also stipulates that the revenue and expenditure, established in accordance with the government's accounting policies, must be balanced by 2013-2014.

If the government records an overrun of less than $1 billion in relation to the decreasing budgetary deficit objectives for 2011-2012 and 2012-2013, or the balanced budget objective for the following fiscal years, it must achieve the budgetary objective for the subsequent fiscal year, adjusted by the amount of that overrun.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least $1 billion as a result of circumstances defined in the Act, namely, a disaster having a major impact on revenue or expenditure, a significant deterioration of economic conditions or a change in federal programs of transfer payments to the provinces that would substantially reduce transfer payments to the government. The government must then apply an offsetting financial plan ensuring that the overruns will be compensated for within a five-year period.

If there is an overrun of more than $1 billion, the Minister of Finance must report to the National Assembly on the circumstances justifying that the government incur such overruns. In addition, he must present a financial plan allowing those overruns to be offset within the five-year period and apply offsetting measures covering at least $1 billion as of the fiscal year in which such an overrun is anticipated, or during the following year in the case of an actual overrun. He must offset at least 75% of those overruns within the first four fiscal years of that period.

In addition, the Act stipulates henceforth that entries posted to the net debt must be taken into account in calculating the budgetary balance, except where such entries result 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 the Canadian Institute of Chartered Accountants.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve.

1.2 The budgetary balance within the meaning of the *Balanced Budget Act*

Under the *Balanced Budget Act*, the government achieves the objectives of the Act if the budgetary balance, calculated in accordance with the Act, is zero or positive. Table G.1 shows the components for establishing the budgetary balance within the meaning of the Act.

Budgetary balance within the meaning of the Act was maintained from 2006-2007 to 2008-2009.

In 2009-2010 and 2010-2011, the budgetary balance within the meaning of the *Balanced Budget Act* was a deficit of $3.2 billion, as allowed under the Act.

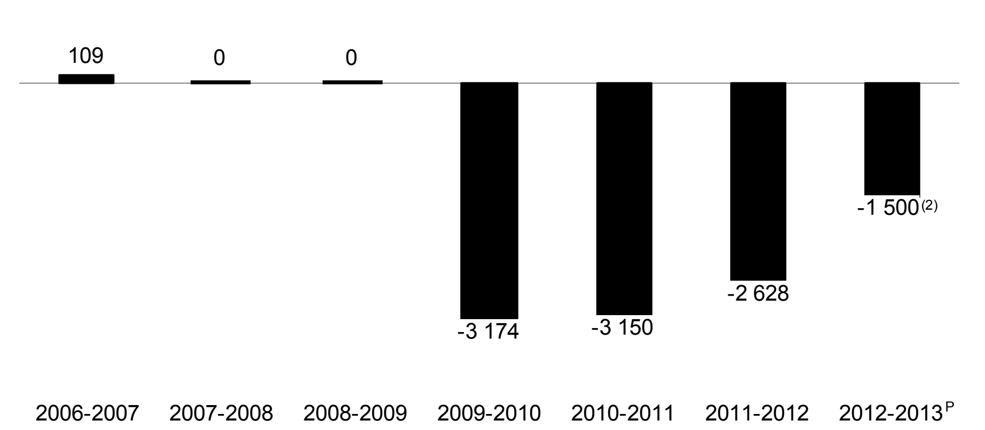
In 2011-2012, the actual results in the public accounts indicated a budgetary deficit of $2.6 billion—an improvement of $672 million compared to the Budget 2012-2013 forecast of $3.3 billion, or an improvement of $1.2 billion compared to the target of $3.8 billion set in accordance with the *Balanced Budget Act*.

For 2012-2013, the government is maintaining the $1.5-billion budgetary deficit objective set in March 2012, in accordance with the target established in the Act. This amount excludes the accounting impact of $1.8 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant. To exclude this amount, a legislative amendment must be made to the *Balanced Budget Act*.

As a precautionary measure, a contingency reserve of $200 million has been incorporated into the budgetary balance for 2012-2013.

CHART G.1

Budgetary balance from 2006-2007 to 2012-2013(1)
(millions of dollars)



P: Forecast.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) For 2012-2013, the budgetary balance excludes the accounting impact of $1.8 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant. The final impact will be established in Hydro-Québec's financial statements as at December 31, 2012.

TABLE G.1

Budgetary balance within the meaning of the *Balanced Budget Act*
(millions of dollars)

							Stabilization reserve		
Fiscal year	Surplus (deficit) reported in the public accounts	Extraordinary loss relative to Gentilly-2	Generations Fund	Accounting changes	Budgetary balance within the meaning of the Act before reserve	Annual surplus	Allocations	Uses	Budgetary balance within the meaning of the Act after reserve(1)
2006-2007	1 993	—	–584	—	1 409	1 409	1 300 (2)	—	109
2007-2008	1 650	—	–449	—	1 201	1 201	1 201	—	0
2008-2009	–1 258 (3)	—	–587	—	–1 845	—	109 (4)	1 845	0
2009-2010	–2 940	—	–725	58	–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(6)
2012-2013P	–2 426	1 805	–879	—	–1 500	—	—	—	–1 500(7)

P: Forecast.
(1) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.
(2) In 2006-2007, only $1.3 billion was allocated to the stabilization reserve in accordance with the then current legislation. Under the *Balanced Budget Act*, the total surplus for each fiscal year is now allocated to the stabilization reserve.
(3) This amount was established in the 2008-2009 financial statements without taking the adjustments made in 2009-2010 into account.
(4) In accordance with section 32 of the Act (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.
(5) In accordance with the *Balanced Budget Act*, the obligation to attain a balanced budget was suspended in 2009-2010 and in 2010-2011.
(6) For 2011-2012, the budgetary deficit of $2.6 billion represents an improvement of $1.2 billion compared to the budgetary deficit target of $3.8 billion set in the March 2011 budget pursuant to the *Balanced Budget Act*.
(7) In accordance with the *Balanced Budget Act*, the government is obliged to meet the budgetary deficit target of $1.5 billion set for 2012-2013 in the March 2011 budget. To that end, the *Balanced Budget Act* must be amended so that the budgetary balance can be established without taking into consideration the accounting impact of $1.8 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant.

1.3 Amendment of the *Balanced Budget Act* in the context of the closure of the Gentilly-2 nuclear power plant

In October 2012, on the basis of a new study of the costs involved in the project to refurbish the Gentilly-2 nuclear power plant, the government accepted Hydro-Québec's recommendation to decommission the plant as of December 28, 2012. The decision was made in a context in which, from an economic standpoint, it was more advantageous to abandon the project to refurbish the plant than to go through with it.

Under the current requirements of the *Balanced Budget Act*, shutting down the Gentilly-2 nuclear power plant would have an unforeseen negative impact of $1.8 billion on the budgetary balance within the meaning of the Act in 2012-2013.

In this context, the one-time accounting loss of $1.8 billion, being unrelated to the management of the government's current operations, would have to be offset by equivalent surpluses by March 31, 2013. Consequently, the government would have to compensate for the loss through spending cuts or increased revenue.

— Note that, under the Act, this extraordinary loss cannot be offset by the $1.2 billion improvement seen with respect to the target for 2011-2012.

The government will therefore propose an amendment to the *Balanced Budget Act* enabling it to present a budgetary balance for 2012-2013 that will exclude the accounting impact of $1.8 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant.

To ensure that the burden of this decision does not fall unduly on future generations, the government will propose another legislative amendment providing for additional deposits in the Generations Fund, as of 2017-2018, corresponding to Hydro-Québec's future savings of $215 million a year resulting from the decision to abandon the refurbishment of Gentilly-2.

— Thus, after nine years, the $1.8-billion impact on the government's accumulated deficits will have been fully offset without adversely affecting the other services offered to the public. These additional deposits in the Generations Fund will total $5.8 billion by 2043.

By proceeding in this way, the government is acting responsibly in regard to the Québec public and, at the same time, contributing to intergenerational fairness through the Generations Fund.

1.4 Return to a balanced budget in 2013-2014, as provided for in the *Balanced Budget Act*

The government has pledged to meet the budgetary objectives set forth in the *Balanced Budget Act* in order to return to a balanced budget as of 2013-2014.

Thus, the financial framework of Budget 2013-2014 confirms the budget will be balanced in 2013-2014 and will stay balanced, as provided for in the Act.

In addition, as a precautionary measure, a contingency reserve of $400 million in 2013-2014 and of $500 million a year for each of the following fiscal years has been incorporated into the budgetary balances.

1.5 Status of the stabilization reserve

In 2008-2009, $1 845 million from the stabilization reserve was used to maintain a balanced budget and $132 million was deposited in the Generations Fund to reduce Québec's debt. In 2009-2010, the remaining $433 million of the stabilization reserve was applied to reduce the budgetary deficit. There have been no transactions in the stabilization reserve since 2009-2010.

2. THE *ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND*

2.1 Maintaining the debt reduction objectives

Budget 2013-2014 confirms the maintenance of the debt reduction objectives set forth in the Act for fiscal year 2025-2026:

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

To achieve these objectives, the government has adopted a more balanced approach that will enable, in particular, the increase of 1 ¢/kWh over five years in the price of heritage electricity to be cancelled and offset by various measures. This approach is based on a series of more varied revenue sources and involves a targeted reduction in planned capital investments. Through these measures, the objectives of the Act can be achieved.

❑ Cancellation of the increase of 1 ¢/kWh in the price of heritage electricity

This budget provides for the cancellation of the increase of 1 ¢/kWh over five years in the price of heritage electricity announced in the March 2010 budget.

Instead, the price of heritage electricity will be indexed annually to the Consumer Price Index, like the other government rates, as of 2014. All of the amounts relative to this indexation will be deposited in the Generations Fund as of 2014-2015.

These deposits will be $95 million in 2014-2015, $190 million in 2015-2016, $290 million in 2016-2017 and $395 million in 2017-2018.

❑ Deposit of all mining royalties in the Generations Fund

The March 2011 budget provided that 25% of mining, oil and gas royalties in excess of $200 million would be deposited into the Generations Fund as of 2014-2015.

In Budget 2013-2014, the government is announcing that it will deposit all mining royalties in the Generations Fund as of 2015-2016, in particular so that future generations further benefit from the development of Québec's non-renewable natural resources.

Mining royalty deposits will represent $45 million in 2014-2015 and $325 million a year as of 2015-2016.

❑ Deposit in the Generations Fund of the revenue from the increase in the specific tax on alcoholic beverages

Budget 2013-2014 provides for the deposit in the Generations Fund, as of 2014-2015, of $100 million a year from the increase in the specific tax on alcoholic beverages.

❑ Additional deposits the Generations Fund further to the closure of Gentilly-2

Budget 2013-2014 provides for additional deposits in the Generations Fund, as of 2017-2018, corresponding to Hydro-Québec's future savings of roughly $215 million a year resulting from the decision to abandon the refurbishment of the Gentilly-2 nuclear power plant.

❑ Reduction in public capital investments

Moreover, the government will reduce public capital investments by $1.5 billion a year as of 2013-2014, which, like the amounts deposited in the Generations Fund, will contribute to the reduction of Québec's debt.

Amendments will be made to the *Act to reduce the debt and establish the Generations Fund* and the other legislation concerned, in order to allow for the implementation of the aforementioned measures.

The proposed legislative amendments are also intended to enable the deposit in the Generations Fund of $300 million in 2012-2013, from the accumulated surplus of the Territorial Information Fund, and of 25% of the amounts derived from the auction of licences to explore for oil, gas and underground reservoirs.

Requirements of the Act

The *Act to reduce the debt and establish the Generations Fund* (S.Q., chapter R-2.2.0.1) was passed on June 15, 2006. This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

In 2010, the Act was amended to revise the concepts of debt used and the debt reduction objectives that must be achieved by 2025-2026.

The Act stipulates that, for fiscal year 2025-2026, the gross debt may not exceed 45% of GDP and the debt representing accumulated deficits may not exceed 17% of GDP.

Under the current provisions of the Act, which do not yet take into account the amendments provided for in Budget 2013-2014, the Generations Fund is constituted of the following amounts from revenue sources dedicated to debt repayment:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- part of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of its increased generating capacity;[1]
- income consisting of the gradual rise over five years in the cost of supplying heritage electricity as of 2014 (provision to be amended);
- fees or charges for water withdrawal;[1]
- as of 2014-2015, an amount corresponding to one quarter of the amount by which the total of fees, duties, rentals and mining, oil and gas royalties provided for in the *Mining Tax Act* and the *Mining Act* exceeds $200 million. This amount will be established once the duties allocated to the mining heritage component of the Natural Resources Fund have been subtracted (provision to be amended);
- sale of government assets, rights or securities;[1]
- unclaimed property administered by the Minister of Revenue;
- gifts, legacies and other contributions received by the Minister of Finance;
- income generated by the investment of the sums making up the Fund.

The *Act to reduce the debt and establish the Generations Fund* also allows the government to order that a part, which it establishes, of any sum that would otherwise have been attributed to the general fund of the Consolidated Revenue Fund be allocated to the Generations Fund.

Similarly, that Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to deposit amounts in the Generations Fund.

The amounts constituting the Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance, in collaboration with the Caisse.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the budget speech, on the evolution of the debt representing accumulated deficits and the gross debt, on the amounts constituting the Fund and, if need be, those used to repay the gross debt.

1 An order in council of the government is required to set the portion of these amounts that must be allocated to the Generations Fund.

2.2 Sums dedicated to the Generations Fund

In 2012-2013, $1 179 million will be devoted to the Generations Fund, that is, $879 million from revenue sources dedicated to the Fund, to which will be added $300 million resulting from the allocation of part of the accumulated surplus from the Territorial Information Fund of the Ministère des Ressources naturelles. The downward adjustment of $32 million compared to the March 2012 budget is the result of lower than anticipated water-power royalties from Hydro-Québec.

For 2013-2014 and 2014-2015, the revenue of the Generations Fund should reach, respectively, $1 039 million and $1 386 million.

2.3 Use of the Generations Fund to repay maturing borrowings

The government will use $1 billion of the Generations Fund in 2013-2014 in order to repay maturing borrowings. This will produce debt service savings of $25 million in 2013-2014 and of $40 million a year as of 2014-2015.

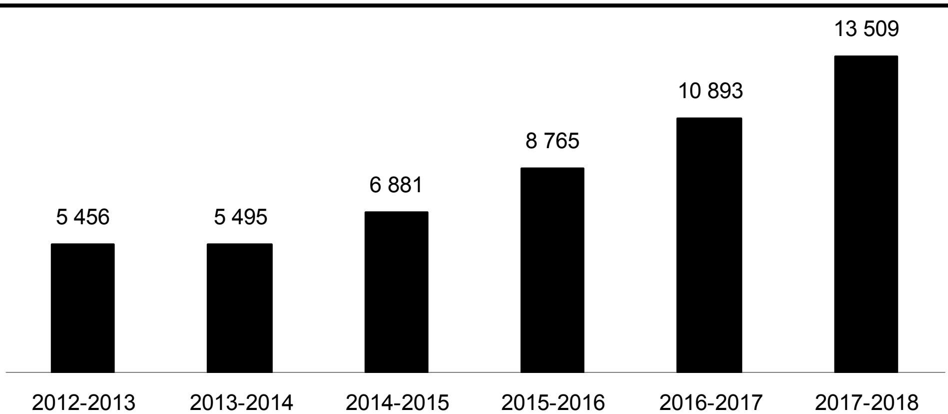
Taking into account the deposits since its creation and those forecast for the coming years, as well as the use of the Generations Fund to repay maturing borrowings, the book value of the Generations Fund will reach:

- $5 456 million as at March 31, 2013;
- $5 495 million as at March 31, 2014;
- $6 881 million as at March 31, 2015.

The Generations Fund should reach $13 509 million as at March 31, 2018.

CHART G.2

Growth in the book value of the Generations Fund[P]
(millions of dollars)



P: Forecast.

TABLE G.2

Generations Fund
(millions dollars)

	Budget 2012-2013		Budget 2013-2014[P]					
	2012-2013	Adjustments	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
BOOK VALUE, BEGINNING OF YEAR	4 285	–8	4 277	5 456	5 495	6 881	8 765	10 893
DEDICATED REVENUES								
Water-power royalties								
Hydro-Québec	628	–36	592	653	648	667	682	699
Private producers	90	—	90	93	96	98	100	102
	718	–36	682	746	744	765	782	801
Indexation of the price of heritage electricity	—	—	—	—	95	190	290	395
Mining, oil and gas royalties	—	—	—	—	45	325	325	325
Tax on alcoholic beverages	—	—	—	—	100	100	100	100
Savings relative to the non-refurbishment of Gentilly-2	—	—	—	—	—	—	—	215
Unclaimed property	10	2	12	12	12	12	12	12
Investment income	183	2	185	281	390	492	619	768
Total of dedicated revenues	**911**	**–32**	**879**	**1 039**	**1 386**	**1 884**	**2 128**	**2 616**
Deposit coming from the Territorial Information Fund	300	—	300	—	—	—	—	—
Total of deposits	**1 211**	**–32**	**1 179**	**1 039**	**1 386**	**1 884**	**2 128**	**2 616**
Use of the Generations Fund to repay maturing borrowings	—	—	—	–1 000	—	—	—	—
BOOK VALUE, END OF YEAR	**5 496**	**–40**	**5 456**	**5 495**	**6 881**	**8 765**	**10 893**	**13 509**

P: Forecast.

The following table shows the book and market values of the Generations Fund since its creation. Section D provides detailed information in this regard as well as respecting the investment policy of the Generations Fund.

TABLE G.3

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

	Book value	Market value	Difference
2006-2007[1]	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	–87
2011-2012	4 277	4 375	–98

(1) The first deposit into the Generations Fund was made on January 31, 2007.

2.4 Evolution of the gross debt and the debt representing accumulated deficits

The following charts show how the ratios of the gross debt and the debt representing accumulated deficits have changed as a percentage of GDP:

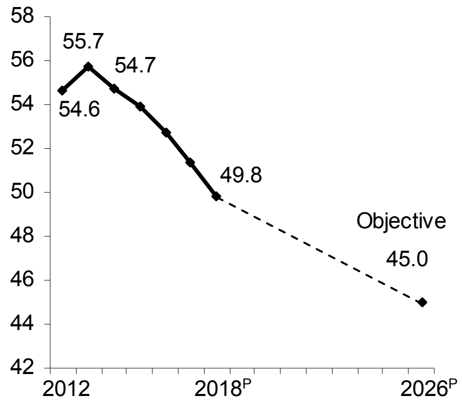
— the gross debt represented 54.6% of GDP as at March 31, 2012. The government's objective is to reduce the ratio of gross debt to GDP to 45% by 2025-2026;

— the debt representing accumulated deficits stood at 34.0% of GDP as at March 31, 2012. The government's objective is to reduce this ratio to 17% by 2025-2026.

CHART G.3

Gross debt as at March 31

(as a percentage of GDP)

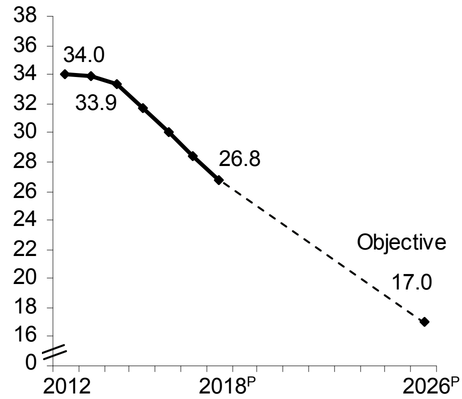


P: Forecasts for 2013 to 2018 and projections for subsequent years.
Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART G.4

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



P: Forecasts for 2013 to 2018 and projections for subsequent years.

Section D provides detailed information on the Québec government's debt.

Section H

ADDITIONAL INFORMATION ON THE FISCAL MEASURES

1. RESTRUCTURING OF THE HEALTH CONTRIBUTION

To ensure funding for the public health care system, a health contribution, which is currently $200 per adult, was introduced in 2010.

The amounts obtained through this contribution are deposited in the Fund to Finance Health and Social Services Institutions.[1] The purpose of the fund is to, among other things, finance public health institutions and private institutions under agreement, on the basis of the volume of services provided and subject to the achievement of performance objectives. The fund can also be used to finance family medicine groups and other specific measures, such as the improvement of home care support services, and development for specialized nurse practitioners.

Payment of the health contribution is required under the *Act respecting the Régie de l'assurance maladie du Québec*.[2] The contribution must generally be paid to the Minister of Revenue no later than April 30 of the year following the year for which it is payable.[3]

As a rule, an individual who, at the end of a year, is resident in Québec and 18 years of age is subject to payment of the health contribution for that year.

However, adults are exempt from payment of the contribution for a particular year if their family income for the year is equal to or less than the amount of the exemption allowed them for the year for the purposes of calculating the premium under the public prescription drug insurance plan, or that would be allowed them for the year were they required to pay the premium.

In addition, to ensure coherent action by the government, certain groups of individuals are exempt from payment of the health contribution. Essentially, these individuals are persons 65 or over who are exempt from payment of the premium under the public prescription drug insurance plan because they receive the maximum monthly guaranteed income supplement in full or almost in full, as well as foreign employees of international organizations and their family members.

To increase the number of low-income individuals who are exempt from payment of the health contribution and bring the required amount more in line with taxpayers' ability to pay, the health contribution will vary, as of 2013, on the basis of an individual's income, instead of on the basis of his or her family income.

Furthermore, an adult who belongs to one of the categories of taxpayers currently exempt from payment of the health contribution will continue to be exempt from payment of the new contribution.

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1 This fund was established by the *Act respecting the Ministère de la Santé et des Services sociaux* (S.Q., chapter M-19.2).

2 S.Q., chapter R-5.

3 In the case of an individual who died after October 31 of the year for which a health contribution was payable and before May 1 of the immediately following year, the health contribution must be paid no later than the day that is six months after the day of death.

To make up the shortfall occasioned by the restructuring of the health contribution, high-income taxpayers will be asked to do more through the addition of a fourth level to the personal income tax table.

1.1 Varying the health contribution on the basis of income

As of 2013, the health contribution payable for a particular year by an adult, other than an exempt adult, resident in Québec at the end of the year[4] will be equal to:

— where the adult's income for the year is not over $40 000, $100 or 5% of the amount by which his or her income exceeds $18 000, whichever is lower;

— where the adult's income for the year is over $40 000 without exceeding $130 000, $200 or the aggregate of $100 and 5% of the amount by which his or her income exceeds $40 000, whichever is lower;

— where the adult's income for the year is over $130 000, $1 000 or the aggregate of $200 and 4% of the amount by which his or her income exceeds $130 000, whichever is lower.

The following table shows the progressivity of the new health contribution.

TABLE H.1

Illustration of the progressivity of the new health contribution
(2013)

Adult's income			
Over	**Without exceeding**	**Calculation of the health contribution**	**Health contribution**
—	$18 000	—	—
$18 000	$20 000	5% of the amount over $18 000	$0.01 to $100
$20 000	$40 000	Fixed amount of $100	$100
$40 000	$42 000	$100 plus 5% of the amount over $40 000	$100.01 to $200
$42 000	$130 000	Fixed amount of $200	$200
$130 000	$150 000	$200 plus 4% of the amount over $130 000	$200.01 to $1 000
$150 000	—	Fixed amount of $1 000	$1 000

4 For the purposes of the rules governing liability for the health contribution, individuals are deemed to be resident in Québec at the end of a year, where, for the purposes of the *Taxation Act* (S.Q., chapter I-3), they are deemed to have been resident in Québec throughout the year on a ground other than the fact that they sojourned in Québec for a period of, or periods the total of which is, 183 days or more and was ordinarily resident outside Canada.

The amounts of $18 000, $40 000 and $130 000 used to calculate the new health contribution will be automatically indexed each year as of 2014.

As with the indexation of the main parameters of the personal income tax system, the index used will correspond to the percentage change in the overall average Québec consumer price index without alcoholic beverages and tobacco products (QCPI-WAT) for the 12-month period ending on September 30 of the year preceding the one for which an amount is to be indexed, compared to the average QCPI-WAT for the 12-month period that ended on September 30 of the year prior to the year preceding the one for which an amount is to be indexed.

This index will be applied, for a particular year, to the previous year's value of the amounts subject to indexation.

For greater clarity, if the result obtained by applying the index to a particular amount is not a multiple of 5, it will be adjusted to the nearest multiple of 5 or, if it is equidistant from two multiples of 5, to the nearest higher multiple of 5.

❑ Exempt adult

For the purposes of the new health contribution, the following individuals will be considered exempt adults for a particular year:

— an adult whose family income for the particular year is equal to or less than the amount of the exemption allowed the adult for 2012 in the calculation of the premium under the public prescription drug insurance plan, or that would be allowed the adult for that year were he or she required to pay a premium under the plan;

— an adult who, for the particular year, is contemplated in section 24.1 of the *Act respecting prescription drug insurance*,[5] that is, briefly, a person 65 or over who is exempt for the year from payment of a premium under the public prescription drug insurance plan because he or she received from the federal government at least 94% of the maximum monthly guaranteed income supplement, without taking account of the additional amount granted since July 2011;

— an adult who is exempt from tax for the particular year under subsection (*a*), (*b*), (*c*) or (*f*) of the first paragraph of section 96 of the *Tax Administration Act*,[6] such as a foreign employee of an international organization or a member of the employee's family.

5 S.Q., chapter A-29.01.

6 S.Q., chapter A-6.002.

❑ Determination of income

For the purposes of calculating the new health contribution, the income of an individual, other than an exempt adult, for a particular year will be the individual's income for the year as determined under Part I of the *Taxation Act*.

However, if an individual other than an exempt adult goes bankrupt during a particular calendar year, only the income determined for the taxation year that is deemed to begin on the date of the individual's bankruptcy will be taken into account in determining the amount of the health contribution payable by the individual for the calendar year.

❑ Source deductions

As of 2013, the health contribution will be subject to a source deduction. Changes will therefore be made to the Québec income tax source deduction table and the formulas for calculating source deductions, in order to reflect the fact that, as a rule, all adults are required to pay the new health contribution.

However, adults will be able to request, on the prescribed form,[7] that a person who pays them an amount subject to source deductions of income tax not deduct an amount with respect to the health contribution, in order to reflect the fact that they are not required to pay the contribution,[8] or that the contribution is paid in instalments or subject to a source deduction by another employer or payer.

❑ Instalment payments

Currently, when individuals are required to pay their income tax in instalments for a particular year, they are also required to pay the health contribution for the year in instalments.[9]

So that an individual's instalment payments reflect, as of 2013, the changes to the health contribution, the tax legislation will be amended to provide that the amount of the individual's instalments must be determined as if the new health contribution applied since 2011.

For greater clarity, the amount of the instalment payments determined by Revenu Québec will take into account the new health contribution as of 2013.[10]

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7 The request must be made on the *Source Deductions Return* (TP-1015.3-V).

8 This would be the case if the individual is an exempt adult or sojourns in Québec for a period of, or periods the total of which is, 183 days or more.

9 A single instalment payment must be made if the individual's chief source of income is farming or fishing.

10 The amount of the health contribution will be included in the amount entered on the *Instalment Payments Made by an Individual* form (TPZ-1026.A-V), sent by Revenu Québec to individuals who may be required to make instalment payments.

1.2 Additional income tax for high-income individuals

Various changes will be made to the tax system so that individuals with high incomes also contribute, through income tax, to the funding required by the restructuring of the health contribution.

❑ Addition of a fourth level to the personal income tax table

Currently, the table used to calculate the income tax payable by an individual, other than an *inter vivos* trust, on his or her taxable income is composed of three tax rates that increase gradually with the table's taxable income brackets.[11]

In accordance with that table, where the taxable income does not exceed $40 100, the tax rate is 16%. The rate is 20% for the taxable income bracket over $40 100 without exceeding $80 200, and 24% for the bracket over $80 200.

As of the 2013 taxation year, a fourth level will be added to the personal income tax table. A rate of 25.75% will apply to the level, which will be comprised of the taxable income bracket over $100 000.

Beginning on January 1, 2014, the amount of $100 000 added to the personal income tax table will be automatically indexed each year according to the usual rules.

The following table shows the personal income tax table applicable for the 2012 taxation year and the table that will apply as of the 2013 taxation year.

TABLE H.2

Personal income tax table
(taxation years 2012 and 2013)

Income tax table for 2012		Income tax table for 2013	
Taxable income brackets	**Rate**	**Taxable income brackets** (1)	**Rate**
$40 100 or less	16%	$41 095 or less	16%
Over $40 100 to $80 200	20%	Over $41 095 to $82 190	20%
Over $80 200	24%	Over $82 190 to $100 000	24%
		Over $100 000	25.75%

(1) The taxable income brackets reflect the 2.48% indexation of the taxable income brackets applicable for 2012.

11 The thresholds and ceilings establishing the taxable income brackets of the tax table are automatically indexed each year.

The addition of a fourth level to the personal income tax table must be reflected, as of January 1, 2013, in source deductions of income tax. The appropriate changes will therefore be made to the Québec income tax source deduction table and the formulas for calculating source deductions.

In addition, so that the amount of an individual's instalment payments[12] takes into account, as of 2013, the changes to the income tax table, the tax legislation will be amended to provide that the amount of the instalment payments payable by an individual, other than an *inter vivos* trust, must be determined as if the fourth level of the income tax table applied since the 2011 taxation year.[13]

The amount of the instalment payments determined by Revenu Québec will also be adjusted, as of the 2013 taxation year, to take into account the addition of a fourth level to the income tax table.[14]

❑ Increase in the rate applicable to the calculation of the income tax payable by an *inter vivos* trust

As part of the 2012-2013 Budget Speech, it was announced that, for a taxation year of an *inter vivos* trust ending after March 19, 2012, the rules governing the calculation of the income tax payable by the trust would be changed to prevent an individual who is at the tax table's top taxable income bracket and who sets up an *inter vivos* trust from being taxed at a lower tax rate on a portion of the trust's taxable income.[15]

More specifically, the rate for determining the income tax payable by an *inter vivos* trust (including a mutual fund trust and a specified investment flow-through trust) now corresponds to the highest rate applicable for the calculation of the income tax payable by an individual, i.e. 24%.

To maintain the integrity of the tax system, the rate for determining the income tax payable by an *inter vivos* trust (including a mutual fund trust and a specified investment flow-through trust) will be raised from 24% to 25.75% as of the 2013 taxation year.

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12 See note 9.

13 For greater clarity, this presumption will not apply to the calculation of an individual's net tax owing for taxation years 2011 and 2012 in order to determine whether the individual, other than an *inter vivos* trust, is required to make instalment payments for taxation years 2013 and 2014.

14 The additional amount of income tax attributable to the fourth level of taxation will be included in the amount entered on the *Instalment Payments Made by an Individual* form (TPZ-1026.A-V), sent by Revenu Québec to individuals who may be required to make instalment payments.

15 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, pp. 101-102.

Furthermore, so that, as of 2013, the increase in the tax rate is factored into the amount of the instalment payments payable by *inter vivos* trusts,[16] the tax legislation will be amended to provide that the amount of an *inter vivos* trust's instalment payments must be determined as if the 25.75% tax rate applied since taxation year 2011.[17]

Moreover, it was announced in Budget Speech 2012-2013 that *inter vivos* trusts not resident in Canada would be required, unless exempt from tax, to pay tax on their property income derived from the rental of an immovable property located in Québec[18] used primarily for the purposes of earning or producing gross revenue that constitutes rent.[19]

The applicable rate for the purposes of calculating the tax was set at 5.3%, so that the combined maximum marginal tax rate of the federal and Québec systems did not exceed that for *inter vivos* trusts resident in Québec.

To reflect the fact that the applicable tax rate for *inter vivos* trusts will be increased by 1.75 percentage points as of the 2013 taxation year, the tax rate to which *inter vivos* trusts not resident in Canada will be subject on their property income derived from the rental of an immovable property located in Québec used primarily for the purposes of earning or producing gross revenue that constitutes rent will be raised from 5.3% to 7.05% as of the 2013 taxation year.

❑ Consequential amendments

Various amendments must be made to the tax legislation to reflect the fact that the personal income tax table will include a fourth level of taxation as of the 2013 taxation year.

■ Tax rate respecting split income of children

To discourage income splitting with minor children, the tax system provides for a different tax treatment for certain types of income of children 17 and under.

A child's income to which this treatment applies is not taxed on the basis of the progressive tax rates table; rather, it is subject to a special tax at the highest marginal rate, namely, 24%.

To maintain the integrity of the tax system, the rate for calculating income tax on children's split income will be raised from 24% to 25.75% as of the 2013 taxation year.

16 A single instalment payment must be made if the *inter vivos* trust's chief source of income is farming or fishing.

17 For greater clarity, this presumption will not apply to the calculation of the net tax owing by an *inter vivos* trust for taxation years 2011 and 2012 in order to determine whether the trust is required to make instalment payments for taxation years 2013 and 2014.

18 For greater clarity, this expression includes a right in or an option on an immovable property.

19 *Ibid.*, note 15, pp. 102-106. This measure applies to trusts whose taxation year ends after March 19, 2012. However, if a trust's taxation year includes March 20, 2012, income tax must be determined in proportion to the number of days in the taxation year that follow March 19, 2012.

Rate of the special tax relative to an income-averaging annuity payment respecting artistic activities

Currently, individuals who receive an amount from an income-averaging annuity respecting artistic activities must include the amount in the calculation of their income for the year.

They must also pay, by means of a source deduction, a special tax equal to 24% of the amount of the annuity payment.

However, to ensure that amounts from an income-averaging annuity payment respecting artistic activities are not taxed twice, an individual who resides in Québec at the end of a particular taxation year may claim a refundable tax credit equal to the amount deducted at source, as the special tax, respecting all amounts from an eligible income-averaging annuity included in the individual's income for the year.

To maintain the integrity of the tax system, the special tax rate relative to an income-averaging annuity payment respecting artistic activities will be raised from 24% to 25.75% as of the 2013 taxation year.

Tax rate on excess profit sharing plan amounts

On July 6, 2012, an information bulletin[20] announced that the Québec tax legislation would be amended to incorporate the federal measure relative to the introduction of a tax on excess employees profit sharing plan amounts,[21] proposed when the federal budget for fiscal 2012-2013 was tabled, it being understood that the tax payable by a specified employee[22] for a year would be calculated at the rate applicable to the top taxable income bracket of the personal income tax table, that is, 24%.

To reflect the fact that the rate applicable to the top taxable income bracket of the personal income tax table will be equal to 25.75% as of the 2013 taxation year, tax on excess profit sharing plan amounts must be calculated, with respect to its application to a taxation year after 2012, at the rate of 25.75%.

Capital gains inclusion rate for the purposes of calculating the alternative minimum tax

The alternative minimum tax is intended to strike a balance between, on the one hand, the objectives of public spending fairness and financing and, on the other, economic development objectives, by ensuring that taxpayers who benefit from tax preferences pay a minimum amount of income tax each year.

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20 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2012-5*, July 6, 2012, p. 2.

21 For the purposes of Québec's tax system, the employees profit sharing plan is called a profit sharing plan.

22 Briefly, a specified employee is an employee who has a substantial interest in his or her employer's business or who is not at arm's length with the employer.

The alternative minimum tax applicable to an individual for a taxation year is equal to the amount by which an amount representing 16% of the portion, in excess of $40 000, of the individual’s adjusted taxable income exceeds his or her basic minimum tax deduction.[23]

To establish their adjusted taxable income for a particular year, individuals must add a series of deductions or benefits under the tax legislation to their taxable income determined according to the basic tax system rules.

Currently, only 75% of a capital gain realized in a year must be taken into account in the calculation of adjusted taxable income. This partial inclusion of capital gains ensures parity between the alternative minimum tax rate and the maximum marginal tax rate applicable to capital gains.

To reflect the fact that the maximum marginal tax rate for taxable capital gains will be raised from 24% to 25.75%, the proportion of capital gains realized that must be taken into account in the calculation of adjusted taxable income will be raised from 75% to 80% as of the 2013 taxation year.

■ Applicable rate for the purposes of the calculation of the refundable tax credit for child care expenses of an individual resident in Canada outside Québec

So that the tax assistance granted for child care expenses incurred by a household in which neither of the spouses is resident in Québec at the end of a taxation year is more in line with the tax burden the members of the household bear in Québec, the degressive tax rates applicable to the calculation of the refundable tax credit for child care expenses have been replaced by a rate equal to the tax rate applicable to the top taxable income bracket of the income tax table—in this case, 24%.

To reflect the fact that the rate applicable to the top taxable income bracket of the income tax table will be 25.75% as of the 2013 taxation year, the applicable rate for the purposes of calculating the refundable tax credit for child care expenses will be increased to 25.75% for individuals resident in Canada outside Québec who carried on a business in Québec and whose eligible spouse,[24] where applicable, is not resident in Québec.

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23 This deduction enables certain non-refundable tax credits claimed in the basic tax system to be granted.

24 To that end, where an individual’s spouse is a person exempt from tax for a particular taxation year, that person is deemed not to be the individual’s eligible spouse for the year.

More specifically, an individual who is resident in Canada outside Québec at the end of a particular taxation year,[25] who carried on a business in Québec during the year and whose eligible spouse for the year, where applicable, is neither a person resident in Québec at the end of the year nor a person resident in Canada outside Québec at the end of the year who carried on a business in Québec during the year may, as of the 2013 taxation year, claim a refundable tax credit equal to the product obtained by multiplying the ratio used to determine the individual's income tax payable for the year[26] by the amount obtained by applying a rate of 25.75% to the individual's qualified child care expenses for the year.

Similarly, as of the 2013 taxation year, an individual who is resident in Canada outside Québec at the end of a particular taxation year,[27] carried on a business in Québec during the year and has an eligible spouse for the year who is also a person resident in Canada outside Québec at the end of the year who carried on a business in Québec during the year may claim a refundable tax credit equal to the product obtained by multiplying the average of the ratios used to determine the income tax payable for the year by the individual[28] and by his eligible spouse for the year by the amount obtained by applying a rate of 25.75% to the individual's qualified child care expenses for the year.

■ Mechanisms applicable to the disposition of taxable Québec property by non-residents

The *Taxation Act* provides for mechanisms aimed at guaranteeing the State receives the income tax payable when a non-resident realizes a capital gain on the disposition of certain taxable Québec property, such as immovables located in Québec.[29]

Currently, some of these mechanisms are based on a rate of 12%, the maximum marginal tax rate applicable to capital gains. To take into account the increase of 1.75 percentage points in the maximum rate of the personal income tax table, the 12% rate will be raised to 12.875% for all dispositions planned or carried out after December 31, 2012.

❑ Additional information

The addition of a fourth level to the personal income tax table will not result in any change to the rate used to convert recognized basic amounts into non-refundable tax credits. Thus, the conversion rate will continue to be 20%.

Furthermore, the rate for converting into a non-refundable tax credit the portion of the eligible amount of an individual's gifts that exceeds $200 will remain unchanged, at 24%.

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25 Where an individual dies or ceases to be resident in Canada during a taxation year, the last day of the individual's taxation year is the day of death or the last day the individual was resident in Canada, as the case may be.

26 As a rule, this is the ratio between the individual's earned income in Québec, namely, the business income attributable to an establishment in Québec, and the individual's earned income in Québec and elsewhere.

27 See note 25.

28 See note 26.

29 These mechanisms are provided for in Title III of Part II of the *Taxation Act*.

❑ Deposits in the Fund to Finance Health and Social Services Institutions

Currently, the money credited to the Fund to Finance Health and Social Services Institutions is the money transferred to it by the Minister of Finance and the Economy, at the intervals that Minister determines, out of the money credited to the general fund and corresponding to the money collected by the Minister of Revenue as a health contribution.

To reflect the fact that the shortfall stemming from the restructuring of the health contribution will be made up by an increase in the maximum marginal tax rate, the *Act respecting the Ministère de la Santé et des Services sociaux* will be amended to provide that the money credited to the Fund to Finance Health and Social Services Institutions will also include the money transferred to it by the Minister of Finance and the Economy, at the intervals that Minister determines, out of the money credited to the general fund and corresponding to the additional amounts to be collected by the Minister of Revenue further to the increase of 1.75 percentage points in the marginal tax rate applicable to individuals with a taxable income over $100 000.

2. INTRODUCTION OF A REFUNDABLE TAX CREDIT FOR YOUTH ACTIVITIES

The World Health Organization recommends that children 5 and over and adolescents engage in regular physical activity. There is no denying the benefits of physical activity for young people, not only with respect to their physical health, but also their psychological health because it can help them better overcome anxiety. In addition, young people who engage in physical activity are more likely to adopt healthy lifestyles.

Like physical activities, artistic, cultural, recreational and developmental activities can have a positive influence on the development of young people, because they foster self-esteem and the desire to work hard.

Despite the benefits of such activities for young people, financial considerations can cause some parents to hesitate about registering their children in them.

Consequently, to help low- and middle-income families provide their school-age children with activities that will enable them to develop their aptitudes and skills, for example through sports and the arts, a refundable tax credit for the activities of children from families whose income does not exceed $130 000 will be gradually implemented as of the 2013 taxation year.

The tax credit, which will be in addition to the non-refundable Children's Fitness Tax Credit and the non-refundable Children's Arts Tax Credit granted by the federal government, can reach $100 per child when fully implemented, and even $200 in the case of a child with a severe and prolonged impairment in mental or physical functions.

❑ Determination of the tax credit

An individual, other than an excluded individual, who is resident in Québec at the end of December 31 of a particular taxation year, or on the date of death if the individual died in the year, may claim for that year a refundable tax credit equal to 20% of the aggregate of all amounts each of which is, with respect to an eligible child of the individual for the year, the lower of the applicable limit for the year and the total of the eligible expenses paid in the year by the individual or the individual's eligible spouse for the year.

If, for a particular taxation year, more than one individual is entitled to the tax credit for expenses paid with respect to the same child, the total of the amounts indicated by each of them on their tax return must not exceed the amount that would be granted if only one of them were entitled to the tax credit for the year regarding all eligible expenses paid in the year with respect to the child. Failing an agreement between the individuals, the Minister of Revenue will determine the amount each of them may claim.

Eligible spouse

For the purposes of the refundable tax credit for youth activities, the eligible spouse of an individual for a particular taxation year is the person who is the individual's eligible spouse for the year for the purposes of the transfer to the spouse of the unused portion of non-refundable tax credits. In general, for the purposes of the transfer, the eligible spouse of an individual for a particular year is the person who is the individual's spouse at the end of the year and who, at that time, is not living separate and apart from the individual or, where the individual does not have a spouse at the end of the year, the last person who was the individual's spouse during the year, if that person died during the year and, at the time of death, was the individual's spouse and was not living separate and apart from the individual.

For greater clarity, a person is not considered to be living separate and apart from an individual at a particular time unless he or she was living separate and apart from the individual at that time, because of a breakdown of their union, for a period of at least 90 days that includes that time.

Eligible child

An eligible child of an individual for a particular taxation year is any child of the individual who, at the beginning of that year, is at least 5 but not yet 16 years of age, or not yet 18 years of age if the child has a severe and prolonged impairment in mental or physical functions.[30]

Briefly, under the tax legislation, the child of an individual is a person who has a bond of filiation with the individual, a person who is the child of the individual's spouse, a person who is wholly dependent on the individual for support and of whom the individual has, or immediately before such person attained the age of 19 years did have, in law or in fact, the custody and control, or a person who is the spouse of a child of the individual.

Excluded individual

An excluded individual for a particular taxation year is one of the following persons:

— an individual whose family income for the year exceeds $130 000 (this amount will be automatically indexed each year as of January 1, 2014 according to the usual rules);

— a person who is exempt from tax for the year under section 982 or 983 of the *Taxation Act* or subparagraph *(a)*, *(b)*, *(c)*, *(d)* or *(f)* of the first paragraph of section 96 of the *Tax Administration Act*,[31] or who is the eligible spouse for the year of such a person.

30 For greater clarity, this refers to a child in respect of whom subsections (*a*) to (*c*) of the first paragraph of section 752.0.14 of the *Taxation Act* (S.Q., chapter I-3) apply.

31 S.Q., chapter A-6.002.

■ Family income

The family income of an individual for a particular taxation year is the income of the individual for the year and, as applicable, that of the individual's eligible spouse for the year.

However, where an individual goes bankrupt during a particular calendar year, the rule under which the bankrupt's taxation year is deemed to begin on the date of the bankruptcy and the current taxation year is deemed to end the day before that date will not apply for the purposes of determining the individual's family income for the year.

In addition, where an individual is not resident in Canada throughout a particular year, the individual's income for that year will be deemed to be equal to the income that would have been determined in his or her regard had he or she been resident in Québec and Canada throughout the year or, if the individual dies during the year, throughout the period of the year preceding his or her death.

❑ Applicable limit for the purposes of calculating the tax credit

The limit on eligible expenses per child for the purposes of calculating the refundable tax credit for youth activities will be set at $100 for the 2013 taxation year and, subsequently, will be gradually increased by $100 a year until $500 per child is reached as of the 2017 taxation year.

However, in the case of a child with a severe and prolonged impairment in mental or physical functions, the applicable limit will be doubled to reflect the special considerations involved in calculating eligible expenses paid with respect to such a child.

The following table shows the limits on expenses eligible for the refundable tax credit for youth activities that will apply as of the 2013 taxation year.

TABLE H.3

Limits on expenses eligible for the refundable tax credit for youth activities
(dollars)

	2013	2014	2015	2016	2017
General limit per child	100	200	300	400	500
Limit for a child with an impairment(1)	200	400	600	800	1 000

(1) This refers to a child in respect of whom subsections *(a)* to *(c)* of the first paragraph of section 752.0.14 of the *Taxation Act* apply.

❑ Eligible expenses

An eligible expense of an individual for a particular taxation year with respect to an eligible child of the individual for the year will be any amount paid by the individual in the year to a person—other than a person who, at the time of the payment, is the individual's spouse or under 18 years of age—or to a partnership, to the extent that the amount is attributable to the cost of registration or membership of the child in a recognized program of activities offered by the person or partnership.

To that end, the cost of registration or membership in the program offered by a person or partnership will include the cost to the person or partnership with respect to the program's administration, instruction, rental of required facilities, and uniforms and equipment that are not available to be acquired by a participant in the program for an amount less than their fair market value at the time, if any, they are so acquired.

However, the cost must not include the cost of accommodation, travel, food or beverages.

■ General restrictions

The amounts paid for the registration or membership of a child in a recognized program of activities that are deducted in the calculation of a person's income or taxable income or taken into account in the calculation of eligible costs or expenses for the purposes of another refundable or non-refundable tax credit claimed by a person will not give entitlement to the refundable tax credit for youth activities.

Nor may the tax credit be claimed with respect to amounts for which a person is or was entitled to a refund or other form of assistance, unless such amounts must be included in the calculation of a taxpayer's income and are not deductible in the calculation of the taxpayer's income or taxable income.

However, government assistance that consists of tax relief granted under the federal tax system need not be applied against an individual's eligible expenses.

■ Proof of payment

An individual may include an amount in the calculation of his or her expenses eligible for the tax credit only if payment of the amount can be proven by means of a receipt containing the prescribed information and issued by the person or partnership having offered a recognized program of activities to the individual's child.

For greater clarity, to claim the refundable tax credit for youth activities for a particular taxation year, an individual will not be required to enclose the receipts issued with his or her tax return.

However, the individual must keep the receipts in the event of a subsequent audit by Revenu Québec. The time period for keeping the receipts will be the same as that under the general rule, according to which anyone who is required to keep registers must retain them, as well as any documents substantiating the information contained therein, for six years after the last year to which they apply.

■ Increase in the amount of eligible expenses paid in respect of a child with an impairment

To reflect the additional costs that parents must assume so that a child with a severe and prolonged impairment in mental or physical functions can participate in a program of activities, such as costs relative to specialized equipment, transportation or care attendants, an increase in the amount of expenses eligible for the tax credit may be granted to the parents.

More specifically, where, for a particular taxation year, the total of the amounts otherwise determined relative to the eligible expenses of an individual and, where applicable, of the individual's spouse at the time of payment, in respect of a child with a severe and prolonged impairment in mental or physical functions,[32] is at least equal to 25% of the general limit applicable for the year, the individual may add, to the amount otherwise determined relative to his or her eligible expenses, an amount that is not in excess of the general limit applicable for the year.

Where, for a particular taxation year, more than one individual is entitled to an increase in the amount of their eligible expenses in respect of the same child, the total of the amounts added by each of the individuals to the amount otherwise determined relative to their eligible expenses in respect of the child must not exceed the general limit applicable for the year. Failing an agreement between the individuals, the Minister of Revenue will determine the amount of the increase to which each of them is entitled.

❑ Recognized programs of activities

For the purposes of the refundable tax credit for youth activities, the following programs of activities will be recognized:

— a weekly program, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks in which all or substantially all of the activities include a significant amount of physical activity, or artistic, cultural, recreational or developmental activity;

— a program, that is not part of a school's curriculum, of a duration of five or more consecutive days of which more than 50% of the daily activities include a significant amount of physical activity, or artistic, cultural, recreational or developmental activity;

32 See note 30.

- a program, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks, offered to children by a club, association or similar organization in circumstances where a participant in the program may select amongst a variety of activities, if:
  - more than 50% of those activities offered to children by the entity are activities that include a significant amount of physical activity, or artistic, cultural, recreational or developmental activity, or
  - more than 50% of the time scheduled for activities offered to children in the program is scheduled for activities that include a significant amount of physical activity, or artistic, cultural, recreational or developmental activity;
- a membership in a club, association or similar organization, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks, if more than 50% of all the activities offered to children by the entity included a significant amount of physical activity, or artistic, cultural, recreational or developmental activity;
- a part of a program, other than an otherwise recognized program of activities, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks, offered to children by a club, association or similar organization in circumstances in which a participant in the program may select amongst a variety of activities, where the part of the program represents:
  - the percentage of activities offered to children by the entity that are activities including a significant amount of physical activity, or artistic, cultural, recreational or developmental activity, or
  - the percentage of time scheduled for activities in the program that is scheduled for activities including a significant amount of physical activity, or artistic, cultural, recreational or developmental activity;
- a part of a membership in a club, association or similar organization, other than a membership that is an otherwise recognized program of activities, that is not part of a school's curriculum, of a duration of eight or more consecutive weeks, that represents the percentage of activities offered to children by the entity that are activities including a significant amount of physical activity, or artistic, cultural, recreational or developmental activity.

Physical activities

An activity that will be considered a physical activity is a supervised activity suitable for children,[33] other than an activity of which an essential component requires a child to get into or onto a motor vehicle, provided the activity:

— in the case of a child with a severe and prolonged impairment in mental or physical functions, enables the child to visibly move around and expend energy in a recreational context;

— in the case of any other child, contributes to cardiorespiratory endurance and the development of one or more of the following aptitudes:

  - muscle strength,
  - muscle endurance,
  - flexibility,
  - balance.

In this respect, horseback riding will be deemed an activity that contributes to cardiorespiratory endurance and the development of muscle strength, muscle endurance, flexibility or balance.

Artistic, cultural, recreational and developmental activities

An activity that will be considered an artistic, cultural, recreational or developmental activity is a supervised activity, other than a physical activity, that is suitable for children, including an activity adapted for children with a severe and prolonged impairment in mental or physical functions, and that:

— is intended to contribute to a child's ability to develop creative skills or expertise, acquire and apply knowledge, or improve dexterity or coordination, in an artistic or cultural discipline including:

  - literary arts,[34]
  - visual arts,[35]
  - performing arts,[36]
  - music,

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33 This will be so if the activity does not present any undue risks for the child and complies with the safety rules in effect.

34 For example, poetry, novels, stories, narrative literature, fictional essays and novellas.

35 For example, photography, painting, drawing, design, sculpture and architecture.

36 For example, theatre, dance, singing, circus arts and mime.

  - media,[37]
  - languages,
  - customs, and
  - heritage;
- provides a substantial focus on wilderness and the natural environment;
- assists with the development and use of intellectual skills;
- includes structured interaction among children where supervisors teach or assist children to develop interpersonal skills; or
- provides enrichment or tutoring in academic subjects.

❑ Contents of the receipts required as proof of payment

The receipt issued by the person or partnership offering a recognized program of activities must contain the following information:

- the name and address of the entity offering the program;
- the name of the program or eligible activity;
- the total amount of the payment received, the date it was received, and the amount that is an eligible expense for the purposes of the refundable tax credit for youth activities;
- the payer's surname and given name;
- the child's surname and given name;
- the child's year of birth;
- an authorized signature, except in the case of an e-receipt.

❑ Application date

The refundable tax credit for youth activities will apply to amounts paid after December 31, 2012 for the registration or membership of an eligible child in a recognized program of activities, provided the amounts are attributable to activities that take place after that date.

37 For example, radio, television, film, video and digital arts.

3. MEASURES TO FOSTER BUSINESS INVESTMENT

3.1 Introduction of a new tax holiday for large investment projects – the THI[38]

In the March 14, 2000 Budget Speech, a tax holiday was implemented to foster major investment projects.[39]

Briefly, a corporation that carries out a major investment project in Québec after March 14, 2000 may, under certain conditions, benefit from a tax holiday for all or part of a calendar year. To that end, the corporation must have an initial certificate as well as annual certificates issued by the Minister of Finance and the Economy.

Essentially, the tax holiday enables corporations that carry out a major investment project in Québec to receive a holiday from income tax and a holiday from the employer contribution to the Health Services Fund (HSF) regarding eligible activities that relate to such project.[40] The tax holiday is granted for a period of ten years beginning on the starting date of the tax-free period relating to the investment project, as indicated by the Minister.

The tax holiday targets corporations that carry out a major investment project in the primary, secondary or propulsive service sector[41] or, where the major investment project consists in the development of an international resort, in the traditional service sector.[42]

The tax holiday also targets partnerships and their corporate members, that carry out a major investment project in Québec. In such a case, the partnership that carries out the investment project must obtain the initial certificate and the annual certificates relating to the major investment project.

Under the applicable rules, to qualify as a major investment project, an investment project must be one that gives rise to an increase in payroll of at least $15 million, or a project that gives rise to an increase in payroll of at least $4 million and involving an investment of at least $300 million. In the case of the expansion or modernization of a production unit, only the investment criterion need to be satisfied. These minimum thresholds must be achieved no later than a given date, which varies depending on the type of project.

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38 The acronym means: tax holiday for investments.

39 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2000-2001 – Additional Information on the Budgetary Measures*, March 29, 2001, section 1, p. 26-37.

40 These corporations could also receive a holiday from the tax on capital relating to the major investment project before the elimination of this tax.

41 The expression “propulsive service sector” is defined in the third indent of section 4.7 of Chapter IV of Schedule E of the *Act respecting the sectoral parameters of certain fiscal measures* (S.Q., chapter P-5.1). It designates telecommunications, electric power, financial services and business services – other than services offered by a placement agency and accounting services -, such as staffing services, computer services and related services, advertising services, architectural, engineering and other scientific and technical services, management consulting services and services offered by law or notarial firms.

42 This sector includes property management activities, including management activities that concern construction.

A moratorium was placed on this tax holiday in the June 12, 2003 Budget Speech.[43] Accordingly, corporations and partnerships that carry out a major investment project as well as member corporations of a partnership that carries out a major investment project, for which an initial certificate was issued or for which an application in relation to obtaining this tax holiday was made before June 12, 2003 may benefit from this tax holiday for the stipulated period of 10 years provided the eligibility conditions for the tax holiday are otherwise satisfied.

To provide the most rapid stimulus possible for the carrying out of large investment projects, the government has decided to eliminate tax holiday for a major investment project and replace it with a new tax holiday for large investment projects – the THI.

3.1.1 Implementation of a tax holiday for large investment projects – the THI

A corporation that, after the day of the budget speech, carries out a large investment project in Québec may, under certain conditions, benefit from a tax holiday regarding tax on the income from its eligible activities relating to such project and from a holiday from employer contributions to the HSF regarding the portion of wages paid to its employees that is attributable to the time they spend on such activities.

Similarly, a partnership that, after the day of the budget speech, carries out a large investment project in Québec may, under certain conditions, benefit from a holiday from employer contributions to the HSF regarding the portion of the wages paid to its employees attributable to the time they spend on eligible activities relating to such project. A corporation that is a member of a partnership may benefit from the tax holiday regarding the tax on its share of the income from eligible activities of the partnership relating to such project.

This tax holiday will last for ten years and may not exceed 15% of the total eligible investment expenditures relating to such project.

To qualify as a large investment project, an investment project must, in particular, concern activities in the manufacturing, data processing and storage, wholesale trade or warehousing sectors. In addition, the investment project must satisfy a requirement that a minimum investment threshold of $300 million be achieved and maintained.

❑ Terms and conditions for obtaining the tax holiday

To receive the THI, a corporation will have to obtain an initial certificate as well as annual certificates issued by the Minister of Finance and the Economy who will administer the sectoral parameters of this measure.[44] The initial certificate application must be submitted to the Minister of Finance and the Economy before November 21, 2015. This initial certificate must be applied for before the large investment project begins to be carried out.

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43 MINISTÈRE DES FINANCES DU QUÉBEC, *2003-2004 Budget – Additional Information on the Fiscal Measures,* June 12, 2003, p. 61-62.

44 The criteria relating to the initial and annual certificates are found in the *Act respecting the sectoral parameters of certain fiscal measures*.

Accordingly, a project that began to be carried out on the date of the budget speech will not qualify as a large investment project.

To establish whether, on the date of a corporation's application for an initial certificate regarding an investment project, such project had begun to be carried out, the undertakings given by the corporation, on such date, in relation to its investment project, will be taken into consideration. However, the undertakings in relation to market or feasibility studies, on the date of the application, will not be sufficient, in themselves, to conclude that the investment project had begun to be carried out on that date and that, as a result, the project cannot qualify.

Once the application has been studied, an initial certificate will be issued to the corporation by the Minister of Finance and the Economy if he is of the view that the investment project presented to him is likely to be recognized as a large investment project and that the activities that arise from it will be carried out in Québec.

Moreover, the tax holiday will become available only if the investment project is indeed a large investment project.

Accordingly, if an initial certificate has been issued for the project, the corporation will have to apply for an annual certificate to the Minister of Finance and the Economy for each taxation year included, in whole or in part, in its holiday period. The annual certificate will certify that the corporation is continuing, in the taxation year, to carry out the large investment project regarding which an initial certificate was issued and will confirm that the project is recognized for the taxation year as a large investment project and that the corporation has shown, to the Minister's satisfaction, that the activities arising from it are carried out in Québec.

In addition, the first annual certificate to be issued to the corporation will indicate the starting date of the period of the corporation's tax holiday.

A partnership that carries out an investment project, after the day of the budget speech, will have to obtain the initial certificate and annual certificates. The annual certificates will be applied for regarding the fiscal years of the partnership that carries out the large investment project.

However, the Minister of Finance and the Economy may only issue an annual certificate for a large investment project, for a taxation year, if the corporation that carries it out submits an application to that effect before the expiry of the fifteenth month following the end of such taxation year.

Similarly, the Minister of Finance and the Economy may issue an annual certificate for a large investment project, for a fiscal year, only if the partnership that carries it out submits an application to that effect before the expiry of the fifteenth month following the end of such fiscal year.

Moreover, the Minister of Finance and the Economy may, on an exceptional basis and for what are deemed reasonable grounds, issue an annual certificate for a large investment project, for a taxation year or a fiscal year, as the case may be, if the corporation or the partnership that carries it out submits an application to that effect after the expiry of the fifteenth month but no later than the expiry of the eighteenth month following the end of such taxation year or such fiscal year.

❑ Large investment project

A project may qualify as a large investment project, for the purposes of the tax holiday, if it satisfies all conditions mentioned below.

■ Activity sectors

The project must concern activities described in one or more activity sectors grouped under the following codes of the North American Industry Classification System (NAICS), namely:

- 31-33 Manufacturing;
- 41 Wholesale trade;
- 4931 Warehousing and Storage;
- 518 Data Processing, Hosting and Related Services.

Moreover, mineral substance processing activities will be excluded from activities relating to a large investment project. For the purposes of the tax holiday, mineral substance processing activities include any mineral substance concentration activity, including any pelletization, as well as any smelting or refining activity of ore from a gold or silver mine.

■ Investment threshold

The total investment expenditures attributable to the carrying out of the large investment project in Québec must reach $300 million no later than the end of the 48-month period starting on the date the initial certificate relating to such project is issued.

■ Total investment expenditures attributable to the carrying out of the large investment project

The total of the investment expenditures attributable to the carrying out of the large investment project includes all the capital expenditures incurred, since the beginning of the carrying out of the project, to obtain goods and services with a view to the establishment, in Québec, of the business or the portion of the business under which the activities arising from the large investment project will be carried out, or with a view to increasing or modernizing the production of such a business or portion of a business in Québec.

However, the investment expenditures attributable to the carrying out of the project will not include expenditures relating to the purchase or use of land nor those relating to the acquisition of a business already being carried on in Québec.

■ Maintaining the investment threshold

The Minister of Finance and the Economy may issue an annual certificate for a large investment project for a taxation year or a fiscal year, as the case may be, only if, at any time in the year, the total amount of the investment expenditures attributable to the carrying out of the project is at least $300 million.

❑ Income tax holiday

A corporation may receive, for a taxation year, a holiday relating to the tax on income from eligible activities relating to a large investment project it carries out or, if it receives such holiday as a member of a partnership, from eligible activities relating to the large investment project that the partnership of which it is a member carries out. This holiday consists of a deduction in calculating the corporation's taxable income for the taxation year.

The applicable rules for determining the amount allowed as a deduction in the calculation of a corporation's taxable income in relation to the tax holiday for a major investment project[45] will apply, with the necessary adaptations, for determining the amount allowed as a deduction in the calculation of a corporation's taxable income in relation to the THI.

Accordingly, this holiday will be granted for the investment project carried out by the corporation, or by a partnership of which the corporation is a member, as though the eligible activities relating to such project constituted the carrying on of a separate business (hereunder: "separate business") by a separate person.

The deduction in the calculation of taxable income will be based on the income of the corporation drawn from the separate business, i.e. the income drawn from the eligible activities relating to the large investment project by the corporation or by the partnership of which the corporation is a member.

■ Eligible activities relating to a large investment project

For the purposes of the tax holiday, the eligible activities relating to a corporation's large investment project, for a taxation year, mean the activities carried out by the corporation at a time included in its holiday period that arise from the large investment project for which an annual certificate has been issued to the corporation for the taxation year and for which the corporation keeps separate books.

Similarly, the eligible activities relating to a partnership's large investment project, for a fiscal year, mean the activities carried out by the partnership at a time included in its holiday period that arise from the large investment project for which an annual certificate has been issued to the partnership for the fiscal year and for which the partnership keeps separate books.

However, such activities do not include the activities of the corporation that are activities carried out under a contract that constitutes an eligible contract for the purposes of the refundable tax credit for major employment generating projects or that constitute eligible activities for the purposes of the refundable tax credit for the development of e-business.

45 These rules apply, among others, to discretionary deductions and to the prior loss attributable to eligible activities relating to the project to ensure that the deduction allowed a corporation actually corresponds to the income from the separate business for the period of the tax holiday, without affecting the tax elections a corporation may otherwise make in the course of filing its tax return.

❑ Holiday from employer contributions to the HSF

A corporation or partnership, other than an excluded employer, that carries out a large investment project may receive a holiday regarding its employer contributions to the HSF for its holiday period. This contribution holiday will apply regarding the wages paid by the corporation or the partnership, as the case may be, for a pay period included in its holiday period to an employee in relation to the portion of his time he spends on eligible activities of the corporation or the partnership, as the case may be.

However, the wages paid by the corporation or the partnership to its employees whose duties consist in building, expanding or modernizing the site where the large investment project will be carried out will not give rise to the holiday from employer contributions to the HSF.

In addition, the amount of wages paid to an employee exempt from payment of the employer contribution to the HSF will not include the portion of such amount attributable to director's fees, a bonus, performance premium, a commission or taxable benefit paid to such employee. However, in the case of an employee whose activities relate to the commercialization of the activities or products of the separate business relating to the large investment project, the amount of wages paid to such employee that will be exempt from payment of the employer contribution to the HSF will not include the portion of such amount attributable to director's fees, a bonus, or taxable benefit paid to an employee.

■ Excluded employer

An excluded employer means, for a given period, a corporation that is tax-exempt for such period.

❑ Holiday period

The holiday period of a corporation or a partnership, in relation to a large investment project, means the 10-year period that begins on whichever of the following dates occurs last: the date the separate business relating to the investment project begins to be carried on or the date when the $300-million threshold of investment expenditures attributable to the carrying out of the investment project is achieved. However, the holiday period in relation to a large investment project cannot start after the day following the end of the 48-month period that begins on the date the initial certificate relating to the project is issued.

The first annual certificate issued by the Minister of Finance and the Economy will indicate the date of the beginning of the holiday period.

❑ Cap on tax assistance

The total of the tax assistance relating to the tax holiday that a corporation may receive, for a taxation year, regarding a large investment project it carries out, may not exceed an amount corresponding to its cap on tax assistance relating to such project, for such year.

Similarly, the tax assistance relating to the tax holiday that a partnership may receive, for a fiscal year, regarding a large investment project it carries out, may not exceed an amount corresponding to its cap on tax assistance relating to such project, for such year.

The tax assistance relating to the tax holiday that a corporation that is a member of a partnership may receive, for a taxation year, regarding a large investment project that the partnership carries out, may not exceed an amount corresponding to its cap on tax assistance relating to such project, for such year.

A corporation's cap on tax assistance, for a taxation year, relating to a large investment project it carries out, corresponds to the excess of 15% of the total of its eligible investment expenditures relating to such project over the total of the tax assistance relating to the tax holiday for such project it received for the preceding taxation years.

A partnership's cap on tax assistance, for a fiscal year, relating to a large investment project it carries out, corresponds to the excess of 15% of the total of its eligible investment expenditures relating to such project over the total of the tax assistance relating to the holiday from employer contributions to the HSF for such project it received for the preceding fiscal years, and of each amount it allocated on account of cap on tax assistance to its members under a sharing agreement, for the fiscal year and the preceding fiscal years.

Lastly, the cap on tax assistance of a corporation that is a member of a partnership that carries out a large investment project, for a taxation year, relating to such project, corresponds to the excess of the total of the amounts allocated to it on account of cap on tax assistance by the partnership, under a sharing agreement relating to such project, for the fiscal years of the partnership ending in the taxation year or in a prior taxation year, over the total of the tax assistance relating to the tax holiday for such project the corporation received for the preceding taxation years.

■ Eligible investment expenditures

The eligible investment expenditures of a corporation or a partnership relating to a large investment project mean the total of its investment expenditures attributable to the carrying out of the large investment project[46] incurred by the corporation or the partnership, as the case may be, since the project began to be carried out until the starting date of the holiday period of the corporation or the partnership.

■ Sharing agreement

Where a large investment project is carried out by a partnership, the partnership's cap on tax assistance, relating to such project, may be covered by a sharing agreement between the partnership and its members for each fiscal year of the partnership included in its holiday period.

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46 This expression is defined under the heading "Large investment project".

Where a partnership allocates to its members all or part of its cap on tax assistance relating to a large investment project, for a fiscal year, the cap or portion of the cap thus allocated must be distributed among the members on the basis of their share, for the fiscal year, of the revenue drawn from eligible activities relating to such project.

A corporation will have to enclose with its tax return for the taxation year in which the fiscal year of the partnership of which it is a member ends, a copy of such agreement for such fiscal year. A partnership will have to enclose with the Summary of Source Deductions and Employer Contributions a copy of the agreements covering all or part of the calendar year for which a holiday from employer contributions to the HSF is claimed.

Lacking a sharing agreement for a fiscal year of a partnership, the amount attributed on account of cap on tax assistance to a member corporation of the partnership, for such fiscal year, will be equal to zero.

■ Clarifications relating to the calculation of tax assistance

For the purposes of the calculation of tax assistance relating to a corporation's large investment project, the total of the tax assistance relating to the tax holiday it receives, for a taxation year, will correspond to the total of the tax assistance relating to such project it receives, for such year, on account of income tax and the employer contribution to the HSF.

Where the project is carried out by a partnership, tax assistance relating to the tax holiday it receives, for a fiscal year, will correspond to the tax assistance relating to such project it receives, for such year, on account of the employer contribution to the HSF. The tax assistance relating to the tax holiday that a corporation that is a member of a partnership receives, for a taxation year, relating to a large investment project that the partnership carries out, corresponds to the tax assistance relating to such project the corporation receives, for such year, on account of income tax.

Moreover, taking into account the possibility that a corporation may benefit from a reduced tax rate (8%) on the portion of its taxable income giving rise to the small business deduction and a higher rate (11.9%) on the portion of its taxable income that does not give rise to such deduction, the amount of tax assistance on account of a corporation's income tax, for a taxation year, will be calculated by applying to the amount of the deduction in the calculation of taxable income on account of the THI, for such taxation year, the tax rate or rates that would be applied had the amount constituted additional taxable income of the corporation for such taxation year.

■ Responsibility of Revenu Québec

Revenu Québec will be responsible for ensuring compliance with the cap on tax assistance relating to a large investment project. It will be responsible for checking each item of such cap, including the eligible investment expenditures of a corporation or a partnership relating to a large investment project.[47]

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47 For greater clarity, the Minister of Finance and the Economy will have jurisdiction over the starting date of the holiday period.

❑ Transfer of an investment project

The Minister of Finance and the Economy may agree to the transfer of the carrying out of a large investment project for which a first annual certificate has been issued and carried out by a corporation or a partnership (hereunder: the “transferor”) to another corporation or partnership (hereunder: the “transferee”). The transferee must then undertake to continue, in Québec, carrying out all or almost all of such project, as it was presented to the Minister and accepted by him.

The transferee may then continue to receive the THI for the balance of the ten-year holiday period determined on the date of the transfer. To that end, the transferor shall transfer to the transferee, on account of the cap on tax assistance relating to the transferred project, an amount not exceeding its cap on tax assistance relating to such transfer at the time of the transfer. To do so, the transferor and the transferee must enter into an agreement for the transfer of the cap on tax assistance relating to such transfer. A copy of the approval of the transfer by the Minister of Finance and the Economy must be sent to Revenu Québec together with a copy of such agreement on the transfer of the cap on tax assistance relating to such project.

After such agreement is entered into, the transferor’s cap on tax assistance relating to the transferred project will correspond to the excess of such cap, immediately prior to the agreement being entered into, over the portion of the cap on tax assistance covered by the agreement.

Similarly, after such agreement is entered into, the transferee’s cap on tax assistance will correspond to the portion of the cap on tax assistance covered by the agreement.

The other rules relating to the transfer of a project, for the purposes of the tax holiday for a major investment project will apply, with the necessary adaptations, to the transfer of a project, for the purposes of the THI.

❑ Revocation or change to the initial certificate or an annual certificate

The Minister of Finance and the Economy may revoke or change an initial or annual certificate in accordance with what is stipulated in the *Act respecting the sectoral parameters of certain fiscal measures*.

Where an initial or annual certificate is thus revoked or changed by the Minister of Finance and the Economy, the excess amount of tax benefits a taxpayer received because of a certificate will be recovered by means of a special tax.[48]

48 This special tax is stipulated in part VI.3.I of the *Taxation Act* (S.Q., chapter I-3).

❑ Other application details

To benefit from the portion of the THI that applies to income tax, for a taxation year, a corporation must enclose with its tax return, for the year, a copy of the annual certificate issued to it, for its taxation year, for the large investment project it is carrying out, or of the annual certificate issued to the partnership of which it is a member, for its fiscal year ending in the taxation year, for the large investment project the latter is carrying out.

To benefit, for a calendar year, from the holiday from employer contributions to the HSF, a corporation or partnership that carries out a large investment project must enclose with the Summary of Source Deductions and Employer Contributions, for the year, a copy of the the annual certificates issued to it for the calendar year in question.

In addition, the corporation and the partnership will have to file separate financial statements with Revenu Québec relating to the separate business relating to the large investment project for which the tax holiday is claimed.

Lastly, an investment expenditure attributable to the carrying out of a large investment project may not give rise to the tax credit for investments.

3.1.2 Elimination of the tax holiday for a major investment project

The elimination of the tax holiday for a major investment project will be effective as of the day of the budget speech.

Accordingly, no new initial certificate relating to a major investment project will be issued by the Minister of Finance and the Economy. However, the elimination of the tax holiday for a major investment project will not affect the eligibility for such tax holiday of corporations that already have an initial certificate for an investment project, or of partnerships and member corporations thereof, that already have such a certificate.[49] Such corporations or partnerships may continue to benefit from this tax holiday until it expires, according to the rules that currently apply.

However, the Minister of Finance and the Economy may issue an annual certificate for a major investment project, for a taxation year, only if the corporation that carries it out submits an application to that effect before the expiry of the fifteenth month following the end of such taxation year.

Similarly, the Minister of Finance and the Economy may issue an annual certificate for a major investment project, for a fiscal year, only if the partnership that carries it out submits an application to that effect before the expiry of the fifteenth month following the end of such fiscal year.

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49 The Minister of Finance and the Economy may, if he agrees to the transfer, issue an initial certificate to a corporation or a partnership that acquires all or almost all of the portion carried on in Québec of the business in the course of which are carried out activities arising from the carrying out of a major investment project regarding which the ceding corporation or partnership already holds an initial certificate and a valid annual certificate.

However, the Minister of Finance and the Economy may, on an exceptional basis and for what are deemed reasonable grounds, issue an annual certificate for a major investment project, for a taxation year or a fiscal year, as the case may be, if the corporation or the partnership that carries it out submits an application to that effect after the expiry of the fifteenth month but no later than the expiry of the eighteenth month following the end of such taxation year or such fiscal year.

Lastly, where the annual certificate application is for a taxation year or fiscal year ended before the day of the budget speech, such application must be submitted to the Minister of Finance and the Economy before February 20, 2014.[50]

3.2 Improvement to the tax credit for investments relating to manufacturing and processing equipment

Briefly, a qualified corporation[51] that acquires a qualified property, during a taxation year, may receive, regarding its eligible expenses, the tax credit for investments relating to manufacturing and processing equipment for such taxation year.

The base rate of the tax credit for investments is 5%. This rate can be increased up to 40% where the qualified property is acquired for use mainly in a remote zone,[52] 30% where the qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region,[53] 20% where the qualified property is acquired for use mainly in an intermediate zone[54] and 10% otherwise.

The tax credit for investments to which a qualified corporation is entitled, for a taxation year, can be deducted from its income tax otherwise payable for such taxation year. The portion of the tax credit for investments relating to a taxation year that cannot be applied against income tax payable by the corporation for such taxation year may be refunded, in whole or in part, or carried over.

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50 The issuing of such annual certificate will not result in exempting the corporation or the partnership, for the purposes of obtaining the tax holiday, from the application of the rules stipulated in the *Taxation Act* and the *Act respecting the Régie de l'assurance-maladie du Québec* (S.Q., chapter R-5).

51 The expression "qualified corporation", for the purposes of the tax credit for investments, is defined in section 1029.8.36.166.40 of the *Taxation Act* (S.Q., chapter I-3). Moreover, a corporation that is a member of a partnership that acquires a qualified property may claim the tax credit for investments relating to manufacturing and processing equipment in proportion to its share of the partnership's income or loss.

52 Remote zones consist of the following administrative regions: Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.

53 The eastern portion of the Bas-Saint-Laurent administrative region consists of the following RCMs: La Matapédia, Matane and La Mitis.

54 Intermediate zones consist of the following administrative regions and RCMs: the Saguenay–Lac-Saint-Jean and the Mauricie administrative regions, and the Antoine-Labelle, Kamouraska, La Vallée-de-la-Gatineau, Les Basques, Pontiac, Rimouski-Neigette, Rivière-du-Loup and Témiscouata RCMs.

For a qualified corporation to benefit fully from the higher rate and refundable nature of the tax credit, for a taxation year, its paid-up capital, for such year, calculated on a consolidated basis, must not exceed $250 million. Moreover, a qualified corporation may benefit from the increase in the rate of the tax credit in part and from its refundable nature in part where its paid-up capital for such year, calculated on a consolidated basis, is between $250 million and $500 million. The increase in the rate of the tax credit declines linearly for paid-up capital, so calculated, between $250 million and $500 million. A corporation whose paid-up capital so calculated reaches $500 million can receive only the base rate of 5% and no part of the tax credit is refundable.

In addition, a qualified corporation can benefit from a higher rate and the refundability of the tax credit for investments, for a taxation year, only in regard to the eligible expenses it incurred that do not exceed a cumulative cap of $75 million of eligible expenses that can benefit from a higher rate and the refundability of the tax credit. Briefly, such cumulative limit must be reduced by the eligible expenses incurred by the qualified corporation and by the corporations with which it is associated,[55] during their taxation years ended during the 24-month period preceding the beginning of the taxation year of the qualified corporation and that enabled the qualified corporation (or a corporation associated with it) to benefit from a higher rate, refundability or both these benefits.[56]

A qualified property,[57] for the purposes of the investment tax credit, is a property included in Class 29 of Schedule B of the *Regulation respecting the Taxation Act*,[58] a property included in Class 43 of such schedule or a property acquired after March 20, 2012 for use mainly in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource located in Canada. It must begin to be used within a reasonable time of its acquisition and be used during a period of at least 730 days, only in Québec and mainly in the course of carrying on a business. Prior to its acquisition, it must not have been used for any purpose nor acquired to be used or rented for any purpose whatsoever.

Briefly, Class 29 of Schedule B of the *Regulation respecting the Taxation Act* includes a property, such as machinery or equipment, acquired by a taxpayer before January 1, 2014 and used in Canada primarily for making or processing articles intended for sale or lease. Such property acquired after December 31, 2013 will be included in Class 43 of that schedule.

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55 Special rules are stipulated, in particular for a member corporation of a partnership or assets used in the course of a joint venture. See: MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2009-6*, October 29, 2009, p. 8.

56 The cumulative limit of $75 million of a qualified corporation, for a taxation year, must also be reduced by the eligible expenses made by the qualified corporation or by the corporations with which it is associated, during their taxation years ended during the 24-month period preceding the beginning of the given taxation year of the qualified corporation, and that could have enabled the qualified corporation to benefit from the refundability of the tax credit had it not had income tax or tax on capital allowing it to fully utilize the tax credit.

57 The expression "qualified property", for the purposes of the tax credit for investments, is defined in section 1029.8.36.166.40 of the *Taxation Act*.

58 R.Q., chapter I-3, r. 1.

Class 43 of Schedule B of the *Regulation respecting the Taxation Act* also includes a property, such as machinery or equipment, acquired by a taxpayer for use exclusively in Canada and chiefly in the course of processing ore extracted from a mineral resource located in a country other than Canada.[59]

A qualified corporation may receive the tax credit for investments for qualified property acquired before January 1, 2018 if the property is acquired for use mainly in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource, or for qualified property acquired before January 1, 2016 in other cases.

To stimulate investment in manufacturing and processing equipment, two amendments will be made to the tax legislation. First, the definition of the expression "qualified property" will be changed so that property acquired before January 1, 2018 can be recognized as qualified property. Second, the rate of the tax credit allowed for qualified property for use mainly in the eastern part of the Bas-Saint-Laurent administrative region or in an intermediate zone will be increased by five percentage points in certain circumstances.

3.2.1 Extension until 2017 of the tax credit for investments relating to manufacturing and processing equipment

The tax legislation will be amended to allow an additional period of two years for the acquisition of property qualifying for the tax credit for investments, other than property used mainly in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource. Accordingly, property may qualify as qualified property, for the purposes of the tax credit for investments, if it is acquired before January 1, 2018 and satisfies the other conditions stipulated in the tax legislation.

3.2.2 Further increase in the rate of the tax credit for investments for certain administrative regions and regional county municipalities (RCM)

The tax legislation will be amended so that the higher rate of the tax credit for investments, that may be claimed by a qualified corporation that acquires qualified property for use mainly in the eastern part of the Bas-Saint-Laurent administrative region,[60] which currently can reach 30%, may henceforth reach 35%.

Similarly, the tax legislation will be amended so that the higher rate of the tax credit for investments, that may be claimed by a qualified corporation that acquires qualified property for use mainly in an intermediate zone,[61] which currently can reach 20%, may henceforth reach 25%.

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59 Such property is mentioned in subparagraph *b* of Class 43 of Schedule B of the *Regulation respecting the Taxation Act*.

60 There territory making up the eastern portion of the Bas-Saint-Laurent administrative region will remain unchanged (see note 53).

61 The territories that make up the intermediate zones will remain unchanged (see note 54).

However, a corporation that receives the tax credit for job creation in the resource regions, in the aluminium Valley or in the Gaspésie and certain maritime regions of Québec[62] (hereunder: "tax credit for job creation"), for a calendar year ending in a taxation year, may not receive, for such taxation year, the further increase in the tax credit for investments. In this case, the rate of the tax credit for investments regarding property acquired, during such taxation year, for use mainly in the eastern part of the Bas-Saint-Laurent administrative region or in an intermediate zone may not exceed 30% or 20% respectively.

❑ Other application details

Where a corporation eligible for the tax credit for investments is associated, during a taxation year, with another corporation eligible for the tax credit for job creation and such other corporation receives the tax credit for job creation for its taxation year ending in the taxation year of the eligible corporation, the eligible corporation may not benefit from, for its taxation year, the further increase in the tax credit for investments.

❑ Application date

The further increase in the rate of the tax credit for investments will apply for eligible expenses incurred regarding qualified property acquired after the day of the Budget Speech.

❑ Other rules maintained

For greater clarity, all the other rules currently applicable to the tax credit for investments remain unchanged.

3.3 Temporary increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities

A taxpayer who carries on a business in Canada and carries out scientific research and experimental development (R&D) work, in Québec, or who has such work carried out on his behalf, in Québec, can claim a refundable tax credit commonly known as "R&D salary".

The refundable tax credit for R&D salary applies, among others, to the salaries such a taxpayer pays its employees where it carries out R&D work in Québec on its own behalf. Similarly, it applies to the salaries that are paid to the employees of a subcontractor that carries out, in Québec, R&D work on behalf of the taxpayer where the latter is not at arm's length with the subcontractor. In addition, where the subcontractor is at arm's length with the taxpayer, the tax credit then applies to the half of the portion of the amount of the research contract that is reasonably attributable to the R&D work carried out on behalf of the taxpayer in Québec.

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62 This tax credit is stipulated in Division II.6.6.6.1 of Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act*.

The rate of the refundable tax credit for R&D salary is 17.5% and it can be increased up to 37.5% in the case of a corporation that qualifies as an SME.[63]

This tax credit is designed to increase R&D spending in Québec and, like the other refundable tax credits intended for businesses, its purpose is to generate economic spinoffs for Québec, consisting among others of job creation and growth in investment.

❑ Increase in the rate of the refundable tax credit for R&D salary

The pharmaceutical industry depends heavily on the results of its research and development and, for many years, has contributed substantially to R&D activities carried out in Québec. However, the industry is faced with challenges on many fronts, including the growing cost of research and development, the difficulty in launching new products, competition from emerging countries and the approaching expiry of patents.

Accordingly, to help the pharmaceutical industry to meet these challenges and thus contribute to Québec's reputation as a preferred location for carrying out research and development activities by means of its infrastructure and qualified manpower, the level of tax assistance of the refundable tax credit for R&D salary will be increased temporarily for a period of five years.

More specifically, the tax legislation will be amended so that an eligible biopharmaceutical corporation may receive, for a taxation year, a refundable tax credit for R&D salary equal to 27.5% of its eligible R&D expenditures for such year.

To benefit from the higher rate of this tax credit, a corporation will have to enclose with its tax return, for a taxation year, the eligibility certificate that Investissement Québec will issue to it certifying that it qualifies, for such year, as an eligible biopharmaceutical corporation.

In addition, to give full effect to this increase in the rate of this tax credit, an eligible biopharmaceutical corporation that qualifies as an SME and that benefits from an increase in the rate of this tax credit of up to 37.5%, will continue to benefit from the increase in the rate, which will be reduced linearly from 37.5% to 27.5%, where its assets calculated according to the rules applicable to such increase range from $50 to $75 million.

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63 For the purposes of this increase, the expression "SME" means a Canadian-controlled corporation whose assets, including the assets of associated corporations calculated on a world basis, do not exceed $75 million for the preceding taxation year. More specifically, where such assets are $50 million or less, the rate is 37.5%, which is reduced linearly to 17.5% for assets ranging from $50 to $75 million. The higher rate applies solely to the first $3 million of eligible R&D spending.

TABLE H.4

Illustration of the increase in the rate of the refundable tax credit for R&D salary granted to an eligible biopharmaceutical corporation that is an SME

Assets of the corporation (millions of dollars)	Existing rates (per cent)	New rates (per cent)
50 or less	37,5	37,5
55	33,5	35,5
60	29,5	33,5
65	25,5	31,5
70	21,5	29,5
75 or more	17,5	27,5

❑ Other rules maintained

For greater clarity, the other rules currently applicable to the refundable tax credit for R&D salary remain unchanged.

❑ Eligible biopharmaceutical corporation

To qualify as an eligible biopharmaceutical corporation, a corporation must obtain an initial certificate from Investissement Québec.[64] It must also obtain from the organization an eligibility certificate for each taxation year for which it wishes to benefit from the increased rate of the refundable tax credit for R&D salary.[65]

■ Initial certificate

To obtain an initial certificate, a corporation will have to demonstrate that the activities it carries out or will carry out in the course of carrying on its business correspond to one or more of the following activities related to human health:

— integrated innovative pharmaceutics (patented products) that consist in making and commercializing drugs as well as carrying out activities relating to drugs consisting in basic research, product development, clinical research or chemical synthesis;

— pharmaceutical manufacturing of generics that consists in making and commercializing generic versions of prescription or over-the-counter drugs whose patents have expired;

64 To carry out its mandate respecting the issuance, change or revocation of an initial certificate or an annual certificate, Investissement Québec will consult, while satisfying the confidentiality requirements enacted in the *Act respecting access to documents held by public bodies and the protection of personal information* (S.Q., chapter A-2.1), the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie.

65 The criteria relating to the initial and subsequent certificates are found in the *Act respecting the sectoral parameters of certain fiscal measures* (S.Q., chapter P-5.1).

- pharmaceutical manufacturing under contract that consists in making drugs for innovative pharmaceutical companies, generic product companies or large buyers;
- biotechnology that consists of the following four categories:
  - therapeutic products that stem from research and development of drugs essentially targeting the small molecule market rather than biological products. It also involves developing drug delivery methods in the organism and the development of cellular therapies,
  - diagnostic products that stem from the development, manufacturing and commercialization of such products,
  - biological processes that involve the production of drugs or vaccines. It also involves the production of pharmaceutical proteins using the culture of genetically modified cells or the development of genetically modified organisms for the production of drugs. Lastly, it involves the extraction of active drug ingredients from natural sources,
  - pharmaceutical research that involves the use of genetic data to define targets for the action of drugs. It also involves the supply of genomic research products and services;
- contract research that consists in providing services aimed at developing new drugs, such as bioequivalence studies, preclinical and clinical tests and management of studies.

Investissement Québec will indicate, on the initial certificate, the activities that the corporation carries out or will carry in the course of carrying on its business.

■ Eligibility certificate

A corporation that holds a valid initial certificate will also have to obtain an eligibility certificate for each taxation year for which it wishes to claim the increased rate of the refundable tax credit for R&D salary.

To obtain an eligibility certificate regarding a corporation will have to show that the activities indicated on its initial certificate accounted for at least 75% of the activities it carried out throughout the year covered by such certificate. In this regard, the organization will consider the duties carried out by all the employees of the corporation as well as the activities carried out on its behalf during such year.

❑ Application date

An eligible biopharmaceutical corporation that, after the day of the budget speech, obtains an eligibility certificate for a taxation year, may receive a refundable tax credit for R&D salary equal to 27.5% of its eligible R&D expenditures that it incurs for such year, after that day, regarding R&D work carried out in such year, after that day.

However, such expenditures and such work must respectively be incurred and carried out before January 1, 2018.

Moreover, concerning an eligible biopharmaceutical corporation that qualifies as an SME for its taxation year that includes the day of the budget speech, the eligible R&D expenditure limit that will apply to it as an SME[66] will correspond, for the portion of such taxation year following the day of the budget speech, to the amount obtained by multiplying $3 million by the fraction obtained by dividing the amount of eligible R&D expenditures it incurred for such taxation year after that day by the total amount of eligible R&D expenditures it incurred for such taxation year. Accordingly, the eligible R&D expenditure limit of such corporation for the other portion of such taxation year will correspond to the amount by which $3 million exceeds the amount calculated above.

In the case of an eligible biopharmaceutical corporation considered as an SME for its taxation year that includes December 31, 2017, its eligible R&D expenditure limit will correspond, for the portion of such taxation year preceding January 1, 2018, to the amount obtained by multiplying $3 million by the fraction obtained by dividing the amount of eligible R&D expenditures it incurred for such taxation year before January 1, 2018 by the total amount of eligible R&D expenditures it incurred for such taxation year. Accordingly, the eligible R&D expenditure limit of such corporation for the other portion of such taxation year will correspond to the amount by which $3 million exceeds the amount calculated above.

For greater clarity, the R&D expenditures that an eligible biopharmaceutical corporation incurs after the day of the budget speech for R&D work carried out after that day, but under a research contract entered into before that day, will also give rise to the increase in the rate of the refundable tax credit for R&D salary as described above.

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66 *Taxation Act* (S.Q., chapter I-3), section 1029.7.7.

4. MEASURES TO ACHIEVE AND MAINTAIN A BALANCED BUDGET

4.1 Increase in the specific tax on tobacco products

Among the measures the government intends to implement to achieve a balanced budget in fiscal year 2013-2014 and maintain a balanced budget thereafter, an increase in the specific tax on tobacco products is planned, effective midnight the day of the budget speech.

The rates of this tax will accordingly be changed as follows as of November 21, 2012:

— the rate of the specific tax of 10.9 cents per cigarette will be raised to 12.9 cents per cigarette;

— the rate of the specific tax of 10.9 cents per gram of loose tobacco or leaf tobacco will be raised to 12.9 cents per gram;

— the rate of the specific tax of 16.77 cents per gram of any tobacco other than cigarettes, loose tobacco, leaf tobacco and cigars will be raised to 19.85 cents per gram; the minimum rate applicable to a tobacco stick will be raised from 10.9 to 12.9 cents per stick.

The rate of the ad valorem tax of 80% of the taxable price of cigars will remain unchanged.

❑ Taking of inventory

Persons not under an agreement with Revenu Québec who sell tobacco products in respect of which the specific tax has been collected in advance or should have been will have to take an inventory of all these products they have in stock at midnight November 20, 2012 and remit, before December 22, 2012, an amount equal to the difference between the tax applicable at the new rates and the tax applicable at the rates in effect prior to midnight, November 20, 2012. This also applies for collection officers under agreement with Revenu Québec who sell tobacco products in respect of which the specific tax on tobacco has been paid in advance or has not yet been paid.

Persons required to take inventory must use for this purpose the form provided by Revenu Québec and return it before December 22, 2012. For greater clarity, the products acquired by a person before midnight, November 20, 2012 but not yet delivered to him will be included in his stock.

4.2 Increase in the specific tax on alcoholic beverages

Beer and other alcoholic beverages sold in Québec are subject to a specific tax whose rates depend on the type of products and where they are intended to be consumed.

Accordingly, in the case of products sold for consumption in an establishment, the applicable rates are generally $0.65 per litre for beer and $1.97 per litre for all other alcoholic beverages, while in the case of products sold for consumption other than in an establishment, the rates that apply are generally $0.40 per litre for beer and $0.89 per litre for all other alcoholic beverages.

Given the current state of public finances and the government's determination to achieve and maintain a balanced budget, the rates of the specific tax on alcoholic beverages will be raised as of 3 a.m. the day following the budget speech.

Generally speaking, following this increase, the new rates of the specific tax applicable to alcoholic beverages sold for consumption in an establishment will be $0.82 per litre for beer and $2.47 per litre for all other beverages, while those applicable to alcoholic beverages sold for consumption other than in an establishment will be $0.50 per litre for beer and $1.12 per litre for other beverages.

❑ Rates applicable to alcoholic beverages sold by microbrewers and small-scale producers

The reductions in the specific tax rates of 67% and 33% applicable to the first 150 000 hectolitres of beer sold annually by microbrewers that satisfy certain conditions will also apply to the increase in the specific tax rates in relation to beer intended for consumption in an establishment or elsewhere. Consequently, as 3 a.m. on November 21, 2012, the rates of the specific tax applicable on the first 75 000 hectolitres of beer sold by such microbrewers will be 27.06 cents per litre for beer intended for consumption in an establishment and 16.5 cents per litre for beer intended for consumption other than in an establishment. The rates applicable to the next 75 000 hectolitres will be 54.94 cents per litre and 33.5 cents per litre respectively.

This will also be the case for the reductions of 100% and 85% applicable to the first 15 000 hectolitres of alcoholic beverages other than beer sold in a year by small-scale producers that satisfy the conditions set in this regard. Accordingly, the first 1 500 hectolitres of alcoholic beverages sold by such producers will continue not to be subject to the specific tax while the following 13 500 hectolitres will be subject at the rate of 37.05 cents per litre for beverages intended for consumption in an establishment and at 16.8 cents per litre for beverages intended for consumption other than in an establishment.

❑ Taking of inventory

Persons who sell alcoholic beverages in respect of which the specific tax has been collected in advance or should have been will have to take an inventory of all these beverages they have in stock at 3 a.m. on November 21, 2012 and remit, before December 22, 2012, an amount equal to the difference between the tax applicable at the new rates and the tax applicable at the rates in effect prior to 3 a.m. on November 21, 2012.[67]

For that purpose, such persons will have to use the form provided by Revenu Québec and return it before December 22, 2012. For greater clarity, the alcoholic beverages acquired by a person before 3 a.m. on November 21, 2012 but not yet delivered to him will be included in his stock. However, in the case of a person who sells alcoholic beverages intended for consumption in an establishment, beverage containers opened before 3 a.m. on November 21, 2012 will not be included in his stock.

4.3 Increase in the contribution by financial institutions

The compensation tax on financial institutions is currently based on three tax bases, i.e. paid-up capital, amounts paid as wages and insurance premiums (including amounts established regarding insurance funds).

The rates of the compensation tax applicable to the various tax bases consist, on the one hand, of the base rate put in place to reflect the cost for the government of granting input tax refunds (ITRs) to suppliers of financial services in the Québec sales tax (QST) system and, on the other, of a temporary rate increase (hereunder: “temporary contribution”) announced in the March 30, 2010 Budget Speech and applicable to two of the three components of the compensation tax on financial institutions for the period beginning March 31, 2010 and ending March 31, 2014.[68]

In view of the exemption of financial services in the QST system as of January 1, 2013, it was announced that the portion of the compensation tax on financial institutions that is attributable to the impact on public finances of granting ITRs to suppliers of financial services would be eliminated as of that date.[69]

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67 For the alcoholic beverages covered by the rate reductions that apply where such beverages are sold by microbrewers or small-scale producers, the reduced rates of 67%, in the case of beer sold by microbrewers, and 100%, in the case of other alcoholic beverages sold by small-scale producers, will be the rates to be used for taking inventory.

68 MINISTÈRE DES FINANCES DU QUÉBEC, *2010-2011 Budget – Additional Information on the Budgetary Measures*, March 30, 2010, p. A.102-A.104.

69 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2012-4*, May 31, 2012, p. 12-13.

Accordingly, until December 31, 2012, the rates applicable to each tax base of the compensation tax on financial institutions are:

- for paid-up capital, 0.25%;
- for amounts paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 3.9%, which consists of a 2% base rate and the temporary contribution of 1.9%,
  - in the case of a savings and credit union, 3.8%, which consists of a 2.5% base rate and the temporary contribution of 1.3%,
  - in the case of any other person,[70] 1.5%, which consists of a 1% base rate and the temporary contribution of 0.5%;
- for insurance premiums and amounts established regarding insurance funds, 0.55%, which consists of a 0.35% base rate and the temporary contribution of 0.2%.

As of January 1, 2013 and taking the partial elimination of the compensation tax on financial institutions into account, it was stipulated that the rates applicable to the two components of the temporary contribution would be:

- for amounts paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 1.9%,
  - in the case of a savings and credit union, 1.3%,
  - in the case of any other person,[71] 0.5%;
- for insurance premiums and amounts established regarding insurance funds, 0.2%.

To ensure that a balanced budget is achieved and maintained, the rates applicable to the two components of the temporary contribution by financial institutions will be increased as of January 1, 2013 and apply until March 31, 2019.

70 Excluding an insurance company and a professional order that created an insurance fund under section 86.1 of the *Professional Code* (S.Q., chapter C-26).

71 See the preceding note.

More specifically, for the period from January 1, 2013 to March 31, 2019, the rates of the temporary contribution will be:

- for amounts paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 2.8%,
  - in the case of a savings and credit union, 2.2%,
  - in the case of any other person,[72] 0.9%;
- for insurance premiums and amounts established regarding insurance funds, 0.3%.

❑ Application details

Where the taxation year of a person that is a financial institution at any time in the year includes January 1, 2013, the following rules will apply:

- the rate applicable on paid-up capital will correspond to 0.25% multiplied by the fraction obtained by dividing the number of days of the person's taxation year preceding January 1, 2013 during which it is a financial institution by the number of days of its taxation year during which it is a financial institution;
- the rates applicable on amounts paid as wages will be:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 3.9% regarding the amounts paid as wages paid during the portion or portions of the person's taxation year preceding January 1, 2013 during which it is a financial institution, and 2.8% regarding the amounts paid as wages during the portion or portions of the person's taxation year following December 31, 2012 during which it is a financial institution,
  - in the case of a savings and credit union, 3.8% regarding the amounts paid as wages during the portion or portions of the person's taxation year preceding January 1, 2013 during which it is a financial institution, and 2.2% regarding the amounts paid as wages during the portion or portions of the person's taxation year following December 31, 2012 during which it is a financial institution,
  - in the case of any other person,[73] 1.5% regarding the amounts paid as wages during the portion or portions of the person's taxation year preceding January 1, 2013 during which it is a financial institution, and 0.9% regarding the amounts paid as wages during the portion or portions of the person's taxation year following December 31, 2012 during which it is a financial institution;

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72 See note 70.

73 See note 70.

— the rate applicable on insurance premiums and the amounts established regarding insurance funds will correspond to the total of 0.55%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year preceding January 1, 2013 during which it is a financial institution by the number of days of its taxation year during which it is a financial institution, and 0.3%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year following December 31, 2012 during which it is a financial institution by the number of days of its taxation year during which it is a financial institution.

These rules will apply, with the necessary adaptations, for the calculation of the temporary contribution where the taxation year of a person that is a financial institution at any time in the year includes March 31, 2019.

❑ Instalment payments

The instalment payments of a corporation may be adjusted, according to the usual rules, as of the first instalment following December 31, 2012, to reflect the rise in the rates of the temporary contribution.

In the case of a financial institution other than a corporation, the amounts payable each month in relation to amounts paid as wages paid may be adjusted regarding a payment attributable to an amount paid as wages after December 31, 2012.

4.4 Changes relating to the obligation on certain trusts to file a return

Generally, a trust liable for Québec tax does not have to file a tax return or information return for a taxation year if for such year:

— it has no tax payable;[74]

— it did not allocate income to an individual residing in Québec or to a corporation having an establishment there;

— it did not realize a taxable capital gain or dispose of a capital property.[75]

For example, a trust residing in Québec that allocates its income to beneficiaries that do not reside in Québec does not have to file a tax return or an information return if it has no tax payable[76] and if it did not realize a taxable capital gain or dispose of a capital property during its taxation year.

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74 If the trust has no tax payable for a taxation year solely as a result of the carry-over of a loss incurred in a prior year, it is required to file a tax return for such taxation year.

75 A trust that is not resident in Canada may be required to file a tax return if it disposes of taxable Québec property.

76 See note 74.

Other trusts may have a significant link with Québec without being liable for Québec tax. For example, a trust residing in Canada but outside Québec may own a rental immovable property in Québec and earn property income from it without being liable for Québec tax.[77] Since such trusts are not required to file a tax return or an information return, Revenu Québec is not in a position to identify them or ensure that they are truly not liable for Québec tax.

Moreover, in the 2012-2013 budget speech, amendments to the tax legislation concerning the liability for Québec tax of inter vivos trusts that are not resident in Canada and are not tax-exempt were announced.[78] Accordingly, such trusts are now liable for Québec tax on their property income derived from the rental of immovable properties located in Québec.[79] These trusts are required to file a tax return for each taxation year in which they own such a rental immovable property, whether or not they have tax payable.

To enable Revenu Québec to obtain a more complete picture of trusts with activities or rental immovable properties in Québec and to validate their compliance with the tax laws, the tax legislation will be amended to add three situations where a trust liable for Québec tax is required to file a tax return and to require a trust that resides in Canada outside Québec and that owns a rental immovable property in Québec to file an information return.

❑ Addition of situations where a trust is required to file a tax return

The tax legislation will be amended so that a trust, other than an excluded trust, liable for Québec tax, for a taxation year, is required to file a tax return for such taxation year if it satisfies one of the following conditions:

- it deducts in calculating its income for the taxation year an amount allocated to a beneficiary regardless of the place of residence of the beneficiary;[80]
- in the case of a trust that is resident in Québec on the last day of the taxation year, it owns, at any time in such taxation year, property the total of whose cost amounts exceeds $250 000;
- in the case of a trust that is not resident in Québec on the last day of the taxation year, it owns, at any time in such taxation year, property that it uses in carrying on a business in Québec the total of whose cost amounts exceeds $250 000.

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77 If instead its income constituted income of a business carried on in Québec, it would be liable for Québec tax.

78 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, p. 101-107.

79 They were already liable for Québec tax if, instead, their income constituted income of a business carried on in Québec.

80 This deduction is stipulated in section 657 of the *Taxation Act* (S.Q., chapter I-3).

The expression "amount allocated to a beneficiary" means, for a taxation year of a trust, an amount that becomes payable in the year to a beneficiary,[81] an amount that is included in the calculation of a beneficiary's income because it was paid in the year by the trust from its own income for outlays, maintenance or taxes respecting a property that, under the trust arrangement, must be maintained for the use of the beneficiary or of a usufructuary for life and an amount of accumulated income of the trust allocated in the year to a preferred beneficiary.[82]

■ Excluded trust

The expression "excluded trust" means, for a taxation year, a trust that, throughout the year, is one of the following trusts:

— a succession;

— a testamentary trust that is resident in Québec the last day of its taxation year and for which the total of the cost amounts of its property is, throughout its taxation year, less than one million dollars;

— a testamentary trust that is not resident in Québec the last day of its taxation year and for which the total of the cost amounts of its property located in Québec is, throughout its taxation year, less than one million dollars;

— a unit trust;

— a segregated fund trust of an insurer;

— a mutual fund trust;

— a specified investment flow-through trust;

— a tax-exempt trust.

■ Application date

These amendments to the tax legislation will apply to a trust for its taxation years starting after the day of the budget.

81 An amount becomes payable to a beneficiary in a taxation year if it was paid to him in the year or if he was entitled to demand payment of the amount in such year (section 652 of the *Taxation Act*).

82 On this matter, see section 659 of the *Taxation Act*.

❑ Addition of an obligation on a trust to file an information return

The tax legislation will be amended so that a trust, other than an excluded trust, that, during a taxation year, is resident in Canada outside Québec and that, at any time in the taxation year, owns a specified immovable property, or is a member of a partnership that owns a specified immovable property,[83] is required to file, for such taxation year, an information return with Revenu Québec.[84]

■ Information return

The information return must be filed within 90 days following the end of the trust taxation year, with Revenu Québec, using the prescribed form. It must contain the prescribed information.

■ Specified immovable property

The expression “specified immovable property” means an immovable property located in Québec[85] that is used mainly for the purposes of earning or producing gross revenue that constitutes rent.

■ Excluded trust

The expression “excluded trust” will be defined the same way as for the addition of situations where a trust is required to file a tax return.

■ Application date

These amendments to the tax legislation will apply to a trust for its taxation years starting after the day of the budget.

4.5 Standardization of taxation of refundable tax credits

Generally speaking, a taxpayer must include in calculating his income from a business or property for a taxation year, the amount of any government assistance it received during such year.[86]

Accordingly, a taxpayer must include in calculating his income for a taxation year the amount of a refundable tax credit he receives during such year since such a tax credit is considered as an amount of government assistance.

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83 For greater clarity, these amendments to the tax legislation will also apply to a trust that is a member of a partnership that itself is a member, directly or indirectly, through one or more other partnerships, of a partnership that owns a specified immovable property.

84 For greater clarity, the taxation year of such a trust will mean the calendar year or, in the case of a testamentary trust, the particular period for which the trust’s accounts are made up for the purposes of assessment under the *Income tax Act* (R.S.C., 1985, c. 1, 5th Suppl.).

85 For greater clarity, this expression will include a right in such immovable property.

86 *Taxation Act* (S.Q., chapter I-3), sec. 87, par. *w*.

However, some refundable tax credits do not have to be included in calculating a taxpayer's income because they are deemed not to be an amount of assistance the taxpayer received. These refundable tax credits are as follows:

— the refundable tax credit for scientific research and experimental development;[87]

— the refundable tax credit for credit for university research and for research carried on by a public research centre or a research consortium;[88]

— the refundable tax credit for fees and dues paid to a research consortium;[89]

— he refundable tax credit for private partnership pre-competitive research;[90]

— the refundable tax credit for on-the-job training periods;[91]

— the refundable tax credit for design;[92]

— the refundable tax credit for the construction or conversion of vessels.[93]

To standardize the tax treatment of the refundable tax credits a taxpayer who carries on a business can receive, the tax legislation will be amended to withdraw the presumption according to which these refundable tax credits are deemed not to be an amount of government assistance.[94] Accordingly, these refundable tax credits will henceforth have to be included in calculating the income of a taxpayer who receives them.

❑ Application date

This amendment will apply to a refundable tax credit that a taxpayer receives after the day of the budget speech and that relates to an expenditure the taxpayer incurs for a taxation year starting after that day.

87 *Ibid.,* sec. 1029.6.1.

88 *Ibid.,* sec. 1029.8.1.

89 *Ibid.,* sec. 1029.8.9.0.2.

90 *Ibid.,* sec. 1029.8.16.1.1.

91 *Ibid.,* sec. 1029.8.33.2.

92 *Ibid.,* sec. 1029.8.36.4.

93 *Ibid.,* sec. 1029.8.36.54.

94 These presumptions are stipulated in the following sections of the *Taxation Act*: 1029.8.21.2 (scientific research and experimental development); 1029.8.33.9 (on-the-job training periods); 1029.8.36.28 (design); 1029.8.36.59 (construction or conversion of vessels).

4.6 Deferral of measures applicable in 2013 regarding experienced workers

To encourage experienced workers to return to or remain on the labour market, the tax system allows workers age 65 or older to claim a tax credit that eliminates the tax payable on a portion of earned income in excess of $5 000.

According to the existing tax legislation, the excess earned income cap, set at $3 000 for taxation year 2012, is to rise to $4 000 for taxation year 2013 and gradually reach $10 000 as of taxation year 2016.

In view of the current state of public finances and the government's determination to achieve and maintain a balanced budget, the excess earned income cap will remain at the level applicable for taxation year 2012, i.e. $3 000, for an indefinite period.

Moreover, it was announced, as part of the 2012-2013 budget speech, that private-sector employers that employ workers age 65 or older could claim, as of 2013, a reduction in their Health Services Fund contributions.[95] To reflect the current budgetary context, the implementation of this measure will be deferred to a later date to be set by the government.

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95 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, p. 27.

Section I

ADDITIONAL INFORMATION HISTORICAL DATA

Note:

Data for 1997-1998 and subsequent years have been restated to reflect the creation of the Land Transportation Network Fund (FORT) and the Tax Administration Fund (FRAF), the amalgamations and abolitions ensuing from Bill 130 (2011, chapter 16), and the accounting changes for reclassification of doubtful tax accounts and transfers made through the tax system.

1. ADDITIONAL INFORMATION

TABLE I.1

Summary of consolidated budgetary and financial transactions
(millions of dollars)

	2008-2009(1)	2009-2010	2010-2011	2011-2012
Budgetary transactions of the general fund				
Own-source revenue	45 152	44 129	47 225	50 272
Federal transfers	14 023	15 161	15 425	15 243
Total budgetary revenue	**59 175**	**59 290**	**62 650**	**65 515**
Program spending	–55 197	–58 215	–59 978	–61 503
Debt service	–6 639	–6 240	–7 084	–7 348
Total budgetary expenditure	**–61 836**	**–64 455**	**–67 062**	**–68 851**
Consolidated entities(2)	**1 403**	**2 225**	**2 022**	**1 548**
Contingency reserve	—	—	—	—
SURPLUS (DEFICIT)	**–1 258**	**–2 940**	**–2 390**	**–1 788**
BALANCED BUDGET ACT				
Deposits in the Generations Fund	–587	–725	–760	–840
Amounts used from the reserve	1 845	433	—	—
Accounting changes(3)	—	58	—	—
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT* AFTER STABILIZATION RESERVE (4)	**—**	**–3 174**	**–3 150**	**–2 628**
Deposits of dedicated revenues in the Generations Fund	587	725	760	840
CONSOLIDATED BUDGETARY BALANCE	**587**	**–2 449**	**–2 390**	**–1 788**
Non-budgetary transactions				
Investments, loans and advances	–966	–2 009	–3 173	–1 888
Capital expenditures(5)	–2 150	–3 939	–4 018	–3 623
Net investments in the networks	–622	—	—	—
Retirement plans and other employee future benefits	2 274	2 612	3 526	2 918
Other accounts	645	1 354	1 901	–1 160
NON-BUDGETARY REQUIREMENTS	**–819**	**–1 982**	**–1 764**	**–3 753**
NET FINANCIAL REQUIREMENTS	**–232**	**–4 431**	**–4 154**	**–5 541**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. The health and social services and education networks are consolidated line by line as of 2009-2010. Therefore, consolidated net financial requirements henceforth take into account the budgetary and non-budgetary transactions of the networks.

(1) Consolidated financial and budgetary transactions for 2008-2009 have not been restated to reflect the accounting changes relating to capital expenditures and investments in government enterprises. These restatements would have reduced the deficit by $7 million.

(2) The net results of consolidated entities include consolidation adjustments.

(3) The *Balanced Budget Act* stipulates that the budgetary balance must take the impact of certain accounting changes into account.

(4) The budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve corresponds to the budgetary balance that takes into account the amounts allocated to and used from the stabilization reserve.

(5) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.

TABLE I.2

General fund
Revenue by source
(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012
Own-source revenue				
Income and property taxes				
Personal income tax	17 103	16 459	17 913	18 980
Contributions to the Health Services Fund	5 631	5 797	5 974	6 246
Corporate taxes	3 916	3 601	3 639	3 894
Subtotal	**26 650**	**25 857**	**27 526**	**29 120**
Consumption taxes				
Sales	10 472	10 473	11 468	13 159
Tobacco	594	664	764	802
Alcoholic beverages	430	433	446	440
Other	17	16	-9	18
Subtotal	**11 513**	**11 586**	**12 669**	**14 419**
Duties and permits				
Natural resources	9	105	310	340
Other	243	249	275	263
Subtotal	**252**	**354**	**585**	**603**
Miscellaneous				
Sales of goods and services	428	448	438	366
Interest	635	387	438	455
Fines, forfeitures and recoveries	661	619	731	560
Subtotal	**1 724**	**1 454**	**1 607**	**1 381**
Revenue from government enterprises				
Société des alcools du Québec	808	867	915	1 000
Loto-Québec	1 375	1 252	1 247	1 196
Hydro-Québec	3 098	2 943	2 478	2 545
Other	–268	–184	198	8
Subtotal	**5 013**	**4 878**	**4 838**	**4 749**
Total	**45 152**	**44 129**	**47 225**	**50 272**
Federal transfers				
Equalization	8 028	8 355	8 552	7 815
Protection payment				369
Health transfers	3 740	4 148	4 309	4 511
Transfers for post-secondary education and other social programs	1 267	1 461	1 455	1 488
Other programs	988	1 197	1 109	1 060
Total	**14 023**	**15 161**	**15 425**	**15 243**
TOTAL REVENUE	**59 175**	**59 290**	**62 650**	**65 515**

TABLE I.3

General fund
Expenditure by department[1]
(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012
Expenditure excluding debt service	**55 197**	**58 215**	**59 978**	**61 503**
Debt service				
Direct debt service	4 507	3 878	4 429	4 595
Interest ascribed to the retirement plans	2 116	2 371	2 662	2 763
Employee future benefits	16	–9	–7	–10
Total	**6 639**	**6 240**	**7 084**	**7 348**
TOTAL EXPENDITURE	**61 836**	**64 455**	**67 062**	**68 851**

(1) Exceptionally, expenditure by department is not presented in this section, since the new 2013-2014 budgetary structure will not be defined until the tabling of the forthcoming budgetary documents. As soon as it becomes available, expenditure by department under this new structure will be published on the website of the Ministère des Finances et de l'Économie du Québec.

TABLE I.4

Consolidated non-budgetary transactions
(millions of dollars)

	2008-2009	2009-2010(1)	2010-2011(1)	2011-2012(1)
Investments, loans and advances				
General fund				
Government enterprises				
Shares and investments				
Investissement Québec	—	—	—	–400
Société générale de financement du Québec	–250	–250	—	—
Other	—	—	2(2)	—
Change in the equity value of investments	–460	–591	–790	–595
Loans and advances				
Investissement Québec	—	—	—	–127
IQ FIER inc.	–39	–21	—	—
Hydro-Québec	—	–143	–49	200
Loto-Québec	–270	–32	–99	101
Other	–9	–1	–1	1
Total government enterprises	**–1 028**	**–1 038**	**–937**	**–820**
Individuals, corporations and others				
Investments with the Caisse de dépôt et placement du Québec	804	296	—	—
Other	–104	–135	274	–806
Municipalities and municipal bodies	1	—	—	16
Total general fund	**–327**	**–877**	**–663**	**–1 610**
Consolidated entities	–639	–1 132	-2 510	–278
Total investments, loans and advances	**–966**	**–2 009**	**-3 173**	**–1 888**

TABLE I.4 (cont.)

Consolidated non-budgetary transactions
(millions of dollars)

	2008-2009	2009-2010[1]	2010-2011[1]	2011-2012[1]
Capital expenditures[3]				
General fund				
Net investments	–241	–242	–312	–169
Depreciation	254	256	149	150
Consolidated entities	–2 163	–3 953	–3 855	–3 604
Total capital expenditures	**–2 150**	**–3 939**	**–4 018**	**–3 623**
Net investments in the networks[4]				
Annual deficit (surplus)	–31	—	—	—
Loans and advances to the networks	–591	—	—	—
Total net investments in the networks	**–622**	—	—	—
Retirement plans and other employee future benefits				
Cost of vested benefits,[5] amortization and contributions	2 071	2 122	2 623	2 554
Interest on the actuarial obligation	4 383	4 627	4 817	4 931
Benefits, repayments and administrative expenses	–4 180	–4 294	–4 095	–4 791
Consolidated entities	—	157	181	224
Total retirement plans and other employee future benefits	**2 274**	**2 612**	**3 526**	**2 918**
Other accounts				
General fund	890	1 128	1 362	–832
Consolidated entities	–245	226	539	–328
Total other accounts	**645**	**1 354**	**1 901**	**–1 160**
TOTAL NON-BUDGETARY TRANSACTIONS	**–819**	**–1 982**	**–1 764**	**–3 753**

(1) With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the health and social services and education networks are taken into account as of 2009-2010.

(2) On May 1, 2010, the Fonds d'indemnisation du courtage immobilier was transferred without consideration to an entity not included the government's reporting entity in accordance with the *Real Estate Brokerage Act* (S.Q., chapter C-73.2).

(3) Excluding investments made under public-private partnership that do not have an impact on net financial requirements because they were made and financed by private-sector partners.

(4) For 2008-2009, the net investments of the health and social services and education networks were established using the modified equity method.

(5) Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE I.5

Consolidated financing transactions[1]
(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012
CHANGE IN CASH POSITION				
General fund	–5 748	3 878	–235	82
Consolidated entities	1 109	–176	–1 653	96
Total	**–4 639**	**3 702**	**–1 888**	**178**
NET BORROWINGS				
General fund				
New borrowings	12 677	7 126	9 321	14 228
Repayment of borrowings	–4 134	–6 848	–4 581	–7 503
Subtotal	8 543	278	4 740	6 725
Consolidated entities				
New borrowings	4 376	7 251	10 194	7 068
Repayment of borrowings	–2 411	–3 481	–3 810	–4 321
Subtotal	1 965	3 770	6 384	2 747
Total	**10 508**	**4 048**	**11 124**	**9 472**
Retirement Plans Sinking Fund,[2] other retirement plan assets and funds dedicated to employee future benefits[3]	**–4 918**	**–2 594**	**–4 322**	**–3 269**
Generations Fund	**–719**	**–725**	**–760**	**–840**
TOTAL FINANCING TRANSACTIONS	**232**	**4 431**	**4 154**	**5 541**

Note: As of 2009-2010, data take into account the line-by-line consolidation of the results of institutions in the health and social services and education networks with those of the government.

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

(2) This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

(3) Employee future benefits funds receive amounts used to cover employee future benefits (accumulated sick leave and survivor's pension) payable to government employees.

2. HISTORICAL DATA

TABLE I.6

Budgetary transactions General fund[(1),(2)]

(millions of dollars)

	Own-source revenue[(3),(4)]	Federal transfers[(5)]	Budgetary revenue	Program spending	Debt service	Budgetary expenditure
1987-1988	21 992	6 117	28 109	–26 830	–3 675	–30 505
1988-1989	23 366	6 386	29 752	–27 654	–3 802	–31 456
1989-1990	24 359	6 674	31 033	–28 782	–4 015	–32 797
1990-1991	26 073	6 972	33 045	–31 583	–4 437	–36 020
1991-1992	27 720	6 747	34 467	–34 102	–4 666	–38 768
1992-1993	27 561	7 764	35 325	–35 599	–4 756	–40 355
1993-1994	28 165	7 762	35 927	–35 534	–5 316	–40 850
1994-1995	28 815	7 494	36 309	–36 248	–5 882	–42 130
1995-1996	30 000	8 126	38 126	–36 039	–6 034	–42 073
1996-1997	30 522	6 704	37 226	–34 583	–5 855	–40 438
After government accounting reform in 1997-1998						
1997-1998	30 415	5 656	36 071	–32 982	–7 039	–40 021
1998-1999	32 936	7 813	40 749	–35 382	–6 853	–42 235
1999-2000	35 417	6 064	41 481	–36 002	–7 035	–43 037
2000-2001	37 447	7 895	45 342	–38 317	–7 248	–45 565
2001-2002	35 638[(6)]	8 885	44 523[(6)]	–40 074	–6 930	–47 004
2002-2003	37 301[(6)]	8 932	46 233[(6)]	–41 834	–6 804	–48 638
2003-2004	38 819[(6)]	9 370	48 189[(6)]	–43 327	–6 850	–50 177
2004-2005	41 069	9 229	50 298	–45 452	–7 035	–52 487
2005-2006	42 374	9 969	52 343	–46 765	–7 042	–53 807
After government accounting reform in 2006-2007						
2006-2007	46 184	11 015	57 199	–49 022	–7 185	–56 207
2007-2008	45 881	13 629	59 510	–51 774	–7 160	–58 934
2008-2009	45 152	14 023	59 175	–55 197	–6 639	–61 836
2009-2010	44 129	15 161	59 290	–58 215	–6 240	–64 455
2010-2011	47 225	15 425	62 650	–59 978	–7 084	–67 062
2011-2012	50 272	15 243	65 515	–61 503	–7 348	–68 851

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances et de l'Économie du Québec.

(2) Data for the general fund exclude the revenue and expenditure of specified purpose accounts, agencies and special funds, the health and social services and education networks, and the Generations Fund.

(3) Own-source revenue includes that of government enterprises.

(4) As of 1997-1998, data take the reclassification of doubtful tax accounts into account.

(5) Federal transfers revenues are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

(6) Revenue includes the extraordinary losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

TABLE I.7

Budgetary transactions Consolidated entities(1) From 1997-1998 to 2008-2009(2)

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
1987 to 1997							
After government accounting reform in 1997-1998							
1997-1998	3 904	319	4 223	–2 127	–303	–2 430	1 793
1998-1999	4 281	298	4 579	–2 633	–334	–2 967	1 612
1999-2000	4 445	325	4 770	–2 869	–338	–3 207	1 563
2000-2001	4 439	239	4 678	–2 720	–358	–3 078	1 600
2001-2002	4 561	262	4 823	–2 939	–331	–3 270	1 553
2002-2003	4 947	262	5 209	–3 204	–328	–3 532	1 677
2003-2004	5 177	299	5 476	–3 455	–391	–3 846	1 630
2004-2005	5 252	323	5 575	–3 636	–414	–4 050	1 525
2005-2006	5 795	317	6 112	–4 094	–517	–4 611	1 501
After government accounting reform in 2006-2007							
2006-2007(3)	6 338	383	6 721	–4 266	–1 538	–5 804	917
2007-2008(3)	6 746	388	7 134	–4 917	–1 592	–6 509	625
2008-2009(3)	6 666	349	7 015	–4 707	–1 492	–6 199	816

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) Consolidated entities include non-budget-funded bodies, special funds (excluding the Generations Fund) and the health and social services and education networks.

(2) As of 2009-2010, following the line-by-line consolidation of the health and social services and education networks, figures for budgetary transactions are shown separately for non-budget-funded bodies, special funds and the networks.

(3) Since the 2006-2007 accounting reform, pursuant to the *Balanced Budget Act* in effect since the reform, the amounts presented correspond to those published in the financial statements for the fiscal year concerned, without taking into account restatements for that year that may be effected in subsequent fiscal years.

TABLE I.7(a)

Budgetary transactions
Special funds
2009-2010 and subsequent years

(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks(1)								
2009-2010	4 510	1 776	465	6 751	–5 062	–654	–5 716	1 035
2010-2011	4 994	1 845	382	7 221	–5 573	–817	–6 390	831
2011-2012	5 971	2 161	86	8 218	–6 572	–973	–7 545	673

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) As of 2009-2010, following the line-by-line consolidation of the health and social services and education networks, figures for budgetary transactions are shown separately for non-budget-funded bodies, special funds and the networks.

TABLE I.7(b)

Budgetary transactions
Non-budget-funded bodies
2009-2010 and subsequent years

(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks [1]								
2009-2010	5 697	10 639	1 000	17 336	–15 982	–1 086	–17 068	268
2010-2011	5 957	10 593	604	17 154	–15 740	–1 194	–16 934	220
2011-2012	6 154	10 963	911	18 028	–16 695	–1 219	–17 914	114

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) As of 2009-2010, following the line-by-line consolidation of the health and social services and education networks, figures for budgetary transactions are shown separately for non-budget-funded bodies, special funds and the networks.

TABLE I.7(c)

Budgetary transactions
Health and social services and education networks
2009-2010 and subsequent years

(millions of dollars)

	Own-source revenue	Québec government transfers	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
With line-by-line consolidation of the networks [1]								
2009-2010	5 413	28 022	229	33 664	–32 828	–677	–33 505	159
2010-2011	5 234	29 016	310	34 560	–33 602	–798	–34 400	160
2011-2012	5 527	30 079	230	35 836	–35 280	–851	–36 131	–295

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) As of 2009-2010, following the line-by-line consolidation of the health and social services and education networks, figures for budgetary transactions are shown separately for non-budget-funded bodies, special funds and the networks.

TABLE I.8

Budgetary transactions Generations Fund
(millions of dollars)

	Dedicated revenues							
	Water-power royalties							
	Hydro-Québec	Private producers	Unclaimed property	Other	Investment income	Total	Other deposits	Deposits in the Generations Fund
Before government accounting reforms								
1987-1997								
After government accounting reform in 1997-1998								
1997-2006								
After government accounting reform in 2006-2007								
2006-2007	65	11	5	500	3	584		584
2007-2008	367	46	—		36	449	200	649
2008-2009	548	88	1		–50	587	132(1)	719
2009-2010	569	89	7		60	725		725
2010-2011	560	90	16		94	760		760
2011-2012	591	91	9		149	840		840

(1) Deposit of $132 million from the stabilization reserve derived from the sale of assets by the Société immobilière du Québec.

TABLE I.9

Budgetary transactions
Specified purpose accounts

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
1987-1997							
After government accounting reform in 1997-1998							
1997-1998	119	486	605	–605	—	–605	—
1998-1999	121	181	302	–302	—	–302	—
1999-2000	138	141	279	–279	—	–279	—
2000-2001	158	185	343	–343	—	–343	—
2001-2002	193	329	522	–522	—	–522	—
2002-2003	242	263	505	–505	—	–505	—
2003-2004	219	451	670	–670	—	–670	—
2004-2005	211	387	598	–598	—	–598	—
2005-2006	229	836	1 065	–1 065	—	–1 065	—
After government accounting reform in 2006-2007							
2006-2007	237	572	809	–809	—	–809	—
2007-2008	267	716	983	–983	—	–983	—
2008-2009	257	709	966	–966	—	–966	—
2009-2010	295	857	1 152	–1 152	—	–1 152	—
2010-2011	135	1 481	1 616	–1 616	—	–1 616	—
2011-2012	252	1 225	1 477	–1 477	—	–1 477	—

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE I.10

Transfers (expenditures) financed through the tax system and consolidation adjustments[1]

(millions of dollars)

	Transfers (expenditures) financed through the tax system				Consolidation adjustments[1],[2]				
	Transfers made through the tax system		Reclassification of doubtful tax accounts						
	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Québec government transfers	Federal transfers	Expenditure excluding debt service	Debt service
Before government accounting reforms									
1987-1997									
After government accounting reform in 1997-1998									
1997-1998	810	–810	649	–649					
1998-1999	815	–815	404	–404					
1999-2000	868	–868	298	–298					
2000-2001	916	–916	265	–265					
2001-2002	1 007	–1 007	143	–143					
2002-2003	1 405	–1 405	278	–278					
2003-2004	1 693	–1 693	195	–195					
2004-2005	2 389	–2 389	414	–414					
2005-2006	3 729	–3 729	497	–497					

TABLE I.10 (cont.)

Transfers (expenditures) financed through the tax system and consolidation adjustments [1]

(millions of dollars)

	Transfers (expenditures) financed through the tax system				Consolidation adjustments[1],[2]				
	Transfers made through the tax system		Reclassification of doubtful tax accounts						
	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Expenditure excluding debt service	Own-source revenue	Québec government transfers	Federal transfers	Expenditure excluding debt service	Debt service
After government accounting reform in 2006-2007									
2006-2007	4 248	–4 248	548	–548					
2007-2008	4 382	–4 382	668	–668					
2008-2009	4 686	–4 686	798	–798					
With line-by-line consolidation of the networks									
2009-2010	4 978	–4 978	900	–900	–5 153	–40 437	–602	45 417	813
2010-2011	5 163	–5 163	933	–933	–5 031	–41 454	–709	46 287	958
2011-2012	5 145	–5 145	871	–871	–5 557	–43 203	–757	48 793	940

(1) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of transactions between entities in different sectors.

(2) As of 2009-2010, following the line-by-line consolidation of the health and social services and education networks, consolidation adjustments are shown separately for own-source revenue, Québec government transfers, federal transfers, expenditure excluding debt service, and debt service.

TABLE I.11

Summary of consolidated budgetary transactions (1),(2)

(millions of dollars)

	Own-source revenue	Federal transfers(3)	Consolidated revenue	Expenditure excluding debt service	Debt service	Consolidated expenditure
Before government accounting reforms						
1987-1988	21 992	6 117	28 109	–26 830	–3 675	–30 505
1988-1989	23 366	6 386	29 752	–27 654	–3 802	–31 456
1989-1990	24 359	6 674	31 033	–28 782	–4 015	–32 797
1990-1991	26 073	6 972	33 045	–31 583	–4 437	–36 020
1991-1992	27 720	6 747	34 467	–34 102	–4 666	–38 768
1992-1993	27 561	7 764	35 325	–35 599	–4 756	–40 355
1993-1994	28 165	7 762	35 927	–35 534	–5 316	–40 850
1994-1995	28 815	7 494	36 309	–36 248	–5 882	–42 130
1995-1996	30 000	8 126	38 126	–36 039	–6 034	–42 073
1996-1997	30 522	6 704	37 226	–34 583	–5 855	–40 438
After government accounting reform in 1997-1998						
1997-1998	35 897	6 461	42 358	–37 173	–7 342	–44 515
1998-1999	38 557	8 292	46 849	–39 536	–7 187	–46 723
1999-2000	41 166	6 530	47 696	–40 316	–7 373	–47 689
2000-2001	43 225	8 319	51 544	–42 561	–7 606	–50 167
2001-2002	41 542 (5)	9 476	51 018	–44 685	–7 261	–51 946
2002-2003	44 173 (5)	9 457	53 630	–47 226	–7 132	–54 358
2003-2004	46 103 (5)	10 120	56 223	–49 340	–7 241	–56 581
2004-2005	49 335	9 939	59 274	–52 489	–7 449	–59 938
2005-2006	52 624	11 122	63 746	–56 150	–7 559	–63 709
After government accounting reform in 2006-2007(6)						
2006-2007	57 639	11 970	69 609	–58 893	–8 723	–67 616
2007-2008	58 393	14 733	73 126	–62 724	–8 752	–71 476
2008-2009	58 146	15 081	73 227	–66 354	–8 131	–74 485
With line-by-line consolidation of the networks						
2009-2010	61 494	17 110	78 604	–73 700	–7 844	–81 544
2010-2011	65 370	17 493	82 863	–76 318	–8 935	–85 253
2011-2012	69 475	16 938	86 413	–78 750	–9 451	–88 201

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances et de l'Économie du Québec.

(2) For consistency with the financial data presented in the public accounts for years prior to 2009-2010, the consolidated budgetary balance for those years does not take into account the changes made by Bill 40 (2009, chapter 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of Bill 40 into account.

(3) Shown on a cash basis until 2004-2005 and on an accrual basis thereafter.

(4) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account amounts allocated to and used from the stabilization reserve.

(5) Own-source revenue includes the extraordinary losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

(6) From 2006-2007 to 2008-2009, the net results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.

(7) Including an accounting change of $58 million.

Generations Fund	Amounts used (allocated from) the reserve	Budgetary balance within the meaning of the Act after reserve[4]	Generations Fund	Consolidated budgetary balance
		–2 396		–2 396
		–1 704		–1 704
		–1 764		–1 764
		–2 975		–2 975
		–4 301		–4 301
		–5 030		–5 030
		–4 923		–4 923
		–5 821		–5 821
		–3 947		–3 947
		–3 212		–3 212
		–2 157		–2 157
		126		126
		7		7
	–950	427		427
	950	22		22
		–728		–728
		–358		–358
		–664		–664
		37		37
–584	–1 300	109	584	693
–449	–1 201	0	449	449
–587	1 845	0	587	587
–725	491[7]	–3 174	725	–2 449
–760		–3 150	760	–2 390
–840		–2 628	840	–1 788

TABLE I.12

Consolidated revenue and expenditure restated for historical growth analysis purposes[1]

(millions of dollars)

	Revenue		Expenditure					
	Consolidated revenue	**Growth rate**	**Expenditure excluding debt service**	**Growth rate**	**Debt service**	**Growth rate**	**Consolidated expenditure**	**Growth rate**
Before government accounting reforms								
1987-1997								
After government accounting reform in 1997-1998								
1997-1998	42 358	n/a	–37 173	n/a	–7 342	n/a	–44 515	n/a
1998-1999	46 849	10.6%	–39 536	6.4%	–7 187	–2.1%	–46 723	5.0%
1999-2000	47 696	1.8%	–40 316	2.0%	–7 373	2.6%	–47 689	2.1%
2000-2001	51 544	8.1%	–42 561	5.6%	–7 606	3.2%	–50 167	5.2%
2001-2002	51 018	–1.0%	–44 685	5.0%	–7 261	–4.5%	–51 946	3.5%
2002-2003	53 630	5.1%	–47 226	5.7%	–7 132	–1.8%	–54 358	4.6%
2003-2004	56 223	4.8%	–49 340	4.5%	–7 241	1.5%	–56 581	4.1%
2004-2005	59 274	5.4%	–52 489	6.4%	–7 449	2.9%	–59 938	5.9%
2005-2006	63 746	7.5%	–56 150	7.0%	–7 559	1.5%	–63 709	6.3%

TABLE I.12 (cont.)

Consolidated revenue and expenditure restated for historical growth analysis purposes[1]
(millions of dollars)

	Revenue		Expenditure					
	Consolidated revenue	Growth rate	Expenditure excluding debt service	Growth rate	Debt service	Growth rate	Consolidated expenditure	Growth rate
After government accounting reform in 2006-2007[2]								
2006-2007	69 609	9.2%	-58 893	4.9%	–8 723	15.4%	–67 616	6.1%
2007-2008	73 126	5.1%	-62 724	6.5%	–8 752	0.3%	–71 476	5.7%
2008-2009	73 227	0.1%	-66 354	5.8%	–8 131	–7.1%	–74 485	4.2%
2009-2010[3]	74 898	2.3%	-70 060	5.6%	–7 778	–4.3%	–77 838	4.5%
With line-by-line consolidation of the networks								
2009-2010[3]	78 604	n/a	-73 700	n/a.	–7 844	n/a	–81 544	n/a
2010-2011	82 863	5.4%	-76 318	3.6%	–8 935	13.9%	–85 253	4.5%
2011-2012	86 413	4.3%	-78 750	3.2%	–9 451	5.8%	–88 201	3.5%

Note: For the purposes of historical revenue and expenditure growth analysis, considering the change in accounting of budgetary and financial data for institutions in the health and social services and education networks, the growth rates shown above must be used.

(1) For consistency with the financial data presented in the public accounts for years prior to 2009-2010, the consolidated budgetary balance for those years does not take into account the changes made by Bill 40 (2009, chapter 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of Bill 40 into account.

(2) From 2006-2007 to 2008-2009, the net results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line by line, like those of non-budget-funded bodies and special funds.

(3) To facilitate the comparability of historical data and due to the amounts involved, we have presented two results for 2009-2010. The first is obtained using the modified equity basis of consolidation for network institutions and the second, using the line-by-line consolidation method. The latter method is used as of this fiscal year.

TABLE I.13

Summary of non-budgetary transactions[1]

(millions of dollars)

		Non-budgetary transactions		
	Consolidated budgetary balance	Investments, loans and advances	Capital expenditures[2]	Net investments in the networks[3]
Before government accounting reforms				
1987-1988	–2 396	–680		
1988-1989	–1 704	–670		
1989-1990	–1 764	–516		
1990-1991	–2 975	–458		
1991-1992	–4 301	–411		
1992-1993	–5 030	–490		
1993-1994	–4 923	–623		
1994-1995	–5 821	–1 142		
1995-1996	–3 947	–287		
1996-1997	–3 212	–792		
After government accounting reform in 1997-1998				
1997-1998	–2 157	–1 315	–209	
1998-1999	126	–1 402	–217	
1999-2000	7	–2 006	–359	
2000-2001	427	–1 632	–473	
2001-2002	22	–1 142	–995	
2002-2003	–728	–1 651	–1 482	
2003-2004	–358	–1 125	–1 019	
2004-2005	–664	–979	–1 083	
2005-2006	37	–1 182	–1 166	
After government accounting reform in 2006-2007				
2006-2007	693	–2 213	–1 177	–1 002
2007-2008	449	–2 658	–1 378	–487
2008-2009	587	–966	–2 150	–622
With line-by-line consolidation of the networks[4]				
2009-2010	–2 449	–2 009	–3 939	
2010-2011	–2 390	–3 173	–4 018	
2011-2012	–1 788	–1 888	–3 623	

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances et de l'Économie du Québec.

(2) Excluding investments made under public-private partnerships that do not have an impact on net financial requirements because they were made and financed by private-sector partners.

(3) From 2006-2007 to 2008-2009, the net investments of the health and social services and education networks were established using the modified equity method.

(4) With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the networks are taken into account as of 2009-2010.

Non-budgetary transactions			
Retirement plans	Other accounts	Excess amount (shortfall)	Net financial surplus (requirements)
2 203	–493	1 030	–1 366
1 634	–265	699	–1 005
1 164	300	948	–816
1 874	77	1 493	–1 482
1 916	141	1 646	–2 655
1 525	82	1 117	–3 913
1 668	52	1 097	–3 826
1 509	578	945	–4 876
1 701	–415	999	–2 948
1 928	–60	1 076	–2 136
1 888	109	473	–1 684
1 020	996	397	523
1 740	1 328	703	710
1 793	–631	–943	–516
2 089	–589	–637	–615
2 007	217	–909	–1 637
2 219	–1 183	–1 108	–1 466
2 134	174	246	–418
2 310	–208	–246	–209
2 559	–1 620	–3 453	–2 760
2 458	988	–1 077	–628
2 274	645	–819	–232
2 612	1 354	–1 982	–4 431
3 526	1 901	–1 764	–4 154
2 918	–1 160	–3 753	–5 541

TABLE I.14

Debt of the Québec government[1]

	Consolidated direct debt[2]		Retirement plans			
			Retirement plans liability[3]	Less: Retirement Plans Sinking Fund	Net retirement plans liability	
	($ million)	(as a % of GDP)	($ million)	($ million)	($ million)	(as a % of GDP)
Before government accounting reforms						
1987-1988	26 819	20.9			10 883	8.5
1988-1989	27 091	19.2			12 597	8.9
1989-1990	27 699	18.7			14 320	9.6
1990-1991	29 637	19.3			16 227	10.6
1991-1992	33 106	21.3			18 143	11.7
1992-1993	39 231	24.8			19 668	12.4
1993-1994	45 160	27.8	21 337	–854	20 483	12.6
1994-1995	52 468	30.8	22 846	–849	21 997	12.9
1995-1996	52 886	29.8	24 547	–923	23 624	13.3
1996-1997	52 625	29.2	26 475	–1 014	25 461	14.1
Data restated to include the impact of the accounting reform in 2006-2007						
1997-1998	69 995	37.1	42 242	–1 179	41 063	21.8
1998-1999	73 803	37.6	43 350	–2 209	41 141	21.0
1999-2000	76 166	36.1	45 129	–5 040	40 089	19.0
2000-2001	80 108	35.6	47 001	–7 059	39 942	17.8
2001-2002	84 451	36.5	49 106	–10 199	38 907	16.8
2002-2003	89 083	36.9	51 167	–11 840	39 327	16.3
2003-2004	93 325	37.2	53 414	–14 204	39 210	15.6
2004-2005	98 842	37.6	55 634	–18 333	37 301	14.2
2005-2006	103 339	38.0	58 214	–22 563	35 651	13.1
2006-2007	110 412	39.1	60 802	–26 877	33 925	12.0
2007-2008	118 032	39.9	63 442	–31 749	31 693	10.7
2008-2009	124 629	40.9	65 803	–36 025	29 778	9.8
Data taking into account the line-by-line consolidation of the networks						
2008-2009	129 745	42.6	65 803	–36 025	29 778	9.8
2009-2010	136 074	44.6	67 989	–38 200	29 789	9.8
2010-2011	147 748	46.3	71 315	–42 265	29 050	9.1
2011-2012	158 887	47.3	74 079	–45 352	28 727	8.6

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances et de l'Économie du Québec.
(2) Excludes deferred foreign exchange gains or losses and pre-financing.
(3) Retirement plans liability less the assets of the retirement plans other than the Retirement Plans Sinking Fund.

Employee future benefits					
Employee future benefits liability	Less: funds dedicated to employee future benefits	Net employee future benefits liability	Less: Generations Fund	Debt(2)	
($ million)	($ million)	($ million)	($ million)	($ million)	(as a % of GDP)
Total debt – Data not restated to include the impact of the 1997-1998 and 2006-2007 accounting reforms					
				37 702	29.4
				39 688	28.1
				42 019	28.3
				45 864	29.9
				51 249	33.0
				58 899	37.2
				65 643	40.4
				74 465	43.7
				76 510	43.1
				78 086	43.3
Gross debt – Networks consolidated at equity value					
759	–292	467		111 525	59.2
805	–317	488		115 432	58.8
867	–361	506		116 761	55.4
894	–382	512		120 562	53.6
938	–384	554		123 912	53.5
1 083	–358	725		129 135	53.5
1 034	–338	696		133 231	53.1
1 086	–335	751		136 894	52.1
1 095	–357	738		139 728	51.4
1 176	–424	752	–584	144 505	51.2
1 166	–433	733	–1 233	149 225	50.4
1 114	–1 055	59	–1 952	152 514	50.1
Gross debt – Networks consolidated line-by-line					
1 114	–1 055	59	–1 952	157 630	51.8
1 238	–1 106	132	–2 677	163 318	53.6
1 222	–1 147	75	–3 437	173 436	54.3
1 243	–1 196	47	–4 277	183 384	54.6

TABLE I.15

Net debt of the Québec government[1]

	($ million)	(as a % of GDP)
Before government accounting reforms[2]		
1987-1988	31 115	24.2
1988-1989	32 819	23.3
1989-1990	34 583	23.3
1990-1991	37 558	24.5
1991-1992	41 885	27.0
1992-1993	46 914	29.6
1993-1994	51 837	32.0
1994-1995	57 677	33.8
1995-1996	61 624	34.8
1996-1997	64 833	35.9
After government accounting reform in 1997-1998[3]		
1997-1998	88 597	47.0
1998-1999	88 810	45.3
1999-2000	89 162	42.3
2000-2001	88 208	39.2
2001-2002	92 772	40.1
2002-2003	95 601	39.6
2003-2004	97 025	38.7
2004-2005	99 042	37.7
2005-2006	104 683	38.6
After government accounting reform in 2006-2007[4]		
2006-2007	124 297	44.0
2007-2008	124 681	42.1
2008-2009	134 237	44.1
With line-by-line consolidation of the networks[5]		
2009-2010	151 608	49.7
2010-2011	159 333	49.9
2011-2012	167 111	49.8

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances et de l'Économie du Québec.
(2) Data for 1987-1988 to 1996-1997 are not comparable with those for 1997-1998 to 2011-2012.
(3) Data for 1997-1998 to 2005-2006 are not comparable with those for 1987-1988 to 1996-1997 and 2006-2007 to 2011-2012.
(4) Data for 2006-2007 to 2008-2009 are not comparable with those for previous years and 2009-2010 to 2011-2012.
(5) Data for 2009-2010 to 2011-2012 are not comparable with those for previous years.

TABLE I.16

Debt representing accumulated deficits[1]

	Debt representing accumulated deficits for the purposes of the public accounts [2],[3]	
	($ million)	(as a % of GDP)
Before government accounting reforms[4]		
1987-1988	31 115	24.2
1988-1989	32 819	23.3
1989-1990	34 583	23.3
1990-1991	37 558	24.5
1991-1992	41 885	27.0
1992-1993	46 914	29.6
1993-1994	51 837	32.0
1994-1995	57 677	33.8
1995-1996	61 624	34.8
1996-1997	64 833	35.9
After government accounting reform in 1997-1998[5]		
1997-1998	82 581	43.8
1998-1999	82 577	42.1
1999-2000	82 469	39.1
2000-2001	81 042	36.0
2001-2002	84 538	36.5
2002-2003	85 885	35.6
2003-2004	86 290	34.4
2004-2005	87 224	33.2
2005-2006	91 699 [6]	33.7
After government accounting reform in 2006-2007[7]		
2006-2007	96 124	34.0
2007-2008	94 824	32.0
2008-2009	103 000	33.8
2009-2010	109 125	35.8
2010-2011	111 946	35.1
2011-2012	114 122	34.0

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances et de l'Économie du Québec.
(2) Before taking the stabilization reserve into account.
(3) Includes various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.
(4) Data for 1987-1988 to 1996-1997 are not comparable with those for 1997-1998 to 2011-2012.
(5) Data for 1997-1998 to 2005-2006 are not comparable with those for 1987-1988 to 1996-1997 and 2006-2007 to 2011-2012.
(6) The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.
(7) Data for 2006-2007 to 2011-2012 are not comparable with those for previous years.

Plus: Balance of the stabilization reserve	Debt representing accumulated deficits after taking into account the stabilization reserve	
($ million)	($ million)	(as a % GDP)
	31 115	24.2
	32 819	23.3
	34 583	23.3
	37 558	24.5
	41 885	27.0
	46 914	29.6
	51 837	32.0
	57 677	33.8
	61 624	34.8
	64 833	35.9
	82 581	43.8
	82 577	42.1
	82 469	39.1
950	81 992	36.5
	84 538	36.5
	85 885	35.6
	86 290	34.4
	87 224	33.2
	91 699 (6)	33.7
1 300	97 424	34.5
2 301	97 125	32.8
433	103 433	34.0
	109 125	35.8
	111 946	35.1
	114 122	34.0

TABLE I.17

Change in debt service[1]

	General fund			
	Direct debt	Interest ascribed to the retirement plans[2]	Employee future benefits[3]	Total
	($ million)	($ million)	($ million)	($ million)
Before government accounting reforms				
1987-1988	2 751	924		3 675
1988-1989	2 665	1 137		3 802
1989-1990	2 829	1 186		4 015
1990-1991	3 026	1 411		4 437
1991-1992	3 222	1 444		4 666
1992-1993	3 475	1 281		4 756
1993-1994	3 750	1 566		5 316
1994-1995	4 333	1 549		5 882
1995-1996	4 287	1 747		6 034
1996-1997	3 906	1 949		5 855
After government accounting reform in 1997-1998				
1997-1998	4 074	2 965		7 039
1998-1999	4 439	2 414		6 853
1999-2000	4 403	2 632		7 035
2000-2001	4 654	2 594		7 248
2001-2002	4 213	2 717		6 930
2002-2003	4 156	2 648		6 804
2003-2004	4 108	2 742		6 850
2004-2005	4 248	2 787		7 035
2005-2006	4 211	2 831		7 042
After government accounting reform in 2006-2007				
2006-2007	4 503	2 643	39	7 185
2007-2008	4 687	2 436	37	7 160
2008-2009	4 507	2 116	16	6 639
With line-by-line consolidation of the networks				
2009-2010	3 878	2 371	–9	6 240
2010-2011	4 429	2 662	–7	7 084
2011-2012	4 595	2 763	–10	7 348

(1) Historical data prior to 1987-1988 are available on the website of the Ministère des Finances et de l'Économie du Québec.
(2) Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the Retirement Plans Sinking Fund.
(3) Employee future benefits correspond to interest on the accumulated sick leave obligation minus the investment income of the Accumulated Sick Leave Fund, and to the interest on the survivor's pension plan obligation minus the investment income of the Survivor's Pension Plan Fund.

As a % of budgetary revenue	Consolidated entities	Total debt service	
	($ million)	($ million)	(as a % of consolidated revenue)
13.1		3 675	13.1
12.8		3 802	12.8
12.9		4 015	12.9
13.4		4 437	13.4
13.5		4 666	13.5
13.5		4 756	13.5
14.8		5 316	14.8
16.2		5 882	16.2
15.8		6 034	15.8
15.7		5 855	15.7
19.5	303	7 342	17.3
16.8	334	7 187	15.3
17.0	338	7 373	15.5
16.0	358	7 606	14.8
15.6	331	7 261	14.2
14.7	328	7 132	13.3
14.2	391	7 241	12.9
14.0	414	7 449	12.6
13.5	517	7 559	11.9
12.6	1 538	8 723	12.5
12.0	1 592	8 752	12.0
11.2	1 492	8 131	11.1
10.5	1 604	7 844	10.0
11.3	1 851	8 935	10.8
11.2	2 103	9 451	10.9