THE QUÉBEC **ECONOMIC PLAN**

March 2016

Finances Québec

Budget 2016-2017
The Québec Economic Plan – March 2016

Legal deposit – March 17, 2016
Bibliothèque et Archives nationales du Québec
ISBN 978-2-551-25819-2 (Print)
ISBN 978-2-550-75296-7 (PDF)

THE QUÉBEC ECONOMIC PLAN

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HIGHLIGHTS

HIGHLIGHTS

The Québec Economic Plan 2016-2017 is an opportunity for the government to restate its fiscal policy directions and align them with the current economic situation.

The budget will be balanced as of 2015-2016. Budget 2016-2017 strengthens continued fiscal balance through responsible spending management and accelerates action to spur economic growth.

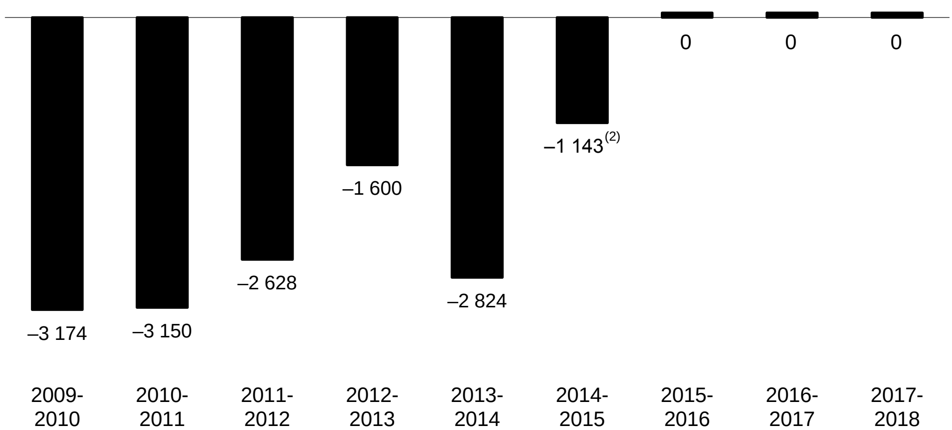
The government's economic and fiscal priorities under the Québec Economic Plan are to strengthen funding for the government's major missions and support economic growth by reducing the tax burden on taxpayers and stimulating investment, innovation and employment.

The government's economic and fiscal policy directions provide for:

- maintenance of a balanced budget;
- alignment of spending growth with taxpayers' ability to pay, giving priority to education and health;
- support for the transition to a low-carbon economy;
- maintenance of a high level of public capital investments;
- reduction of the tax burden, starting with elimination of the health contribution;
- ongoing debt reduction.

CHART 1

Budgetary balance,[1] 2009-2010 to 2017-2018
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) Budgetary balance excluding the impact of accounting changes. The budgetary balance including accounting changes totalling $418 million is a deficit of $725 million.

ACHIEVING AND MAINTAINING A BALANCED BUDGET

Following six consecutive years of deficit, the efforts to restore sound public finances have made it possible to balance the budget in 2015-2016 and keep it balanced thereafter.

❑ The government's financial framework

The government's consolidated financial framework presents a balanced budget in 2015-2016 and continued fiscal balance thereafter.

Expenditure growth will be below revenue growth.

— In 2016-2017, consolidated revenue growth will be 3.2%, outpacing growth in consolidated expenditure, which will be 2.5%.

— Consolidated revenue will grow by 2.7% in 2017-2018 and consolidated expenditure, by 2.3%.

The government's financial framework remains balanced while dedicated revenues continue to be deposited in the Generations Fund. Deposits will total $2.0 billion in 2016-2017 and $2.5 billion in 2017-2018.

TABLE 1

Consolidated summary financial framework – Budget 2016-2017
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Own-source revenue	80 331	82 386	84 566
% change	*3.8*	*2.6*	*2.6*
Federal transfers	19 089	20 180	20 759
% change	*3.0*	*5.7*	*2.9*
Consolidated revenue	**99 420**	**102 566**	**105 325**
% change	***3.6***	***3.2***	***2.7***
Expenditure	–87 634	–89 720	–91 906
% change	*2.5*	*2.4*	*2.4*
Debt service	–10 055	–10 418	–10 515
% change	*–2.1*	*3.6*	*0.9*
Consolidated expenditure	**–97 689**	**–100 138**	**–102 421**
% change	***2.0***	***2.5***	***2.3***
Contingency reserve	–300	–400	–400
SURPLUS (DEFICIT)	**1 431**	**2 028**	**2 504**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 431	–2 028	–2 504
BUDGETARY BALANCE(1)	**—**	**—**	**—**

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

❑ Continued spending control

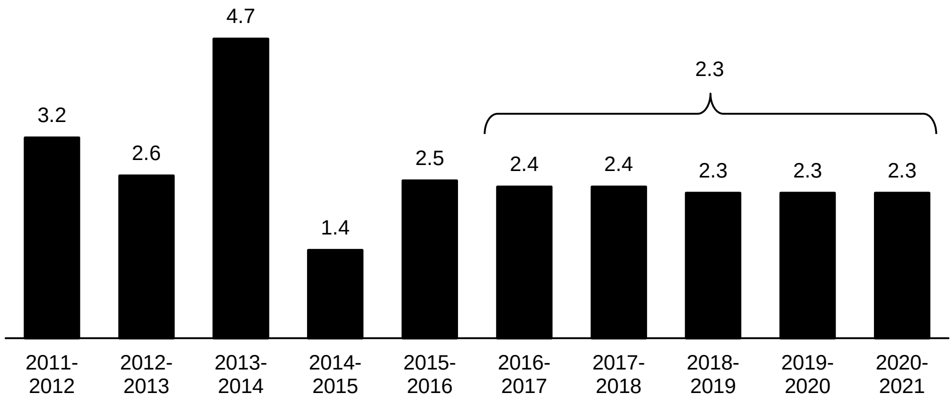
In order to restore fiscal balance, spending growth has been reduced to below the average rates observed in recent years. Spending targets are in keeping with taxpayers' ability to pay.

Keeping spending growth below revenue growth is making it possible to return to a balanced budget in 2015-2016 and maintain fiscal balance thereafter.

— Starting in 2016-2017, ongoing spending control will make it possible to reduce Quebecers' tax burden and continue efforts to reduce the debt burden.

CHART 2

Growth in consolidated expenditure excluding debt service – 2011-2012 to 2020-2021
(per cent)



ECONOMIC GROWTH CONTINUES IN QUÉBEC

❑ Conditions are in place for faster economic growth in Québec

The beneficial effects of the weakness in oil prices and the low Canadian dollar are taking time to materialize in the Québec economy. They will be felt more strongly in 2016 and 2017. Thus, real GDP growth of 1.5% in 2016 and 1.6% in 2017 is forecast for Québec.

— In 2015, the labour market continued to grow in Québec, particularly in the private sector, exports reached record highs and the value of machinery and equipment investment rebounded.

— In 2016 and 2017, the beneficial effects will be felt more widely, helping to strengthen economic activity in Québec.

Despite the recent deterioration in the global economic situation, the growth outlook for Québec's main economic partners remains favourable.

— In the United States, economic growth is continuing and U.S. real GDP is expected to rise by 2.3% in 2016 and 2017.

— In Canada, the drop in commodities prices, still ongoing in early 2016, will continue to dampen growth in the oil-producing provinces, while benefiting the central provinces. Real GDP growth is thus expected to reach 1.3% in 2016 and 2.1% in 2017.

— Ontario, Québec's main trading partner among canadian provinces, will benefit from the weak exchange rate and a robust automobile sector with favourable conditions.

TABLE 2

Economic growth outlook
(real GDP, percent change)

	2015	2016	2017
Québec	1.1	1.5	1.6
Ontario(1)	2.5	2.2	2.4
Canada	1.2	1.3	2.1
United States	2.4	2.3	2.3

(1) According to the forecast in the Ontario budget, published on February 25, 2016.
Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, Ontario Ministry of Finance and Ministère des Finances du Québec.

ACTIONS TO REDUCE THE TAX BURDEN AND STIMULATE THE ECONOMY

❑ Support for individuals and families

The return to fiscal balance makes it possible to accelerate and enhance the implementation of certain measures as well as plan new actions for the benefit of Quebecers, which will contribute to Québec's economic growth and collective wealth.

In this regard, the Québec Economic Plan provides for substantial government investment to ease the tax burden on Quebecers, strengthen support for individuals and communities and address workers' aspirations and employers' needs.

All of the measures in this budget aimed at supporting individuals represent nearly $700 million over the coming years.

TABLE 3

Financial impact of the measures under the Québec Economic Plan in Budget 2016-2017 to support individuals and families
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Tax relief for individuals	–130.4	–144.7	–184.7	–17.2	—	**–509.0**[(1)]
Stronger support for individuals and communities	–27.5	–31.1	–31.8	–29.5	–66.4	**–186.3**
TOTAL	**–157.9**	**–175.8**	**–216.5**	**–46.7**	**–66.4**	**–695.3**

(1) Including the financial impacts for fiscal year 2015-2016.

❑ Fostering economic development

Budget 2016-2017 provides for measures totalling nearly $2.3 billion over the next five years to support economic growth in all of Québec's regions.

More specifically, these measures are designed to develop the economy by:

- addressing workers' aspirations and employers' needs;
- accelerating innovation and investment in the manufacturing sector;
- providing Québec SMBs with greater support;
- adopting a cutting-edge digital strategy;
- supporting innovation in key sectors of the economy, such as life sciences, forestry, agriculture and the aerospace industry;
- encouraging innovative business start-ups and growth.

TABLE 4

Financial impact of measures under the Québec Economic Plan in Budget 2016-2017 for fostering economic development
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Addressing workers' aspirations and employers' needs	−57.4	−53.8	−66.7	−66.3	−66.3	**−310.5**
Accelerating innovation and investment in the manufacturing sector	–133.0	–102.0	–114.3	–207.5	–291.1	**–847.9**
Additional support for Québec SMBs	–18.2	–41.5	–60.5	–60.5	–101.5	**–282.2**
Adoption of a cutting-edge digital strategy	–12.8	–29.4	–35.9	–41.6	–42.2	**–161.9**
Supporting innovation in key sectors of the Québec economy	–107.3	–134.0	–141.7	–119.1	–106.5	**–608.6**
Encouraging innovative business start-ups and growth	–16.9	–21.3	–5.5	–0.6	–0.6	**–44.9**
TOTAL	**–345.6**	**–382.0**	**–424.6**	**–495.6**	**–608.2**	**–2 256.0**

STRENGTHENING FUNDING OF PUBLIC SERVICES

Once fiscal balance is reached, the government can strengthen funding of the government's priorities, especially education and health care, to improve the quality and efficiency of public service delivery.

❑ The Plan for Success in Education and Higher Education

Under the Plan for Success in Education and Higher Education, additional investments of $500 million over the next three years will serve to:

— provide a stimulating learning environment and guide young people to prevent drop-outs;

— promote excellence and achievement among students, in particular through physical activity and strengthening links with various civic partners;

— strengthen links between the education and higher education networks and businesses in order to better meet labour market requirements.

In particular, these investments will make it possible to surpass the current goal of having 80% of young people graduate before the age of 20 by 2020.

The Plan for Success in Education and Higher Education also provides for an additional $700 million for continued investment in the renovation and upgrading of educational establishments.

— These investments will provide students with more stimulating learning environments, fostering a desire to succeed.

❑ Strengthening funding of health and social services

The Québec Economic Plan 2016-2017 provides for ongoing reform of the health and social services network and initiatives representing an additional $88 million per year starting in 2016-2017 to increase support for vulnerable clientele, particularly seniors and people with an autism spectrum disorder.

A HIGH LEVEL OF PUBLIC CAPITAL INVESTMENTS

To meet Québec's significant needs for quality public infrastructure, the government needs to ensure the safety and maintenance of assets, as well as meet infrastructure development needs.

To that end, the government will maintain a high level of public capital investments under the Québec Infrastructure Plan (QIP).

In this context, the government is announcing total investments of $88.7 billion under the 2016-2026 QIP. This is $300 million more than provided for in *The Québec Economic Plan — November 2015 Update*.

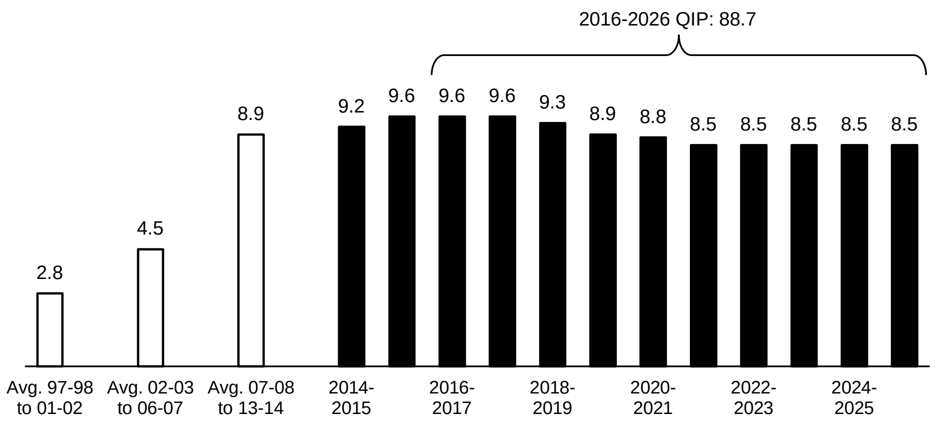
— Owing to an improved fiscal position, the government will be making additional investments to upgrade education infrastructure:

  — $200 million in 2016-2017;

  — $100 million in 2017-2018.

CHART 3

Investments under the 2016-2026 Québec Infrastructure Plan
(billions of dollars)



ONGOING EFFORTS TO REDUCE THE DEBT

Reducing the debt burden is a priority. The government is maintaining its debt reduction objectives and continuing the related efforts by making deposits of dedicated revenues in the Generations Fund.

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

— the gross debt cannot exceed 45% of GDP;

— the debt representing accumulated deficits cannot exceed 17% of GDP.

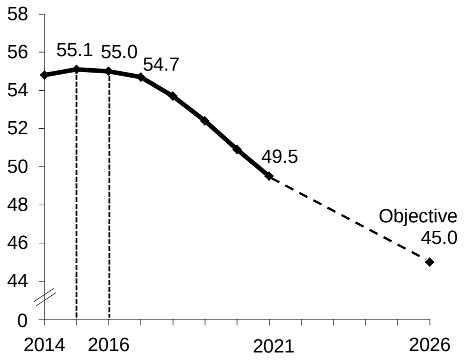
The gross debt burden is declining. As at March 31, 2016, it will be 55.0% of GDP, a 0.1-percentage-point decrease over March 31, 2015.

As at March 31, 2016, the burden of the debt representing accumulated deficits will stand at 31.7% of GDP, also a decrease over March 31, 2015.

CHART 4

Gross debt as at March 31

(percentage of GDP)

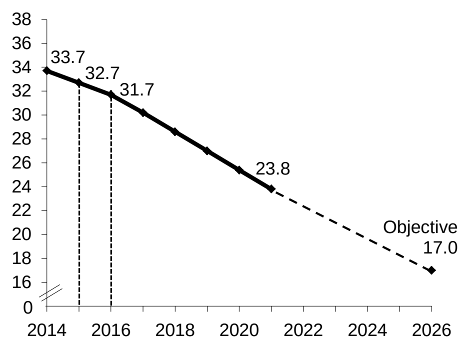


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART 5

Debt representing accumulated deficits as at March 31

(percentage of GDP)



Section A

THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

INTRODUCTION

The Québec Economic Plan 2016-2017 provides for a balanced budget in 2015-2016, paving the way for stepping up action toward economic recovery.

— In budgets 2014-2015 and 2015-2016, the government presented its plan for restoring sound public finances, while implementing the Québec Economic Plan for economy recovery. The government's action has been successful.

This section provides an overview of the government's economic and fiscal policy directions and the means put into place for implementing them this year and the years thereafter.[1] This section presents:

- the Québec government's fiscal policy directions;
  - The budget will be balanced as of 2015-2016. Budget 2016-2017 strengthens fiscal balance through responsible spending management and ongoing action to spur economic growth.
  - Faster economic growth and increased revenue, coupled with control of spending growth, enable the government to keep the budget balanced while strengthening funding for the government's major missions.
  - The government is maintaining its debt reduction objectives and continuing with public infrastructure investment.
- the Québec Economic Plan;
  - The Economic Plan 2016-2017 includes new initiatives to spur Québec's economic growth, including through support for SMBs and increased labour market participation.
  - It also provides for tax relief for individuals and corporations.
- enhanced funding for public services.
  - The government is stepping up its efforts to improve the quality and efficiency of public services by strengthening the funding base for its major missions, in particular education and health.

In addition, government actions to ensure responsible management of public finances can be found in the appendix.

[1] Unless otherwise indicated, this document is based on the data available as at March 4, 2016. Throughout this section, budgetary data for 2015-2016 and subsequent years are forecasts. Historical data presented in the charts in this section are found in the section on Québec's budgetary statistics in the budget document *Additional Information 2016-2017*.

❑ Government revenue and expenditure

In 2016-2017, the government's consolidated revenue will stand at $102.6 billion and will be used to finance:

— expenditures for the government's various missions, that is, spending for the government's primary functions, totalling $89.7 billion;

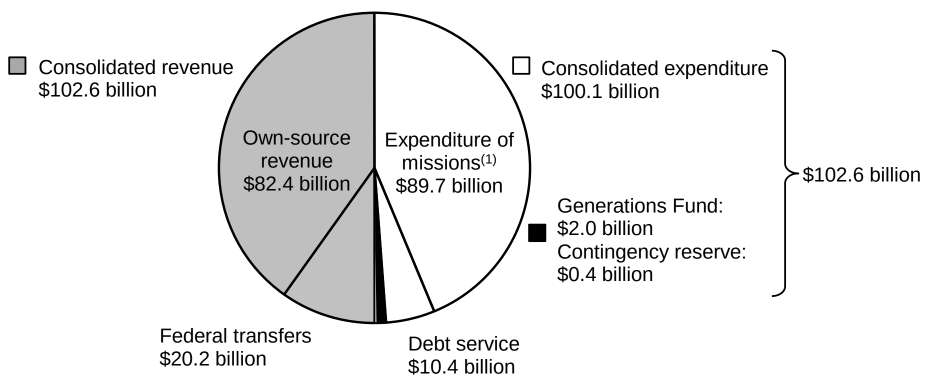
— debt service, for a total of $10.4 billion;

— a contingency reserve of $400 million;

— deposits of dedicated revenues in the Generations Fund, for a total of $2.0 billion.

CHART A.1

Breakdown of the government's consolidated revenue and expenditure for 2016-2017
(billions of dollars)



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

1. THE GOVERNMENT'S FISCAL POLICY DIRECTIONS

The Québec Economic Plan 2016-2017 is an opportunity for the government to reiterate its fiscal policy directions and align them with the current economic situation.

- The Québec Economic Plan under budgets 2014-2015 and 2015-2016 gave the government a serious plan for returning to sound, balanced public finances. The efforts have been successful: the budget will be balanced as of 2015-2016. Everyone contributed to the effort to get our public finances in order.
- The efforts made flow essentially from responsible management of government spending and give back the freedom to make choices.

The budget will be balanced as of 2015-2016. Budget 2016-2017 consolidates fiscal balance for the years thereafter by ensuring responsible management of government spending and stepping up action to stimulate economic growth.

The government's economic and fiscal priorities under the Québec Economic Plan are to:

- strengthen funding for the government's major missions;
- support economic growth by reducing the tax burden on taxpayers and stimulating investment, innovation and employment.

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

- maintenance of a balanced budget;
- alignment of spending growth with taxpayers' ability to pay, giving priority to education and health;
- support for the transition to a low-carbon economy;
- maintenance of a high level of public capital investments;
- reduction of the tax burden, starting with elimination of the health contribution;
- ongoing debt reduction.

1.1 Recent developments in the Québec economy

❑ The conditions are in place for faster economic growth

Economic growth in Québec is expected to accelerate to 1.5% in 2016 and 1.6% in 2017, up from 1.1% growth recorded in 2015.

In 2015, the Québec economy benefited from the weakness in oil prices and the depreciation of the Canadian dollar. However, uncertainty over the global economy delayed recovery in investment.

— In addition, in 2015, the Québec economy felt a backlash of weak economic growth in Canada, causing, among other effects, stagnation of interprovincial exports.

The stimulating effects of lower energy prices and a weaker Canadian dollar should be more pronounced in 2016 and 2017, helping strengthen economic activity in Québec. Recent signs indicate that the positive impact is materializing gradually.

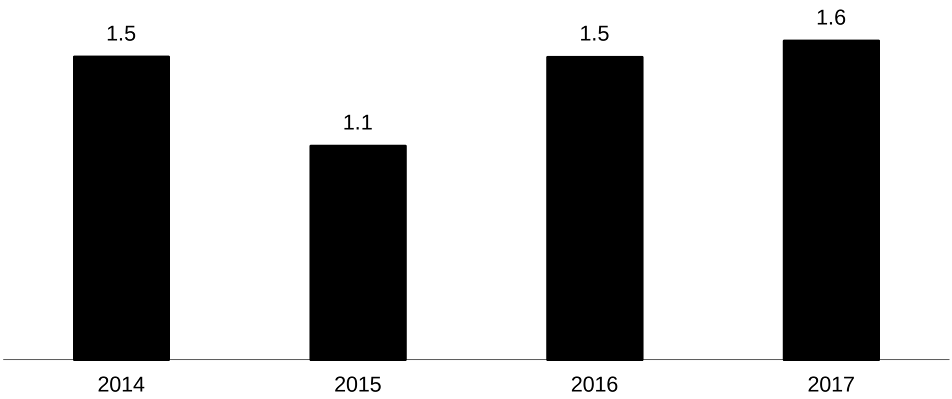
— The labour market continues growing, driven by the private sector.

— International exports of goods peaked in 2015 and are expected to continue strengthening, buoyed by a robust U.S. economy and weak Canadian dollar.

— The value of business investment in machinery and equipment rebounded in 2015, reflecting businesses' desire to meet heightened demand. This trend is expected to firm up in the coming quarters.

CHART A.2

Economic growth in Québec
(real GDP, percent change)



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

❑ Growth driven by exports, consumption and investment

In 2016 and 2017, real GDP growth will be sustained by growth in exports and household consumption. In addition, non-residential business investment is expected to return to growth.

— Exports will continue to be an economic growth engine. A robust U.S. economy and weak Canadian currency are expected to spur international exports in particular.

— At the same time, household consumption will pick up pace, fuelled by continued job creation, primarily in the private sector, low energy prices and reduction of the tax burden.

— In addition, non-residential business investment will gradually start growing again, driven by sustained export growth.

TABLE A.1

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

	2015	2016	2017
Contribution of domestic demand	**0.6**	**1.2**	**1.3**
Household consumption	1.4	1.9	1.7
Residential investment	0.9	0.1	–0.7
Non-residential business investment	–4.7	0.0	2.8
Government spending and investment	0.3	0.2	0.3
Contribution of the external sector	**0.5**	**0.5**	**0.3**
Total exports	1.8	2.8	2.6
– International exports	2.9	3.6	3.0
Total imports	0.7	1.5	1.9
Contribution of inventories	**0.0**	**–0.2**	**0.0**
REAL GDP	**1.1**	**1.5**	**1.6**

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

1.2 Recent developments in the budgetary situation

The government committed to restoring public finances in a sustainable manner. A balanced budget will be achieved in 2015-2016. Achieving and maintaining a balanced budget are crucial to Québec's economic development, and demand:

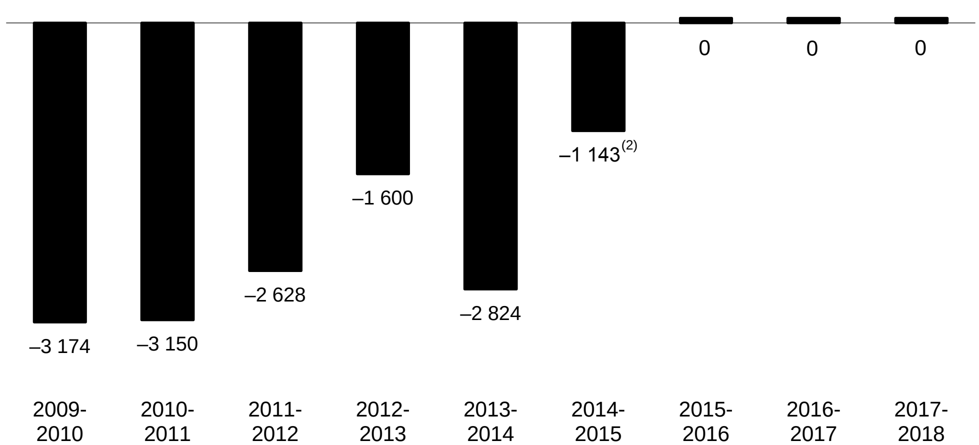
- responsible management of public finances through ongoing spending control;
  - A sustainable adjustment in public finances demands that spending be determined according to taxpayers' ability to pay and always implemented with a view to efficiency and effectiveness.
- gradual reduction of the debt load for the benefit of all Quebecers, present and future generations.
  - Fiscal 2015-2016 marks an important milestone: the weight of the debt in the economy is declining. In addition, the government is maintaining the debt reduction targets from this year to 2025-2026.

1.2.1 Achieving and maintaining a balanced budget

Following six consecutive years of deficit, the efforts to clean up public finances have made it possible to balance the budget in 2015-2016 and keep it balanced thereafter.

CHART A.3

Budgetary balance,(1) 2009-2010 to 2017-2018
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
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❑ The government's financial framework

The government's consolidated financial framework presents a balanced budget in 2015-2016 and continued fiscal balance thereafter.

Expenditure growth will be below revenue growth.

— In 2016-2017, consolidated revenue growth will be 3.2%, outpacing growth in consolidated expenditure, which will be 2.5%.

— Consolidated revenue will grow by 2.7% in 2017-2018 and consolidated expenditure, by 2.3%.

The government's financial framework remains balanced while continuing to make deposits of dedicated revenues in the Generations Fund. Deposits will total $2.0 billion in 2016-2017 and $2.5 billion in 2017-2018.

TABLE A.2

Consolidated summary financial framework – Budget 2016-2017
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Own-source revenue	80 331	82 386	84 566
% change	*3.8*	*2.6*	*2.6*
Federal transfers	19 089	20 180	20 759
% change	*3.0*	*5.7*	*2.9*
Consolidated revenue	**99 420**	**102 566**	**105 325**
% change	***3.6***	***3.2***	***2.7***
Expenditure	–87 634	–89 720	–91 906
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Debt service	–10 055	–10 418	–10 515
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Consolidated expenditure	**–97 689**	**–100 138**	**–102 421**
% change	***2.0***	***2.5***	***2.3***
Contingency reserve	–300	–400	–400
SURPLUS (DEFICIT)	**1 431**	**2 028**	**2 504**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 431	–2 028	–2 504
BUDGETARY BALANCE(1)	**—**	**—**	**—**

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

TABLE A.3

Detailed consolidated financial framework, 2015-2016 to 2017-2018
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Consolidated revenue			
Personal income tax	28 471	29 639	30 776
Contributions for health services	6 495	6 463	6 195
Corporate taxes	6 404	6 565	6 838
School property tax	2 033	2 135	2 215
Consumption taxes	18 402	18 906	19 407
Duties and permits	3 781	3 763	3 764
Miscellaneous revenue	9 784	10 065	10 405
Government enterprises	4 961	4 850	4 966
Own-source revenue	**80 331**	**82 386**	**84 566**
% change	***3.8***	***2.6***	***2.6***
Federal transfers	19 089	20 180	20 759
Total consolidated revenue	**99 420**	**102 566**	**105 325**
% change	***3.6***	***3.2***	***2.7***
Consolidated expenditure			
Health and Social Services	–37 637	–38 372	–39 395
Education and Culture	–21 002	–21 623	–22 342
Economy and Environment	–12 326	–12 545	–12 752
Support for Individuals and Families	–9 411	–9 527	–9 683
Administration and Justice	–7 258	–7 653	–7 734
Expenditure	**–87 634**	**–89 720**	**–91 906**
% change	***2.5***	***2.4***	***2.4***
Debt service	–10 055	–10 418	–10 515
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BUDGETARY BALANCE (1)	**—**	**—**	**—**

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

Consolidated expenditure by mission

In the Public Accounts, government expenditures are broken down into five major public service missions corresponding to the government's functions.

The five missions chosen by the Québec government are:

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

The activities of certain departments and bodies may fall under more than one mission given their areas of intervention.

In 2016-2017, expenditures for the two chief missions will be:

- $38 372 million for Health and Social Services, an increase of 2.0%;
- $21 623 million for Education and Culture, an increase of 3.0%.

Consolidated expenditure(1) by mission
(millions of dollars)

	2015-2016	2016-2017	% change
Health and Social Services	37 637	38 372	*2.0*
Education and Culture	21 002	21 623	*3.0*
Economy and Environment	12 326	12 545	*1.8*
Support for Individuals and Families	9 411	9 527	*1.2*
Administration and Justice	7 258	7 653	*5.4*
TOTAL	**87 634**	**89 720**	***2.4***

(1) Excluding debt service.

1.2.2 **Adjustments to the financial framework**

Overall, the evolution of the economy requires few adjustments to the government's financial framework.

For 2015-2016:

- own-source revenue is adjusted downward by $254 million owing to lower growth of some tax bases, especially those for revenue from consumption taxes;

- federal transfers are adjusted downward by $286 million.

However, these adjustments are fully offset by a decline in debt service and by additional revenue from bodies and special funds.

Furthermore, responsible spending management enables the establishment of a $300-million contingency fund.

For 2016-2017 and 2017-2018:

- own-source revenue is adjusted downward by $394 million and $225 million, respectively. The adjustments are offset by a decline in debt service and increased revenue from federal transfers;

- the total adjustments related to the economy, together with responsible spending management, ensure funding of the measures contained in The Québec Economic Plan 2016-2017, namely:

  - the Plan for Success in Education and Higher Education;

  - the immediate reduction of the health contribution;

  - economic support measures.

TABLE A.4

Adjustments to the financial framework since Budget 2015-2016
(millions of dollars)

	2015-2016	2016-2017	2017-2018
BUDGETARY BALANCE – BUDGET 2015-2016	**—**	**—**	**—**
ADJUSTMENTS RELATED TO THE ECONOMY			
Own-source revenue	–254	–394	–225
Government enterprises	6	–136	–223
Federal transfers	–286	203	340
Debt service	312	297	283
Bodies, special funds and other	245	123	65
TOTAL – ADJUSTMENTS RELATED TO THE ECONOMY	**23**	**93**	**240**
RESPONSIBLE SPENDING MANAGEMENT			
Bodies and special funds	309	376	397
Action for vulnerable clientele in the health and social services sector	—	–88	–88
Reallocations of expenditures	—	88	88
TOTAL – RESPONSIBLE SPENDING MANAGEMENT	**309**	**376**	**397**
ECONOMIC PLAN			
Plan for Success in Education and Higher Education	—	–164	–168
Immediate reduction of the health contribution	–32	–130	–145
Economic support and other measures	—	–175	–324
TOTAL – ECONOMIC PLAN	**–32**	**–469**	**–637**
Contingency reserve	**–300**	**—**	**—**
BUDGETARY BALANCE – BUDGET 2016-2017	**—**	**—**	**—**

1.3 The government's five-year financial framework

The government's five-year financial framework presents the consolidated financial framework for 2015-2016 to 2020-2021.

After six consecutive years of deficits, the government still expects to balance the budget in 2015-2016 and keep it balanced thereafter.

- Consolidated revenue is expected to increase by 3.2% in 2016-2017 and 2.7% in 2017-2018.

- For the same years, consolidated expenditure growth is expected to be 2.5% and 2.3%, respectively.

The financial framework incorporates a $300-million contingency reserve in 2015-2016, which will be raised to $400 million for the following four years. The reserve will be $500 million in 2020-2021.

Once fiscal balance has been achieved, revenue will remain above expenditure so that the necessary deposits of dedicated revenues can be made in the Generations Fund to achieve the debt reduction objectives by 2025-2026.

- Deposits in the Generations Fund will reach $2.0 billion in 2016-2017 and $2.5 billion in 2017-2018.

TABLE A.5

Consolidated financial framework, 2015-2016 to 2020-2021
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Consolidated revenue						
Personal income tax	28 471	29 639	30 776	31 954	33 083	34 296
Contributions for health services	6 495	6 463	6 195	6 102	6 233	6 366
Corporate taxes	6 404	6 565	6 838	7 057	7 107	7 164
School property tax	2 033	2 135	2 215	2 293	2 366	2 438
Consumption taxes	18 402	18 906	19 407	19 791	20 082	20 426
Duties and permits	3 781	3 763	3 764	3 811	3 921	4 001
Miscellaneous revenue	9 784	10 065	10 405	10 827	11 420	11 810
Government enterprises	4 961	4 850	4 966	4 986	5 215	5 329
Own-source revenue	**80 331**	**82 386**	**84 566**	**86 821**	**89 427**	**91 830**
% change	***3.8***	***2.6***	***2.6***	***2.7***	***3.0***	***2.7***
Federal transfers	19 089	20 180	20 759	21 071	21 253	21 962
% change	*3.0*	*5.7*	*2.9*	*1.5*	*0.9*	*3.3*
Total consolidated revenue	**99 420**	**102 566**	**105 325**	**107 892**	**110 680**	**113 792**
% change	***3.6***	***3.2***	***2.7***	***2.4***	***2.6***	***2.8***
Consolidated expenditure						
Expenditure	–87 634	–89 720	–91 906	–93 974	–96 089	–98 296
% change	*2.5*	*2.4*	*2.4*	*2.3*	*2.3*	*2.3*
Debt service	–10 055	–10 418	–10 515	–10 636	–10 880	–11 242
% change	*–2.1*	*3.6*	*0.9*	*1.2*	*2.3*	*3.3*
Total consolidated expenditure	**–97 689**	**–100 138**	**–102 421**	**–104 610**	**–106 969**	**–109 538**
% change	***2.0***	***2.5***	***2.3***	***2.1***	***2.3***	***2.4***
Contingency reserve	–300	–400	–400	–400	–400	–500
SURPLUS (DEFICIT)	**1 431**	**2 028**	**2 504**	**2 882**	**3 311**	**3 754**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 431	–2 028	–2 504	–2 882	–3 311	–3 754
BUDGETARY BALANCE (1)	**—**	**—**	**—**	**—**	**—**	**—**

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

Financial framework for the general fund and consolidated entities

Financial framework for the general fund and consolidated entities, 2015-2016 to 2020-2021
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
GENERAL FUND						
Revenue						
Own-source revenue excluding government enterprises	52 025	53 658	55 505	57 332	58 899	60 513
% change	*5.4*	*3.1*	*3.4*	*3.3*	*2.7*	*2.7*
Government enterprises	4 863	4 680	4 531	4 471	4 585	4 594
% change	*–8.9*	*–3.8*	*–3.2*	*–1.3*	*2.5*	*0.2*
Federal transfers	17 036	18 204	18 893	18 892	19 224	20 039
% change	*1.2*	*6.9*	*3.8*	*0.0*	*1.8*	*4.2*
Total revenue	**73 924**	**76 542**	**78 929**	**80 695**	**82 708**	**85 146**
% change	***3.3***	***3.5***	***3.1***	***2.2***	***2.5***	***2.9***
Expenditure						
Program spending	–66 460	–68 238	–70 156	–72 089	–74 072	–76 118
% change	*1.7*	*2.7*	*2.8*	*2.8*	*2.8*	*2.8*
Debt service	–8 019	–8 318	–8 283	–8 122	–8 116	–8 230
% change	*–1.6*	*3.7*	*–0.4*	*–1.9*	*–0.1*	*1.4*
Total expenditure	**–74 479**	**–76 556**	**–78 439**	**–80 211**	**–82 188**	**–84 348**
% change	***1.3***	***2.8***	***2.5***	***2.3***	***2.5***	***2.6***
NET RESULTS OF CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds(1)	887	424	–90	–84	–120	–298
Health and social services and education networks	–32	–10	—	—	—	—
Generations Fund	1 431	2 028	2 504	2 882	3 311	3 754
Total consolidated entities	**2 286**	**2 442**	**2 414**	**2 798**	**3 191**	**3 456**
Contingency reserve	–300	–400	–400	–400	–400	–500
SURPLUS (DEFICIT)	**1 431**	**2 028**	**2 504**	**2 882**	**3 311**	**3 754**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 431	–2 028	–2 504	–2 882	–3 311	–3 754
BUDGETARY BALANCE(2)	**—**	**—**	**—**	**—**	**—**	**—**

(1) Including consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

❑ Reduce the weight of expenditure in the economy to the pre-recession level

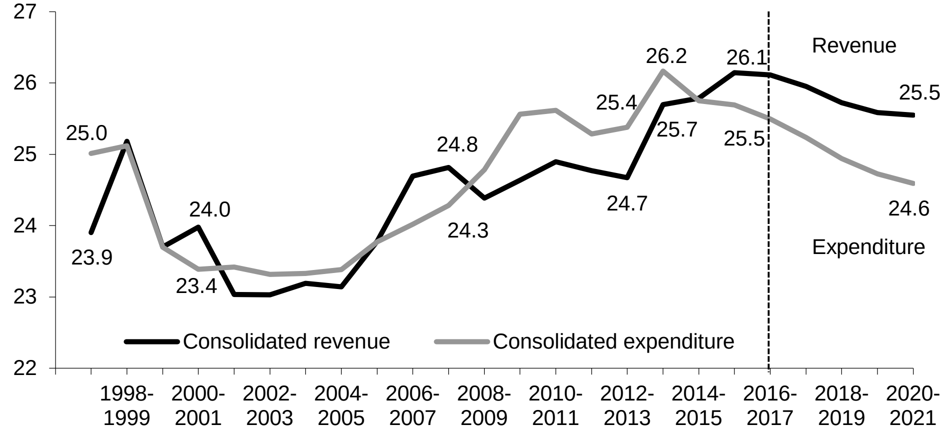
The economic weights of government revenue and expenditure generally follow similar paths.

Since 2007-2008, the weight of spending in the economy has exceeded that of revenue. The weight of spending rose continually up to 2013-2014, when it reached 26.2%.

Once fiscal balance has been restored in 2015-2016, the reduction in the tax burden will gradually bring total revenue as a share of the economy to 25.5% in 2020-2021. Total expenditure as a share of GDP will be reduced to 24.6%, a similar level to that seen in 2007-2008, that is, before the recession.

CHART A.4

Change in the share of consolidated revenue and expenditure in the economy – 1997-1998 to 2020-2021
(percentage of GDP)



1.4 Change in revenue

❑ Revenue growth in line with economic growth

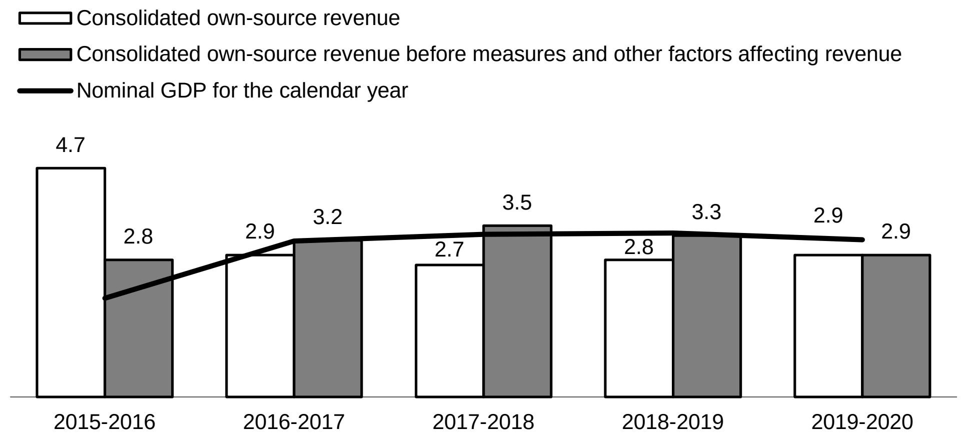
Own-source revenue excluding government enterprises consists chiefly of tax revenue. Its growth generally reflects the changes in economic activity and the effects of measures introduced in the budgets, among other means.

Over the forecasting period, revenue will grow at a more moderate pace under the impact of the tax relief and economic support measures announced since Budget 2015-2016, in particular gradual elimination of the health contribution starting in 2016.

— Excluding the impact of these measures, revenue growth would remain relatively stable over the forecasting period, expanding at the same pace as the economy.

CHART A.5

Growth in consolidated own-source revenue excluding government enterprises – 2015-2016 to 2019-2020
(per cent)



Consolidated revenue growth in line with economic growth

Growth in consolidated own-source revenue excluding government enterprises – 2015-2016 to 2019-2020
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Own-source revenue	**80 331**	**82 386**	**84 566**	**86 821**	**89 427**
% change	***3.8***	***2.6***	***2.6***	***2.7***	***3.0***
Government enterprises	4 961	4 850	4 966	4 986	5 215
Own-source revenue excluding government enterprises	**75 370**	**77 536**	**79 600**	**81 835**	**84 212**
% change	***4.7***	***2.9***	***2.7***	***2.8***	***2.9***
Measures and other factors affecting revenue growth(1)					
Gradual elimination of the health contribution as of 2016(2)	–32	–211	–520	–733	–759
Fight against climate change – Carbon market	859	716	587	465	435
Elimination of restrictions on input tax refunds for large businesses(3)	—	—	–22	–115	–220
Other measures					
Budget 2016-2017	—	–7	–42	–57	–71
Budget 2015-2016	–8	–52	–116	–187	–217
December 2014 update	626	685	563	569	573
Budget 2014-2015	304	278	259	247	246
Other measures(4) and adjustments	797	942	1 090	1 280	1 513
Subtotal	**2 546**	**2 350**	**1 799**	**1 469**	**1 500**
Own-source revenue excluding government enterprises before measures	**72 824**	**75 186**	**77 801**	**80 366**	**82 712**
% change	***2.8***	***3.2***	***3.5***	***3.3***	***2.9***
Nominal GDP growth	***2.0***	***3.2***	***3.3***	***3.3***	***3.2***

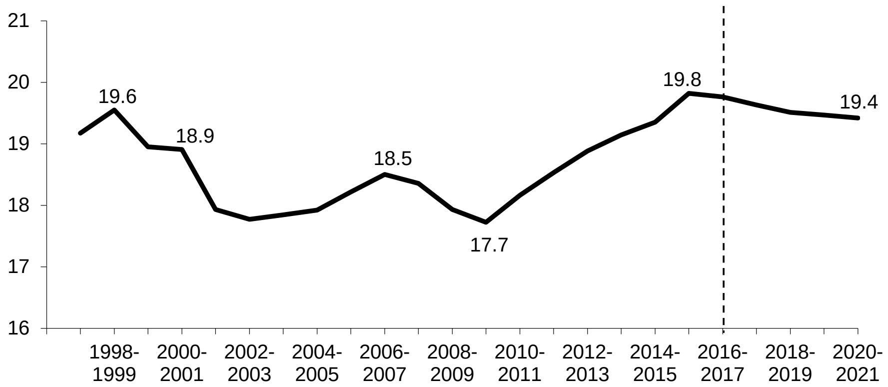
Note: Totals may not add due to rounding.
(1) Main measures affecting consolidated revenue growth.
(2) Includes the financial impact of the gradual elimination of the health contribution announced in Budget 2015-2016 and the immediate reduction of the health contribution announced in Budget 2016-2017.
(3) Businesses with taxable sales of over $10 million.
(4) Includes primarily the measures in budgets 2012-2013 and 2013-2014, as well as investment income of the Generations Fund.

Change in consolidated own-source revenue in the economy

In 2015-2016, consolidated own-source revenue excluding revenue from government enterprises will represent 19.8% of Québec's nominal GDP.

The measures announced in Budget 2016-2017 and previous budgets, especially gradual elimination of the health contribution, will progressively reduce the share of own-source revenue in the economy down to 19.4% in 2020-2021.

Change in consolidated own-source revenue excluding government enterprises in the economy – 1997-1998 to 2020-2021
(percentage of GDP)



1.5 Change in expenditure

In order to restore fiscal balance, spending growth has been reduced to below average recent-year rates. Spending targets are in keeping with taxpayers' ability to pay.

Keeping spending growth below revenue growth enables the government to balance the budget in 2015-2016 and keep it balanced thereafter.

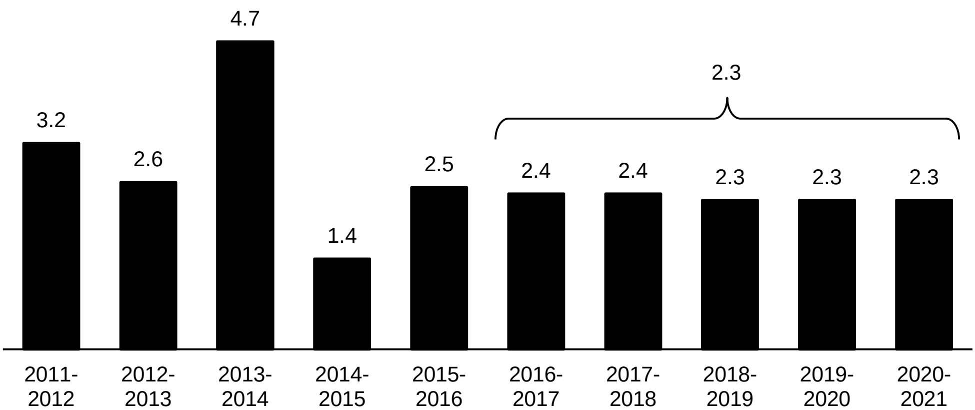
❑ Consolidated expenditure

Consolidated expenditure consists primarily of program spending by government departments, spending by special funds, non-budget-funded bodies and entities of the health and social services and education networks, and debt service.

From 2016-2017 to 2020-2021, growth in consolidated expenditure excluding debt service will be controlled to average 2.3% per year, a similar growth rate to that in 2015-2016. More specifically, expenditure will grow by 2.4% in 2016-2017 and 2017-2018 and by 2.3% annually from 2018-2019 to 2020-2021.

CHART A.6

Consolidated expenditure growth excluding debt service – 2011-2012 to 2020-2021
(per cent)



In 2015-2016, consolidated expenditure growth excluding debt service will be 2.5%, compared to 1.4% in 2014-2015.

— In 2015-2016, consolidated expenditure is below the level in Budget 2015-2016. However, the expenditure decrease recorded in the Public Accounts for 2014-2015 raises the growth rate for 2015-2016 from 1.5%, as forecast in the March 2015 budget, to 2.5% in the March 2016 budget.

Reduction of the weight of spending in the economy to its pre-recession level

Between 2007-2008 and 2013-2014, the economic weight of spending on government missions, i.e. consolidated expenditure excluding debt service as a percentage of GDP, rose from 21.4% to 23.2%.

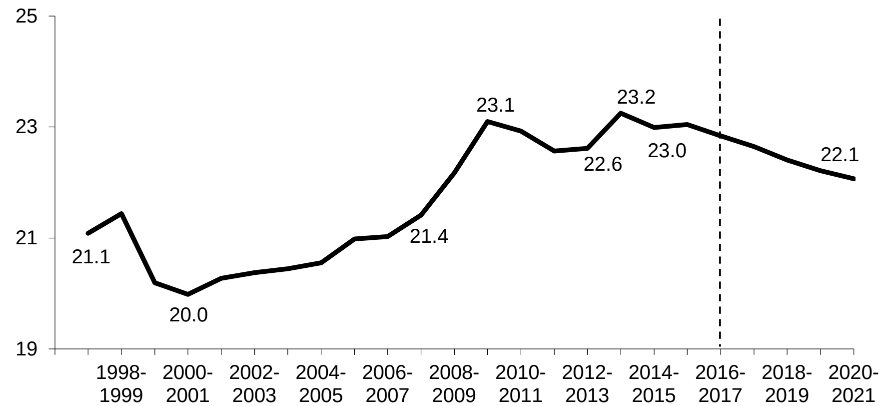
The government implemented disciplined spending management to restore fiscal balance in 2015-2016.

While strengthening funding for public services, spending will be controlled to gradually lower the share of spending on government missions to 22.1% by 2020-2021. This is equivalent to the level prior to the 2008-2009 recession and is more sustainable.

Lower spending levels will:

- prevent excessively high spending from creating an onerous fiscal burden in relation to the other Canadian provinces, which could undermine Québec's tax competitiveness and dampen its economic growth;
- provide the government with the capacity, during difficult economic times, to once again finance measures that may be needed to support the economy.

Change in consolidated expenditure excluding debt service as a share of the economy – 1997-1998 to 2020-2021
(percentage of GDP)



Balanced budgets in the Canadian provinces

British Columbia and Québec are the only provinces with a balanced budget or surplus in 2015-2016.

- The majority of provinces, as well as the federal government, expect to end fiscal year 2015-2016 with a deficit representing between 1% and 6% of their consolidated revenue. Owing to the fiscal challenges experienced by Alberta and Newfoundland and Labrador, those provinces' deficits represent 15% and 32% of consolidated revenue, respectively.

For 2016-2017, British Columbia and Québec will continue to be the only provinces with a balanced budget or surplus.

- With the exception of Newfoundland and Labrador, the provinces expect to see an improvement in their fiscal position in 2016-2017, but still post a negative budgetary balance. The same holds for the federal government.

Budgetary balance[(1)]
(millions of dollars)

	2015-2016		2016-2017	
	$million	% of consolidated revenue	$million	% of consolidated revenue
Québec[(2)]	—	—	—	—
British Columbia	377	0.8	264	0.5
Federal government	–2 300[(3)]	–0.8	–18 400[(3)]	–6.4
Prince Edward Island	–33[(4)]	–2.0	n.a.	n.a.
Nova Scotia	–241[(4)]	–2.5	n.a.	n.a.
Saskatchewan	–427[(3)]	–3.1	–259[(3)]	–1.8
Ontario	–5 686	–4.5	–4 306	–3.3
Manitoba	–773[(3)]	–5.2	–619[(3)]	–4.0
New Brunswick	–466	–5.6	–347	–4.0
Alberta	–6 315[(3)]	–14.6	–5 417[(4)]	–11.9
Newfoundland and Labrador	–1 963[(4)]	–32.2	–2 437[(4)]	–39.2

(1) Based on forecasts in the provincial budgets 2016-2017 forecasts, without exception.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.
(3) Based on February or March 2016 budget update.
(4) Based on fall 2015 budget update.

❑ Program spending

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

In 2016-2017, program spending growth will accelerate to 2.7%, compared to 1.7% growth in 2015-2016.

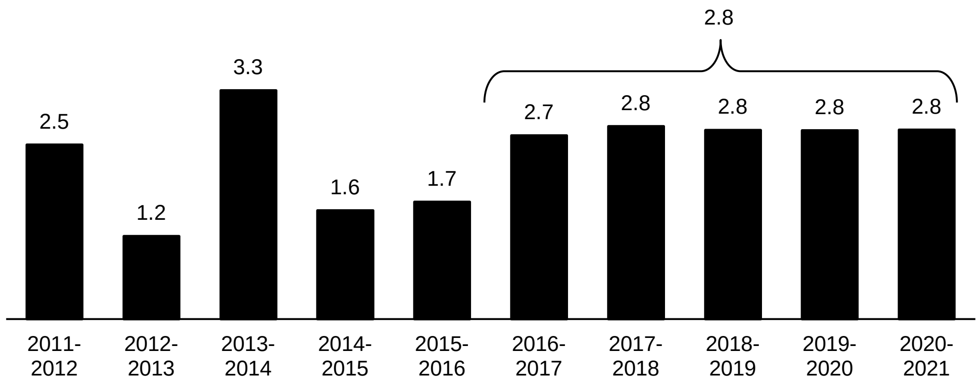
From 2016-2017 to 2020-2021, annual spending growth will average 2.8%, that is:

— 2.7% in 2016-2017;

— 2.8% annually from 2017-2018 to 2020-2021.

CHART A.7

Program spending growth – 2011-2012 to 2020-2021
(per cent)



1.6 Public capital investments

❑ Québec Infrastructure Plan 2016-2026

To meet Québec's significant needs for quality public infrastructure, the government needs to ensure the safety and maintenance of assets, as well as meet infrastructure development needs.

To that end, the government will maintain a high level of public capital investments under the Québec Infrastructure Plan (QIP).

In this context, the government is announcing total investments of $88.7 billion under the 2016-2026 QIP. This is $300 million more than provided for in *The Québec Economic Plan — November 2015 Update*.

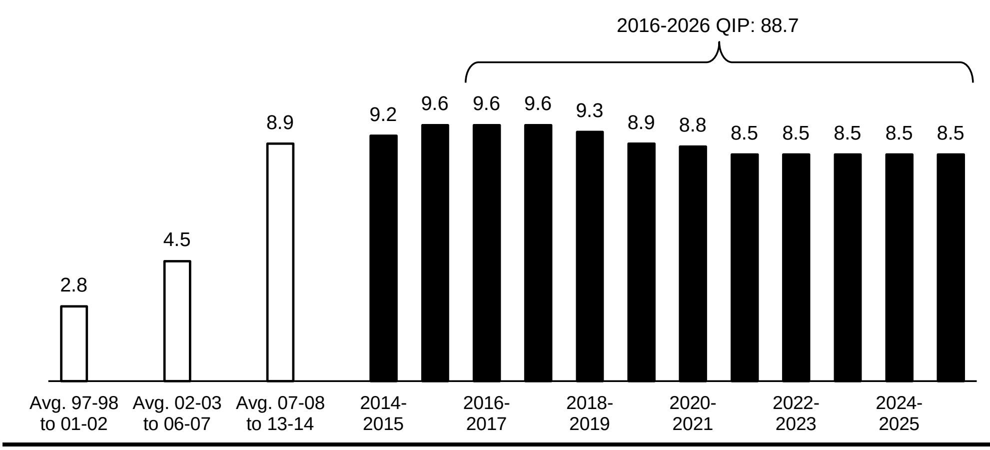
- Owing to an improved fiscal position, the government will be making additional investments to upgrade education infrastructure:
  - $200 million in 2016-2017;
  - $100 million in 2017-2018.

The high levels of investment over the next ten years will be carried out:

- giving priority to public safety, replacement of outdated infrastructure and economic development;
- remaining within Québec taxpayers' ability to pay and achieving the debt reduction objectives.

CHART A.8

Investments under the 2016-2026 Québec Infrastructure Plan
(billions of dollars)



❑ Sectoral breakdown of investments under the 2016-2026 Québec Infrastructure Plan

Over the next ten years, 19.5% of the $88.7 billion in investments under the 2016-2026 QIP will be dedicated to the road network, 16.6% to the health and social services sector, 17.9% to the education and higher education and research sectors, and 9,5% to municipal, sport, community and recreation infrastructure.

Public transit will receive 8% of the investments under the 2016-2026 QIP, or nearly $7.1 billion, including $1.1 billion for fiscal year 2016-2017.

TABLE A.6

Investments under the 2016-2026 Québec Infrastructure Plan by sector
(millions of dollars)

	2016-2017		2016-2026	
	$million	Share in %	$million	Share in %
Road network	2 042.2	21.3	17 322.0	19.5
Health and social services	1 226.1	12.8	14 716.5	16.6
Education	1 553.8	16.2	8 855.0	10.0
Higher education and research	719.3	7.5	7 048.0	7.9
Municipal, sport, community and recreation infrastructure	896.2	9.4	8 396.5	9.5
Public transit	1 133.7	11.8	7 059.9	8.0
Information resources	445.0	4.6	3 330.8	3.8
Marine, air, rail and other modes of transport	366.6	3.8	2 755.7	3.1
Government buildings	272.3	2.8	2 241.6	2.5
Social and community housing	278.2	2.9	1 964.3	2.2
Culture	239.4	2.5	1 599.3	1.8
Other sectors	413.5	4.3	3 395.4	3.8
Core funding(1)	10.0	0.1	10 015.0	11.3
PQI 2016-2026	**9 596.3**	**100.0**	**88 700.0**	**100.0**

(1) Funding reserved for projects currently under study and future projects not yet identified.

Additional projects under the 2016-2026 QPI will also be considered, namely:

— upgrading of the Autoroute 20/highway 173 interchange at Lévis;

— flagstone replacement in the middle part of the Laviolette bridge at Trois-Rivières;

— construction of the Phase 3 of the Promenade Samuel-De Champlain in the city of Québec;

— creation of the Institut nordique du Québec.

❑ Contribution from partners

In addition to the investments of $88.7 billion provided for in the 2016-2026 QIP, the Québec government's various partners will contribute a total of $18.0 billion to QIP projects, including $2.3 billion in 2016-2017.

This raises the total level of capital investments for projects under the QIP to $106.7 billion over the next ten years, including $11.9 billion in 2016-2017.

TABLE A.7

Capital investments, 2016-2026
(billions of dollars)

	2016-2017	2016-2026
2016-2026 QIP	**9.6**	**88.7**
Contribution from partners		
Federal government	0.9	9.3
Other partners	1.4	8.7
Total – Contribution from partners	**2.3**	**18.0**
TOTAL	**11.9**	**106.7**

❑ Economic impacts of public capital investment

The substantial public capital investment planned for the coming years will be a powerful driver of economic activity and job creation in every region of Québec.

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

In addition to the government's investments under the QIP, government enterprises also make substantial capital investments.

In 2016-2017, capital investments by government enterprises, chiefly Hydro-Québec, will total $4.0 billion.

Counting the $9.6 billion planned under the QIP, public investment will reach $13.6 billion in 2016-2017. These investments will:

— help create or maintain nearly 79 000 jobs, including 47 000 direct jobs;

— generate spinoffs equal to 2.5% of real GDP.

TABLE A.8

Economic impact of public capital investment

	2016-2017
Investments under 2016-2026 QIP	$9.6 billion
Investments by government enterprises	$4.0 billion
Total investment	**$13.6 billion**
Number of jobs created or maintained	79 000
Impact on GDP	2.5%

❑ Greater importance of public capital stock in the economy

Over the next ten years, the level of Québec government investments will average nearly $9 billion a year, thus remaining above pre-2008 levels.

Government investments represented 2.5% of GDP in 2015-2016 and are expected to represent the same in 2016-2017. Over the next ten years, they are expected to average 1.9% of GDP annually.

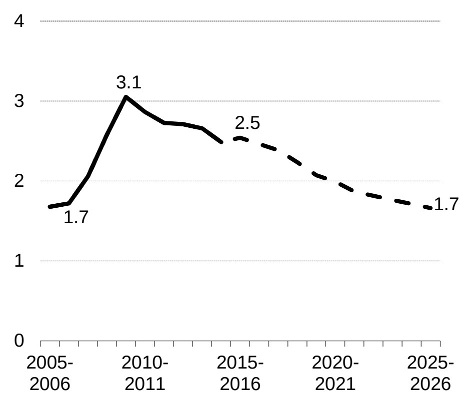
Investment targets of this level reflect the importance the government places on public infrastructure. Indeed, the Québec Infrastructure Plan contributes directly to the increase in public capital stock in the economy. Public capital stock is a key determinant of productivity and economic growth.

— Public capital stock rose from 22.5% of real GDP in 2000 to 29.1% in 2014 and is expected to represent 29.3% of real GDP in 2016.

— This growth will raise public capital stock to an equivalent level to that in the early 1980s.

CHART A.9

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

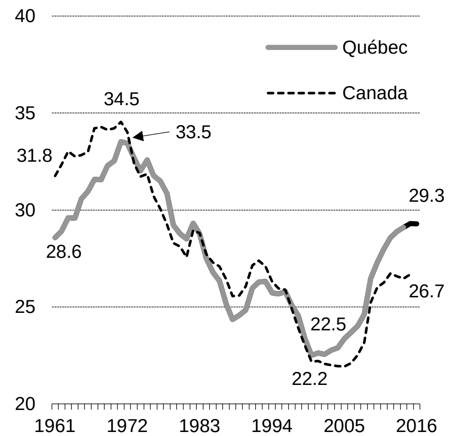


Sources: Institut de la statistique du Québec, Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

CHART A.10

Change in public capital stock

(percentage of GDP in real terms)



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

1.7 Debt reduction

Reducing the debt is a priority. The government is maintaining its debt reduction objectives and continuing the related efforts by making deposits of dedicated revenues in the Generations Fund.

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

— the gross debt cannot exceed 45% of GDP;

— the debt representing accumulated deficits cannot exceed 17% of GDP.

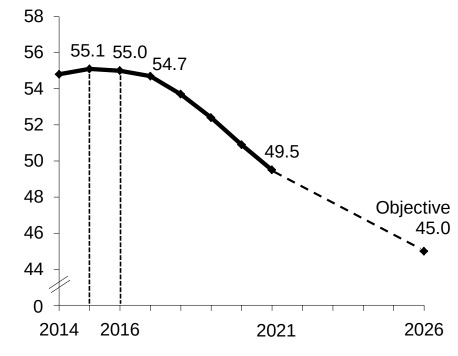
The gross debt burden is declining. As at March 31, 2016, it will be 55.0% of GDP, a 0.1-percentage-point decrease over March 31, 2015.

As at March 31, 2016, the debt representing accumulated deficits will stand at 31.7% of GDP, also a decrease over March 31, 2015.

CHART A.11

Gross debt as at March 31

(percentage of GDP)

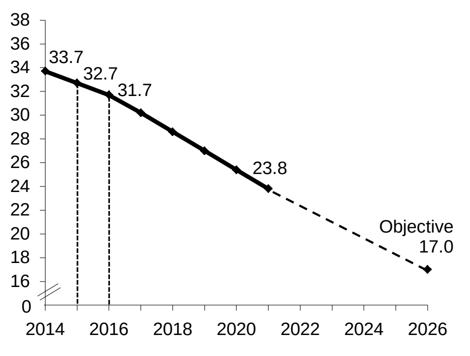


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.12

Debt representing accumulated deficits as at March 31

(percentage of GDP)



2. THE QUÉBEC ECONOMIC PLAN

The Québec Economic Plan contains several measures to support the economy and boost job creation. Initiatives designed to drive economic growth are already under way.

— Actions have been taken to stimulate private investment, particularly in conjunction with the Maritime Strategy and the Plan Nord.

In addition, the first tax relief initiatives for individuals took effect as of January 2016, in particular through immediate reduction of the health contribution, the introduction of a tax shield and the enhancement of work incentives for experienced workers.

At the same time, the government is maintaining a high level of public capital investments under the Québec Infrastructure Plan.

Using the right levers to support collective wealth and consolidate Québec's social safety net.

The Québec Economic Plan 2016-2017[2] proposes additional initiatives to:

— support individuals and families;

— stimulate economic development.

2 Details of the measures in the Québec Economic Plan are presented in Section B of this document.

2.1 Supporting individuals and families

The return to fiscal balance makes it possible to accelerate and enhance the implementation of certain measures as well as plan new actions for the benefit of Quebecers, which will contribute to Québec's economic growth and collective wealth.

In this regard, the Québec Economic Plan provides for substantial government investment to ease the tax burden on Quebecers, strengthen support for individuals and communities and address workers' aspirations and employers' needs.

All of the measures in this budget aimed at supporting individuals represent close to $700 million over the coming years.

TABLE A.9

Financial impact of the measures under the Québec Economic Plan in Budget 2016-2017 to support individuals and families
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Tax relief for individuals	–130.4	–144.7	–184.7	–17.2	—	**–509.0**(1)
Stronger support for individuals and communities	–27.5	–31.1	–31.8	–29.5	–66.4	**–186.3**
TOTAL	**–157.9**	**–175.8**	**–216.5**	**–46.7**	**–66.4**	**–695.3**

(1) Including the financial impacts for fiscal year 2015-2016.

❑ Tax relief for individuals: immediate reduction of the health contribution

To ease the tax burden on Québec households and increase their disposable income, Budget 2016-2017 is announcing:

— immediate reduction of the health contribution;

— complete abolition of the health contribution earlier than planned, in 2018.

This represents an additional reduction $509 million over five years.

❑ Stronger support for individuals and communities

For greater fairness and social justice, which are centrepieces of government action, Budget 2016-2017 introduces numerous measures, including:

— a 50% reduction in the additional contribution in respect of the second child using childcare services;

— funding for two government strategies in 2016-2017, namely:

  — the 2016-2021 strategy for the equality of women and men, 2016-2021,

  — the 2016-2021 strategy to prevent and counter sexual violence, 2016-2021;

— enhancements to the tax credit for donations.

Individuals and communities will receive more than $185 million in additional support over five years.

2.2 Fostering economic development

Budget 2016-2017 provides for measures totalling nearly $2.3 billion over the next five years to support economic growth in all of Québec's regions.

More specifically, these measures are designed to develop the economy by:

— addressing workers' aspirations and employers' needs;

— accelerating innovation and investment in the manufacturing sector;

— providing Québec SMBs with greater support;

— adopting a cutting-edge digital strategy;

— supporting innovation in key sectors of the economy, such as life sciences, forestry, agriculture and the aerospace industry;

— encouraging innovative business start-ups and growth.

TABLE A.10

Financial impact of the Québec Economic Plan measures in Budget 2016-2017 for fostering economic development
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Addressing workers' aspirations and employers' needs	–57.4	–53.8	–66.7	–66.3	–66.3	**–310.5**
Accelerating innovation and investment in the manufacturing sector	–133.0	–102.0	–114.3	–207.5	–291.1	**–847.9**
Additional support for Québec SMBs	–18.2	–41.5	–60.5	–60.5	–101.5	**–282.2**
Adoption of a cutting-edge digital strategy	–12.8	–29.4	–35.9	–41.6	–42.2	**–161.9**
Supporting innovation in key sectors of the Québec economy	–107.3	–134.0	–141.7	–119.1	–106.5	**–608.6**
Encouraging innovative business start-ups and growth	–16.9	–21.3	–5.5	–0.6	–0.6	**–44.9**
TOTAL	**–345.6**	**–382.0**	**–424.6**	**–495.6**	**–608.2**	**–2 256.0**

❑ Addressing of workers' aspirations and employers' needs

Against the backdrop of population aging and a shrinking available labour pool, the government wants to increase labour market participation incentives.

To that end, Budget 2016-2017 provides, in particular, for:

— enhancement of work premiums for households without children;

— enhancement of the tax shield;

— lowering of the age of eligibility for the tax credit for experienced workers to 62 years old.

These actions represent a gain of $310 million over five years for households for increased labour market participation.

❑ Accelerating innovation and investment in the manufacturing sector

The Economic Plan includes initiatives totalling nearly $850 million over the next five years to support manufacturing businesses in their efforts to innovate, including:

— introduction of a reduced electricity rate to spur manufacturing investment and natural resource processing;

— implementation of a tax cut for innovative Québec businesses to support the marketing of their innovations;

— creation of the RénoVert refundable tax credit.

❑ Additional support for Québec SMBs

The Québec Economic Plan provides for additional measures totalling more than $280 million over the next five years to increase government support for SMBs, including:

— a further reduction of the Health Services Fund contribution rate for Québec SMBs;

— additional support for exporting SMBs to help bring Québec innovations to market.

❑ Adopting a cutting-edge digital strategy

The Québec Economic Plan provides for initiatives totalling $162 million over five years as part of the digital strategy's implementation:

- granting of additional estimates to fund the first initiatives under the digital strategy;
- enhancement of the tax credit for integration of information technologies in manufacturing SMBs;
- introduction of a new tax credit for major digitization projects.

❑ Supporting innovation in key sectors of the Québec economy

The Québec Economic Plan provides for additional initiatives totalling more than $600 million over the next five years to support innovation in key sectors of the economy.

❑ Encouraging innovative business start-ups and growth

The Québec Economic Plan will inject more than $40 million over the next five years to foster the start-up and growth of innovative businesses, particularly through the following initiatives:

- support for the start-up of innovative businesses;
- a $96-million increase in the capitalization of Teralys Capital Fonds d'innovation;
- creation of a fund to support female entrepreneurship;
- increased support for tax-advantaged funds to facilitate the financing of Québec SMBs;
- extension of the local investment funds.

3. STRENGTHENING FUNDING OF PUBLIC SERVICES

Once the budget is balanced, the government can strengthen funding of the government's priorities, especially education and health care, to improve the quality and efficiency of public service delivery.

To that end, program spending will grow at a faster pace starting this year.

— Spending growth will rise from 1.7% in 2015-2016 to 2.7% in 2016-2017, for an acceleration of 1 percentage point. In 2017-2018 and 2018-2019, program spending growth will further accelerate to 2.8%.

The government invests in public services:

— by making education a priority to ensure economic and social development;

— in order to continue reforming and modernizing the health and social services network.

These investments will bring spending growth in 2016-2017 to 3.0% for the Éducation et Enseignement supérieur portfolio and to 2.4% for the Santé et Services sociaux portfolio.

TABLE A.11

Program spending for the major portfolios
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019
Éducation et Enseignement supérieur	16 827	17 245	17 769	18 299
% change	*1.3*	*3.0*(1)	*3.0*	*3.0*
Santé et Services sociaux	32 964	33 739	34 564	35 529
% change	*2.3*	*2.4*	*2.4*	*2.8*
Other portfolios	16 308	16 599	16 961	17 045
% change	*–1.1*	*1.2*(2)	*2.2*	*0.5*
Contingency Fund(3)	360	655	612	717
Fiscal room(4)	—	—	250	500
PROGRAM SPENDING	**66 460**	**68 238**	**70 156**	**72 089**
% change	***1.7***	***2.7***	***2.8***	***2.8***

Note: Totals may not add due to rounding.
(1) To assess growth based on comparable spending levels, the percent change was calculated by excluding, from 2015-2016 expenditures, transfers from the provision for francization of the Ministère de l'Immigration, de la Diversité et de l'Inclusion ($78.5 billion).
(2) To assess growth based on comparable spending levels, the percent change was calculated by including, in 2015-2016 expenditures, transfers from the provision for francization of the Ministère de l'Immigration, de la Diversité et de l'Inclusion to the Ministère de l'Éducation et de l'Enseignement supérieur ($78.5 million) and the Ministère de la Santé et des Services sociaux ($12.2 million).
(3) The purpose of this program is to cover unforeseen expenditures in any government program, expenditures provided for but not broken down in departmental portfolios as well as certain measures announced as part of Budget Speech 2016-2017.
(4) The government has fiscal room to face various risks and manage department arbitrations required when preparing the Expenditure Budget.
Source: Secrétariat du Conseil du trésor.

3.1 Education: investing to improve success in education and higher education

❑ The Plan for Success in Education and Higher Education

Major strides have been made in recent years to improve academic success and college and university graduation rates.

— The academic success rate of students under 20 years of age was 77.7% in 2013-2014, compared to 71.9% five years before. This represents an annual increase of 1 percentage point.

  — The progress made is such that, today, 5 074 more students graduate every year in Québec than would have been the case if no effort had been made to improve the academic success rate.

— In addition, 27% of Quebecers between the ages of 25 and 64 now have a university degree, a sharp increase over the early 2000s.

— We need to move further along this path. The government's goal is to ensure that more and more young people succeed in school, particularly by narrowing the regional disparities in Québec.

  — Québec must rank among the best in academic success and continue drawing on best practices and policies that have delivered significant results.

Improving direct services to students

The Québec Economic Plan 2016-2017 reiterates the importance given to education and higher education by the government with regard to Québec's economic and social development. The planned investments are designed to improve the performance of education networks by making students central to the priorities.

To this end, in the Plan for Success in Education and Higher Education, additional investments of $500 million over the next three years will be put toward enhancing educational success.

- To provide a stimulating learning environment and guide young people to prevent drop-outs, investments of $300 million over three years are forecasted.
- The Plan also provides for an additional $120 million to give students the desire to succeed and strive for excellence, in particular through physical activity and strengthening links with various civic partners, including the cultural sector.
- A total of $80 million over three years will be invested to strengthen links between the education and higher education networks and businesses in order to better meet labour market requirements.

In particular, these investments will make it possible to surpass the current goal of having 80% of young people graduate before the age of 20 by 2020.

TABLE A.12

Additional investments in direct student services
(millions of dollars)

	2016-2017	2017-2018	2018-2019	Total
Act early and in the right place	97	101	102	**300**
Give students the desire to succeed and strive for excellence	40	40	40	**120**
Pursuing innovation in education and higher education	27	27	27	**80**
TOTAL	**164**	**168**	**168**	**500**
Investment breakdown				
Preschool, primary and secondary education (1)	*109*	*113*	*113*	***335***
Higher education	*55*	*55*	*55*	***165***

Note: Totals may not add due to rounding.
(1) Also includes leisure, sport and outdoor measures.

■ Greater investment in education and higher education infrastructure

The Plan for Success in Education and Higher Education provides for additional investments totaling $700 million to renovate and upgrade educational establishments.

— These investments will provide students with more stimulating learning environments, fostering a desire to succeed.

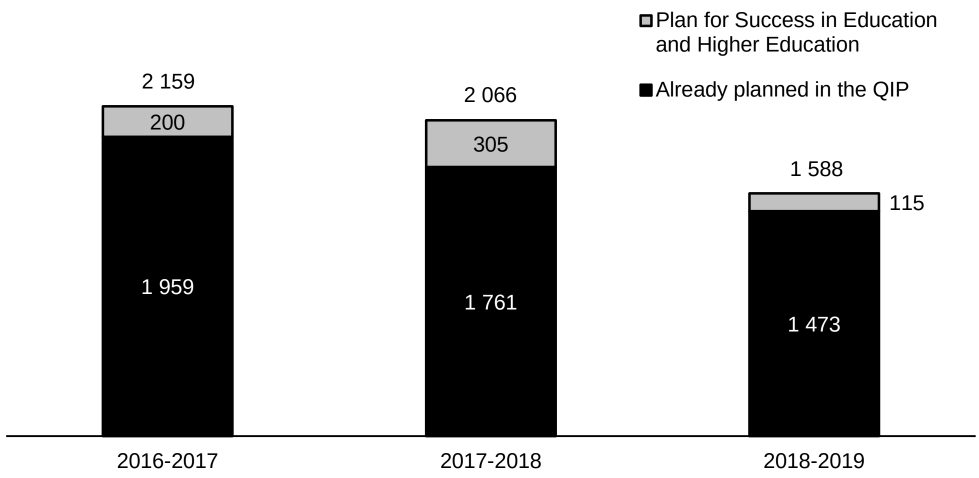
  — In addition to expanding access to sporting facilities, particularly in the municipalities, the plan includes amounts to improve the overall condition of educational establishments and make them eco-responsible.

Additional investments include $200 million in 2016-2017, $305 million in 2017-2018 and $115 million in 2018-2019.

— These investments, provided for in the 2016-2026 QIP, will enable an annual investment of nearly $2 billion in education and higher education.

CHART A.13

Investment in education and higher education infrastructure – 2016-2017 to 2018-2019
(millions of dollars)



Note: Investments totalling $80 million will be made beyond 2018-2019, raising investments under the plan to $700 million.

❑ Improving funding for childcare services

In Québec, educational childcare services were established with the goal of providing children with a healthy environment that fosters their development and well-being from the time they are born to the time they start school.

— The substantial investment in childcare services and pre-kindergarten testifies to the government's goal of ensuring that all children are ready to start school.

Childcare services prepare children to start school by helping develop their potential and allowing them to acquire skills, such as social abilities.

Childcare centres (CPEs), subsidized daycare and home childcare services recognized by a coordinating office are funded by the subsidized childcare program.

In November 2014, the Québec government initiated a review of the subsidized childcare program to ensure the long-term viability of the reduced-contribution childcare program.

To that end, a new childcare funding method for CPEs and subsidized daycare centres will take effect on April 1, 2016.

To facilitate the transition to the new funding method, the government granted CPEs and subsidized daycare centres a special-purpose allowance of $60 million in 2015-2016 to give them the financial support needed to, among other things:

— review their staff supervision and activity-based management practices;

— adopt modern and effective management tools to improve cost control and optimize work organization, particularly management of work schedules.

3.2 Ongoing reform and modernization of the health and social services network

The Québec Economic Plan 2016-2017 includes health-related initiatives to provide greater support to vulnerable clientele and continue reforming the health and social services network.

❑ Action for vulnerable clientele

The government is taking action toward prevention and toward better access to general and specialized services to ensure that Quebecers, particularly the most vulnerable, receive services suited to their needs.

To that end, initiatives representing an additional $88 million per year starting in 2016-2017 are being implemented:

— $5 million to improve services for people with an autism spectrum disorder and their families and to address the major priorities identified during the Québec autism spectrum disorder forum held on February 11 and 12, 2016;

— $60 million to increase home-support services for seniors by addressing the growing needs for long-term care and the increased prevalence of disabilities and diminished autonomy;

— $15 million to increase access to surgery, particularly outpatient surgery, and reduce the length of waiting lists;

— $6 million for substance abuse treatment centres;

— $2 million to promote healthy lifestyles and implement a preventive health policy.

These sums are included in the expenditures of the Ministère de la Santé et des Services sociaux.

❑ Onging reform of the health and social services network

The government has committed itself to an important reform of health and social services through three main channels:

— modifying the organization of services;

— improving access to services;

— ensuring effective, patient-based care.

■ Organization of services

The *Act to modify the organization and governance of the health and social services network, in particular by abolishing the regional agencies* (CQLR, chapter O-7.2) was passed in February 2015.

The purpose of the Act is to modify the organization and governance of the health and social services network in order to facilitate and simplify public access to services, improve the quality and safety of care and make the network more efficient and effective.

■ Access to services

On November 10, 2015, the National Assembly of Québec passed Bill 20, *Act to enact the Act to promote access to family medicine and specialized medicine services and to amend various legislative provisions relating to assisted procreation*.

The primary purpose of the Act is to improve access to general practitioner and ensure continuity of care by medical specialists in a timely manner.

■ Patient-based funding

The government has undertaken an important initiative with the goal of rethinking health and social services funding and implementing a patient-based funding model.

- Patient-based funding allocates resources according to the type and volume of services provided, taking into account the complexity of care delivered and the patients' health conditions.
- Moreover, patient-based funding is predicated on the ability to determine the exact case cost.

By improving the performance of the health care system, more care can be delivered for a given budget.

In 2015-2016, the Ministère de la Santé et des Services sociaux undertook major work to establish the policy directions and define the conditions for seeing this major initiative through to implementation.

The work will continue for the next three years and be funded through the provision of the Ministère des Finances for modernizing information systems in the health care sector. This provision will have an envelope of $15 million in 2016-2017, $40 million in 2017-2018 and $15 million in 2018-2019.

Impact of the immediate reduction of the health contribution on the Fund to Finance Health and Social Services Institutions

The progressive health contribution will be completely abolished at the end of the 2017 taxation year. This measure will not reduce health and social services funding.

- The planned level of funding for the Fund to Finance Health and Social Services Institutions (FINESSS) in 2016-2017 is still $1 539 million.
- FINESSS's $130-million revenue shortfall will result in a deficit in the special fund consolidated in the government's financial framework. Following the passing of Bill 74 abolishing FINESSS, all expenditures will be financed out of program spending, which will be adjusted by an equivalent amount.

Impact of the immediate reduction of the health contribution on the Fund to Finance Health and Social Services Institutions in 2016-2017
(millions of dollars)

	Before immediate reduction	After immediate reduction
FINESSS revenue		
Progressive health contribution	662	532
Personal income tax	455	455
Transfers from the Government of Canada	342	342
Revenue from the responsible department	81	81
Total revenue	**1 539**	**1 409**
FINESSS expenditures	**–1 539**	**–1 539**
SURPLUS (DEFICIT)	—	**–130**

Note: Totals may not add due to rounding.

3.3 Renewal of collective agreements

An agreement in principle was reached between the representatives of the Common Front and the government on December 17, 2015.[3] The agreement is in line with taxpayers' ability to pay and provides government employees with adequate compensation.

The agreement guarantees more attractive working conditions than initially proposed. The agreement provides for:

— annual increases of 1.5%, 1.75% and 2.0% on April 1, 2016, 2017 and 2018, respectively;

— lump-sum amounts equal to 1.0% of the average salary in 2015-2016 (about $550 per full-time equivalent employee who worked all year) and 0.5% of the average salary in 2019-2020 (about $290 per full-time equivalent employee who worked all year);

— an adjustment of 2.4% as a result of the salary relativity exercise and various rules that do not apply to all employees.

TABLE A.13

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

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Salary parameters					
Proposal in November 2015	—	1.0	1.00	1.0	—
Addition	—	0.5	0.75	1.0	—
Subtotal	—	**1.5**	**1.75**	**2.0**	**—**
Lump-sum payments	1.0	—	—	—	0.5
Salary relativity	—	—	—	—	2.4(1)
Special rules	—	—	—	0.7	0.4

(1) Impact when fully implemented. The impact is 2.0% in 2019-2020.
Source: Secrétariat du Conseil du trésor.

With regard to retirement, the parties agreed on the following:

— raise the reduction applicable for early retirement from 4.0% to 6.0% per year as of July 1, 2020;

— raise the age of retirement without any actuarial penalty from 60 to 61 as of July 1, 2019.

3 The agreement applies to 496 000 salaried employees out of 531 000 unionized employees. Renewal of 51 000 non-unionized employees' working conditions and agreements with the medical federations still have to be reached.

CONCLUSION

The Québec Economic Plan in budgets 2014-2015 and 2015-2016 gave the government a serious plan for returning to sound, balanced public finances.

The Québec Economic Plan 2016-2017 is an opportunity to restate the government's fiscal policy directions and align them with the current economic situation.

The government's economic and fiscal priorities under the Québec Economic Plan are to:

— strengthen the funding base for its major missions;

— support economic growth by reducing the tax burden on taxpayers and stimulating investment, innovation and employment.

The government is also reaffirming the economic and fiscal policy directions that will guide government action for 2016-2017 and the coming years in Québec, namely:

— maintenance of a balanced budget;

— alignment of spending growth with taxpayers' ability to pay, giving priority to education and health;

— support for the transition to a low-carbon economy;

— maintenance of a high level of public capital investments;

— reduction of the tax burden, starting with elimination of the health contribution;

— ongoing debt reduction.

APPENDIX: GOVERNMENT ACTION FOR RESPONSIBLE MANAGEMENT OF PUBLIC FINANCES

Since its arrival, the government has presented budgets and economic updates containing several measures to balance the budget and restore sound public finances in a sustainable manner.

To begin with, in the June 2014 budget, the government announced several initiatives toward sound governance. They had various aims, including to:

- ensure responsible control of government spending;
  - The government undertook major work to review tax expenditures as a whole and examine public services programs and their delivery, in particular their relevance, effectiveness and efficiency and funding.
- strengthen the expenditure planning framework;
  - As of Budget 2015-2016, program spending for each departmental portfolio is planned for a three-year period.
- ensure better control of staffing levels.
  - To that end, the government implemented a general freeze on staffing levels in 2014-2015 and 2015-2016 and adopted head-count tools.

The March 2015 Québec Economic Plan included additional initiatives to improve budget management in public bodies:

- simplification of administrative structures through grouping or integration of government bodies;
- efforts by bodies to reduce their expenditures;
- fiscal balance in public bodies, in particular through the plan to restore funding of the Agence métropolitaine de transport.

With The Québec Economic Plan 2016-2017, the government is continuing with action to ensure responsible management of public finances, in particular:

- tighter management of the Green Fund;
- measures to improve the government's performance;
- greater transparency in budgetary information.

1. TIGHTER MANAGEMENT OF THE GREEN FUND

❑ Special funds

Over the last few years, the government has established special funds in various sectors of activity to ensure a linkage between the funding of specific services and the dedicated revenues collected with respect to them.

Special funds are a recognized articulation of good practice in fiscal management for funding certain government activities. A number of jurisdictions use this tool to fund their public services.

Québec has 41 special funds established by legislation to fund specific activities of government departments or bodies.

Among the most important special funds are the Land Transportation Network Fund, the Fund to Finance Health and Social Services Institutions, the Labour Market Development Fund, the Green Fund and the Territorial Information Fund. Expenditure by special funds as a whole totals nearly $11.4 billion in 2015-2016.

— The activities of special funds may be funded, in particular, through program spending, fees or tax revenues.

Note that surpluses accumulated by the special funds are kept and subsequently used to fund the missions for which they were created.

TABLE A.14

Spending by special funds excluding debt service[1]
(millions of dollars)

	2015-2016	**2016-2017**	**2017-2018**
Land Transportation Network Fund (FORT)	2 742	2 671	2 815
Fund to Finance Health and Social Services Institutions (FINESSS)	1 537	1 539	1 538
Labour Market Development Fund	1 000	1 032	1 007
Green Fund	557	867	798
Territorial Information Fund	116	115	112
Other special funds	5 427	5 838	5 731
TOTAL	**11 379**	**12 062**	**12 001**

(1) Excluded from the Generations Fund.

The Special Funds Budget, which presents information concerning the funds' mission, revenues, expenditures and investments, is tabled in the National Assembly for approval each year.

❑ Green Fund

The Green Fund was established in June 2006 to support measures promoting sustainable development, especially in its environmental aspects. The fund is an important financial and economic lever for Québec, particularly for funding efforts to fight climate change.

- Activities funded by the Green Fund consist primarily of measures to fight climate change, which are funded using revenue generated by the carbon market through the sale of tradable permits for greenhouse gas emissions. Revenue from these sales in 2014-2015 amounted to $406 million.
  - The legislation provides that two-thirds of the proceeds from the carbon market are reserved for measures applicable to transportation.
- Other environmental protection measures, in particular reduction of residual material and water management, are funded through from the water royalty, fees payable for residual waste disposal and environmental authorization applications, and federal government transfers. Revenue from these sources totalled $138 million in 2014-2015.

TABLE A.15

Revenue and expenditure of the Green Fund, by sector of activity, in 2014-2015
(millions of dollars)

	Climate change	Residual material	Water	Dams(1)	Other	Total
Revenue						
Duties and permits	402.1	111.7	2.9	—	8.6	**525.3**
Federal government transfers	—	—	—	3.9	1.3	**5.2**
Other	4.3	1.2	—	1.0	7.6	**14.1**
Total revenue	**406.4(2)**	**112.9**	**2.9**	**4.9**	**17.5**	**544.6**
Expenditure						
Land Transportation Network Fund(3)	–169.1	—	—	—	—	**–169.1**
Natural Resources Fund	–81.3	—	—	—	—	**–81.3**
Other	–36.5	–84.3	–2.1	–2.0	–19.7	**–144.6**
Total expenditure	**–286.9**	**–84.3**	**–2.1**	**–2.0**	**–19.7**	**–395.0**
Surplus (deficit) for the year	**119.5**	**28.6**	**0.8**	**2.9**	**–2.2**	**149.6**
Accumulated surplus, beginning of year	366.5	101.8	8.0	25.1	9.9	**511.3**
ACCUMULATED SURPLUS, END OF YEAR	**486.0**	**130.4**	**8.8**	**28.0**	**7.7**	**660.9**

(1) The Green Fund receives contributions from the federal government for the administration of three dams it transferred to Québec.
(2) Also includes annual duties on fuel and the reallocation of sums from the 2006-2012 Climate Change Action Plan.
(3) Measures for public transit and alternative modes of transport.

Projections for the Green Fund for Budget 2016-2017

The Green Fund will have revenues of nearly $1 billion in 2015-2016 and $864.4 million in 2016-2017.

The projected expenditures for the same years are $556.7 million and $867.1 million. For 2016-2017 in particular, planned expenditures include:

— $301.2 million for the Ministère des Transports, de la Mobilité durable et de l'Électrification des transports;

— $201.0 million for the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques;

— $166.0 million for the Ministère de l'Énergie et des Ressources naturelles;

— $198.9 million for the other departments and bodies.

An annual surplus of $441 million in 2015-2016 and a deficit of nearly $3 million in 2016-2017 will be in addition to the accumulated surplus of $661 million in 2015-2016, for a total of nearly $1.1 billion in 2016-2017.

— These sums are reserved for environmental measures, in particular measures to fight climate change.

TABLE A.16

Revenue and expenditure of the Green Fund
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue	**544.6**	**997.8**	**864.4**
Expenditure by department			
Transports, Mobilité durable et Électrification des transports(1)	–170.7	–275.2	–301.2
Développement durable, Environnement et Lutte contre les changements climatiques(2)	–20.7	–145.7	–201.0
Énergie et Ressources naturelles(2)	–87.9	–109.3	–166.0
Other(3)	–115.7	–26.5	–198.9
Total expenditure	**–395.0**	**–556.7**	**–867.1**
Surplus (deficit) for the year	**149.6**	**441.1**	**–2.7**
Accumulated surplus, beginning of the year	511.3	660.9	1 102.0
ACCUMULATED SURPLUS, END OF YEAR	**660.9**	**1 102.0**	**1 099.3**

(1) Is included in the Land Transportation Network Fund.
(2) Is included in the Natural Resources Fund.
(3) Includes measures in Budget 2016-2017.

❑ Major overhaul of the Green Fund's management

As part of the ongoing process to ensure responsible and disciplined management of public finances, the government is initiating a major overhaul of the Green Fund.

Management of the Green Fund is proving to be more complex than for other special funds owing to the number of departmental players who have access to the fund. Over the years, issues have arisen in relation to the transparency of policy directions, the use of fund revenue, and reporting.

The government has decided to overhaul the Green Fund's management to ensure more disciplined and more transparent governance. The overhaul will include:

— creation of a management board for the Green Fund, whose governance will be predicated on project-based, results-oriented management aimed at achieving the targets and objectives related to fighting climate change, residual materials management and water governance;

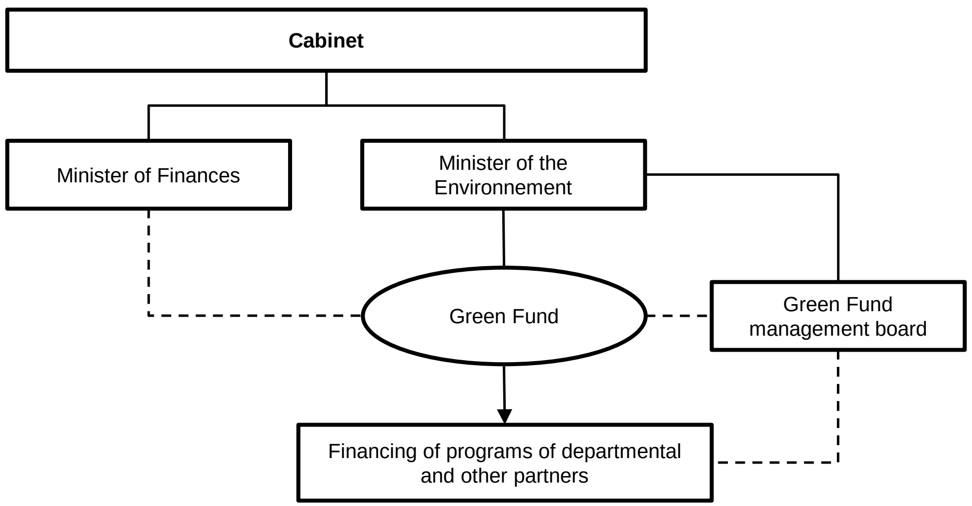
— assignment of responsibility for financial oversight of the Green Fund to the Comptroller of finances with a view to improving its management and reporting;

— creation of Green Fund accounts to ensure accountability to the National Assembly for the management and use of all revenue spent on environmental measures.

In addition, from now on, Green Fund expenditures will be broken down and presented by departmental portfolio in the Special Funds Budget. As well, details of Green Fund expenditures will be submitted to the government for approval.

ILLUSTRATION A.1

Governance structure of the Green Fund



Green Fund accounts

With a view to better information and transparency to the public about the results of the Green Fund, the government will establish separate accounts for the fund.

The Green Fund accounts will be a vehicle for financial and per-program reporting on the use of all revenue spent to fund sustainable environment measures.

The accounts will report on all sector-based directions related to the fight against climate change, residual materials management and water governance. The Green Fund accounts provide the public with various information, in particular:

- the type of and changes in revenue generated by the carbon market;
- departmental and program spending;
- new initiatives implemented during the year.

The accounts will also report on proposals made by the future Green Fund management board.

The Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques will be responsible for publishing the Green Fund accounts once a year, in cooperation with the Ministère des Finances. The first Green Fund accounts will be tabled in the National Assembly in February 2017.

Fight against climate change

Revenue generated by the carbon market since December 2013 is used to fund measures to reduce greenhouse gas (GHG) emissions and help Québec adapt to climate change impacts.

- These measures are implemented under the climate change action plans, in sectors of activity that emit GHGs in Québec, in particular transportation, industry and construction, the three major emitting sectors.
- In 2014-2015, more than one hundred measures were funded for a total of $286.9 million.

Main climate change expenditures
(millions of dollars)

	2014-2015
Programs to improve public transit	145.2
Energy efficiency and conversion programs	34.5
Programs for the purchase of electric vehicles	25.9
Freight transportation support programs	9.2
Programs for the development of new technologies	6.7
Support for bioenergy development	6.2
Other measures	59.2
TOTAL	**286.9**

2. FOR A MORE EFFICIENT GOVERNMENT

2.1 Better performance by the Société des alcools du Québec

The government has asked the Société des alcools du Québec to find ways to improve and measure its performance to make it more effective and efficient. To that end, the Québec Economic Plan proposes:

- action to maximize the dividends paid to the government, while ensuring an efficient cost structure for the benefit of Québec consumers;
- performance measurement indicators, including benchmarking with similar enterprises;
- new performance targets starting in 2016-2017.

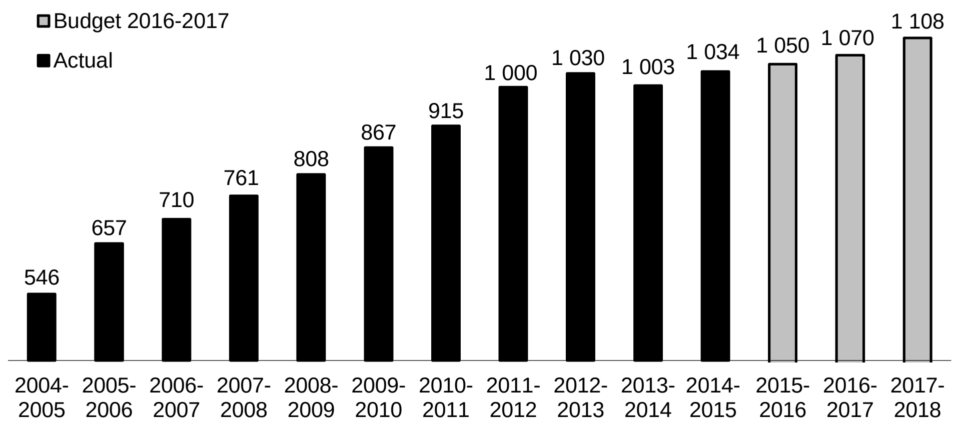
These measures act on the recommendations made by the Ongoing Program Review Committee.

❑ Performance improvement

The sales and net results of the Société des alcools du Québec have increased steadily over the last few years. The government corporation's net results have nearly doubled over the last ten years, rising from $546 million in 2004-2005 to $1 034 million in 2014-2015.

CHART A.14

Change in net results of the Société des alcools du Québec
(millions of dollars)



Sources: Société des alcools du Québec and Ministère des Finances du Québec.

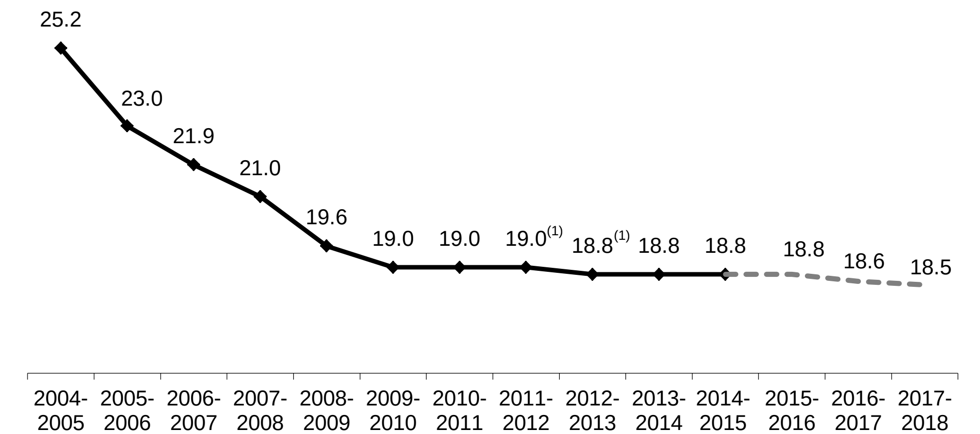
In addition, its net expenses-to-sales ratio illustrates the Société des alcools du Québec's capacity to generate sales at minimum cost.

— The ratio decreased from 25.2% in 2004-2005 to 18.8% in 2014-2015. As of 2016-2017, the goal is to reduce the net expenses-to-sales ratio to below previous-year levels.

Accordingly, compared to the targets fixed in the fall of 2015, the net expenses-to-sales ratio will be improved for the entire forecasting period and held below 19.0%, the level initially forecast for 2015-2016.

CHART A.15

Change in the net expenses-to-sales ratio of the Société des alcools du Québec – Budget 2016-2017
(per cent)



(1) The net expenses-to-sales ratios for fiscal years 2011-2012 and 2012-2013 have been adjusted to cancel the effects of exceptional accounting adjustments and standardize the period covered by these fiscal years. Had it not been for these adjustments, the ratio for would have been 18% for those two years.

Sources: Société des alcools du Québec and Ministère des Finances du Québec.

Efficiency and productivity gains will be realized in the coming years to reduce the net expenses-to-sales ratio. These gains will have a positive financial impact on the government corporation’s results.

— Reducing its net expenses-to-sales ratio will enable the Société des alcools du Québec to increase its annual net results by $5 million in 2015-2016, $21 million in 2016-2017 and $23 million in 2017-2018.

TABLE A.17

Net expenses-to-sales ratios and financial impact of efficiency and productivity gains
(per cent)

	2015-2016	2016-2017	2017-2018
Net expenses-to-sales ratio			
Fall 2015	19.0	19.3	19.3
Budget 2016-2017	18.8	18.6	18.5
Efficiency gains	***–0.2***	***–0.7***	***–0.8***
FINANCIAL IMPACT ($million)	**5.0**	**21.0**	**23.0**

❑ Efficiency initiatives

The Société des alcools du Québec has improved its profitability since the beginning of 2015-2016 thanks to several efficiency initiatives on its part.

— The primary goal of the initiatives is to optimize the government corporation’s administrative and operational arms in order to achieve productivity gains. For example, accounting activities will be centralized and transportation activities related to the corporation’s website (saq.com) will be optimized, as will inventory management.

❑ Performance benchmarking

Lastly, the corporation’s performance will be benchmarked against similar bodies in the other provinces (e.g. Liquor Control Board of Ontario) as well as against private retail businesses.

Based on the results of this benchmarking exercise, the government will identify possible avenues for further optimizing the corporation’s activities.

2.2 Optimization and promotion of land and geospatial information-related activities

Since the mid-19th century, the government has kept a record of all real property transactions in Québec using different registers making up the Québec Land Register.

The Québec Land Register:

- contains legal information on more than four million properties, that is, assets worth over $995 billion;
- enables municipalities to collect property taxes and transfer duties, and school boards to collect school property taxes.

With over 11 million consultations a year, the usefulness and integrity of the Land Register are acknowledged. The reliability of the information it contains provides vital stability to the real estate market, thereby enabling the public and businesses to get mortgage loans at competitive interest rates and full enjoyment from their ownership rights.

The land and geospatial information recorded in the Québec Land Register is a source of quality information and represents potential that has not been fully tapped into for the purposes of Québec's economic development. Analyzing and comparing this information against other data informs decisions. Consequently, making better use of this information creates wealth.

Making better use of knowledge about the territory and its features will help gain a better understanding of economic development issues and resources that need to be protected.

Against this backdrop, in order to maximize government management of land and geospatial information and foster its dissemination to the public and businesses, the budget provides for:

- optimization of the Québec Land Register's current services;
- promotion of land and geospatial activities.

❑ Optimization of Québec Land Register services

Since the early 1990s, several governments have made fairly significant changes to the operational and governance structure of their land and geospatial information infrastructure. The changes range from improving services within government departments to privatizing these registers in whole or part. One model used is the creation of a government corporation, sometimes as a means of transition to privatization.

Québec could learn from the experience of other Canadian provinces by reviewing government management of land and geospatial information and making it available to clientele groups.

Review of governance systems in other provinces
Other Canadian provinces have improved the operational performance of land and geospatial information activities. Some provinces have also tried to promote this information more effectively, in particular through optimization of government structures and partnerships with private firms to make the information more accessible. Ontario and Manitoba opted for privatization through the company Teranet, which provides online land and geospatial information. In Manitoba, Teranet owns and operates The Property Registry. Saskatchewan created the Information Services Corporation (ISC), a government corporation responsible for development, management and administration of registries (land titles, personal property, etc.), the survey registry and geographic information. ISC was subsequently privatized and is now a publicly-traded business corporation. British Columbia also created a government corporation responsible for administering the land title and survey systems in B.C. Lastly, Nova Scotia has issued a call for tenders with a view to privatizing three provincial registries, including the land registry.

In this budget, the government is initiating the process of optimizing the services currently provided by the Québec Land Register by introducing measures to:

- roll out registry offices using already earmarked investments to increase electronic transmission of documents to the Québec Land Register and make better use of the Services Québec outlets of the Ministère du Travail, de l'Emploi et de la Solidarité sociale. Among other things, this involves making the information in the Land Register available to the clientele through a self-service system;
- review governance of geospatial information.
  - The review will primarily be in the form of better integration of land and geospatial databases by structuring all official, relevant land information held by the government and its partners.

❑ Promotion of land and geospatial activities

The Québec Land Register constitutes a solid information base that can be used to develop marketable products.

Consequently, the government proposes to implement measures to add value to activities related to land and geospatial information held by the Québec Land Register, among other bodies, particularly as regards the marketing of value-added products. To that end, the Ministère de l'Énergie et des Ressources naturelles will undertake work to:

— identify market opportunities for value-added products;

— assess the possibility of marketing value-added products and establishing partnerships.

Integration of government data for better value

Several departments and bodies have geomatics and geospatial information tools to help them carry out their core mission, in particular:

- official mapping of Québec;
- use of aerial photographs or satellite imagery;
- emergency measures plans;
- soil characterization;
- forest inventories;
- transportation infrastructure;
- the cadastral map.

However, these databases and geomatics tools are developed independently and are not easy to access by all potential users. Individuals and businesses who want to use this information have to go through several departments and bodies as well as access systems.

By providing them with access to reliable, up-to-date, integrated land and geospatial information, the public, investors, financial players and real estate brokers will be able to plan and target their development projects to, in particular:

- determine the site of physical infrastructure;
- assess the project's environmental impacts;
- establish market strategies;
- see to transportation-related aspects.

As part of this work, the government will assess the advisability of issuing a call for interest to seek partners in the private sector. This exercise could lead to a review of the business model for the Québec Land Register.

The above optimization measures will save the government $2 million in 2016-2017 and $7 million annually from 2017-2018 to 2020-2021.

TABLE A.18

Financial impact for the government
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Optimization	2	7	7	7	7
Marketing of value-added products	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL IMPACT	**2**	**7**	**7**	**7**	**7**

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

Optimization and promotion of the Québec Land Register will require legislative amendments to:

— roll out registry offices;

— produce value-added products related to the Québec Land Register's activities and make them available to individuals and businesses.

2.3 Ongoing improvement of the performance of the Société de l’assurance automobile du Québec

Over the last few years, the Société de l’assurance automobile du Québec (SAAQ) has rectified the automobile insurance plan’s financial situation. As a result of the action taken, the panel of experts on automobile insurance contributions concluded that, today, the scheme is financially sound.

❑ Insurance component of the SAAQ

The panel of experts supported a decrease in insurance contributions from 2016 to 2018. Since January 1, 2016, the vast majority of drivers and vehicle owners have seen their insurance premiums go down by up to 35%.

— This represents total overall savings of nearly $400 million a year for Québec road users.

Substantial gains for citizens
Improving the road safety record is at the heart of SAAQ’s actions. More specifically, SAAQ has conducted numerous prevention campaigns to raise road users’ awareness about road safety issues. The road safety record has improved significantly in recent years. Indeed, between 2005 and 2014, the number of road accident deaths decreased by 52%, from 707 to 336, despite steady growth in the number of vehicles on the road. The number of serious injuries fell by 61%, from 4 000 to 1 573, over the same period. The improvement in road safety enables a reduction in insurance contributions from 2016 to 2018. Indeed, SAAQ’s excellent management of the automobile insurance plan, which was recognized by the Ongoing Program Review Committee,[1] enabled it to offer insured persons an annual reduction of $394 million in insurance contributions. – That represents a reduction of $9 for driver’s licence holders and $56 for owners of passenger vehicles, for a total of $65 per vehicle owner per year. All told, insured persons will pay $1.2 billion less over the next three years.

1 Ongoing Program Review Committee, *Focus on Performance – Report of the Commission de révision permanente des programmes*, Volume 1, June 2015.

❑ Fee management

SAAQ also improved its customer services as well as realized substantial productivity gains for driver's licence and vehicle registration operations. As a result, it went from recurring annual deficits of $35 million up to 2009 to an annual surplus, enabling it to begin reducing its accumulated deficit associated with these activities.

To continue improving its performance, the government is announcing that SAAQ will introduce:

— modernization of its information resources;

— business model that includes personalized licence plates.

These measures will require legislative amendments.

■ Modernization of SAAQ's information resources

SAAQ's goal in the coming years is to further improve its service delivery performance and better address user needs, in particular by implementing new technologies.

For that purpose, SAAQ will pursue developments that enable it to, in particular:

— increase its online services and offer a discount to those who use them;

— facilitate electronic transmission of documents and issue permanent registration certificates;

— introduce automatic renewal of driver's licences and registration certificates and issue a single invoice for both.

Once completed, modernization of its information resources will enable SAAQ to realize efficiency gains, while facilitating transactions for its clientele.

Personalized licence plates

The SAAQ issues and renews more than six million licence plates a year. For individuals, the registration number consists of six alphanumeric characters and vehicle owners are not allowed to choose them.

However, the other Canadian provinces allow vehicle owners to choose their registration number, on request, so they can have a personalized licence plate. Every year, SAAQ receives requests from people wanting a personalized licence plate.

Therefore, the SAAQ will develop a service offering for personalized licence plates. Vehicle owners will be able to choose the alphanumeric combination they want for their plate, provided it is not morally objectionable.

The fees payable and the personalized licence plate issuing process will be based on the best practices developed by other jurisdictions.

Benefits for the government from these two measures

Modernizing SAAQ's information resources and offering personalized licence plates will generate $3 million in additional revenue in 2017-2018 and 2018-2019.

TABLE A.19

Impact of the measures on SAAQ's performance
(millions of dollars)

	2016-2017	2017-2018	2018-2019
Modernization of information resources(1)	—	–2	–2
Personalized licence plates	—	5	5
TOTAL	—	**3**	**3**

(1) Modernization of information resources will require investments in the first years.
Source: Société de l'assurance automobile du Québec.

2.4 Improvement of service delivery in the regions

Since its creation in 2004, Services Québec has offered citizens and businesses a single window for access to services. Through its 167 offices across Québec, Services Québec provides:

— services at its counters in regional and local offices;

— general information by phone and online assistance;

— electronic delivery services through two Web portals: one for citizens and one for businesses.

❑ Improved government service offering

With the aim of improving expenditure and public service management, in 2015-2016 the government reaffirmed, in the Expenditure Management Strategy, its desire to continue expanding, through Services Québec, the multiservice window and ensure a presence of government services across Québec.

To integrate a variety of service deliveries in order to create a network administration facilitating the transparency and implementation of a client-focused service delivery, the government wants to make Services Québec the main entry point for government services for citizens and businesses across Québec.

Services Québec will focus on optimal use of information technology by rolling out informational and transactional online services supported by its customer service centres.

New government service offering by Services Québec

The new business approach making Services Québec the main entry point for government services for citizens and businesses across Québec will translate to:

- delivery channels consisting of:
  - a single network of government service counters present in all regional county municipalities, reaching 90% of the population within a 50-km radius,
  - a telephone number for citizens and a telephone number for businesses seeking government services,
  - simple, rapid online access to all government services via the Québec government portal as well as a mobile phone app;
- centralized front-line services of departments and bodies and support for service delivery;
- a single form for simultaneous delivery of more than one service;
- creation of Service québécois de l'identité et de l'adresse and centralization of the primary government registers.

Services Québec will implement its new service offering across Québec gradually, through various initiatives over three years.

- The first phase of implementation of the new service offering will be carried out in the coming year in the Services Québec offices in Saguenay–Lac-Saint-Jean, Québec and Montréal.

The range of initiatives to come should propose a reduction in operating costs for the services offered, while improving services to citizens.

The government will announce the details of the full implementation of the new service offering at a later date.

2.5 Optimization of processes at the Régie du bâtiment du Québec

The *Building Act*[4] is 30 years old. Since 1985, the construction industry has undergone numerous administrative and technological changes.

The modernization process initiated by the Régie du bâtiment du Québec in 2014-2015 will thus continue in 2016-2017, with the primary goal of improving its performance. The contemplated changes include:

— making the various players (developers, owners, contractors) accountable for the quality of construction work, in particular through greater oversight of work and the issuance of certificates of conformity with the standards in force, to be issued by a professional after the construction work has been completed;

— reviewing and streamlining the mechanisms for verifying the professional qualification of contractors to take into account business size and the risks involved in the work carried out;

— ensuring better management of the revenues collected from the different players.

[4] CQLR, chapter B-1.1.

2.6 More efficient management of the farm property tax credit program

The farm property tax credit program (FPTCP) enables roughly 48 000 owners of agricultural operations to pay significantly less property tax.

The government conducted a thorough examination of the FPTCP in response to, in particular, comments from the Ongoing Program Review Committee.

The Committee raised two key issues in relation to the FPTCP, namely:

- the relevance of this assistance program;
- its difficult and complex management, with numerous terms and conditions of reimbursement.

With this budget, the government is addressing the Committee's findings and announcing that the FPTCP will be overhauled for more efficient management.

❑ The program is still relevant

The farm property tax credit was introduced to compensate for the significant capitalization required for agricultural operations compared to other sectors of the economy. Indeed, given that the role of land for farmers is akin to that of production equipment for non-farming businesses, the program can be considered equivalent to the municipal tax exemption claimed for production equipment in other industries.

Another objective of the program is to ensure competitive tax treatment for Québec farmers compared to farmers in the other Canadian provinces, all of which have measures to ease the land-related burden on farming businesses. Given the substantial support given to agriculture not only in the rest of Canada, but also in the United States and other major producers around the world, abolishing the FPTCP would have a major impact on the competitiveness of Québec farming businesses.

In light of these findings, a program to ease the land-related burden on agricultural producers is vital to maintaining a dynamic sector that is important to the Québec economy.

❑ A necessary administrative overhaul

Currently, administration of the PCTFA is extremely cumbersome. Every year, the numerous reimbursement rates and different eligibility requirements lead to corrections in the assistance granted to 90% of the program beneficiaries. In addition, because the reimbursement is relatively difficult to calculate, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ), which currently administers the program, must answer nearly 20 000 requests for explanations every year.

Therefore, the government will streamline the program's administration and transfer responsibility for its management to Revenu Québec.

The transfer of responsibility will enable the terms and conditions of the program to be reviewed, including by replacing the three current rates of assistance by a single rate to greatly facilitate management.

— This exercise is expected to enable administrative efficiencies totalling $1.5 million a year.

Thus, as of January 1, 2017, farmland operated by an agricultural producer registered with MAPAQ will be eligible for financial assistance equal to 78% of the value of the municipal taxes.

— Overall, the amount of financial assistance corresponds to the level of support currently provided to program beneficiaries.

The current reimbursement system, under which the tax credit is applied against the property owner's tax bill, will be maintained. In addition, simplifying the eligibility requirements will enable a streamlined procedure that is more transparent for beneficiaries.

The improved administrative efficiency will ensure the sustainability of a crucial program for development of Québec's agri-food sector.

Transfer of management of the farm property tax credit program to Revenu Québec

As of January 1, 2017, Revenu Québec will be responsible for management of the farm property tax credit program (FPTCP). The program is currently administered by the Ministère de l’Agriculture, des Pêcheries et de l’Alimentation (MAPAQ).

- This decision does not change the overall support provided to program beneficiaries.

Expenditures currently provided for in the estimates of MAPAQ will be funded from the government’s tax revenue.

- The level of spending by MAPAQ will be reduced by an equivalent amount.

Impact of the transfer of the FPTCP’s management to Revenu Québec on the program’s funding
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020
Tax-funded expenditures	—	152.4	160.0	168.0
Estimates of MAPAQ	—	–152.4	–160.0	–168.0
TOTAL	**—**	**—**	**—**	**—**

3. BUDGETARY INFORMATION

The government pledged to be transparent in its actions and in the use of public funds. Several steps have been taken to that end in the last two years, including:

— legislative amendments relating to the publication of a pre-election report on the state of Québec's public finances;

— publication of monthly reports on financial transactions according to a set timetable;

— publication of multi-year information on program spending by major portfolios, established for a three-year period;

— mandatory periodic evaluation of tax expenditures and reporting of those expenditures as an integral part of the budget documents;

— a commitment to introduce, by 2017-2018, a new way of presenting budgetary information that will give parliamentarians access to information on total consolidated expenditure under the responsibility of each minister.[5]

The Québec Economic Plan is an opportunity to go further by taking steps to tighten budget adoption rules.

All of this work is an ongoing process to foster transparency in the Québec government.

The goal is also to ensure a quality report on the state of Québec's public finance. The report will be released in 2018, before the next election.

[5] Consolidated revenue and expenditure by portfolio for 2014-2015 according to the 2016-2017 budgetary structure are presented in Appendix 2 of Section D of this document.

3.1 Tighter budget adoption rules for public bodies

In The Québec Economic Plan 2015-2016, the government announced its intention to tighten the budget adoption rules for public bodies to increase the consistency of budgetary processes within government bodies.

— This adjustment will also allow for better integration of the government budget preparation process.

To that end, the process for approving the budget forecasts of public bodies needs to be improved.

That is why, starting the next budget planning cycle, the process for multi-year budget forecasts and adoption of the annual budgets of non-budget-funded bodies will be better governed by legislation. For example, the budgets of all bodies could be approved by the government at the same time, instead of individually, as is currently often the case.

In addition, bodies will be informed of the multi-year fiscal policy directions at the beginning of the process to ensure greater consistency in the government's action, while conforming to governance rules.

Illustration of the proposed process for approving the budgets of non-budget-funded bodies

A few months before the government tables its budget, the central bodies (Chair of the Conseil du trésor and Minister of Finance) will inform the minister responsible for the body of the multi-year fiscal policy directions.

The minister will communicate the multi-year fiscal policy directions to the bodies under his or her responsibility and generally see to their compliance.

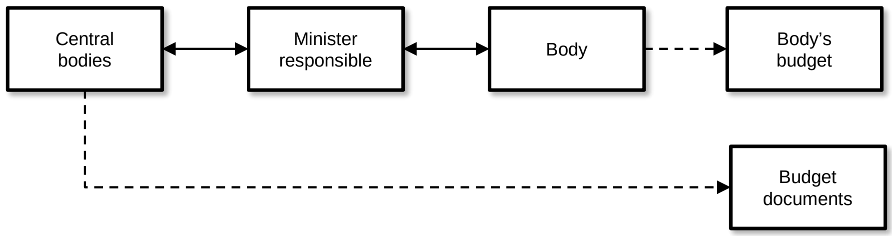
- The minister responsible and the body's management, including the board of directors, if one exists, will ensure that the budget forecasts respect the fiscal policy directions before they are sent to the central bodies.

The process will include a mechanism for exceptional adjustment of forecasts, in particular owing to measures related to the Budget Speech.

The central bodies will then prepare budget documents taking into account the budget forecasts approved by the body and any adjustments to the forecasts.

Lastly, the body will prepare a multi-year budget taking into account the information contained in the budget documents.

Approval process for budgets of non-budget-funded bodies



3.2 Pre-election report

The *Act respecting the Ministère des Finances* entrusts the Minister of Finance with the responsibility of preparing and publishing a pre-election report on the state of the government's financial situation. It also entrusts the Auditor General with the responsibility of preparing a report containing his or her opinion on the plausibility of the forecasts and assumptions presented in the pre-election report.

— Preparation of the pre-election report will benefit from all the work undertaken by the government in the last few years to improve transparency and efficiency.

The pre-election report will provide a common understanding of the state of public finances audited by the Auditor General of Québec.

Between now and 2018, the Ministère des Finances, in cooperation with all government departments and bodies, will carry out various work to validate and modernize its processes involved in preparing the government's financial framework.

Additional appropriations of $2 million will be allocated to the Ministère des Finances as of 2016-2017 for that purpose. The sums required for 2016-2017 will be drawn from the Contingency Fund.

3.3. Québec's budgetary statistics

To improve budgetary information, Budget 2016-2017 includes the publication of Québec's budgetary statistics in Section F of *Additional Information 2016-2017*. Section F is an integral part of the government's budgetary accountability and is aimed, in particular, at monitoring the government's revenue and expenditure as a whole on an historical basis.

This edition contains certain changes in presentation, in particular:

— revenue by source and expenditure as a whole are presented on a consolidated basis, in accordance with the changes made in the other sections of the Québec Economic Plan;

— a chapter has been added on adjusted statistics to facilitate the analysis of historical data;

— forecasts are presented for 2015-2016 to 2017-2018.

Section B

ECONOMIC PLAN

INTRODUCTION

The global economy is changing. Digitization and new technologies are part of the realities to which the Québec economy must adapt. Québec has several assets on which it can rely to seize opportunities related to this change.

The Québec Economic Plan embodies the government's vision of economic development. This structuring plan has two primary objectives:

- the return to sound, balanced public finances to find the necessary leeway to give a new boost to the economy of Québec and to keep up with a changing global economy;

- the implementation of an environment conducive to economic growth and job creation, particularly by ensuring a stable business environment for investors.

Various initiatives were implemented to achieve these objectives since almost two years. Budget 2016-2017 marks a significant step in implementing the Québec Economic Plan, with the presentation of results demonstrating its effectiveness.

❑ A balanced budget, an integral part of economic growth

Significant efforts have been made over the past two years to re-establish sound, balanced public finances.

These efforts have borne fruit. It is now confirmed that a balanced budget will be achieved in 2015-2016.

- Maintaining a balanced budget over the next few years will remain a guiding objective in the management of public finances in Québec. The stability of public finances is an integral part of economic growth.

Due to its rigorous management of public finances, the government has leeway to reinvest in public services as well as pursue its ambitious plan to meet the challenges of the new economy.

❑ An economic plan that will help seize opportunities in a changing economy

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

In Budget 2016-2017, the government is enhancing the Québec Economic Plan to further stimulate economic growth and job creation.

The new measures in Budget 2016-2017 are aimed particularly at responding to the major structural challenges of the Québec economy and seizing opportunities related to its transformation, particularly by promoting education and training, encouraging innovation and promoting the integration of new technologies.

❑ An additional tax relief of $1.2 billion for individuals and businesses

In its Economic Plan, the government committed to reducing the tax burden for individuals and businesses to encourage work and investment.

Important measures were taken in this direction.

Initial tax relief measures for individuals have been in effect since January 1, 2016 with the:

- introduction of a tax shield;
- increase in the tax credit for experienced workers.

In addition, the gradual elimination of the health contribution was expected to begin on January 1, 2017.

Several measures have been taken over the past few years to reduce the tax burden of businesses, particularly SMBs.

The Economic Plan of Budget 2016-2017 intensifies efforts to reduce the tax burden of individuals and businesses. Budget 2016-2017 provides for an additional reduction of the tax burden by 2020-2021 of:

- $840 million for individuals;
- $380 million for businesses, particularly SMBs.

The Economic Plan provides for an overall reduction of the tax burden of Quebecers of almost $6 billion from now until 2020-2021.

❑ Additional measures totaling more than $3.6 billion

Budget 2016-2017 includes measures totaling more than $3.6 billion over the next five years to support economic growth in all regions of Québec.

More specifically, these measures aim to:

- increase funding for education;
- provide support to individuals and families, with:
  - tax relief for individuals,
  - stronger support for individuals and communities;
- promote economic development, by:
  - fulfilling workers' aspirations and employers' needs,
  - accelerating innovation and investment in the manufacturing sector,
  - providing further support for Québec SMBs,
  - implementing a cutting-edge digital strategy,
  - supporting innovation in key sectors of the economy, such as life sciences, forestry, agriculture and aerospace,
  - promoting the startup and growth of innovative businesses;
- improve government performance.

TABLE B.1

Financial impact of the Québec Economic Plan in Budget 2016-2017
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Increase funding for education(1)	**−126.1**	**−173.4**	**−178.8**	**−174.8**	**−174.8**	**−827.9**
Supporting individuals and families						
Tax relief for Quebecers	−130.4	−144.7	−184.7	−17.2	—	−509.0(2)
Strengthen support for individuals and communities	−27.5	−31.1	−31.8	−29.5	−66.4	−186.3
Subtotal	**−157.9**	**−175.8**	**−216.5**	**−46.7**	**−66.4**	**−695.3(2)**
Promote economic development						
Fulfill workers' aspirations and employers' needs	−57.4	−53.8	−66.7	−66.3	−66.3	−310.5
Accelerate innovation and investment in manufacturing	−133.0	−102.0	−114.3	−207.5	−291.1	−847.9
Increased support for Québec SMBs	−18.2	−41.5	−60.5	−60.5	−101.5	−282.2
Implementing a cutting-edge digital strategy	−12.8	−29.4	−35.9	−41.6	−42.2	−161.9
Supporting innovation in Québec key economic sectors	−107.3	−134.0	−141.7	−119.1	−106.5	−608.6
Promoting startup and growth of innovative companies	−16.9	−21.3	−5.5	−0.6	−0.6	−44.9
Subtotal	**−345.6**	**−382.0**	**−424.6**	**−495.6**	**−608.2**	**−2 256.0**
Improve government performance	**21.0**	**33.5**	**29.5**	**23.5**	**24.5**	**132.0**
TOTAL	**−608.6**	**−697.7**	**−790.4**	**−693.6**	**−824.9**	**−3 647.2(2)**

(1) These measures are presented in detail in the Budget paper 1 – *Plan for Success in Education and Higher Education*.
(2) Including the financial impact of the immediate reduction of the health contribution for the 2015-2016 fiscal year.

❑ Sustained investments of nearly $13 billion

The March 2016 Economic Plan will support nearly $13 billion in investments.

Over time, the new measures under the Québec Economic Plan will support more than 25 000 jobs in every sector of the economy.

The entire set of measures in the Québec Economic Plan will entail nearly $35 billion in investments in the economy.

TABLE B.2

Economic support provided in the Québec Economic Plan
(millions of dollars)

	Sustained investments
Budget 2014-2015	7 169
Update on Québec's economic and financial situation (Fall 2014)	735
New and improved tax holiday for major investment projects	4 035
Budget 2015-2016(1)	9 893
Subtotal	**21 832**
Budget 2016-2017	12 804
TOTAL – QUÉBEC ECONOMIC PLAN	**34 636**

(1) Including investment for the continuation of the Bombardier C Series program.

CHALLENGES AND OPPORTUNITIES IN AN ECONOMY UNDERGOING SUBSTANTIAL CHANGES

A return to a balanced budget allows the Québec government to speed up action to support economic growth and improve the quality of life of Quebecers. Its actions fall within the context of a changing economy. In this regard, Québec must particularly address the demographic challenges.

An aging population means a reduction in the traditional pool of potential workers in the 15-to-64 age group, which has recently stopped contributing to economic growth.

— In this context, an increase in the rate of employment and productivity gains will be the pillars upon which Québec's economic growth will depend over the next few years.

TABLE B.3

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

	Historical			Forecast			
	1982-2007	**2008-2013**	**2014**	**2015**	**2016**	**2017**	**2018-2020**
Real GDP	2.1	1.2	1.5	1.1	1.5	1.6	1.5
Growth factors:							
– Pool of potential workers(1)	0.6	0.6	−0.1	−0.1	−0.1	−0.1	−0.2
– Employment rate(2)	0.6	0.4	0.0	1.1	0.8	0.8	0.8
– Productivity(3)	0.8	0.3	1.6	0.2	0.8	0.9	0.9

Note: Since the figures have been rounded, they may not add up to the indicated total.
(1) Population aged 15 to 64.
(2) Total number of workers among population aged 15 to 64.
(3) Real GDP by employment.
Sources : Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

An economy undergoing substantial changes

In the same way as the global economy, Québec's economy is changing. This is primarily due to continued globalization, an aging population, the imperative of sustainable development and the digitalization of the economy.

Québec must seize the opportunities offered by these changes.

In recent years, increased competition in the global markets, combined with a stronger Canadian dollar, have put pressure on Québec's manufacturing sector.

- The recent depreciation of the Canadian dollar is an opportunity for Québec businesses to expand their activities. Québec must capitalize on this advantage by continuing to develop key sectors of its economy, where it is renowned for its expertise and competitiveness.

Moreover, with an ageing population, it is crucial to promote greater workplace participation (increase the rate of employment) and provide the necessary tools to workers for improved efficiency (increase productivity).

Also, the fight against climate change is a challenge for all the economies around the globe. As one of the world's leaders in this area, Québec has an expertise and considerable renewable energy potential to benefit its neighbours.

Lastly, in today's digital economy, Québec's economy must continue to integrate new technologies and get on board the fourth industrial revolution illustrated by the computerization and advanced robotization of industrial processes. This fourth revolution represents a growth opportunity for Québec.

❑ An economic plan to seize opportunities

The Québec Economic Plan proposes actions to address Quebec's challenges and seize the opportunities that exist during this period of global change.

The Québec Economic Plan seeks to:

— invest in human capital – education and training – in order to increase the productive and innovative potential of the workforce;

— lower the tax burden on individuals to increase the incentive to work and on businesses to improve their competitiveness and attract investment;

— relaunch investment in the manufacturing sector to promote growth and stimulate productivity gains;

— innovate in key sectors of the economy, such as life sciences, aeronautics and the forest industry;

— focus on exports to allow Québec businesses to expand their presence in foreign markets and benefit from better opportunities at the global level.

The results of these actions will be seen in all areas of the economy and will help Québec create quality jobs in an innovative and sustainable economy.

INCREASE FUNDING FOR EDUCATION

1. THE PLAN FOR SUCCESS IN EDUCATION AND HIGHER EDUCATION

1.1 The Plan for Success in Education and Higher Education

The 2016-2017 Economic Plan confirms the importance the government places on education and higher education for the economic and social development of Québec. Investments provided for under the Plan for Success in Education and Higher Education aim to improve the overall performance of education and higher education by making students the top priority.

❑ Improve direct services to students

Additional investments of $500 million over the next three years will be put toward increasing success in education.[1]

- To offer a stimulating learning environment and encourage young people to stay in school, an investment of over $300 million over three years is planned.
- The Plan also provides for an additional investment of $120 million to give students the desire to succeed and strive for excellence, particularly through physical activity and strengthening ties with civil society partners and the cultural community.
- $80 million will be invested over three years to strengthen ties between the education and higher education networks and businesses, in order to better meet the needs of the job market.

TABLE B.4

Increase funding to improve direct services to students
(millions of dollars)

	2016-2017	2017-2018	2018-2019	Total
Act early and in the right place	97	101	102	**300**
Give students the desire to succeed and strive for excellence	40	40	40	**120**
Continue to innovate in education and higher education	27	27	27	**80**
TOTAL	**164**	**168**	**168**	**500**
Distribution of investments				
Preschool, primary and secondary education(1)	*109*	*113*	*113*	***335***
Higher education	*55*	*55*	*55*	***165***

Note: Since the figures have been rounded off, they may not add up to the indicated total.
(1) Also includes leisure, sport and outdoor measures.

1 Details of measures are presented in the Plan for Success in Education and Higher Education, which accompanies the Economic Plan 2016-2017.

❑ Invest more in education and higher education infrastructures

An additional investment of $700 million is also provided for under the Plan for Success in Education and Higher Education to continue the renovation and improvement of educational establishments.

— These investments will allow more stimulating learning environments that will foster students' desire to succeed.

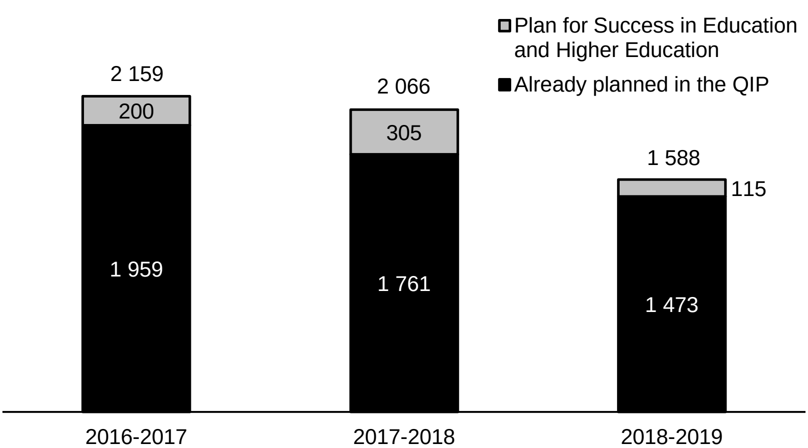
  — As well as increasing access to sports facilities, including in municipalities, the Plan earmarks funds to improve the overall condition of establishments and render them eco-friendly.[2]

Additional investments of $200 million in 2016-2017, $305 million in 2017-2018 and $115 million in 2018-2019.

— These investments provided for in the 2016-2026 Québec Infrastructure Plan (QIP) will allow an annual investment of $2 billion in the education and higher education sector.

CHART B.1

Investments in education and higher education infrastructures – 2016-2017 to 2018-2019
(millions of dollars)



Note: Investments of $80 million are planned beyond 2018-2019, for a total of $700 million under the Plan.

[2] The exemplary nature of the State can be seen, in particular, through its objective to reduce greenhouse gas emissions in the buildings of government departments and bodies. See Priority 20 in the *Government Sustainable Development Strategy 2015-2020* aimed at fostering renewable energy and energy efficiency in residential, commercial and institutional buildings.

1.2 Strenghten funding for education

With the implementation of the Plan for Success in Education and Higher Education, the government indicates its desire to strenghten funding for education.

— Amounts of $40 million in 2016-2017 and $2 million thereafter are funded through government priorities in order to encourage young people to succeed and excel.

Moreover, the 2016-2017 Economic Plan will allocate $50 million for sports facilities and $100 million for green educational establishments.

— The financial impact of these measures represents $2.1 million in 2016-2017, $7.4 million in 2017-2018 and $12.8 million in 2018-2019.

TABLE B.5

Strenghten funding for education and higher education
(millions of dollars)

	2016-2017	**2017-2018**	**2018-2019**
Plan for Success in Education and Higher Education	–164.0	–168.0	–168.0
Amount funded from government priorities	40.0	2.0	2.0
Sports and recreation facilities	–1.1	–3.4	–5.8
Investments for green establishments – Geothermal	–1.0	–4.0	–7.0
FINANCIAL IMPACT	**–126.1**	**–173.4**	**–178.8**

SUPPORTING INDIVIDUALS AND FAMILIES

2. TAX RELIEF FOR QUEBECERS

2.1 Immediate reduction of the health contribution

Following up on its commitment to reducing the tax burden once budgetary balance has been attained, Budget 2016-2017 will announce an immediate reduction of the health contribution and complete elimination starting in 2018.

❑ Reduction in the health contribution for 4.3 million taxpayers in 2016

As of 2016, the maximum amount for the first two levels of the health contribution will be reduced from:

— $100 to $50 for the first level, where incomes are $41 265 or less;

— $200 to $175 for the second level, where incomes range from $41 265 to $134 095.

Thus, 4.3 million taxpayers will benefit from $130 million in tax relief as of 2016-2017.

❑ Additional reduction for 2.2 million taxpayers in 2017

The health contribution will be eliminated in 2017 as anticipated for low-income taxpayers. In addition, middle-class taxpayers in the second level will benefit from a further reduction of $55 in the maximum amount.

— The health contribution for this level that was to decrease from $200 to $125 will now decrease from $175 to $70.

Thus, 2.2 million taxpayers will benefit from the additional $145 million in earlier tax relief in 2017-2018.

In addition, the taxpayers paying the maximum health contribution will benefit, as anticipated, from a reduction of the maximum amount at the last level which will decrease from $1 000 to $800 in 2017.

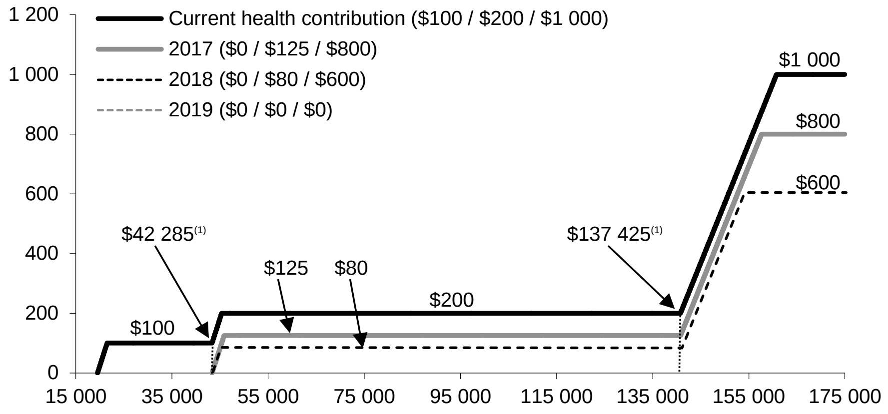
Follow-up on the gradual elimination of the health contribution announced in March 2015

During publication of the Québec Economic Plan in March 2015, the government announced significant tax relief for Quebecers through the gradual elimination of the health contribution.

According to this announcement, the government would gradually eliminate the health contribution over a three-year period:

- starting in 2017, taxpayers paying contributions of $100 or less would no longer pay any contributions;
- in 2017 and 2018, the health contribution would be gradually reduced for other taxpayers;
- as of 2019, the health contribution would be eliminated for all taxpayers.

Illustration of the gradual elimination of the health contribution announced during publication of the Québec Economic Plan in March 2015
(dollars)



(1) Expected thresholds for 2017.

❑ Complete elimination of the health contribution as of 2018

The government is acting on its commitment to eliminating the health contribution as early as possible. Accordingly, the health contribution will end as of 2018. This will allow over 2.3-million taxpayers to benefit sooner from tax relief.

TABLE B.6

Health contribution levels
(dollars)

	Prior to Budget 2015-2016	After Budget 2015-2016	After Budget 2016-2017
2016	100 / 200 / 1 000	100 / 200 / 1 000	**50** / **175** / 1 000
2017	100 / 200 / 1 000	0 / 125 / 800	0 / **70** / 800
2018	100 / 200 / 1 000	0 / 80 / 600	**Eliminated**
2019	100 / 200 / 1 000	Eliminated	Eliminated

TABLE B.7

Reduction in the health contribution by level
(dollars, unless otherwise indicated)

	Previous health contribution		Anticipated reductions in the health contribution			
	Number	Amount	2016	2017	2018	Total
1st level	2 122 173	100	−50	−50	—	−100
2nd level	2 184 952	200	−25	−105	−70	−200
3rd level	154 528	1 000	—	−200	−800	−1 000
Reduction in the tax burden(1) ($ million)	**—**	**—**	**−211**	**−309**	**−213**	**−733**

(1) The reduction in the tax burden is presented in fiscal years. As such, the amount for 2016 represents the reduction in the tax burden for 2016-2017.

❑ Additional $130 million reduction in the tax burden as of 2016-2017

With the reduction of the health contribution in 2016, the tax burden of taxpayers will be reduced by an additional $130 million for a total reduction of $211 million in 2016-2017.

In 2017-2018, the overall reduction in the tax burden will reach $520 million, of which $145 million will come from the additional reduction of the health contribution in 2017.

Once the health contribution is eliminated, the reduction in the household tax burden will be as high as $759 million.

TABLE B.8

Financial impact of the elimination of the health contribution
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Anticipated reduction in Budget 2015-2016(1)	—	–81	–376	–548	−742
Additional reduction	–32	–130	–145	–185	−17(2)
REDUCTION IN THE TAX BURDEN	**–32**	**–211**	**–520**	**–733**	**−759**

Note: Since the figures have been rounded off, they may not add up to the total indicated.
(1) Impact as revised in the November 2015 update to the Québec Economic Plan.
(2) Residual impact attributable to health contribution payments after July 2018.

Reduction in the tax burden of nearly $4 billion

In Budget 2015-2016, the government put forth a series of concrete tax relief measures that included gradually phasing out the health contribution, introducing a tax shield and enhancing the tax credit for experienced workers.

Taking into account the measures of Budget 2016-2017, Quebecers will enjoy over $950 million in reduction in the tax burden annually. All in all, this represents nearly $4 billion in reduction in the tax burden over five years.

Reduction in the tax burden for Quebecers since Budget 2015-2016
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Gradual elimination of the health contribution	−211.1	−520.2	−733.1	−759.2	−759.2	−3 014.8(1)
Tax shield	−60.6	−60.7	−60.7	−60.9	−60.9	−303.8
Enhancement to the tax credit for experienced workers	−26.8	−69.6	−96.7	−96.4	−96.4	−385.9
Work premium enhancement	−41.9	−41.9	−41.9	−41.9	−41.9	−209.5
TOTAL	**−340.4**	**−692.4**	**−932.4**	**−958.4**	**−958.4**	**−3 914.0**

(1) Including the $32-million financial impact of the immediate reduction of the health contribution for the 2015-2016 fiscal year.

3. STRENGTHEN SUPPORT FOR INDIVIDUALS AND COMMUNITIES

Equity, social justice and solidarity are at the heart of government action. In this respect, Budget 2016-2017 intends to continue this action by announcing the financing of amounts required for:

- reducing by 50% the additional contribution for childcare for the second child;
- the government strategy for the equality of women and men, 2016-2021;
- the government strategy to prevent and counter sexual violence, 2016-2021;
- crime prevention;
- the enhancement of the measure related to donations to Québec's food banks;
- increased tax credits for donations;
- the construction of 1 500 affordable, social and community housing units;
- the assistance program for seniors living in certain non-certified residences;
- assistance to the Aboriginal community.

TABLE B.9

Financial impact of measures aimed to strengthen support for individuals and communities
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
50% reduction in the additional contribution for childcare for the second child	−14.3	−16.1	−16.6	−17.1	−17.6	−18.1	−99.8
Amount financed from government priorities(1)	14.3	—	—	—	—	—	14.3
Government strategy for the equality of women and men, 2016-2021	—	−3.0	—	—	—	—	−3.0
Government strategy to prevent and counter sexual violence, 2016-2021	—	−1.9	—	—	—	—	−1.9
Crime prevention	—	−3.0	−3.0	−3.0	—	—	−9.0
Expansion of the measure pertaining to donations of food items to the Food Banks of Québec	—	−0.1	−0.1	−0.1	−0.1	−0.1	−0.5
Expansion of the tax credit for donations							
– Increase to the tax credit for donations	—	—	−8.0	−8.2	−8.4	−8.6	−33.2
– Elimination of the limit on eligible donations	—	−1.0	−1.0	−1.0	−1.0	−1.0	−5.0
An investment of $128 million(2) for the construction of 1 500 new social, community and affordable housing units	—	—	—	—	—	−36.2	−36.2
Assistance program for seniors living in certain non-certified residences(3)	—	—	—	—	—	—	—
Assistance for the aboriginal community	—	−2.4	−2.4	−2.4	−2.4	−2.4	−12.0
TOTAL	**—**	**–27.5**	**–31.1**	**–31.8**	**–29.5**	**–66.4**	**–186.3**

(1) The 50% reduction in the additional contribution for childcare for the second child for 2015-2016 will be financed from government priorities.
(2) Including a $91.3 million impact applicable after 2020-2021.
(3) Program financed from the Fonds relatif à l'administration fiscale.

3.1 50% reduction in the additional contribution for childcare for the second child

Since April 22, 2015, an additional contribution for the care of children in subsidized childcare is applicable based on family income. This contribution is not required for the third and subsequent children who attend a subsidized childcare service.

The government announces a 50% reduction in the additional contribution for the second child in subsidized childcare. This reduction is retroactive and therefore applies for 2015.

TABLE B.10

Daily rate for subsidized childcare services according to the number of children
(dollars)

Calendar year	2015(1)	2016	2017(2)	2018(2)
Minimum rate	7.30	7.55	7.80	8.15
Maximum rate				
– 1st child	20.00	20.70	21.10	21.55
– 2nd child	**13.65**	**14.13**	**14.45**	**14.85**
– 3rd child or more	7.30	7.55	7.80	8.15

(1) The new daily rates are applicable starting April 22, 2015 and are indexed annually.
(2) Estimated rate based on the latest forecasts.

Retroactive application of the reduction in the additional contribution

The 50% reduction in the additional contribution for the second child in subsidized childcare applies retroactively for 2015. Parents must calculate their additional contribution without taking this reduction into account when filing their tax returns for 2015.

In this respect, Revenu Québec will implement the necessary measures to ensure that the parents concerned by this change can benefit from the reduction in their childcare rate for 2015.

- Parents whose 2015 tax return is processed before March 17, 2016 will be reimbursed by Revenu Québec.
- For other parents, Revenu Québec will reduce the additional contribution when processing their tax return and will inform them in the notice of assessment.

Impact on the federal tax return

Childcare expenses paid in Québec are eligible for the federal deduction for childcare expenses. Since Revenu Québec will refund a portion of childcare costs after production of the federal income tax return, parents who have benefited from the federal deduction for childcare with regard to the additional contribution could have to contribute again for the 2015 tax year by the Canada Revenue Agency.

Substantial savings for families

Even considering a refund of a portion of the federal deduction for childcare expenses, the reduction in childcare expenses for a second child in subsidized childcare will result in substantial savings for these families.

For instance, a family with a $100 000 income could save $292 in childcare expenses for 2015, namely:

- a $374 refund with respect to the childcare expenses paid for a second child;
- a payment in their federal tax return of $82.

Illustration of the savings for a family with two equal incomes totalling $100 000 – 2015
(dollars)

	Additional contribution	Federal assistance(1)	Gain for the family
Full rate for the 2nd child	748	235	—
Half price for the 2nd child	374	153	—
Annual gain	**374**	**–82**	**292**

(1) Federal deduction for childcare applicable to the additional contribution. Including the impact on social fiscal transfers such as the Canada Child Tax Benefit.

For instance, for a couple with an income of $100 000 who pay an additional contribution for two children, the 50% reduction regarding the second child will reduce the daily rate from $11.41 to $9.36. For the 2015 tax year, the additional contribution will be reduced by $374.

For a couple paying a maximum additional contribution for the second child, the daily rate will go from $20.00 to $13.65, amounting to savings of $1 156 for 2015.

TABLE B.11

50% reduction in the additional contribution for the second child of a family with two equal incomes – 2015
(dollars)

	Current rate					Gains	
Employment income	**Base rate**	**Additional contribution**	**Total**	**50% reduction**	**New rate**	**Daily**	**Annual(1)**
50 000	7.30	—	**7.30**	—	**7.30**	**—**	**—**
75 000	7.30	0.70	**8.00**	−0.35	**7.65**	**0.35**	**64**
85 000	7.30	1.86	**9.16**	−0.93	**8.23**	**0.93**	**169**
100 000	7.30	4.11	**11.41**	−2.06	**9.36**	**2.06**	**374**
120 000	7.30	7.11	**14.41**	−3.56	**10.86**	**3.56**	**647**
140 000	7.30	10.11	**17.41**	−5.06	**12.36**	**5.06**	**920**
150 000	7.30	11.61	**18.91**	−5.81	**13.11**	**5.81**	**1 057**
160 000	7.30	12.70	**20.00**	−6.35	**13.65**	**6.35**	**1 156**

Note: Since the amounts have been rounded off, they may not add up to the total indicated.
(1) Considering that between April 22, 2015 and December 31, 2015, there are 182 care days.

❑ A $14-million reduction in the additional contribution for 30 000 families

Approximately 29 500 families with two or more children in subsidized childcare benefit immediately from an overall reduction of $14.3 million with respect to the second child in subsidized childcare in 2015. Over a full year, the savings total more than $16 million.

TABLE B.12

Financial impact of the reduction of the additional contribution for the second child
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
50% reduction in the additional contribution for childcare for the second child	−14.3	−16.1	−16.6	−17.1	−17.6	−18.1	−99.8
Amount financed from government priorities(1)	14.3	—	—	—	—	—	14.3
TOTAL	**—**	**−16.1**	**−16.6**	**−17.1**	**−17.6**	**−18.1**	**−85.5**

(1) For 2015-2016, the amount corresponding to the 50% reduction in the additional contribution for childcare for the second child will be financed from the amount set aside for government priorities.

3.2 Government strategy for the equality of women and men, 2016-2021

Enshrined in 2008 in the *Québec Charter of Human Rights and Freedoms*, equality between women and men is an intrinsic value of Québec society and a factor for prosperity.

In the Québec in 2016, this cherished value must be redefined. It must be transmitted, promoted and encouraged every day and in all spheres of life. A factor of development and vector of prosperity, equality between women and men is an asset for Québec as it is for all countries that have chosen substantive equality.

To meet this ambitious challenge, the government has implemented a strategy for the equality of women and men for 2016-2021. This strategy is designed as a useful tool to ensure concrete results for women in Québec. Special attention will also be paid to the involvement of men in the achievement of equality.

The Québec of today and tomorrow needs all its talents; hence the need to offer rewarding opportunities for women to take their rightful place in Québec society. The Québec government is determined and committed to making appropriate responses to the diverse realities experienced by women.

This strategy will thus mount a targeted effort to reduce the persistent and worrying gender inequalities, expressed during the consultation process last fall and winter regarding in particular:

— promoting equality and the fight against sexual and gender stereotypes;

— mixity in training and employment, particularly in certain occupational sectors like construction and engineering;

— empowerment for women in a context of equity and the fight against poverty;

— work-life balance;

— representation of women in places of influence and power.

The challenge is to ensure that, through the strategy, Québec remains a leader in terms of gender equity. To get there, we must work together to bring about change on a grassroots level across Québec.

Accordingly, Budget 2016-2017 provides the necessary funding for the implementation of the government strategy for the equality of women and men, 2016-2021. This strategy will contribute to reducing the persistent inequalities related to women and promote equality. Details will be unveiled this fall by the Minister responsible for the Status of Women.

To this end, additional appropriations of $2.65 million in 2016-2017 will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation. An additional $350 000 will be drawn from the Contingency Fund in 2016-2017 to finance measures spearheaded by the Ministère de la Famille.

3.3 Government strategy to prevent and counter sexual violence, 2016-2021

Over the past 20 years, the Québec government has set up policy instruments and supported various initiatives to prevent and counter acts of sexual violence. However, statistics on sexual violence show that this problem remains an issue, resulting in serious consequences for the victims, their families and Québec society as a whole.

To continue the efforts already initiated, Budget 2016-2017 provides the necessary funding for the implementation of the government strategy to prevent and counter sexual violence, 2016-2021.

The Strategy targets two phenomena: sexual abuse and sexual exploitation. Topics subject to taboos and prejudice, and rooted in the dynamics of unequal power relations, sexual assault and sexual exploitation both entail multiple adverse consequences for the victims, their family and society in general. Actions under the Strategy reflect intensified government efforts to curb these social issues that have certain overlapping features as well as specificities all their own. The Strategy takes account of this and proposes various actions catering specifically to one or the other. The actions presented in the Strategy are new or have innovative aspects and the planned investments are in addition to existing ones.

To finance the Strategy, in the first year, appropriations of $1.9 million in 2016-2017 will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation. The sums will be drawn directly from the Contingency Fund.

3.4 Crime prevention

For many years, crime prevention has been an inescapable necessity. As numerous social stakeholders and experts have argued and demonstrated, the fight against crime must be simultaneously accompanied by a structured early intervention in order to ensure the safety of the population. Crime prevention is thus important than ever turning to safeguard our society.

In order to provide an optimal level of safety to the province of Québec, the Québec government announces the implementation of six crime-prevention measures, namely:

- expansion of the Prévention Jeunesse program, aimed at supporting stakeholders in the implementation of a local organization and a multi-sector team of front-line care providers, within which the funds will be used to finance projects to counter and prevent sexual violence against young girls;
- the Après l'école program between 3:00 p.m. and 6:00 p.m., which offers activities during the time of day when young people are left to themselves and are vulnerable to falling in with bad company;
- the support program for community organizations working on the street and in the community, supporting the hiring of about 40 street workers and community workers;
- the community safety component of the incentive program for municipalities, focusing on the implementation of 10 structured processes that will allow for the establishment of a safety diagnosis and the creation of a local action plan;
- the prevention program for Aboriginal communities, introducing prevention measures related to physical violence, abusive alcohol and drug use, and issues related to parenting skills;
- the radicalization support program in schools, supporting awareness and assistance projects in school environments at risk for radicalization phenomena.

To this end, an additional $9 million in appropriations will be granted to the Ministère de la Sécurité publique over the next three years, i.e. $3 million per year from 2016-2017 to 2018-2019. For 2016-2017, the Contingency Fund will fund this initiative.

3.5 Expansion of the measure pertaining to donations of food items to the Food Banks of Québec

Every month, 400 000 people in Québec must turn to food-aid organizations and food banks for food, 150 000 of them children. For more than 25 years, the Food Banks of Québec network has been trying to meet the need for food items and thus relieve hunger. The network consists of 19 regional food banks known as the Moisson members.

They collect, sort, carry out quality control and redistribute food items to over 1 000 organizations and food banks across Québec.

To help ensure that Québec families have access to a better supply of fresh and local food, in Budget 2015-2016, the government announced a 50% increase in the eligible amount for donating agricultural products to any one of the Moisson members within the Food Banks of Québec network.

A measure showing returns after just one year

After taking a survey of its 19 Moisson members, the Food Banks of Québec network was able to note the positive impact of this tax measure after just its first year in action.

During the past year, 143 new farmers have been added to the list of 29 existing providers, for a total of 172 farmers that have donated more than 463 000 kg of farming products.

The Moisson members indicated that they appreciate this type of product, because it allows them to diversify the food they provide, while allowing them to avoid losses, considering that the products are ready to be distributed.

❑ Addition of food products and recognition of Associate members in the Food Banks of Québec network

The demand for food items is growing year after year, and is starting to stretch the ability of the organizations and food banks in the Food Banks of Québec network to meet the need.

- In 2014-2015, more than half of the food banks revealed that they had lacked food items to meet the requests they received. They were therefore forced to reduce portions in food baskets, snacks, and meals served, and even, on some occasions, to close their doors.

Considering the immediate success of the measure regarding the donation of food items and the ongoing difficulty in meeting the needs of many Québec families, Budget 2016-2017 plans to expand the measure to donations made by certain food-processing companies. In this regard, to meet the needs identified by stakeholders in the field, the following products will now be eligible:

- milk, infant formula, baby food, oil, flour, sugar, pasta, frozen vegetables, and prepared meals.

Also, in addition to the Moisson members, the Food Banks of Québec network is made up of 10 Associate members, which are local organizations offering food assistance services to the population, generally located in remote areas.

Considering that these members also solicit donations of food items from local providers, Budget 2016-2017 plans to add the Associate members to the list of beneficiaries recognized as part of the tax measure.

TABLE B.13

Financial impact of expanding the measure regarding the donation of food items to the Food Banks of Québec
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Expansion of the measure regarding the donation of food items to the Food Banks of Québec	−0.1	−0.1	−0.1	−0.1	−0.1	−0.5

3.6 Expansion of the tax credit for donations

For many years, the government has been encouraging the population to give generously to various organizations operating in multiple fields of activity within our society, such as healthcare, education, amateur sport, the arts, and culture in general.

Statistics indicate that Quebecers give less than other Canadians.

— On average, they donated $686 in 2014; for Canada as a whole, the average donation was $1 587.[3]

To support the organizations and institutions that contribute to our society's well-being, it is essential to introduce incentives to encourage the public to give more.

Tax credit for donations
The tax laws for individuals allow for the application of a non-refundable tax credit for donations made to registered charities or other recognized recipients. The credit is 20% on the first $200 of donations and 24% on any amount beyond that. The amount of the donation entitled to the tax credit is limited to 75% of the donor's net income, or 100% if the donation occurred during the year of the donor's death or the previous year, as applicable. However, this limit does not apply when the donation involves certain assets such as land with undeniable ecological value. cultural property or musical instruments donated to a recognized educational institution. Also, some donations pertaining to culture or other fields may be increased to more than 100% of their value for the purpose of applying the tax credit. Any portion of a donation made in one year that cannot be included in calculating the tax credit may be carried forward for a period that is generally no longer than five years.

3 Statistics Canada *Table 111-0001 – Summary of charitable donors.*

In order to encourage more Quebecers to donate and to increase the value of their donations, Budget 2016-2017 provides for two modifications to the tax credit for donations, namely:

- an increase in the tax credit rate from 24% to 25.75% for donations greater than $200, when the donor's taxable income is greater than the 4th income threshold in the personal income tax table;
- elimination of the limit on donations eligible for the tax credit.

These modifications aim to harmonize the tax treatment of donations in Québec with the federal government's, where the charitable donations tax credit was revised to allow high-income donors to request a tax credit of 33% on the portion of their donations made with income subject to the new marginal tax rate of 33%.

3.6.1 **Increase to the tax credit for donations**

For the past several years, the tax credit for donations has stipulated that the applicable conversion rate for the tax credit for donations greater than $200 corresponds to the highest marginal tax rate, i.e. 24%.

However, since the 2013 tax year, the highest marginal tax rate applicable to personal income has increased to 25.75%.

In order to improve the consistency of the personal income tax system and encourage individuals to donate, Budget 2016-2017 announces that, as of the 2017 tax year, the current rate of 24% for the tax credit for donations will be increased to 25.75% for donations greater than $200, when the donor's taxable income is greater than the 4th income threshold in the personal income tax table.

Therefore, the tax credit for donations will correspond to the total of the following amounts:

- 20% for the first $200 in total donations by an individual;
- 25.75% of the smaller of the following amounts:
  - the individual's total donations for the year in excess of $200,
  - the individual's taxable income over the 4th income threshold in the tax table, which is $105 060[4] for the 2017 tax year;
- 24% of the individual's total donations for the year greater than $200 that are not eligible for the 25.75% rate.

[4] Expected threshold for the 2017 tax year.

❑ A measure designed to increase donor generosity

The increase in the tax credit rate for donations will affect approximately 100 000 taxpayers, who will benefit from tax relief totalling approximately $9 million each year.

For example, a taxpayer with a taxable income of $115 060 who makes a $20 000 donation will receive a tax credit of $4 967, $175 more than with the current tax credit. The amount will be calculated as follows:

— a rate of 20% will apply to the first $200 in donations;

— a rate of 25.75% will apply to the next $10 000 in donations, as the surplus taxable income will be $10 000 ($115 060 – $105 060);

— a rate of 24% will apply to the remaining $9 800.

TABLE B.14

Illustration of the expansion of the tax credit for donations
(dollars, unless otherwise indicated)

	Before January 1, 2017			As of January 1, 2017		
	Donations	**Rate**	**Tax credit**	**Donations**	**Rate**	**Tax credit**
First rate	200	20%	40	200	20%	40
Second rate	19 800	24%	4 752	10 000	25.75%(1)	2 575
Third rate	—	—	—	9 800	24%	2 352
TOTAL	**20 000**	**—**	**4 792**	**20 000**	**—**	**4 967**

(1) Applicable on the amount that corresponds to the taxable income that exceeds the last rate threshold in the tax table, i.e. $105 060 in 2017.

3.6.2 Elimination of the limit on eligible donations

Generally speaking, the donation amounts eligible for the tax credit for donations are limited to 75% of the donor's net income during the year for which the tax credit is requested. The amounts in excess of this limit can be claimed over the following five years.

This limit is rarely reached.

- In fact, fewer than 1% of taxpayers who request the tax credit for donations see their eligible donation amount partially carried forward as a result of application of the limit.

Considering the small number of individuals affected by this limit, and in order to streamline the personal tax system, Budget 2016-2017 announces the elimination of the limit on donations eligible for the tax credit for donations as of the 2016 tax year.

The financial impact of this measure for the government is estimated at less than $1 million annually.

TABLE B.15

Financial impact of expanding the tax credit for donations
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Increase to the tax credit for donations	—	−8.0	−8.2	−8.4	−8.6	−33.2
Elimination of the limit on eligible donations	−1.0	−1.0	−1.0	−1.0	−1.0	−5.0
EXPANSION OF THE TAX CREDIT FOR DONATIONS	**−1.0**	**−9.0**	**−9.2**	**−9.4**	**−9.6**	**−38.2**

3.7 An investment of $128 million for the construction of 1 500 new social, community and affordable housing units

Some families live in particularly vulnerable situations, and struggle to pay the rental costs for suitable housing.

To support these households, the government is announcing, as part of Budget 2016-2017, an investment of $128 million in the construction of 1 500 new social, community and affordable housing units.

Of these units, 150 new units will be set aside for the homeless or those at risk of becoming homeless, as well as for clients suffering from mental disorders.

TABLE B.16

Investment in the construction of social, community and affordable housing units
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Other years	Total
Construction of 1 500 social housing units	—	—	—	—	36.2	91.3	127.5(1)

(1) The $127.5 million amount includes $21 million in assistance for Rent Supplements.

These new housing units will be offered as part of the AccèsLogis Québec program, which aims to provide housing to low- and modest-income households, or to groups that are struggling with specific housing needs.

— Taking into account these new units, more than 44 000 housing units have been announced as part of the second phase of this program, for an investment of nearly $2.8 billion.

AccèsLogis Québec

The AccèsLogis Québec program enables housing bureaus, housing cooperatives and non-profit organizations (hereinafter referred to as "developers") to offer affordable social and community housing to low- and modest-income households or groups that are struggling with specific requirements.

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

The amount of financial assistance varies according to the territory, target group and number of rooms in the housing unit. For instance, the eligible construction cost of a 2-bedroom unit in a major urban centre is $127 800 and breaks down as follows:

- $63 900 for the Québec government;
- $44 730 for the developer;
- $19 170 for the community.

Given the target group for these housing units, the rent is set below the market's median rent.

❑ Nearly 12 885 housing units will be delivered in the coming years

As of January 31, 2016, there are 11 385 housing units in progress, namely:

- 5 850 that will be ready in the near future, including nearly 2 000 as soon as 2016-2017;
- 5 535 others that are underway.

Taking into account the 1 500 new units announced, a total of 12 885 additional housing units will be available in the coming years.

TABLE B.17

Construction of social, community and affordable housing units

	In progress	In preparation	Newly announced	Total
Number of housing units	5 850	5 535	1 500	12 885

❑ New Rent Supplement units for 1 200 households

In addition to social, community, and affordable housing units, some households may benefit from financial support that is offered to them in order to reduce the cost of their rent.

For example, the Rent Supplement program allows low-income families to live in rental housing units owned by private landlords, housing cooperatives, non-profit organizations or housing bureaus. The rent they pay is similar to that of low-rental housing, i.e. 25% of the tenant's eligible income, plus certain charges.

In order to have families benefit from housing assistance more rapidly, Budget 2015-2016 announced an investment of $123 million in order to add 5 800 units to the Rent Supplement program.

The units are being allocated progressively, with 1 000 units allocated in 2015-2016, and 1 200 additional units allocated per year for the next four years, for a total of 5 800 new units.

— Thus, 1 200 new units will be allocated in 2016-2017, at a cost of $5 million.

— Along with the units allocated in 2015-2016, these 2 200 units represent a cost of $9 million in 2016-2017.

TABLE B.18

Total number of new units allocated to the Rent Supplement program and the investments made

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Subsequent years	Total
Number of units	1 000	2 200	3 400	4 600	5 800	—	5 800
Investment ($ million)	4.0	9.0	14.0	20.0	25.0	51.0	123.0

3.8 Assistance program for seniors living in certain non-certified residences

In 2011 and 2012, the government tightened the criteria for certification and reviewed the operational standards for private seniors' residences, with a view to ensuring better protection for seniors living in these residences and offering them quality services.

— Obtaining certification (certificate of compliance) from the Ministère de la Santé et des Services sociaux is mandatory to be able to operate a private seniors' residence within the meaning of the Act respecting health services and social services.

— This certification is also required in order to allow seniors (aged 70 or older) living in these residences to benefit from the refundable tax credit for home-support services for seniors, applicable to those living in private seniors' residences.

Currently, most private residences are certified, and the seniors living in these residences are benefiting from the tax credit for home-support services applicable to residents of private seniors' residences.

However, even though the government has granted residence owners sufficient time to meet the increased requirements for certification, some residences are still not certified.

As a result, the seniors who live, or wish to live, in these non-certified residences will no longer be entitled to the tax credit for home-support services applicable to residents of private seniors' residences as of April 1, 2016. However, they will be able to claim the tax credit for home-support applicable to seniors residing in apartment buildings, for which the level of assistance is lower.[5]

❑ Announcement of a compensatory program for seniors currently living in these residences

For seniors currently living in these non-certified residences (as of the date of this announcement), the government announces that a component is being added to the transitional financial compensation program for seniors living in a residence or rental housing; the new component will allow them to remain in their current residence and keep the level of assistance that the tax credit for home-support services currently offers (the tax credit for residents of a private seniors' residence).

[5] Moreover, they will also be able to claim the tax credit for home-support services on certain eligible services that are not included in their rent (sporadic services), like residents of private seniors' residences and owners of private residences.

The individuals targeted by the compensatory measures will thus receive assistance consisting of an amount from the tax credit for home-support services applicable to apartment buildings combined with financial compensation corresponding to the difference between:

— the amount of the tax credit they currently receive;

— the amount of the tax credit applicable to residents of apartment buildings.

❑ Considering certification

At the same time, the owners of these non-certified residences are invited to undertake the process leading to the certification of private seniors' residences. For the duration of this process, all of their eligible clientele will benefit from the tax credit for home-support services applicable to residents of private seniors' residences.

If, at the end of this process, the owners have not obtained certification, their clients who are currently receiving an amount based on the tax credit for home-support services applicable to residents of private seniors' residences will then be able to take advantage of this program and preserve the level of assistance that they currently receive.

However, any new clients of these residences, as of the day following the tabling of Budget 2016-2017, will not be eligible for this program. They will only be entitled to the tax credit for home-support services applicable to apartment buildings.

❑ Administration of the program and financial implications

This measure will constitute a new component of the transitional financial compensation program for seniors living in a residence or in rental housing, announced as part of Budget 2008-2009. It will be financed by the Tax Administration Fund and managed by Revenu Québec.

This measure will take effect as of April 1, 2016.

3.9 Assistance for the Aboriginal community

The government has invested significant effort in order to adapt healthcare, psychosocial and socio-legal services to better meet the needs of Aboriginals. Much remains to be done, and the government is eager to provide more financial support to all of the key public and community-based players who operate in the Aboriginal sector.

Moreover, challenging living conditions in some aboriginal communities require the government's support.

❑ Assistance for urban Aboriginals

The Aboriginal population living outside of communities is increasing steadily. Migration is creating some issues, one of which is inclusion.

The government intends to support organizations that provide direct services to this often vulnerable clientele, in order to strengthen front-line psychosocial, socio-legal and healthcare services.

There are 10 Native friendship centres in Québec whose mission is to improve the quality of life for urban Aboriginals. Other service organizations are also present on the ground to support urban Aboriginals, such as shelters and day centres.

Budget 2016-2017 therefore includes a financial contribution of $5 million over the next five years to better meet the needs of these organizations. To this end, additional appropriations will be granted to the Ministère du Conseil exécutif. The amount earmarked for 2016-2017 will be drawn from the Contingency Fund.

Furthermore, $3.9 million will be invested to improve the infrastructure of these organizations, so that they can expand their presence in the municipalities where the need lies.

The Aboriginal Initiatives Fund II

The goal of the Aboriginal Initiatives Fund II (AIF II) is to provide financial support to Aboriginals in their economic, social, and community development. This fund, which is managed by the Minister for Aboriginal Affairs, has five areas of focus: economic development, loan guarantees, community infrastructure, consultation, and community action.

The community action component is one of the sources of financing for organizations that support urban Aboriginals.

The AIF II covers the 2012-2017 period, and its next iteration will be revised so that it can, among other things, better meet the growing needs of community organizations.

❑ Improving justice system accessibility

Certain social problems in the Aboriginal community were highlighted by the Québec Ombudsman in her report entitled *Detention conditions, administration of justice, and crime prevention in Nunavik*[6], filed in February 2016.

Because of the complexity of the social problems observed, government authorities and even the Aboriginal community itself cannot meet the growing need, particularly in the area of the administration of justice in certain communities.

Furthermore, one of the problems highlighted by the Ombudsman is prison overcrowding in Inuit communities, caused primarily by the distance separating the legal services from these communities. The relative remoteness makes the resolution of legal cases slower and more complex.

In order to improve access to the justice system in the Aboriginal community, particularly for the Inuit nation, and to modernize its services, the government announces an investment of $5 million for the next five years. These additional appropriations will be granted to the Ministère de la Justice, and will provide for, in particular:

— an increase in the frequency of the itinerant Court in the Cree and Inuit communities;

— an increase in the on-site availability of the services of defence lawyers and the Director of Criminal and Penal Prosecutions;

— the use of videoconferencing during proceedings, thereby favouring preparatory meetings between lawyers and their clients.

The amount earmarked for 2016-2017 will be drawn from the Contingency Fund.

Along with the nearly $7 million contribution from the Commission des services juridiques, these amounts total approximately $12 million over five years.

These actions meet several of the recommendations in the Ombudsman's report.

6 OMBUDSMAN, *Detention conditions, administration of justice, and crime prevention in Nunavik*, February 2016.

❑ The government pledges to complete the renovation of homes in the Algonquin community of Kitcisakik

Kitcisakik is a small Aboriginal community of 430 inhabitants, located in Abitibi-Témiscamingue, on public land, without reservation status. This Algonquin community is struggling with significant housing problems, particularly crowding and a deterioration of existing buildings.

The community's housing stock comprises 90 homes, 35 of which have already been renovated under the special home renovation program for the Algonquin community of Kitcisakik.

To improve the living conditions of community members, the government undertakes to renovate all homes in the Algonquin community of Kitcisakik. Budget 2016-2017 is therefore making an investment of $2 million over five years for the special home renovation program for the Algonquin community of Kitcisakik. The investment will allow for the renovation of the remaining 55 homes, thereby meeting the renovation needs of the community as a whole.

To this end, the Ministère des Affaires municipales et de l'Occupation du territoire will be granted additional appropriations of $0.4 million per year for the 2016-2017 to 2020-2021 period with regard to the Société d'habitation du Québec. The amounts required for 2016-2017 will be drawn from the Contingency Fund.

PROMOTE ECONOMIC DEVELOPMENT

4. FULFILL WORKERS' ASPIRATIONS AND EMPLOYERS' NEEDS

Demographic ageing will impact the labour market over the coming years: workers from the baby-boom generation will increasingly retire and will in all likelihood be replaced by a smaller contingent of workers.

The latest demographic forecasts already point to a decrease in the potential labour pool over the next few years in Québec. Action at various levels is therefore imperative if:

— businesses are to find the workforce needed to ensure their growth and thus maximize Québec's full economic potential;

— workers are to have access to high-quality employment.

❑ Initiatives worth $310 million over five years to boost labour market participation

One such action primarily entails promoting increased labour market participation, so as to provide employers with a larger pool of workers. To do so, Budget 2016-2017 provides for $310 million over five years with a view to expanding the available workforce and thus maximizing Québec's economic potential by attracting investments.

The measures planned under Budget 2016-2017 aim in particular to value the work effort, promote retention and develop the employability of job-ready individuals.

TABLE B.19

Financial impact of measures to fulfill workers' aspirations and employers' needs
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Enhancing of the work premiums	−41.9	−41.9	−41.9	−41.9	−41.9	−209.5
Tax shield enhancement	−8.6	−8.6	−8.6	−8.6	−8.6	−43.0
Promote the labour market participation of experienced workers	—	—	−13.2	−13.2	−13.2	−39.6
Foster participation in the Objectif emploi program	—	−2.6	−2.6	−2.6	−2.6	−10.4
Support youth skills development by integration companies	−2.0	—	—	—	—	−2.0
Support for the retention of foreign students	−0.9	−0.7	−0.4	—	—	−2.0
Promote francization of newcomers	−4.0	—	—	—	—	−4.0
TOTAL	**−57.4**	**−53.8**	**−66.7**	**−66.3**	**−66.3**	**−310.5**

4.1 Enhancement of the work premiums

❑ Encouraging labour market participation of all Quebecers

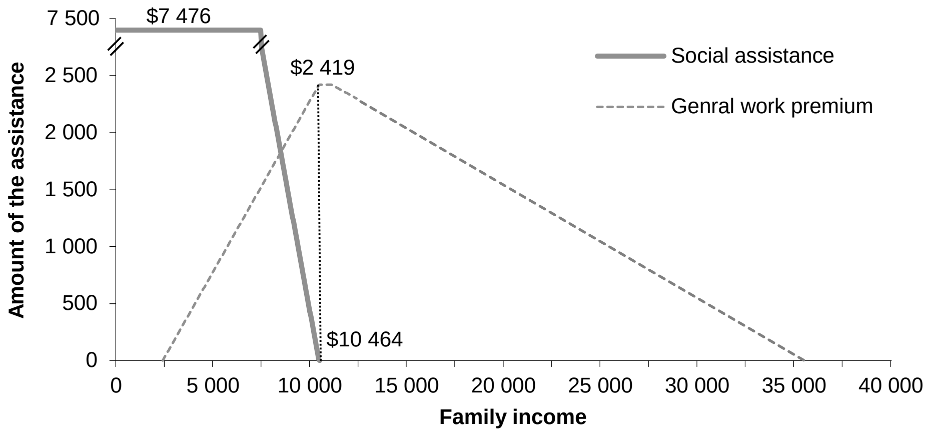
Québec's tax system provides work premiums to low-income workers. These premiums are aimed at enhancing the work effort and encouraging people to get off last-resort financial assistance and join the labour market.

The general and adapted work premiums are designed to have the maximum allowable amounts reached at an income level at which a household would no longer be entitled to last-resort financial assistance. To better target low-income workers, the premiums are then reduced.

For example, a single-parent family with one child and a work income of $2 400 would see its premium gradually increase by 30% to reach a maximum of $2 419 at an income of $10 464. Subsequently, the premium would be reduced to a rate of 10% for up to an income of nearly $36 000.

CHART B.2

Illustration of the complementarity of the general work premium and social assistance for a single-parent family with one child – 2016
(dollars)



❑ Lower gross-up rates for households without children

The work premiums can benefit households both with and without children. However, the Québec tax system offers higher work income gross-up rates to households with children than it does to childless households.

- The general work premium offers gross-up rates of 7% for households without children, 30% for single-parent families and 25% for couples with children.
- In total, the combined rates of the work premium and the federal working income tax benefit represent 27.5% for households without children and 33% or 42% for households with children.

4.1.1 Increase of the work premiums for households without children

To bolster the incentive to join the labour market among households without children, Budget 2016-2017 provide for an increase to the general and adapted work premiums for these households.

As of 2016, the gross-up rate for households without children will go:

- from 7% to 9% for the general work premium;
- from 9% to 11% for the adapted work premium.

The increase in the work premiums is intended to help households without children as they have lower gross-up rates than those with children.

TABLE B.20

Gross-up rates for the general work premium and the federal working income tax benefit – 2016
(per cent)

	Before Budget 2016-2017			After Budget 2016-2017		
	Québec	**Federal**	**Combined**	**Québec**	**Federal**	**Combined**
Single individuals	7.0	20.5	27.5	9.0	20.5	29.5
Couples without children	7.0	20.5	27.5	9.0	20.5	29.5
Single-parent families	30.0	12.0	42.0	30.0	12.0	42.0
Couples with children	25.0	8.0	33.0	25.0	8.0	33.0

❑ The general work premium

With the enhancement, the maximum amount for the general work premium for single individuals will go from $564.48 to $725.76, an increase of $161.28. For couples without children, the maximum will go from $881.30 to $1 133.10, an increase of $251.80.

TABLE B.21

The general work premium for households without children – 2016
(dollars, unless otherwise stated)

	Single individuals		Couples without children	
	Current	**Enhanced**	**Current**	**Enhanced**
Excluded work income	2 400	2 400	3 600	3 600
Gross-up rate	7%	9%	7%	9%
Maximum amount	564.48	725.76	881.30	1 133.10
Reduction threshold	10 464	10 464	16 190	16 190
Reduction rate	10%	10%	10%	10%
Cut-off threshold(1)	16 108.80	17 721.60	25 003.00	27 521.00

(1) The cut-off threshold corresponds to the total household income after applying the deduction for workers.

CHART B.3

Illustration of the enhancement to the general work premium for a single individual – 2016
(dollars)

❑ The adapted work premium

With the enhancement, single individuals with a severely limited capacity for employment will see the maximum amount of their adapted work premium go from $1 094.94 to $1 338.26, an increase of $243.32. For couples without children, the maximum amount for the adapted work premium will go from $1 641.96 to $2 006.84, an increase of $364.88.

TABLE B.22

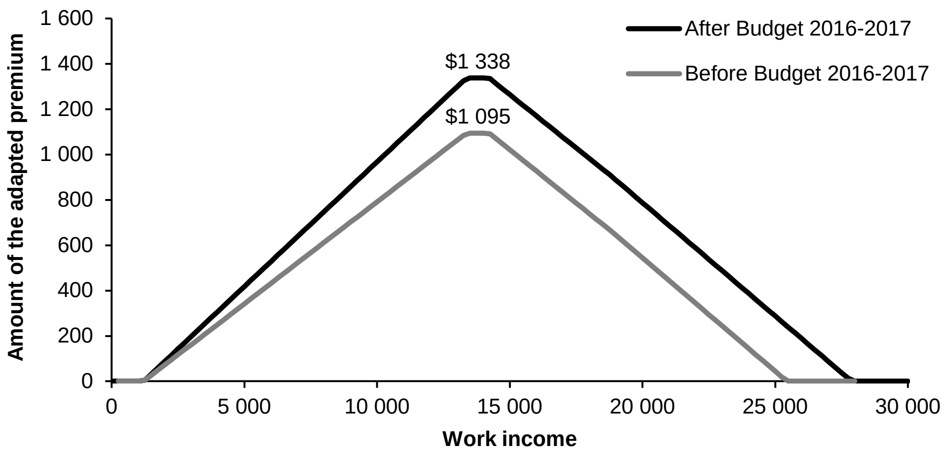
The adapted work premium for households without children – 2016
(dollars, unless otherwise stated)

	Single individuals		Couples without children	
	Current	**Enhanced**	**Current**	**Enhanced**
Excluding work income	1 200	1 200	1 200	1 200
Gross-up rate	9%	11%	9%	11%
Maximum amount	1 094.94	1 338.26	1 641.96	2 006.84
Reduction threshold	13 366	13 366	19 444	19 444
Reduction rate	10%	10%	10%	10%
Cut-off threshold(1)	24 315.40	26 748.60	35 863.60	39 512.40

(1) The cut-off threshold corresponds to the total household income after applying the deduction for workers.

CHART B.4

Illustration of the enhancement to the adapted work premium for a single individual with a limited capacity for employment – 2016
(dollars)



❑ An enhancement that will benefit 326 000 households

The enhancement to the general and adapted work premiums will raise the work premiums for all households without children who benefit from these measures (currently some 283 000 households).

It will also benefit some 43 000 additional households, bringing the total number of households without children benefiting from the general and adapted work premiums to 326 000.

❑ Additional assistance of $42 million annually

The increased gross-up rate will provide them with additional tax assistance of $42 million, bringing the amounts paid out for the general and adapted work premiums to over $340 million annually.

TABLE B.23

Financial impact of enhancing the general and adapted work premiums
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Work premiums enhancement for households without children	−41.9	−41.9	−41.9	−41.9	−41.9	–209.5

Guaranteed minimum income

Economic, social and demographic changes all influence the labour market. In response to these changes and in keeping with the goal of fostering labour market access to the greatest number of citizens, the Québec government would like to begin evaluating the mechanisms associated with the principles of guaranteed minimum income, which 21st-century Québec society may then draw from.

To define this new model, the Québec government will examine ways of simplifying, attaining greater transparency in and reducing the administrative load of the various transfers to Québec individuals and families. In this context, the Minister of Labour, Employment and Social Solidarity and the Minister of Finance will announce the creation of a committee of experts to conduct this initial examination. The aim of the process is to look into new approaches to fighting poverty more effectively, promoting social inclusion and moving toward introducing a guaranteed minimum income.

4.1.2 Facilitate advance payment of the work premiums for social assistance benefit recipients

The work premiums are normally claimed at the end of the taxation year when filing income tax returns. The tax assistance is paid to households several months after the work effort has been completed.

Under certain conditions, the tax system allows individuals to claim advance work premium payments from Revenu Québec. However, very few recipients avail themselves of this service.

So that low-income workers receive their work premiums sooner, Budget 2016-2017 intends to modify how the work premiums are processed. This will allow advance payments to be made each month to those benefiting from social assistance programs such as last-resort financial assistance programs and Objectif emploi program.

The work premiums will be paid in such a way as to provide the tax assistance closer to the time when the work effort is made.

— The Ministère du Travail, de l'Emploi et de la Solidarité sociale will use the monthly work income data collected about its clientele to calculate the advance payment amount of the general or adapted work premium.

— Revenu Québec will make an advance payment of the work premium upon the request of the Ministère du Travail, de l'Emploi et de la Solidarité sociale, based on the latter's calculation.

This procedure will facilitate advance payment of the work premiums and will encourage social assistance recipients to find work.

4.2 Tax shield enhancement

In Budget 2015-2016, the government announced the implementation of a tax shield on January 1, 2016. This measure was designed to protect workers whose income has increased through an additional work effort by limiting the loss of certain socio-fiscal transfers.

The tax shield will make the work effort more attractive by allowing households to keep a larger share of the increased work income.

To make the measure more attractive as well as accessible to more low- and average-income workers, starting in the 2016 taxation year, Budget 2016-2017 provides for an increase of the annual eligible maximum of $2 500 per worker by $500 ($1 000 per couple).

— For each worker, the annual eligible maximum will thus go from $2 500 to $3 000, for a maximum of $6 000 per couple.

❑ Illustration for a couple with one child

A couple with one child using a non-subsidized childcare service and whose earned income goes from $40 000 to $46 000 in 2016 will receive compensation of $720, a $165 increase of the tax shield.

TABLE B.24

Tax shield enhancement for a couple(1) whose earned income goes from $40 000 to $46 000 – 2016
(dollars)

	With the current shield	With the enhanced shield	Additional gain
Increase in earned income	**6 000**	**6 000**	**—**
Losses regarding the tax credit for childcare expenses and work premium	–960	–960	—
Tax shield protection			
– Compensation related to the work premium	375	450	75
– Compensation related to the tax credit for childcare expenses	180	270	90
IMPACT OF THE TAX SHIELD	**555**	**720**	**165**

(1) Couple with a three-year old child using a non-subsidized childcare service and earning two equal incomes.

The tax shield

In effect since January 1, 2016, this tax credit partially offsets the loss of socio-fiscal transfers related to the work premium and the tax refundable credit for childcare expenses, following an increase to work income.[1]

The tax shield is determined by recalculating the two socio-fiscal credits based on family income reduced by an amount equivalent to 75% of the lesser of the following:

- the increase to work income;
- the increase to household net income;
- an amount of $3 000 per worker (maximum of $6 000 per couple).

Reducing the net family income will result in a smaller reduction in socio-fiscal transfers.

The tax shield not applicable to the additional contribution for childcare

The tax shield does not apply to the additional contribution for childcare, which is established based on an income other than the income used to establish the rate of the refundable tax credit for childcare expenses.

An additional contribution based on the previous year's income

The additional contribution is determined based on the previous year's net income, so that it can be factored into federal tax for the same tax year as the additional contribution.

- For 2015, the additional contribution will be calculated based on 2014's family income.
- Failing such an approach, a household could not claim for childcare expenses from the additional contribution paid for 2015 in its federal income tax return for 2015.

Since the additional contribution is calculated based on the previous year's income, an increase in income for the current year has no immediate impact on the additional contribution. The impact will only affect the next year if the child still attends a reduced contribution childcare.

With respect to the refundable tax credit for childcare expenses, it is established based on the current year's income which appears in the tax return. The tax shield thus mitigates the potential impact of an increase to income on the tax credit rate.

1 Earned income or net business income.

❑ An additional $9 million for 239 000 households

Enhancing the tax shield will raise the amount of tax assistance available to some 227 000 current beneficiaries and offer assistance to 12 000 new households.

The enhancement will raise the overall annual tax shield compensation provided to Québec households from $52 million to $61 million, i.e. $9 million more than what was announced in Budget 2015-2016.

TABLE B.25

Financial impact of raising the annual eligible tax shield ceiling
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Compensation related to the work premium	−8.0	−8.0	−8.0	−8.0	−8.0	−40.0
Compensation related to the tax credit for childcare expenses	−0.6	−0.6	−0.6	−0.6	−0.6	−3.0
TAX SHIELD ENHANCEMENT	**−8.6**	**−8.6**	**−8.6**	**−8.6**	**−8.6**	**−43.0**

4.3 Promote the labour market participation of experienced workers

Population ageing will significantly impact the number of available workers. To attract and retain more experienced workers on the labour market, the government introduced in Budget 2011-2012 the implementation of a tax credit for experienced workers, effective in 2012.

This tax credit eliminates the Québec income tax payable on a portion of work income exceeding $5 000.

Amendments to the measure in Budget 2015-2016
The measure underwent major modification in Budget 2015-2016, resulting in: – a gradual reduction of the eligibility age from 65 to 63 by 2017; – an annual increase of $2 000 of the portion of excess earnings eligible for the tax credit, due to reach $10 000 in 2018; – an earnings-based reduction to the tax credit in order to further target low - and average - income workers. These modifications came into force on January 1, 2016.

❑ Reduction of the eligibility age to 62 for the tax credit for experienced workers

Labour market statistics report lower employment among Québec's older workers than those in the rest of Canada. The average age of retirement in Québec was 62 in 2014, compared to 63 in Canada as a whole.

For this reason, it is essential to continue efforts of recent years to encourage this labour pool to re-enter the job market or stay there as long as possible.

Accordingly, the government intends to extend the tax credit to a larger number of workers who are likely to use it.

Starting in 2018, workers aged 62 will be eligible to the tax credit for experienced workers, thus benefiting from tax relief on excess earnings of $4 000 per year.

The reduction of the eligibility age to 62 will help encourage experienced workers to continue working at a time when many decide to retire.

TABLE B.26

Excess work income eligible for the tax credit for experienced workers, based on age and taxation year
(dollars)

		Gradual enhancement		
	2015	**2016**	**2017**	**2018**
Age 62	**—**	**—**	**—**	**4 000**
Age 63	—	—	4 000	6 000
Age 64	—	4 000	6 000	8 000
Ages 65 and over	4 000	6 000	8 000	10 000

Therefore, a 62-year-old worker could, in 2018, take advantage of a new tax benefit of up to $602.

TABLE B.27

Illustration of the tax gain for a worker aged 62 – 2018
(dollars)

Work income	Before budget	After budget	Tax gain
5 000(1)	—	—	**—**
10 000(1)	—	—	**—**
20 000	—	324	**324**
30 000	—	602	**602**
40 000	—	346	**346**
50 000	—	—	**—**
75 000	—	—	**—**

(1) At this level, the taxpayer does not benefit from tax assistance, as this income is not taxable.

❑ A measure that will benefit 29 000 additional workers

As of 2018, this measure will produce annual tax savings of $13 million. Furthermore, broadening eligibility for the tax credit for experienced workers will benefit 29 000 additional workers, who will thus be more liable to remain active in the labour market. In total, close to 232 000 workers will be able to benefit from the measure.

TABLE B.28

Financial impact of the reduced eligibility age for the tax credit for experienced workers
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Eligibility of workers aged 62	—	—	−13.2	−13.2	−13.2	−39.6

4.4 Foster participation in the Objectif emploi program

4.4.1 Increased allocations for participation in labour market integration activities

In Budget 2015-2016, the government announced its intent to implement Objectif emploi, in order to promote labour market integration among job-ready individuals who are first-time social assistance applicants.

Overview of the Objectif emploi program
The forthcoming Objectif emploi program provides intensive, personalized support to encourage job market integration among first-time social assistance applicants. In this framework, it will provide a basic benefit equivalent to that of the social assistance program. Besides the basic benefit, the program will offer financial assistance in the form of a participation allocation, which will vary based on the selected procedure: – an active job search allocation of $130 per month; – a social skills development allocation of $130 per month; – a skills development allocation of $250 per month per adult or $380 per month for a single parent family. In return, mandatory participation will be established to facilitate labour market integration.

❑ Increased allocations

To foster participants' active involvement in the activities that are part of their integration plan, Budget 2016-2017 provides for an increase of the Objectif emploi program's monthly allocations for participation, namely:

— from $130 to $165 (+$35) for actively looking for work;

— from $130 to $165 (+$35) for social skills development;

— from $250 to $260 per adult or $380 to $390 per single parent (+$10) for skills development.

To do so, the Ministère du Travail, de l'Emploi et de la Solidarité sociale will receive additional appropriations of $2.2 million per year for 2017-2018 and subsequent fiscal years.

4.4.2 An income supplement for labour market participation

As in the last-resort financial assistance program, a certain amount of the initial earnings declared by Objectif emploi participants will be excluded from the basic benefit calculation (as with the social assistance program), namely:

— $200 per month for a household consisting of one adult;

— $300 per month for a household consisting of two adults.

Beyond these allowable income thresholds, benefits will be reduced on a dollar-for-dollar basis from the surplus work revenue.

To boost the labour market participation of this clientele, Budget 2016-2017 will introduce a supplement for earnings that exceed the allowable income thresholds for the purpose of calculating the basic benefit.

The supplement will be equivalent to 20% of the earned income exceeding the basic exclusions.

To this end, additional credits of $0.4 million per year will be granted to the Ministère du Travail, de l'Emploi et de la Solidarité sociale for the 2017-2018 and subsequent fiscal years.

An example of supplementation

A single adult earns a net income of $300 during the course of one month.

Since the first $200 in earnings are excluded from the basic benefit calculation, the benefit will be reduced by $100, bringing the basic benefit to $523, or $623 − $100.

With this measure, the beneficiary receives a supplement corresponding to 20% of the earned income that exceeds the basic exclusion. The benefit recipient will thus receive a supplement of $20, or 20% X ($300 − $200).

This amount will be paid independently of the Objectif emploi benefit.

TABLE B.29

Financial impact to foster participation in the Objectif emploi program
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Increase in the allowance for participation in job market integration activities	—	−2.2	−2.2	−2.2	−2.2	−8.8
Introduction of an income supplement for job market participation	—	−0.4	−0.4	−0.4	−0.4	−1.6
TOTAL	**—**	**−2.6**	**−2.6**	**−2.6**	**−2.6**	**−10.4**

4.5 Support youth skills development by integration companies

The Job Integration Companies component of the Ministère du Travail, de l'Emploi et de la Solidarité sociale enables the granting of subsidies to companies that hire program participants. The subsidy helps pay for participants' salaries and benefits for a limited period of six months.

- This budgetary aid supports those whose significant socio-professional difficulties affect their short- or medium-term labour market integration.
- While engaged by the integration company, participants are hired as employees and receive ongoing support for developing skills and professional knowledge as well as improving their behaviour and attitudes.

Budget 2016-2017 provides for the establishment of new pilot projects for basic skills development. These projects target young people exiting the centres jeunesse who will be more quickly taken on by integration companies for a limited period.

- Pilot projects offering a 12-week engagement will target 200 participants who have the best chances for successful labour market entry.
- Integration companies will be responsible for following up with participants after the employment period, mainly by supporting them in their job search.

To do so, additional appropriations worth $2 million will be granted to the Ministère du Travail, de l'Emploi et de la Solidarité sociale for the 2016-2017 fiscal year. Funding will be drawn directly from the Contingency Fund.

Integration companies

Integration companies can be community organizations or social economy enterprises. Having a social integration mission, they meet the training and support needs of individuals excluded from social and economic activity.

Like any business, they manage human, material and financial resources and market the goods or services they produce according to their industry's quality standards.

Integration companies have more than 1 000 permanent employees in Québec who support some 3 000 individuals per year. These companies produce or sell over 300 categories of goods or services and operate mainly in the following sectors:

- food, retail, culture;
- manufacturing: wood, metal, IT, clothing;
- services: housekeeping, printing, recycling and tourism.

4.6 Improve cooperation with the federal government to promote the integration of newcomers

The Québec government has set three objectives in order to deal with demographic challenges:

— increase the incentive to work;

— improve the fit between workforce training and labour market needs;

— provide for better integration into the job market of newcomers and members of visible minority communities.

To meet these objectives, the Québec government intends to take advantage of the provisions of the Labour Market Development Agreement (LMDA) that broaden eligibility for active employment measures, particularly for immigrants and the long-term unemployed. Among other things, funds from the LMDA will make it possible to:

— increase the budgets allocated to the Employment Integration Program for Immigrants and Visible Minorities;

— increase financing for the Carrefour de l’emploi et de la formation that supports unemployed youth in entering the job market more quickly.

To this end, the Québec government will initiate talks with the federal government so as to reach an agreement to draw on funds available from the LMDA to increase the financing of programs for immigrants and the long-term unemployed.

4.7 Support for the retention of foreign students

In the context of shifting demographics, immigration will be called upon to play an increasingly vital role in improving labour market performance.

To foster the retention of foreign students and encourage entrepreneurship, particularly among immigrants, Budget 2016-2017 has earmarked $2.0 million for the launch of two initiatives, namely:

— support for Montréal International for a project to retain foreign students;

— support for the HEC Montréal program entrePrism, created to foster entrepreneurship among immigrants.

TABLE B.30

Financial impact of measures to support the retention of foreign students and foster entrepreneurship
(millions of dollars)

	2016-2017	2017-2018	2018-2019	Total
Support for Montréal International	−0.7	−0.5	−0.4	−1.6
Support for the HEC Montréal program entrePrism	−0.2	−0.2	—	−0.4
TOTAL	**−0.9**	**−0.7**	**−0.4**	**−2.0**

❑ Support for Montréal International for an initiative to retain foreign students

For several years now, international student numbers have been steadily rising. The government would hope to have many of these students decide to settle and work in Québec after their studies.

Nonetheless, barely one-quarter of the foreign students who study here apply for a Certificat de sélection du Québec (CSQ) to start the immigration process.

This situation is particularly due to the relatively low number of foreign students who feel sufficiently informed about the process leading to permanent resident status.

To help resolve this situation, Budget 2016-2017 provides for the launch of an initiative to retain foreign students in Québec.

Under the responsibility of Montréal International, the project will improve the services offered to foreign students with a view to increasing the annual number of CSQ applicants.

The funding will also make it possible to promote permanent residency and implement best international practices in this regard.

To carry out the initiative, the Ministère de l'Immigration, de la Diversité et de l'Inclusion will receive additional appropriations of $0.7 million in 2016-2017, $0.5 million in 2017-2018, and $0.4 million in 2018-2019. For 2016-2017, funding will be drawn directly from the Contingency Fund.

❑ Support for the HEC Montréal program entrePrism

Besides being a source of wealth creation, entrepreneurship can help immigrants integrate into Québec society and share the skills acquired in their countries of origin. In this regard, HEC Montréal has noted a high demand for entrepreneurial support on the part of immigrants who have settled in Québec.

While the Québec entrepreneurial ecosystem is highly diversified, few support programs have been adapted to entrepreneurs from cultural communities.

To meet the needs associated with such support, Budget 2016-2017 will contribute $0.4 million over two years to the HEC Montréal program entrePrism.

The program aims in particular to:

— support entrepreneurs, particularly immigrants or those from visible minorities, start new businesses or grow their existing business;

— develop new tools based on research into entrepreneurship as an integration mechanism for newcomers.

Québec government support will join the $2.5 million earmarked from 2015 to 2020 by the Mirella and Lino Saputo Foundation.

To fund the HEC Montréal program, additional appropriations of $0.4 million ($0.2 million annually over the next two years) will be granted to the Ministère de l'Économie, de la Science et de l'Innovation. For 2016-2017, funding will be drawn directly from the Contingency Fund.

4.8 Promote francization of newcomers

French is the language of work in Québec. As such, the government demonstrates the great value it places on immigrants learning and using French, namely by supplying newcomers with francization services.

— In 2014-2015, over 26 000 individuals took part in francization courses.

The government wishes to promote the role of French as a language of integration and social unity in order to foster immigrants' and visible minorities' participation in society and to preserve the vitality of the common language of the Québec society.

In this regard, the government announces the launch of a promotional campaign for French courses for newcomers as well as an increase in francization services centred on their needs. These actions will result in:

— increased delivery of francization services;

— promotion of the access to government francization services and French course enrolment;

— promotion of francization among immigrants as well as in businesses and regions;

— the valorisation of francization services on the website of the Ministère de l'Immigration, de la Diversité et de l'Inclusion.

To do so, additional appropriations of $4 million in 2016-2017 will be granted to the Ministère de l'Immigration, de la Diversité et de l'Inclusion.

5. ACCELERATING INNOVATION AND INVESTMENT IN MANUFACTURING

To be able to thrive in competitive foreign markets, Québec businesses must be innovative and adopt new technologies. What's more, by favouring the commercialization of innovations developed at home, Québec will benefit from substantial economic spinoffs.

❑ Nearly $850 million to accelerate innovation and investment in manufacturing

The Economic Plan includes initiatives that total nearly $850 million over the next five years to support manufacturing firms in their innovation process, such as:

- the use of clean power produced in Québec to encourage investment in the manufacturing and natural resources processing sectors;
- the institution of a tax reduction for innovative companies to support the marketing of innovations developed by Québec businesses;
- the institution of the RénoVert refundable tax credit to promote environmentally friendly renovation.

The new innovation support measures complement the existing measures available to businesses, including some of the most generous research and development support in the world, and substantial investment support measures.

TABLE B.31

Financial impact of measures to accelerate innovation and investment in manufacturing
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Use of clean power produced in Québec to foster investment in the manufacturing and natural resources processing sectors	—	−42.0	−84.0	−169.0	−244.0	−539.0
Tax reduction for innovative companies: support for the commercialization of Québec intellectual property	−2.7	−16.6	−30.3	−38.5	−47.1	−135.2
Promoting environmentally friendly renovation: the creation of RénoVert	−130.3	−43.4	—	—	—	−173.7
TOTAL	**−133.0**	**−102.0**	**−114.3**	**−207.5**	**−291.1**	**−847.9**

Investissement Québec, the government's financial arm

Investissement Québec contributes to Québec's economic development

To support business development, the government acts, in particular, through Investissement Québec, its financing arm.

Investissement Québec's financial interventions with businesses can take the form of non-refundable financial contributions, loans, loan guarantees and equity stakes, from its own equity or as an agent of the government.

Actions

From April 1, 2014 to December 31, 2015, financial interventions by Investissement Québec totaled nearly $3.7 billion, including:

- nearly $1.2 billion for the April 1, 2014 to March 31, 2015 period;
- over $2.5 billion for the April 1, 2015 to December 31, 2015 period.

The funding went to support projects valued at nearly $14.4 billion which will help create or maintain more than 20 000 jobs.

Financial intervention through Investissement Québec – April 1, 2014 to December 31, 25

	Interventions		Projects(1)	Jobs(1)
	Number	Value ($M)	Value ($M)	Number
April 1, 2014 to March 31, 2015(2)	1 363	1 162	7 849	11 563
April 1, 2015 to December 31, 2015(3)	1 019	2 504	6 516	8 531
TOTAL	**2 382**	**3 666**	**14 365**	**20 094**

(1) Project execution and job creation unfold over a three-year period; for employment support, the period is a maximum of two years.
(2) These figures included participation from the Economic Development Fund (EDF) in the mining and hydrocarbon sector before the Capital Mines Hydrocarbures (CMH) fund was set up. The figures exclude the value of the funding from government participation in capitalizing the investment fund through the EDF.
(3) These figures include the actions taken under the CMH fund instituted during the fiscal year.
Sources: Ministère de l'Économie, de la Science et de l'Innovation and Investissement Québec.

Investissement Québec, the government's financial arm (cont.)

Financial interventions that supports all sectors of the economy

Financial interventions by Investissement Québec and the government is intended to contribute to the economic development of every Québec sector and region. Recent actions include:

- $32.4 million to allow Agropur to continue to grow and consolidate its position as one of North America's leading dairy processors;
- $10 million in CTI Life Sciences Fund II, a venture capital fund with total capitalization of $150 to $200 million earmarked for businesses in the life sciences sector;
- $15 million to invest in collaboration with Québec video game industry businesses;
- $16 million to support the execution in Québec, in partnership with PSA Peugeot Citroën, Exagon Motors and IndusTech, a Hydro-Québec subsidiary, of a research and development initiative that involves sharing expertise in the field of components for high-performance electric vehicles;
- $2.4 million to Cinesite to create an animated film production centre, and a $19.6 million loan guarantee to the organization to support funding for its first three films. This project will create 500 jobs in Montreal.

5.1 Use of clean power produced in Québec to foster investment in the manufacturing and natural resources processing sectors

Businesses in manufacturing and natural resources processing face strong competition, particularly in foreign markets. Adopting the best available technology is a key factor in ensuring their growth.

For businesses, a lack of liquidity is often an obstacle to investment. Therefore, to accelerate structuring investment in these sectors of Québec's economy, the government is announcing the introduction of a rebate on electricity to foster investment in companies.

For eligible projects, the measure will comprise a maximum rebate on electricity of 20% over 4 years, which will enable a reimbursement equivalent to 40% of the eligible investments made.

— The rebate will go to companies with the large power rate (rate L) assigned by the Régie de l'énergie.

The incentive will affect close to 150 of Québec's largest companies, making a big contribution to Québec's economy.

— These companies account for 25% of the jobs and nearly 40% of the annual investment made by the Québec manufacturing sector.

— They operate in more than 15 sectors, including primary metal processing, food manufacturing, and paper and chemical product manufacturing.

Primary sectors covered by the rate rebate

- Animal production and aquaculture
- Forestry and logging
- Mining and quarrying
- Food processing
- Beverage and tobacco product manufacturing
- Textile mills
- Wood product manufacturing
- Paper manufacturing
- Printing and related support activities
- Petroleum and coal product manufacturing
- Chemical manufacturing
- Plastics and rubber products manufacturing
- Non-metallic mineral product manufacturing
- Primary metal manufacturing
- Metal product manufacturing
- Machinery manufacturing
- Computer and electronic product manufacturing
- Electrical equipment, appliance and component manufacturing
- Transportation equipment manufacturing
- Wholesale trade

The measure is projected to trigger investments of up to $2.6 billion by 2021.

— This corresponds to total relief of $1.0 billion for companies that invest, including $539 million over the 2016-2017 to 2020-2021 period.

TABLE B.32

Potential investment and financial impact associated with the electricity rebate
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Potential investments associated with the electricity rebate	357	487	845	812	97	2 598
Financial impact of the electricity rebate	—	−42	−84	−169	−244	−539

❑ A bonus for greenhouse gas reduction

To encourage businesses to maintain their energy efficiency efforts, an additional rebate will be granted to investment projects that generate reductions in greenhouse gas (GHG) emissions.

— The reductions will help Québec meet its 2030 target of 37.5%.

The additional rebate, equivalent to a maximum of 10% of the investments:

— will yield a reimbursement equivalent to 50% of the investment for companies that cut their GHG emissions by 20%;

— will incentivize companies to carry out structuring projects to reduce their carbon footprint.

The additional rebate will be disbursed in the final year of the electricity rebate, once the GHG reduction has been noted.

❑ Primary parameters of the electricity rebate

Among others, the new electricity rebate targets projects that make it possible to:

- convert production chains to adapt existing products to market demands;
- improve productivity or energy efficiency by modernizing operating processes.

To be eligible for the electricity rebate, business projects must meet a minimum investment threshold that corresponds to the lesser of:

- 40% of the annual electricity cost;
- a $40 million investment.

Annual investments in asset maintenance will not be eligible for this measure.

The Minister of Finance will announce all of the terms of the electricity rebate at a later date.

Primary terms of the electricity rebate
To benefit from the electricity rebate, among other things, the projects must meet the following terms: – obtain authorization from the Ministère des Finances for an investment plan; – show the project’s potential for improving productivity; – show the project’s technical and financial feasibility; – demonstrate the reduction of greenhouse gases, if applicable. The investment plan must set out, in detail: – the nature of the planned investment (excluding asset maintenance); – the investment schedule. The Minister of Finance will set out the terms of the program and information needed to make an application.

❑ Application of the electricity rebate

Companies can submit applications for the electricity rebate between September 30, 2016 and December 31, 2018. Investment projects that start the day after Budget Speech 2016-2017 could be eligible.

Upon receipt of confirmation of acceptance, the company involved will have until December 31, 2020 to complete the project. The rebate:

— will apply the year after the completion of the first investment year and for the following three years;

— will be granted after an annual verification of the execution of the scheduled investments;

— will be based on the last twelve billing months prior to the filing of the company's initial application.

The investment support electricity rebate will apply as of April 1, 2017.

The rate rebate application period ends on December 31, 2024 at the latest.

TABLE B.33

Important dates for the electricity rebate to foster the manufacturing and natural resources processing sectors

Start of recording of investments	Start of rebate application period	Deadline for submitting a project	Deadline for project execution	End of rebate application period
March 18, 2016	April 1, 2017	Dec. 31, 2018	Dec. 31, 2020	Dec. 31, 2024

Example of the application of the electricity rebate

A company with an annual electricity cost of $50 million decides to carry out an $80 million investment project. The investment project also yields a 20% reduction in the company's greenhouse gas (GHG) emissions.

The company will get a rebate equivalent to 40% of its investment, or $32 million.

In the last year of the electricity rebate, once the GHG reduction has been noted, the additional rebate for GHG reduction, $8 million, is added to the rebate already awarded for investments up to the equivalent of an electricity rebate of 20%.

In all, the company will receive a total rebate of $40 million over 4 years, corresponding to 50% of the costs of the investment project.

Example of the application of the electricity rebate
(millions of dollars, unless otherwise indicated)

	Annual electricity bill	Project cost	Electricity rebate					Effective reimbursement of the investment cost
			Year 1	Year 2	Year 3	Year 4	Total	
Rebate associated with the investment project	50	80	10	10	10	2	**32**	40%
Additional rebate for GHG reduction	—	—	—	—	—	8	**8**	10%
Total	**—**	**—**	**10**	**10**	**10**	**10**	**40**	**50%**
Electricity rebate	**—**	**—**	**20%**	**20%**	**20%**	**20%**	**—**	**—**

Economic development rate

The new electricity rebate complements the economic development rate approved by the Régie de l'énergie in its decision released in March 2015.

Terms of the economic development rate

The economic development rate consists of a rate reduction of 20% from the regular rate applicable. The rate rebate awarded applies to new loads with a maximum required power of at least 1 megawatt for which the electricity costs represent a minimum of 10% of total operating costs.

- This rate is for medium and large power companies (rates M, LG and L), which account for nearly 4 000 Québec companies.
- For a company that is already subscribed, the additional load must also represent at least 20% of the existing load.

The rate rebates are awarded for a maximum of ten years or until 2024, which includes a three-year transition period to the regular rate.

5.2 Tax reduction for innovative companies: support for the commercialization of Québec intellectual property

In recent years, Québec has made substantial progress on research and development (R&D) investment. However, we must ensure that the innovations developed by Québec businesses yield commercial activity in Québec.

To promote the marketing and manufacturing in Québec of innovations designed by Québec businesses, the government is instituting an innovative companies deduction (ICD).

As of January 1, 2017, the deduction will give manufacturing firms that market a product that includes a patent protecting an invention developed in Québec a lower tax rate on the revenue attributable to that patent.

— The tax rate on revenue attributable to a patent, which should have been 11.8%, will be lowered to 4.0%.

In introducing this tax benefit, the government's aim is to encourage:

— investment in innovative manufacturing;

— the retention of intellectual property in Québec;

— the production and marketing of goods that result from patents protecting Québec inventions;

— the competitiveness of Québec businesses.

❑ $135 million in income tax relief for innovative companies

This initiative represents a reduction in the tax burden on innovative companies that will total $135 million over the next five years.

TABLE B.34

Financial impact of instituting the innovative companies deduction
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Innovative companies deduction	−2.7	−16.6	−30.3	−38.5	−47.1	−135.2

❑ A tax rate that bolsters the attraction, retention and creation of innovative companies

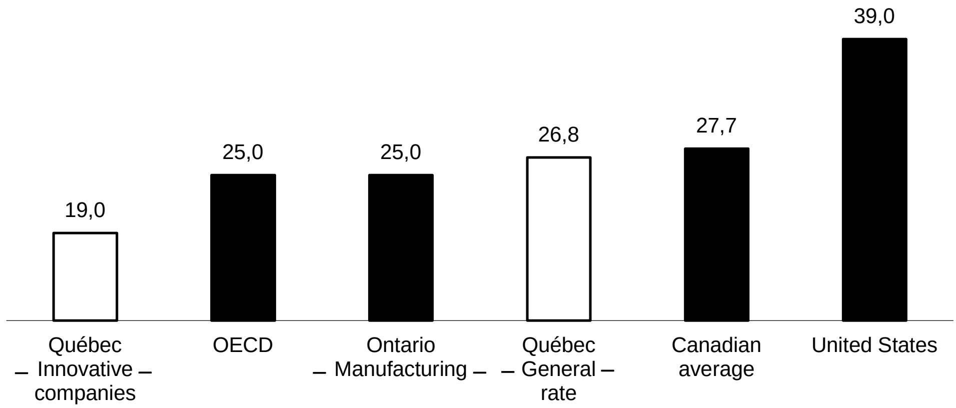
With the ICD, recipients will benefit from an advantageous tax rate on their intellectual property revenue.

— The eligible revenue of innovative Québec companies will be taxed at a combined rate of 19%, a rate 6 percentage points lower than the tax rate on competitors in nations that belong to the Organisation for Economic Co-operation and Development (OECD).

Moreover, this advantageous tax rate will be an incentive for innovative businesses to choose Québec for their high value-added manufacturing and R&D activities.

GRAPH B.5

General combined tax rate on corporate income – 2017
(per cent)



Note: The Canadian average excludes Québec.
Sources: Organisation for Economic Co-operation and Development and Ministère des Finances du Québec.

TABLE B.35

Primary parameters of the innovative companies deduction

Eligible companies	Companies operating a business in Québec: – with more than $15 million in paid-up capital; – whose Québec activities primarily consist in manufacturing and processing activities.
Eligible revenue	Revenue from an eligible patent included in a good manufactured in Québec.
Eligible patent	The patent must: – be held by a corporation with an establishment in Québec; – protect an invention developed with the help of Québec R&D tax credits; – have been the subject of an application starting the day following Budget Speech 2016-2017.
Rate	The effective tax rate on eligible income is 4%[1].

(1) The income attributable to the patent cannot exceed 50% of the revenue from the good manufactured in Québec.

Substantial tax relief for innovative companies

A manufacturing company that chooses Québec for the purpose of marketing a product that incorporates an invention protected by a Québec-developed patent will benefit from a decrease in its tax payable as a result of its eligibility for the innovative companies deduction (ICD).

For illustration purposes, if that manufacturing firm reports taxable income of $15 million, of which $7.5 million is attributable to a patent, the lower tax rate provided by the deduction represents a maximum tax savings of $585 000.

- This company therefore sees a 33% decrease in its tax payable.

Innovative companies income tax reduction – 2017
(dollars, unless otherwise indicated)

	Before Budget 2016-2017	After Budget 2016-2017
Taxable income	**15 000 000**	**15 000 000**
Income attributable to the patent	7 500 000	7 500 000
Tax rate	11.8%	4.0%
Other income	7 500 000	7 500 000
Tax rate	11.8%	11.8%
TAX PAYABLE	**1 770 000**	**1 185 000**
Difference	—	−585 000
Per cent	—	−33%

❑ Incentives for innovation

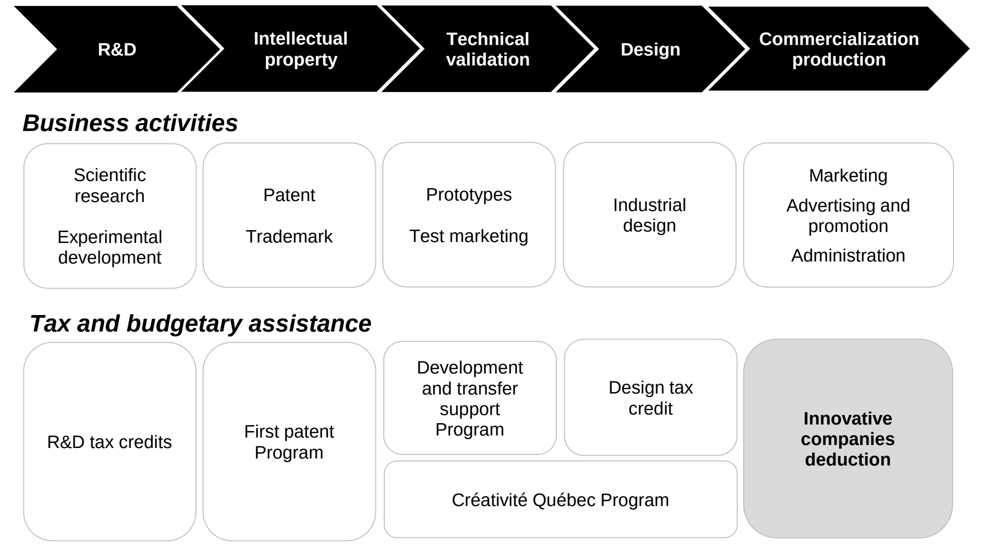
The innovative companies deduction (ICD) provides support for innovation that complements the measures currently available to Québec companies.

Whereas R&D tax credits are an incentive for corporations to invest more in research, the ICD constitutes support for taking the results of the research through to the marketing stage.

By including all of the innovation support extended by the government of Québec, companies operating in Québec can receive government assistance in every phase of innovation.

ILLUSTRATION B.1

Principal tax and budgetary innovation assistance measures



Improvement to the Québec tax system's competitiveness for innovative companies

For a manufacturing firm that reports $15 million in taxable income, of which $7.5 million is attributable to a patent, and has a $10 million payroll, the innovative companies deduction (ICD) will lower its tax burden to a level similar with Ontario's.

As of 2017, factoring in the income tax and Health Services Fund (HSF) contribution, that company's tax burden will be $84 000 lower than that of a counterpart in Ontario.

- The Québec manufacturer will benefit from a tax burden similar to the burden on its competitor in Ontario.

Moreover, the gradual reduction to the general corporate income tax rate, which will be 11.5% as of January 1, 2020, will further improve Québec's tax competitiveness for innovative companies.

Illustration of the tax burden on an ICD-eligible company – 2017
(dollars, unless otherwise indicated)

	Ontario	Québec
Corporate income tax		
Taxable income	**15 000 000**	**15 000 000**
Income attributable to the patent	7 500 000	7 500 000
Tax rate	10.0%	4.0%
Other income	7 500 000	7 500 000
Tax rate	10.0%	11.8%
Tax payable	**1 500 000**	**1 185 000**
HFS contribution		
Company payroll	10 000 000	10 000 000
Contribution rate	1.95%	4.26%
Contribution payable(1)	**195 000**	**426 000**
TOTAL TAX BURDEN	**1 695 000**	**1 611 000**
Difference	—	−84 000
Per cent	—	−5.0%

(1) Excluding the effect of corporate tax deductibility.

5.3 Promoting environmentally friendly renovation: the creation of RénoVert

Budget 2016-2017 calls for the introduction of RénoVert, a refundable tax credit designed to encourage Québec individuals to undertake environmentally friendly renovation work carried out by recognized contractors.

Instituting RénoVert will help reduce the GHG emissions of Québec's residential sector. Because of this, the initiative falls under priority 20 of the 2013-2020 Climate Change Action Plan; the priority's aim is to improve energy efficiency in residential buildings.

The tax credit will apply for one year starting the day after the tabling of Budget 2016-2017, and will end on March 31, 2017.

This new government initiative will make it possible to:

— stimulate economic growth by fostering household consumption and employment in a sector which can have substantial indirect spinoffs on the entire Québec economy;

— contribute to the Québec residential sector's GHG reduction effort;

— develop the green renovation industry;

— encourage innovation in the design of new materials, products and manufacturing processes associated with this type of environmentally friendly home renovation, promoting innovation in Québec manufacturers in this sector.

RénoVert will foster growth by manufacturers

The RénoVert tax credit will support household consumption spending in the environmentally friendly home renovation sector and, as a result, increase demand for products and construction materials that meet recognized environmental and energy efficiency standards, many of which are made in Québec.

By supporting nearly $1.2 billion in environmentally friendly home improvements carried out by Québec consumers, RénoVert will contribute to revenue growth for Québec manufacturers in this sector, and encourage them to innovate in developing new products, materials and manufacturing processes.

In Québec, many companies manufacture building products and materials that meet recognized environmental and energy efficiency standards. For example:

- more than 100 manufacturers make products with ENERGY STAR certification, including doors and windows, and heating and air conditioning equipment;
- approximately twenty Québec businesses make cladding, insulation and sealing materials for buildings.

Among other things, several such companies offer products that feature innovations developed in Québec.

5.3.1 A refund of up to $10 000

The RénoVert refundable tax credit will equal 20% of eligible home renovation expenditures incurred by an individual in excess of $2 500, up to a maximum of $10 000.[7]

— The maximum value of the tax credit will be reached when eligible renovation expenditures reach $52 500 during the measure's application period.

TABLE B.36

Principal parameters of the refundable RénoVert tax credit

Floor for eligible expenditures	$2 500
Tax credit rate	20.0%
Maximum tax credit amount	$10 000
Eligible renovation expenditures subject to the maximum tax credit	$52 500

TABLE B.37

Value of the RénoVert refundable tax credit depending on the amount of eligible home renovation expenditures
(dollars)

Eligible expenditures	Value of tax credit
2 500	—
5 000	500
10 00	1 500
15 000	2 500
20 000	3 500
25 000	4 500
40 000	7 500
52 500	10 000

7 Details on the terms and parameters of the RénoVert refundable tax credit are set out in *Additional information on Budget 2016-2017*.

❑ Wide range of work eligible for a refund

To encourage Quebecers to make environmentally friendly home renovation decisions, a wide range of work is eligible for RénoVert.

Such work includes:

- work on the building envelope involving:
  - insulation of the roof, outside walls, foundations and exposed floors,
  - leakproofing of foundations, walls, doors and windows,
  - installation of doors and windows,
  - installation of a living roof;
- work on the home's mechanical systems pertaining to:
  - heating,
  - air conditioning,
  - water heating,
  - ventilation;
- work pertaining to water[8] and soil quality.

Upgrading of individual sanitation systems

When not treated or improperly treated, wastewater from an isolated dwelling poses a risk to public health and the environment. Among other things, it can contaminate drinking water sources and groundwater and, in addition, make cyanobacteria and other pathogens proliferate.

Numerous Québec municipalities, most located in areas with relatively low population density, include isolated homes equipped with individual sanitation systems to treat wastewater.

Many such systems are obsolete and no longer meet the environmental standards in effect or minimum construction standards set out in *the Regulation respecting waste water disposal systems for isolated dwellings*. Maintenance work on these systems is imperative. However, the related costs constitute a substantial financial burden for many owners, particularly those with low income.

The government is sensitive to this concern. Therefore, the cost of work to upgrade individual waste water treatment systems on a primary residence will be eligible for the RénoVert tax credit.

8 Excludes water quality work performed at a cottage.

❑ Use of a recognized contractor

To benefit from the tax assistance provided by the RénoVert refundable tax credit, individuals must enter into a contract with a recognized contractor to have the renovation work on their home done.

- The agreement with the contractor must be concluded after Budget 2016-2017 is tabled, and before April 1, 2017.
- However, individuals will have until September 30, 2017 to pay the renovation expenses covered in the contract.

5.3.2 Tax assistance that stimulates employment and economic growth

The RénoVert refundable tax credit will encourage households to increase planned home renovation expenses, or move up renovation work they had planned to do later.

RénoVert will stimulate the economy in the near term by promoting consumption and employment in a sector which can have substantial indirect spinoffs in all regions of Québec.

Here, the tax credit will help sustain approximately $1.2 billion in environmentally friendly home renovation spending by Québec households, or an average of almost $12 000 per recipient taxpayer.

❑ Nearly $175 million in fiscal assistance

The RénoVert refundable tax credit will benefit approximately 100 000 taxpayers who will receive tax assistance of nearly $175 million.

5.3.3 **A measure that helps meet GHG reduction targets**

RénoVert is a government initiative that will help reduce GHG emissions by Québec's residential sector. It also falls under priority 20 of the 2013-2020 Climate Change Action Plan (2013-2020 CCAP), which aims to promote renewable energy and energy efficiency in residential, commercial and institutional buildings.

Let us look at the example of a couple with two children who own an oil-heated single-family dwelling. Given the tax assistance provided by the RénoVert refundable tax credit, they will be encouraged to have renovations done to convert their oil-powered heating system to an electric convector system.

The cost of the conversion work would be $5 000 and, through RénoVert, the couple would receive $500 in tax assistance. Moreover, assuming that the home's heating energy needs equal approximately 1 600 litres of fuel oil a year, converting the heating system would permanently lower the home's GHG emissions by more than 4.4 tonnes of carbon dioxide (CO_2) equivalent, which corresponds to the annual GHG emissions of more than one car.

■ A reduction comparable to removing more than 30 000 motor vehicles from circulation

In all, considering all of the environmentally friendly renovation work to be done by individuals, the measure is estimated to contribute to a permanent reduction in residential GHG emissions equivalent to taking nearly 30 000 vehicles out of circulation.[9]

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9 Given that a motor vehicle's annual GHG emissions total approximately 3.4 tonnes of CO_2 equivalent.

5.3.4 Measure to be financed by the Green Fund

Because of its objectives, the RénoVert refundable tax credit will be implemented under the 2013-2020 Climate Change Action Plan, since it helps reduce GHG emissions in Québec's residential sector.

This means that the lion's share of the funding for RénoVert may come from the Green Fund. With respect to financing the tax credit for eligible renovation work that has no GHG reduction impact even though it protects the environment, funding will come from the Consolidated Revenue Fund.

This is work that affects water and soil quality, including:

- work to refurbish a septic tank and disposal field;
- work to decontaminate oil-contaminated soil.

The measure's cost totals nearly $175 million. Of this amount, nearly $165 million will be financed by the Green Fund, with $10 million coming from the Consolidated Revenue Fund.

TABLE B.38

Financial impact of the RénoVert refundable tax credit – 2016-2017 and 2017-2018
(millions of dollars)

Funding sources	2016-2017	2017-2018	Total
Green Fund(1)	−122.6	−40.8	−163.4
Consolidated Revenue Fund(2)	−7.7	−2.6	−10.3
TOTAL	**−130.3**	**−43.4**	**−173.7**

(1) For eligible renovation work with an impact on GHG emission reduction.
(2) For eligible renovation work with no impact on GHG emission reduction, although it protects the environment.

6. INCREASED SUPPORT FOR QUÉBEC SMBS

SMBs are an important driver of economic growth and job creation in Québec. Since Budget 2014-2015, the government has increased its support for Québec SMBs, particularly by reducing their tax burden.

❑ More than $280 million over five years to support Québec SMBs

The Economic Plan contains additional measures that will increase this support for Québec SMBs, such as:

— an additional reduction in the Health Services Fund (HSF) contribution;

— additional support for the export of Québec innovations;

— tax relief for transfers of family businesses.

These measures represent an additional support for SMBs of more than $280 million over five years.

TABLE B.39

Financial impact of the measures to support Québec SMBs
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Additional reduction in the Health Services Fund contribution for Québec SMBs	–5.7	–29.0	–48.0	–60.5	–101.5	–244.7
Exporting Québec innovations	–7.5	–12.5	–12.5	—	—	–32.5
Promote transfers of family businesses	–5.0	—	—	—	—	–5.0
TOTAL	**–18.2**	**–41.5**	**–60.5**	**–60.5**	**–101.5**	**–282.2**

Improvements totalling $474 million to the tax system for SMBs

Since Budget 2014-2015, the government is acting to make numerous improvements to taxation for SMBs.

By favouring general application measures to stimulate investment, the government is providing Québec SMBs with a fiscal environment that enables them to grow, to innovate and to be competitive.

Thus, the government is:

- reducing the Health Services Fund (HSF) contribution for SMBs in all sectors of the economy;
- reducing the tax rate from 8% to 4% for SMBs in the primary and manufacturing sectors;
- introducing an additional deduction for transportation costs of manufacturing SMBs.

These measures to improve the basic tax system for SMBs will represent $474 million in tax relief per year at term.

Impact of improvements to the basic tax system for SMBs implemented since Budget 2014-2015
(millions of dollars)

	Annual amount at term(1)
Reduction in the HSF contribution for SMBs in all sectors	385
Reduction in the tax rate for SMBs in the primary and manufacturing sectors	69
Additional deduction for transportation costs of manufacturing SMBs	20
TOTAL	**474**

(1) These amounts represent the impact at term in 2020-2021.

6.1 Additional reduction in the Health Services Fund contribution for Québec SMBs

In order to support Québec SMBs, the government is acting to provide them with a competitive fiscal environment. Overly high fixed costs, such as payroll taxes, can curb job creation.

Thus, Economic Plan 2016-2017 provides for an additional reduction in the HSF contribution for all Québec SMBs starting on January 1, 2017.

The rate applicable to businesses with a payroll of $1 million or less will gradually be reduced by 2021, i.e. from:

— 1.6% to 1.45% for the primary and manufacturing sectors;

— 2.7% to 2.0% for the service and construction sectors.

This measure will ensure the continuity of the general application measures implemented by the government since Budget 2014-2015 in order to reduce the tax burden for SMBs.

At term, the reduction in the HSF contribution will be:

— close to 50% for SMBs in the primary and manufacturing sectors;

— more than 25% for SMBs in the service and construction sectors.

TABLE B.40

Reduction in the HSF contribution rate for Québec SMBs
(per cent)

	Before June 5, 2014	2016	2017	2018	2019	2020	2021
Primary and manufacturing sectors	2.70	1.60	1.55	1.50	1.50	1.50	1.45
Service and construction sectors	2.70	2.70	2.50	2.30	2.15	2.05	2.00

Note: Rate applicable to businesses with a total payroll of $1 million or less. The rate increases linearly to 4.26% for a total payroll of between $1 million and $5 million.

Reducing the contribution to the Health Services Fund: a measure that encourages SMBs and workers

The contribution to the Health Services Fund (HSF) represents a fixed cost for businesses. As such, it may hamper investment and job creation, especially for SMBs in the startup phase.

- Despite the lower rate for SMBs, the burden of the HSF contribution, as a percentage of sales in Québec, is more than twice as high for SMBs as for large businesses.

According to the Canadian Federation of Independent Business, payroll taxes should be reduced as a priority, since two out of three Québec SMBs consider them the form of taxation that is the most harmful to their growth.[1]

- This opinion is also shared by the Québec Taxation Review Committee, which particularly recommends that the government further reduce the HFS contribution for SMBs.

As well as fostering business growth, the reduction in the HFS contribution for SMBs could also translate into higher salaries for workers.[2]

1 Survey conducted by the Canadian Federation of Independent Business (CFIB) on Québec taxation, June 2015.
2 For a review of studies on the impact of payroll taxes, see volume 3 of the *Final Report of the Québec Taxation Review Committee*, 2015, p. 58.

❑ A reduction in the tax burden on SMBs totalling $385 million per year at term

All 240 000 Québec SMBs with a payroll of under $5 million will benefit from the additional reduction in the HSF contribution totalling close to $250 million over five years.

In addition to the rate reductions announced since the *Update on Québec's Economic and Financial Situation* of fall 2014, this measure will allow SMBs to benefit from payroll tax relief totalling close to $1.5 billion by 2020-2021.

— At term, the announced HSF contribution reductions will lower the tax burden of SMBs by $385 million per year.

TABLE B.41

Financial impact of HSF contribution reductions since the *Update on Québec's Economic and Financial Situation* of fall 2014
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Fall 2014 Update								
Reduction for primary and manufacturing sectors	−17.4	−71.4	−73.6	−76.0	−78.5	−81.1	−83.8	−481.8
Budget 2015-2016								
Reduction for service and construction sectors	—	—	−14.7	−125.3	−187.8	−193.9	−200.1	−721.8
Subtotal	**−17.4**	**−71.4**	**−88.3**	**−201.3**	**−266.3**	**−275.0**	**−283.9**	**−1 203.6**
Budget 2016-2017								
Additional reduction for all SMBs	—	—	−5.7	–29.0	–48.0	–60.5	–101.5	–244.7
TOTAL	**−17.4**	**−71.4**	**−94.0**	**−230.3**	**−314.3**	**−335.5**	**−385.4**	**−1 448.3**

Note: Since the figures have been rounded off, they may not add up to the total indicated.

A significant reduction in the Health Services Fund contribution for all SMBs in Québec

Since June 2014, the government has taken major steps to reduce the Health Services Fund (HSF) contribution for SMBs, i.e.:

- the implementation on June 5, 2014 of a contribution holiday through the end of 2020, for the hiring of specialized workers;
- a gradual rate reduction from 2.7% to 1.45% for the primary and manufacturing sectors since January 1, 2015;
- a gradual rate reduction from 2.7% to 2.0% for the service and construction sectors starting on January 1, 2017.

This additional reduction in the HSF contribution rate will allow all Québec SMBs to benefit from considerable tax relief.

To illustrate, a business with a $2 million payroll will save the following annually:

- $18 800 if it operates in the primary or manufacturing sectors;
- $10 400 if it operates in the service or construction sectors.

Illustration of the impact of HSF contribution rate reduction for SMBs in all sectors

	Before Jan. 1, 2015	Primary and manufacturing as of Jan. 1, 2021		Service and construction as of Jan. 1, 2021	
Payroll	Rate (%)	Rate (%)	Gain ($)	Rate (%)	Gain ($)
$1 M	2.70	1.45	12 500	2.00	7 000
$2 M	3.09	2.15	18 800	2.57	10 400
$3 M	3.48	2.86	18 600	3.13	10 500
$4 M	3.87	3.56	12 400	3.70	6 800
$5 M	4.26	4.26	—	4.26	—

These payroll tax reliefs are in addition to the tax rate reduction from 8% to 4% for primary and manufacturing sectors SMBs.

Tax rate of SMBs eligible for the small business deduction

	Rate before June 5, 2014	Rate as of Jan. 1, 2017
Primary and manufacturing sectors	8%	4%
Service and construction sectors	8%	8%

❑ Additional support to exporting SMBs

Québec exporting businesses are operating against a backdrop of strong competition. In order to increase their market share in the rest of Canada and abroad, they need a competitive tax system.

The additional HSF contribution reduction will be favourable for exporting SMBs because it will improve their ability to compete outside Québec.

A more competitive tax system for exporting SMBs

The reduction in the Health Services Fund (HSF) contribution and the decrease in the tax rate from 8% to 4% will reduce the tax burden on primary and manufacturing SMBs to a level similar to that of Ontario.

To illustrate, a small manufacturing business with a taxable income of $500 000 and a payroll of $1 million will see its tax burden reduced by close to half as compared with the situation before Budget 2014-2015.

- The difference between a Québec business and a similar business in Ontario, which used to be more than 100%, will practically be eliminated.

Comparison of the tax burden of a manufacturing SMB in Québec and in Ontario
(dollars, unless otherwise stated)

		Tax burden in Québec	
	Tax burden in Ontario	**Before Budget 2014-2015**	**As of Jan. 1, 2021**
Corporate income tax			
Taxable income	500 000	500 000	500 000
Tax rate	4.5%	8.0%	4.0%
Income tax payable	**22 500**	**40 000**	**20 000**
HSF contribution			
Payroll	1 000 000	1 000 000	1 000 000
Contribution rate	1.95%	2.70%	1.45%
Exemption threshold	450 000	—	—
Contribution payable(1)	**10 725**	**27 000**	**14 500**
TOTAL TAX BURDEN	**33 225**	**67 000**	**34 500**
Difference in relation to Ontario	—	+102%	+4%

(1) Excluding the effect of corporate income tax deduction.

A relaxed eligibility criteria for the small business deduction

Budget 2015-2016 introduced an adjustment to the small business deduction (SBD) that was intended to ensure that this tax measure achieved its objective.

To better reflect the varied situations of SMBs, Budget 2016-2017 makes the SBD eligibility criteria more flexible. Henceforth, the criteria will involve the number of hours worked (5 500 hours per year) rather than the number of employees (more than 3 full-time employees).

Moreover, to support SMBs that generate jobs, the government is announcing a further reduction to the Health Services Fund (HSF) contribution for all SMBs.

A tax system that promotes job creation and higher wages

The additional reduction to the HSF contribution and more flexible SBD eligibility criteria will help foster job creation and higher wages.

- For example, for a small business with sales of $300,000, the changes announced previously and those introduced in Budget 2016-2017:
  - will not affect its tax burden if the business has a payroll of $150 000, of which $100 000 is paid to the owner as salary, and a taxable income of $30 000;
  - would reduce its tax burden by 44% if the owner decided to pay himself exclusively in salary.

Illustration of the tax burden on a small business subsequent to the changes to the tax system for SMBs in Budget 2016-2017
(dollars, unless otherwise indicated)

		At term	
	Before budget 2015-2016	With operating income as dividends	With operating income as salary
Income tax			
Gross income	300 000	300 000	300 000
Payroll	150 000	150 000	180 000
– Including owner's salary	100 000	100 000	130 000
Other expenses	120 000	120 000	120 000
Taxable income	30 000	30 000	—
Tax rate	8.0%	11.5%	11.5%
Tax payable	**2 400**	**3 450**	**—**
HSF contribution			
Payroll	150 000	150 000	180 000
Contribution rate	2.7%	2,0 %	2.0.%
Contribution payable	**4 050**	**3 000**	**3 600**
TOTAL TAX BURDEN	**6 450**	**6 450**	**3 600**
Difference		—	−44%

6.2 Exporting Québec innovations

The marketing of innovative, technology-intensive products or processes presents a challenge for SMBs because potential users, particularly foreign users, hesitate to invest in innovations that have not been commercially tested or that are not yet on the market.

In order to support exporting SMBs that want to bring their innovation activities to fruition, Budget 2016-2017 is providing additional support in the amount of $32.5 million over three years. This support will foster marketing projects for Québec innovations.

The estimated spinoffs are significant for exporting SMBs:

- during the three-year period, some 250 projects should be supported, particularly projects that demonstrate innovations in real-life situations;
- annually, the increase in export sales should translate into the creation of 800 jobs and generate investments of close to $38 million, at term.

To this end, additional credits of $7.5 million in 2016-2017 and of $12.5 million in 2017-2018 and in 2018-2019 will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation. The credits for 2016-2017 will come directly from the Contingency Fund.

To support Québec exporting SMBs in their marketing initiatives, a portion of the envelope will be set aside for Export Québec, whose mandate is to provide services tailored to the needs of exporting businesses that want to develop, consolidate and diversify their markets outside Québec.

❑ Developing the export strategy: help our businesses conquer new markets

Québec businesses must also be well positioned to take advantage of the recent trade agreements, i.e. the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union, and the Trans-Pacific Partnership (TPP), for which Québec actively participated in negotiations.

In this context, last November, the government of Québec initiated consultations with the various stakeholders concerned. These consultations will lead to the development and unveiling of a new export strategy in 2016.

The amounts earmarked for exporting SMBs in this budget will directly contribute to the implementation of the export strategy currently under development.

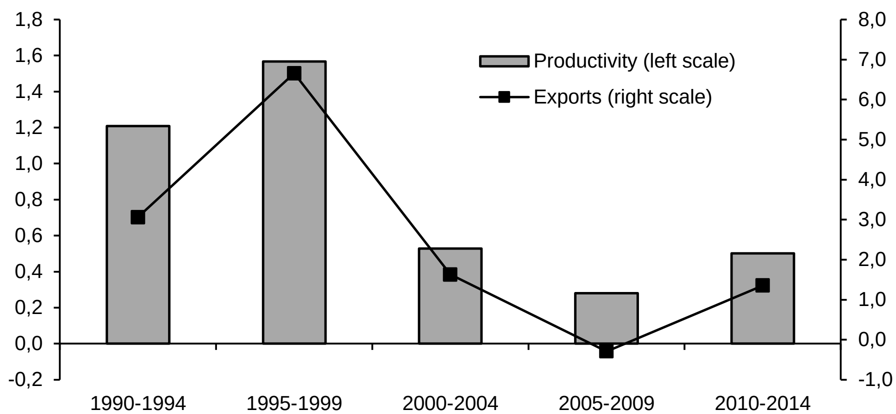
Exports: an important contribution to growth

Exports influence productivity by the fact that they support the growth of our businesses and expose them to international competition.

- In fact, an increase in exporting capacity will create business opportunities, promote economies of scale and increase the capacity to innovate, to invest and to develop new products and services.

At the same time, greater productivity allows businesses to offer quality products and services at lower costs, and thus to be more competitive in their export markets.

Changes in labour productivity and exports in Québec
(average annual percentage change, in real terms)



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

6.3 Promote transfers of family businesses

In the coming years, demographic changes will have the effect of significantly increasing the number of business owners who need to pass their businesses on to the next generation of entrepreneurs.

For many of these business owners, their children are the ones who will ensure the future sustainability of their business.

— According to the Fondation de l'entrepreneurship, 26 500 entrepreneurs plan to transfer their business to their children in the next 10 years.

The government recognizes how important family business transfers are for the renewal of entrepreneurship in Québec.

Therefore, in Budget 2016-2017, the government is announcing that the tax relief implementation date for transfers of family businesses in the primary and manufacturing sectors, which had initially been slated for January 1, 2017, has been moved up.

— As of the day after Budget Speech 2016-2017, entrepreneurs who sell their business to a non-arm's length person will be able to benefit from favourable tax treatment with respect to capital gains.

The tax system currently includes an integrity rule that stipulates that the seller may not benefit from this favourable tax treatment, so as to prevent taxpayers from selling their business to non-arm's length individuals solely to take advantage of this tax treatment.

❑ Preserve the integrity of the tax system while promoting transfers of family businesses

In order to preserve the integrity of the tax system, to be eligible for tax relief, the taxpayers involved in the transfer of a family business, i.e. the seller and the buyer, will have to meet the following criteria to ensure a real transfer:

— the seller must have been active in the business before the sale and the buyer must take over the business after the sale;

— the seller must not have legal control of or common shares in the business after the sale;

— at the time of transfer, the amount paid by the buyer represents at least 40% of the market value of the business, or 20% for businesses in the farming or fishing sectors.

The eligibility criteria are described in detail in the document entitled *Additional Information 2016-2017*.

The cost of advancing the implementation of this measure in 2016-2017 is estimated at $5 million. Regarding subsequent years, a financial impact of $15 million per year was taken into account in Budget 2015-2016.

Québec solution to an issue that affects entrepreneurs all across Canada

Generally speaking, legislation provides for the following tax treatment for individuals who realize a capital gain from the sale of an eligible corporation:

- a cumulative lifetime capital gains exemption of up to $824 176 in 2016 for the sale of a qualifying small business, or $1 million for the sale of a farm or fishing business;
- taxation on 50% of the value of the capital gains exceeding the cumulative exemption amount.

In the case of family business transfers, however, the income from the sale is not considered a capital gain but rather dividend income, in order to ensure the integrity of the tax system.

- Without this special tax treatment, some taxpayers would be able to sell their business to family members solely to take advantage of beneficial tax treatment of capital gains.

This issue is not unique to Québec. All Canadian entrepreneurs face this situation. The Québec government therefore recommends to the federal government that it study the measure put in place in Québec with a view to applying it in its tax system.

- Québec, like the other provinces, has harmonized its tax treatment of transfers of family businesses with that of the federal government.

7. IMPLEMENTING A CUTTING-EDGE DIGITAL STRATEGY

The use of digital technology by businesses helps increase productivity, foster innovation and create jobs. Québec must position itself to capitalize on opportunities created by these new technologies and continuously adapt to emerging global trends.

The shift to Industry 4.0, in which all systems are interconnected and data is centralized, is essential to ensure the competitiveness of our manufacturing businesses.

To achieve these objectives, the government has undertaken to develop and implement its digital strategy.

To determine which actions must be taken to meet the challenges of the digital economy, in the Fall of 2015, the Ministère de l'Économie, de la Science et de l'Innovation held consultations with Québec businesses and with public and private bodies.

❑ $162 million over five years to adopt a cutting-edge digital strategy

As part of Budget 2016-2017, the government is taking the following steps to implement the digital strategy:

— allocating additional funding of $78.5 million over five years to fund the digital strategy's first initiatives;

— improving the tax credit for the integration of information technologies in Québec SMBs;

— providing support for large digital transformation projects.

The government will allocate $161.9 million over five years to implement the digital strategy.

TABLE B.42

Financial impact of adopting a cutting-edge digital strategy
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
First initiatives of the digital strategy	−10.0	−17.5	−17.0	−17.0	−17.0	−78.5
Facilitating the integration of information technologies in SMBs	−1.2	−5.1	−8.8	−10.0	−8.4	−33.5
Support for large digital transformation projects	−1.6	−6.8	−10.1	−14.6	−16.8	−49.9
TOTAL	**−12.8**	**−29.4**	**−35.9**	**−41.6**	**−42.2**	**−161.9**

7.1 First initiatives of the digital strategy

The digital strategy will establish a medium and long term vision for Québec's digital economy. It will allow the government, in collaboration with various stakeholders within the Québec digital ecosystem, to take into account the evolving nature of the digital economy.

As part of Budget 2016-2017, the government is unveiling major areas of intervention that will enable Québec to intensify efforts to position itself in the global digital economy.

The strategy's first initiatives seek to stimulate more widespread adoption of digital technology by manufacturing businesses and encourage growth in the Information and Communication Technologies (ICT) sector.

To do so, additional funding of $10 million in 2016-2017, $17.5 million in 2017-2018, and $17 million per year from 2018-2019 to 2020-2021, will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation. For the year 2016-2017, the sums indicated will be drawn from the Contingency Fund.

The Minister of the Economy, Science and Innovation will announce the details on the digital strategy at a later date.

TABLE B.43

Financial impact of the digital strategy's first initiatives
(millions of dollars)

Areas of intervention	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Innovation through digital technologies and data	−1.8	−3.8	−3.8	−3.8	−3.0	−16.2
Accelerating the digital transformation of the manufacturing sector and the adoption of e-commerce	−3.1	−6.2	−6.3	−6.3	−6.3	−28.2
A leading global ICT sector	−0.8	−3.6	−2.7	−3.9	−3.4	−14.4
Building and distributing digital skills and mobilizing partners	−2.2	−1.6	−2.2	−1.0	−2.3	−9.3
An attractive business climate that fosters the growth of digital technology	−2.1	−2.3	−2.0	−2.0	−2.0	−10.4
TOTAL	**−10.0**	**−17.5**	**−17.0**	**−17.0**	**−17.0**	**−78.5**

The most recent digital economy trends

For several years, the use and influence of information and communication technologies (ICTs) in the world economy have grown significantly. In addition to facilitating access to products and services, ICTs boost innovation through the application of scientific breakthroughs to new products and processes and the appearance of new business models.

Some of the recent trends emerging in the digital economy include:

- the Internet of Things, a communications network that uses smart technology to process the flow of data from machines and devices of all kinds, in order to extract information that can simplify operations, facilitate decision making and find savings for businesses (e.g. smart meters, remote health monitoring, farmland irrigation management and repair and monitoring solutions for truck fleets);
- big data, which refers to large quantities of data from multiple sources (e.g. bank transactions, social networks, e-commerce and mobile phones) that require analytical technologies to exploit and analyze them;
- cloud computing, which provides on-demand, real-time access via the Internet to infrastructure (such as networks and servers) and services (such as email, management software and data storage);
- financial technologies (fintech), primarily developed by startups that use new technologies to provide innovative financial services to individuals through digital applications.

❑ Innovation through digital technologies and data

To accelerate the adoption of new digital technology by businesses, actions will be taken to create a climate that fosters collaboration between researchers and businesses or organizations.

Certain measures will foster the optimal use of infrastructure, research, innovation and application demonstration platforms in ICT and digital technology, so that the economies of scale necessary for investment profitability may be generated.

In addition, support will be provided for collaborative research projects carried out by sectoral industrial research coalitions in priority sectors, particularly data science.

An envelope of $16.2 million over five years will be allocated to fund these initiatives.

Support for the ENCQOR project
The ENCQOR project constitutes a partnership between industry stakeholders and the public sector. Its aim is to build infrastructure for a next-generation functional network in the Québec-London corridor over the next five years. More specifically, the projects seeks to: – provide access to advanced technologies such as 5G, programmable open broadband networks, the Internet of Things, silicon photonics, big data analysis and cloud computing; – develop several innovation and research sites dedicated to digital technology in Québec and Ontario. The total investment necessary for the ENCQOR project amounts to $400 million over five years, of which 50% will come from the private sector. The government of Québec will fund the project, provided that the federal and Ontario governments also participate in its funding.

❑ Accelerating the digital transformation of the manufacturing sector and the adoption of e-commerce

To establish a digital culture in Québec, entrepreneurs will be provided with financial support and consulting services to help them adopt digital technologies, including e-commerce.

Certain measures will support investments to acquire Industry 4.0 solutions and accelerate businesses' digital transformation through:

- the adoption of e-commerce solutions by retailers and wholesale businesses;
- the acquisition of analysis software to optimize production, the supply chain and transportation management of manufacturing SMBs;
- the use of building information modelling in the construction industry.

An envelope of $28.2 million over five years will be allocated to fund these initiatives.

Supporting the shift to Industry 4.0
Following a request for proposals process, multidisciplinary consulting-service teams specialized in digital technology could help businesses perform diagnoses and create strategic plans, to effectively integrate digital technologies, including e-commerce solutions, into their business processes. More support will be provided to SMBs to help them acquire digital technologies that will affect them in concrete ways.[1] These IT tools will optimize data management, production, transportation management, the supply chain and customer relations. The tools will assist and provide financial benefits to almost 3 000 businesses as they make the digital shift, particularly to Industry 4.0. **Industry 4.0** Industry 4.0, or the fourth industrial revolution, describes the integration of digital technologies into industrial processes. These new Smart Factories are characterized by ongoing, instant communication between various tools and workstations that are integrated into supply and production chains. The Internet of Things is a key factor, but Industry 4.0 also requires the close integration of information sources, such as integrated management, customer relation and supply chain management software packages.

1 See section 7.2 on the improved tax credit for the integration of information technologies in Québec SMBs.

❑ A leading global ICT sector

To further stimulate growth in the ICT sector, targeted support measures will help develop niches with strong growth potential, such as big data, advanced research computing (ARC), public transit and electric mobility.

Certain measures will also facilitate the export and promotion of Québec ICTs internationally and foster business partnerships between:

— technology-focused SMBs in Québec and major clients;

— incubators, accelerators and university entrepreneurship centres, to nurture a new type of innovative business that, from its inception, will incorporate digital technologies throughout its business process.

An envelope of $14.4 million over five years will be allocated to fund these initiatives.

Agreement between technology-focused business accelerators and incubators in Québec and France

To help spur the growth of digital startups, develop markets and create jobs, the government of Québec will fund residency and business acceleration programs between France and Québec.

A partnership is planned between Le Camp, an accelerator/incubator in the City of Québec, and Héméra, an accelerator in Bordeaux. This collaboration will have three components: corporate hospitality, a residency and business acceleration program and an exchange of experts and expertise.

The government of Québec is planning to support a similar partnership between Montréal and another French city.

❑ Building and distributing digital skills and mobilizing partners

To foster the development of digital skills, the government will support measures to intensify the adoption and use of digital technologies, such as:

— internship programs that foster the transfer of skills between businesses and the next generation;

— collaboration forums that bring together various digital ecosystem stakeholders and identify ICT training needs;

— initiatives for high school students that promote training and careers in ICT.

An envelope of $9.3 million over five years will be allocated to fund these initiatives.

Canada First Research Excellence Fund

The Canada First Research Excellence Fund is a federal program that helps selected postsecondary institutions become world leaders in research areas that will create long-term economic advantages for Canada.

- The Fund invests approximately $200 million per year to support Canada's postsecondary institutions in their efforts to become global research leaders.

Building on the program's initial success, the process is under way to select institutions through a second competition. The Fund is intended to transform these institutions into centres of excellence and focal points for research and innovation in their fields.

- Seven Québec university projects were selected during the letter of intent phase of this competition.
- The final results will be announced in the summer of 2016.

In this context, the government of Québec wishes to support Québec universities in their application to the federal government's 2016 Canada First competition. Beginning in 2017, assistance will be provided to universities whose projects have been selected, should the federal government decide to participate in their funding.

❑ An attractive business climate that fosters the growth of digital technology

The digital strategy provides for government contributions that will help create adequate digital infrastructure for individuals, organizations and businesses in rural areas.

— For this purpose, the Québec branché program has been created to provide financial support for digital infrastructure in rural communities.

The government will also adopt best practices to help businesses access government contracts and encourage the use of cloud computing solutions by government bodies.

In addition, to ensure the growth and competitiveness of the ICT sector, the government is committed to maintaining significant tax measures that will provide businesses with financial support amounting to approximately $500 million per year. ICT businesses will therefore be very well positioned to adopt new digital technologies as they are developed.

In addition to tax measures, an envelope of $10.4 million over five years will be allocated to fund these initiatives.

Major tax incentives to support the digital shift

Over the past several years, the government of Québec has invested in technology businesses by implementing various tax measure to facilitate the shift to a digital economy.

Québec is home to several pools of businesses operating in a number of key technological fields, with access to a qualified and skilled workforce that enjoys global recognition.

Tax credit for the development of e-business

First introduced in 2008, the tax credit for the development of e-business seeks to increase businesses' productivity by stimulating the supply of value-added software that will directly improve business processes and work practices and boost innovation.

In addition to encouraging the establishment and expansion of innovative businesses in a promising sector, the tax credit helps create and maintain specialized jobs. Today, the tax measure benefits approximately 440 businesses that employ close to 46 000 individuals, for a total annual assistance of over $300 million.

Tax credit for the production of multimedia titles

Since 1996, the tax credit for the production of multimedia titles aims to support job creation through the development of multimedia titles in Québec. Although the video game sector was practically nonexistent in Québec at the time this tax measure was implemented, it now employs close to 11 000 individuals at approximately 140 businesses. The tax measure represents financial assistance of approximately $150 million per year for these businesses.

The Québec video game industry accounts for more than half the jobs in this activity sector in Canada and is now one of the main interactive game development hubs in the world. It is recognized worldwide for its success and innovation.

Tax credit for film production services

Introduced in 1998, the tax credit for film production services stimulates job creation by encouraging foreign producers to choose Québec as a filming location or as a place to carry out related special effects and computer animation.

Over the past few years, Québec has attracted major job-creating projects led by such companies as Cinesite, Framestore and Technicolor. In 2014, 45 productions requiring visual effects were carried out in Québec, providing contracts totalling $139 million.[1]

The tax measure represents approximately $80 million in annual assistance, a large part of which supports special effects and computer animation projects.

1 BUREAU DU CINÉMA ET DE LA TÉLÉVISION DU QUÉBEC, *Bilan d'activités 2014-2015*.

7.2 Facilitating the integration of information technologies in SMBs

To encourage SMBs in manufacturing and primary sectors to integrate high-value-added software into their business process, a 20% tax credit is being offered for fees incurred on contracts awarded for the integration of management software packages.

The tax credit is a targeted measure that will allow Québec SMBs to adopt best practices in information technology (IT) and optimize the use of management software packages in their business process, which will have a direct impact on businesses' productivity and competitiveness.

❑ Addition of wholesale trade and retail trade sectors and increase in the size of eligible SMBs

To accelerate the adoption of digital technologies by Québec businesses and allow a greater number to benefit from the tax credit for the integration of IT in SMBs, Budget 2016-2017 will:

- extend the tax credit to SMBs in the wholesale and retail trade sectors;
- increase the size of SMBs that are eligible for the tax credit in all eligible sectors of activity.
  - SMBs with consolidated paid-up capital of less than $50 million will be eligible for the tax credit, which replaces the current limit of $20 million.

The improved tax credit will allow a greater number of SMBs, particularly those in the wholesale trade and retail trade sectors, to tap into the full potential of e-business solutions. E-business opens up new markets in which Québec SMBs must increase their presence to ensure their growth.

❑ Additional tax assistance for almost 1 500 SMBs

The cost to the government for improving the tax credit for the integration of IT in SMBs amounts to $33.5 million over the next five years and will benefit close to 1 500 SMBs.

TABLE B.44

Main parameters of the tax credit for the integration of IT in SMBs – After the day of Budget Speech 2016-2017

Eligible corporations	Corporation that operates a business in Québec, has an establishment there and: – has consolidated paid-up capital of less than $50 million(1) – carries out activities primarily in one of the eligible sectors of activity(2)
Eligible sectors of activity	– Primary – Manufacturing – Wholesale trade(3) – Retail trade(3)
Eligible expenses	80% of the expenses associated with a business management package integration contract certified by Investissement Québec
Limit on eligible expenses	Cumulative eligible expenses of $250 000 for the entire tax credit application period
Rate	20% of eligible expenses, to a maximum tax credit of $50 000 per corporation
Duration	Expenses incurred after the day of Budget Speech 2016-2017 and before January 1, 2020 as part of the granting of eligible contracts

(1) The tax credit rate will be reduced linearly for companies with paid-up capital, calculated on a worldwide consolidated basis, of $35 million to $50 million.
(2) In a taxation year during which a company has incurred eligible expenses, the proportion of all its activities carried out in the primary, manufacturing, wholesale trade and retail trade sectors must exceed 50%.
(3) Wholesale trade is defined by activity subsectors grouped under the NAICS 41 code, while retail trade is defined by NAICS codes 44-45, under the North American Industry Classification System (NAICS) of Statistics Canada.

Concrete benefits for SMBs in the wholesale trade and retail trade sectors

Thanks to the improvement to the tax credit for the integration of information technologies in SMBs, businesses in the wholesale trade and retail trade sectors will benefit from financial assistance of 20% for the acquisition of management software packages, to a maximum of $50 000.

For retailers that carry out sales in store and online, in addition to designing and producing their products, using a management software package significantly improves their businesses' operating processes. For example:

- integrating e-commerce solutions generates improved visibility and provides many advantages by optimizing the production chain and customer relations;
- for suppliers, integrated management allows them to determine the quantity and availability of various products;
- managing customer orders helps determine the location of delivery services to be used in order to optimize lead times and track items in real time.

7.3 Support for large digital transformation projects

Given the importance of new digital technologies for the growth and competitiveness of businesses globally, it is imperative they be incorporated into current business models.

The outsourcing of IT activities represents a niche with excellence growth potential, particularly in cutting-edge sectors such as banking, financial and insurance services, for which the supply of large international contracts could generate numerous jobs in Québec.

❑ Assistance to foster job creation in IT in Québec

Since 2008, the government has been assisting Québec IT businesses to provide digital transformation services through the tax credit for the development of e-business.

— The tax credit supports innovative, high-value-added activities, primarily in the fields of computer systems design and software services.

To strengthen Québec's position with respect to the granting of large-scale digital transformation contracts and to foster the establishment and expansion of IT businesses, the government is introducing a new tax credit for major digital transformation projects, which will provide assistance during the transition to digitized business solutions.

To be eligible for the tax credit, a business's project must result in the creation of at least 500 jobs in Québec. The tax credit will apply to the first two years of a digitization contract of a minimum of seven years.

— The rate of the tax credit will be 24% regarding amounts paid to employees who will carry out eligible digital transformation activities, in the course of a contract concluded following the day of Budget Speech 2016-2017 and prior to January 1, 2019.

The cost of this new tax credit will be $49.9 million over five years.

❑ Projects that will result in the creation of approximately 3 000 high-value-added jobs

This initiative will encourage the growth of the IT sector throughout Québec and will help create quality jobs that require a high level of training and knowledge in the digital sector.

Over time, the tax credit will result in the creation of approximately 3 000 jobs related to digital transformation projects and IT outsourcing projects.

TABLE B.45

Main parameters of the new tax credit for large digital transformation projects

Parameters	Description
Eligible corporation	– Corporation that has an establishment in Québec and operates a business there.
Eligible contract	– Contract for activities resulting in the digital transformation of an organization's traditional business processes, including: ▪ operating an e-business solution; ▪ managing or operating computer systems, applications or infrastructure stemming from e-business activities, such as managing processing centres related to e-business; ▪ operating a customer relations centre, installing equipment or implementing training activities; ▪ carrying out traditional operations targeted by digital transformation, such as processing claims, monitoring and controlling risks and analyzing the profitability of products. Activities covered by the tax credit for the development of e-business (TCEB) may also constitute eligible activities.(1),(2) – Contract of a minimum of 7 years, concluded by an eligible corporation following the day of Budget Speech 2016-2017 and prior to January 1, 2019. – Contract stemming from activities carried out outside Québec in the 24 months immediately preceding the conclusion of the contract. – Contract resulting in the creation of at least 500 jobs. This job creation level must be maintained until the end of the 7-year period.
Eligible salaries	– Salaries paid by an eligible corporation to full-time employees who devote at least 75% of their duties to carrying out or directly supervising digital transformation activities performed in the course of the eligible contract.
Nature of the assistance	– Refundable tax credit of 24% calculated on eligible salaries paid over a maximum of 2 years beginning on the start date of the eligible contract's activities.(3) – A limit to eligible salaries of $83 333 per employee per year, i.e. a maximum tax credit of $20 000 per employee annually.

(1) For example, consulting services for the development and adoption of a digital transformation plan and services associated with the design, development and integration of digital technologies.
(2) For employees carrying out such activities in the course of the contract, the corporation may choose to qualify them for the purposes of this tax credit rather than the TCEB.
(3) To clarify further, employees carrying out activities targeted by the TCEB, but considered eligible for the purposes this tax credit during the first 2 years of the contract, will be eligible for the TCEB in subsequent years.

8. SUPPORTING INNOVATION IN QUÉBEC'S KEY ECONOMIC SECTORS

Québec has a diversified economy characterized by leading edge expertise in numerous activity sectors.

❑ Over $600 million to support innovation in key economic sectors

The Economic Plan includes additional initiatives totalling over $600 million for the next five years to support innovation in key economic sectors, as follows:

— primary sector: agri-food, forestry and the mining sector;

— manufacturing sector: aerospace and the environment;

— tertiary sector: maritime, tourism, culture, life sciences and the financial sectors.

TABLE B.46

Financial impact of measures to support innovation in key economic sectors
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
New Québec aerospace strategy	−5.0	−10.0	−15.0	−20.0	−20.0	−70.0
Life sciences	−2.6	−12.2	−11.7	−6.7	−0.6	−33.8
Foster the develpment of the forestry industry	−45.1	−51.6	−49.1	−43.5	−40.2	−229.5
Plan Nord and development of mining sector	−2.6	−3.5	−5.3	−4.1	−4.4	−19.9
Focus on our tourist attractions	−7.0	−13.0	−15.4	−17.3	−13.8	−66.5
The environment: a transition to a low-carbon economy	−23.1	−26.1	−27.1	−12.1	−12.1	−100.5
Fostering the development of the agri-food industry	−9.0	−10.0	−10.0	−8.0	−8.0	−45.0
The Maritime Strategy: a regional development driver	−2.7	−2.0	−2.1	−1.4	−1.4	−9.6
Culture	−10.2	−5.6	−6.0	−6.0	−6.0	−33.8
The financial sector	—	—	—	—	—	—
TOTAL	**−107.3**	**−134.0**	**−141.7**	**−119.1**	**−106.5**	**−608.6**

8.1 New Québec aerospace strategy

With over 200 businesses employing 40 000 people and sales of some $15.5 billion in 2015, the aerospace industry plays a strategic role in the Québec economy.

The aerospace industry is a major driver of Québec exports. More than 80% of the sector's output was exported in 2014, accounting for 13.6% of Québec's manufacturing exports.

The changing global context of this industry, notably in terms of globalization of the supply chain of prime contractors, transfer of production to countries with low labour costs as well as environmental concerns have made it necessary for the government to re-examine the priority issues and areas of intervention. The government is therefore announcing a new Québec aerospace strategy.

❑ An additional $70 million for the aerospace sector

Given the additional envelope of $70 million announced in Budget 2016-2017 and the planned budgetary appropriations, the government is committed to granting approximately $250 million in support over the next five years to the aerospace sector. This support is expected to generate total investments of close to $3 billion.

TABLE B.47

Financial impact of additional support for the aerospace sector
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Supporting the industry's growth	−0.2	−0.1	−0.1	−0.1	−0.1	−0.6
Diversifying the industrial sector	−0.8	−0.8	−0.4	−0.2	−0.2	−2.4
Encouraging SMB growth and consolidation	−2.5	−6.8	−7.2	−7.4	−7.4	−31.3
Focusing on innovation as an engine of growth	−1.5	−2.3	−7.3	−12.3	−12.3	−35.7
TOTAL	**−5.0**	**−10.0**	**−15.0**	**−20.0**	**−20.0**	**−70.0**

In August 2015 the government began holding consultations in order to help guide the new Québec aerospace strategy. These consultations helped identify the industry's main issues:

- supporting the industry's growth;
- diversifying the industrial sector;
- encouraging SMB growth and consolidation;
- focusing on innovation as the engine of growth.

To this end, the Ministère de l'Économie, de la Science et de l'Innovation will receive additional appropriations of $70 million over the next five years, i.e. $5 million in 2016-2017, $10 million in 2017-2018, $15 million in 2018-2019 and $20 million in 2019-2020 and in 2020-2021. The amounts for 2016-2017 will be paid out of the Contingency Fund.

The details of the Québec aerospace strategy will be announced at a later date by the Minister of the Economy, Science and Innovation.

The Québec aerospace sector

The Québec aerospace industry is well entrenched and owes its vitality to the presence of four prime contractors, about 10 tier 1 suppliers and some 200 SMBs.

Prime contractors

Québec boasts four world-class prime contractors: Bombardier (commercial and business aviation), Bell Helicopter Textron Canada (civil helicopters), Pratt & Whitney Canada (engines) and CAE (simulators and training). In 2015, they alone accounted for 24 525 jobs, or 61% of the industry total, and sales of close to $11.3 billion or 73% of the sector's total sales.

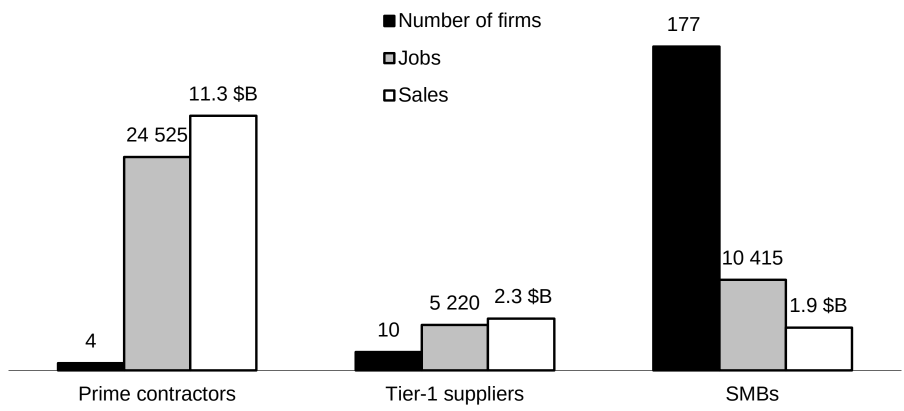
Tier 1 suppliers

The prime contractors are supported by the presence of about 10 tier 1 suppliers and suppliers of maintenance, repair and overhaul services, all of which are global leaders in their respective fields (avionics, landing gears, space systems, etc.). In 2015, they employed 5 220 workers and generated roughly $2.3 billion in sales.

SMBs

The aerospace sector is rounded out by the contribution of 177 SMBs operating as subcontractors or suppliers of goods and services covering a wide range of specialties associated with aircraft design and assembly, including: parts machining, surface treatment, composite materials, rapid prototyping, avionics and electro-optics. In 2015, these businesses contributed to the Québec economy by providing 10 415 jobs and generating $1.9 billion in sales.

Breakdown of number of businesses, jobs and sales for prime contractors, tier 1 suppliers and SMBs in Québec – 2015
(numbers, unless otherwise stated)



Source: Ministère de l'Économie, de la Science et de l'Innovation.

■ Supporting the industry's growth

Aerospace is a high value-added industrial sector. The actors in the aerospace industry, be they prime contractors, suppliers, SMBs or organizations active in the industry, must ensure that Québec makes ongoing efforts to remain competitive and secure new mandates.

The Québec aerospace strategy will seek to mobilize all the players involved in the sector to support the growth of Québec businesses, particularly by:

— supporting major economic projects through the Economic Development Fund;

— stimulating investment in SMBs, through the PerforME program;

— ensuring the next generation of workers.

■ Diversifying the industrial sector

Québec's aerospace businesses are active mostly in the following market segments: commercial and business aviation, civil helicopters, aircraft engines and flight simulators.

In order to fully leverage the sector's growth abroad, avoid over-dependence on a limited number of commercial mandates and gain a competitive edge, the Québec aerospace strategy will seek to diversify its industrial sector, in particular by:

— focusing on new segments of the supply chain and offering new high value-added services, particularly to the drone, blimp and space industries;

— capitalizing on business opportunities arising from the Industrial and Technological Benefits Policy in connection with Canada's Defence and Security Procurement Strategy.

■ Encouraging SMB growth and consolidation

Prime contractors in the aerospace industry are increasingly interested in doing business with bigger suppliers in order to minimize their risks and costs. Since SMBs are often too small to take on more responsibilities and assume a larger share of risks, industry consolidation is becoming a major global trend.

Québec SMBs must also adjust to this trend and improve their positioning in the global supply chain. As such, the Québec aerospace strategy will seek to support SMBs:

— in their consolidation efforts and transition to Industry 4.0;

— to meet the competitive challenges of a globalized market;

— to enable them to contribute more to the supply of goods and services intended for large Québec businesses.

Fonds de solidarité FTQ, a partner promoting industry consolidation
The Fonds de solidarité FTQ plays an important role in Québec's economic development, particularly in the aerospace industry. – Over the past 15 years, the Fonds de solidarité FTQ has invested close to $400 million in this industry. The Fonds plans to invest up to $200 million in the sector over the next four years. Made in partnership with other investors, these investments will primarily support industry consolidation projects. The Fonds will therefore encourage the amalgamation of businesses through projects involving mergers and acquisitions of Québec aerospace firms. It will also remain a source of patient capital for prime contractors, their suppliers and SMBs in this industry. Through its participation in the Québec Economic Plan, the Fonds is showing its desire to increase its support for the development of the aerospace sector and maximizing the economic benefits for Québec.

Focusing on innovation as an engine of growth

Innovation is at the core of new product development in the aerospace sector. Québec must remain attuned to global trends in the industry, such as:

- environmental concerns that call for adjustments to the sector's products and services;
- faster product development cycle time and faster integration of manufacturing innovations.

The new Québec aerospace strategy will seek in particular to maximize the Québec content of products and services arising from innovations developed by Québec's prime contractors and their supplier network.

The government also plans to continue supporting mobilizing projects such as the SA^2GE aircraft project.

8.2 **Life sciences**

The life sciences sector is strategic for the Québec economy, providing over 25 000 well-paid jobs. Eighty-percent of these jobs are located in the Montréal area, the sixth largest metropolitan region in North America in terms of the concentration of life sciences and health technology jobs.

Numerous talented researchers have demonstrated global leadership in several niches of excellence, enhancing Québec's stature abroad and helping to improve the health of all Quebecers.

To ensure Québec maintains its leadership in this regard, the government announced, in Budget 2015-2016, the creation of a life sciences task force. The various work of this task force is ongoing. The government will make sure to have all its recommendations in order to announce, in fall 2016, an action plan to meet the sector's needs.

Given the degree of advancement of some recommendations, the 2016-2017 Economic Plan has earmarked $33.8 million over the next five years for certain initiatives:

- $100 million to facilitate the commercialization of Québec discoveries;
- support for early clinical studies;
- support for the Institut de recherches cliniques de Montréal;
- speeding up the evaluation by the Institut national d'excellence en santé et en services sociaux (INESSS) concerning the registration of new drugs;
- creation of the AmorChem II life sciences seed fund;
- increase in the capitalization of the Teralys Capital Innovation Fund, which will particularly finance venture capital for the life sciences sector.

TABLE B.48

Financial impact of measures to develop the life sciences sector
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
$100 million to facilitate the commercialization of Québec discoveries	—	−10.0	−10.0	−5.0	—	−25.0
Support for early clinical studies	−1.5	−1.6	−1.1	−1.1	—	−5.3
Support for the Institut de recherches cliniques de Montréal	−0.6	−0.6	−0.6	−0.6	−0.6	−3.0
Speeding up the evaluation by the INESSS concerning the registration of new drugs	−0.5	—	—	—	—	−0.5
Life sciences seed fund AmorChem II(1)	—	—	—	—	—	—
$96 million increase in the capitalization of the Teralys Capital Innovation Fund(1)	—	—	—	—	—	—
TOTAL	**−2.6**	**−12.2**	**−11.7**	**−6.7**	**−0.6**	**−33.8**

(1) These measures are presented in detail in section 9: Promoting the startup and growth of innovative companies.

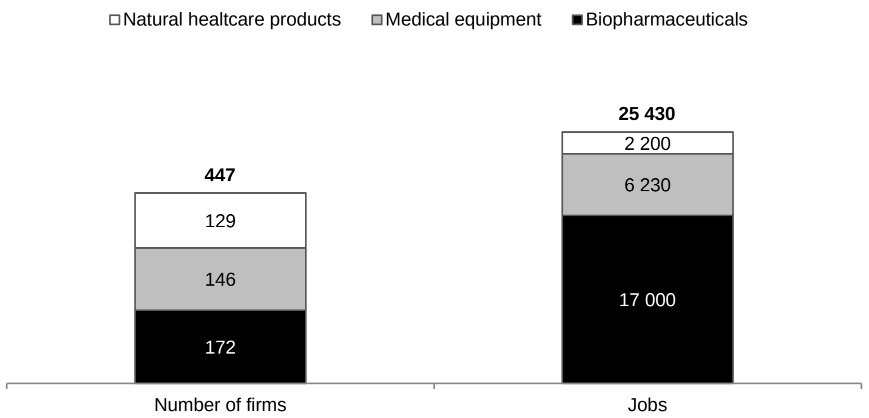
The Québec life sciences sector

The Québec life sciences industry is made up of three market segments:

- biopharmaceutical, consisting of biotechs, innovative pharmaceutical firms, generic pharmaceutical firms, contract manufacturing firms and contract research firms;
- medical device, devoted to research, development and commercialization of articles, instruments, devices and equipment used for diagnosis and treatment of ailments in humans and animals;
- natural health products, whose businesses offer natural products designed to help maintain health and prevent or treat disease.

In 2014, the Québec life sciences industry accounted for 25 000 jobs in nearly 450 businesses.

Distribution of jobs and number of businesses by life sciences subsector in Québec – 2014



Source: Ministère de l'Économie, de la Science et de l'Innovation.

8.2.1 $100 million to facilitate the commercialization of Québec discoveries

Access to financing is a major issue for life sciences firms.

The government is announcing an allocation of $100 million for the provision of equity loans to life sciences firms, particularly to biotech and medical device firms.

❑ An allocation to encourage involvement by private investors

Past the start-up stage, Québec life sciences firms often have trouble raising enough capital to bring them to the commercialization stage.

All too frequently, they decide to sell their technology to big international players rather than build businesses in Québec that will create well-paid jobs.

The substantial capital required to finance life sciences firms and the specialized expertise needed to commercialize their products and services require them to forge partnerships with other investors.

To ensure the growth of Québec flagships in this sector and ensure that firms with strong growth potential remain and develop in Québec, the government wishes to encourage the involvement of private and foreign investors in the Québec financing ecosystem.

❑ Leverage effect of $400 million in investments in life science firms

The new allocation will seek to match the contribution of private investors with an equity loan from the government in order to finance life science firms at the growth stage.

Each dollar committed by the government in the form of an equity loan is expected to be matched by at least three dollars from private investors in the form of equity. As such, the government's $100-million commitment can potentially lead to $400 million of investments in Québec over the next few years to foster the growth of life science firms.

TABLE B.49

Total commitments generated by the new $100-million allocation to facilitate the commercialization of Québec discoveries
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Commitment in the form of a government equity loan	—	40.0	40.0	20.0	—	100.0
Minimum equity commitment from other investors	—	120.0	120.0	60.0	—	300.0
TOTAL	**—**	**160.0**	**160.0**	**80.0**	**—**	**400.0**
Financial impact for the government(1)	—	−10.0	−10.0	−5.0	—	−25.0

(1) Financial intervention provision.

The investment terms and conditions will be adjusted to reflect the reality of the current financing ecosystem and the government's requirements in terms of risk-taking and profitability.

Appropriations totalling $25 million will be transferred to the Economic Development Fund to finance the financial intervention provisions associated with this allocation. Details concerning this allocation will be made public by the Minister of the Economy, Science and Innovation in the near future.

8.2.2 Support for early clinical studies

Under the new business model of the life sciences industry, most R&D is outsourced. The clinical trials market has tremendous potential in this regard. Many regions of Canada and other industrialized nations are developing strategies to attract clinical trials to their territories.

❑ Target sectors with strong potential for generating benefits for Québec

In order to allow Québec to invest more in clinical trials, the 2016-2017 Economic Plan sets out a major initiative designed to support the implementation of early clinical studies. This initiative will allow Québec to set up an efficient and recognized coordination centre to attract its share of early clinical studies outsourced by the pharmaceutical industry to public research centres and contract research firms.

This initiative is aimed at the three university hospitals in Greater Montréal: Centre universitaire de santé McGill, Centre hospitalier de l'Université de Montréal (CHUM) and Centre hospitalier universitaire (CHU) Sainte-Justine, and will allow them to capitalize on the major investments of recent years to acquire leading edge infrastructures in the life sciences sector.

Spread over five years, this project represents investments of $12 million, i.e. $5.3 million from the Québec government and $6.7 million from private and public (federal government and municipalities) partners. Ultimately, the revenue generated by the management of clinical trials should make it possible to self-finance the operations.

This initiative will allow major investments in infrastructures in the life sciences sector and, as such, is expected to attract $240 million in private investments and create 500 new jobs.

To this end, appropriations of $5.3 million over four years will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation, i.e. $1.5 million in 2016-2017, $1.6 million in 2017-2018 and $1.1 million in 2018-2019 and in 2019-2020. The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.2.3 Support for the Institut de recherches cliniques de Montréal

The Institut de recherches cliniques de Montréal is an autonomous, not-for-profit research institution affiliated with Université de Montréal and associated with McGill University.

Thanks to special ties with the two medical faculties in Montréal, researchers at the Institut de recherches cliniques de Montréal make a tremendous contribution to the reputation of Montréal's scientific community and raise the metropolis' profile.

To further support the development of the Institut de recherches cliniques de Montréal, the Economic Plan will fund two research initiatives with a strong potential for developing concrete applications derived from core knowledge:

— Centre de recherche sur les maladies rares et génétiques chez l'adulte;

— promote the creation of biomarkers consisting of discovery, verification, clinical trials and partnership development.

To this end, additional appropriations of $3 million will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation, i.e. $600 000 per year for the next five years. The amounts for 2016-2017 will be paid out of the Contingency Fund.

These initiatives will also receive funding from other partners, namely, the Fondation de l'Institut de recherches cliniques de Montréal and the Canadian Foundation for Innovation and private partners.

❑ Centre de recherche sur les maladies rares et génétiques chez l'adulte

As a result of better treatments, a growing number of people with rare diseases are reaching adulthood.

The Centre de recherche sur les maladies rares et génétiques chez l'adulte is an initiative of the Institut de recherches cliniques de Montréal that ensures adults with rare diseases receive treatment and monitoring.

The Institut de recherches cliniques de Montréal is in the process of forming three important partnerships to support this initiative:

— a first partnership with CHU Sainte-Justine, the largest research centre for rare childhood diseases in Québec;

— a second partnership with CHUM, which will be essential for setting up patient care and treatment in Québec hospitals;

— a third partnership with the Regroupement québécois des maladies orphelines, whose mission is in particular to inform and support patients with rare diseases throughout their lives.

Not only will this initiative provide access to specialized care, it will also become a key part of the translational research program required to better understand these diseases and develop innovative treatments.

❑ Promote the creation of biomarkers consisting of discovery, verification, clinical trials and partnership development

The Institut de recherches cliniques de Montréal plans to become an academic leader in the creation of a public-private consortium for the discovery, development and clinical verification of biomarkers that will be useful for the diagnosis and development of new drugs in preventive medicine.

In particular, this initiative will make it possible to:

— offer Québec patients access to diagnostic solutions that respond to unmet medical needs and a choice of therapies optimized for each patient;

— consolidate Québec's cutting-edge diagnostic expertise;

— contribute to Québec's leadership on the national and international scenes in the field of personalized health.

8.2.4 Speeding up the evaluation by the INESSS concerning the registration of new drugs

With a view to ensuring quicker access to certain breakthrough or cost-saving drugs, Budget 2016-2017 will ensure that the Institut national d'excellence en santé et en services sociaux (INESSS) can henceforth begin evaluating a drug or new therapeutic indication of a drug already on the market before Health Canada renders its decision.

The purpose of speeding up the evaluation by the INESSS is to ensure that its recommendations, to the extent possible, coincide with Health Canada's notice of compliance in order to provide quicker access to certain drugs.

The decision to speed up the evaluation of a given drug should initially be based on an analysis of the relevance of doing so and rely on conclusive data. In the interest of transparency and fairness, this process could be expanded to other drugs and should be funded, in particular, by a financial contribution from firms seeking to have their drugs evaluated for registration purposes.

If the INESSS renders a favourable opinion, this new approach could shorten the time between Health Canada's decision and registration on Québec's list of medications.

In order for the INESSS to begin evaluating certain novel drugs for registration purposes before they are certified by Health Canada, an amount of $500 000 will be allocated to the Ministère de la Santé et des Services sociaux in 2016-2017 and paid out of the Contingency Fund.

8.3 Forestry sector

The forestry sector plays an important role in the Québec economy, and particularly in the regional economy. According to the latest data, the forestry industry:

- accounts for 2% of Québec's GDP;
- exports approximately $9 billion of its production;
- accounts for nearly 60 000 direct jobs, many of which are located in the regions.

❑ Cellule d'intervention forestière

To promote the development of the forestry industry and assess the cost of fibre and the supply in each Québec region, the government set up the Cellule d'intervention forestière on June 17, 2015.

As part of its work, the Cellule d'intervention forestière conducted an analysis of the industry's competitiveness.

❑ Support of $230 million for the forestry sector

To ensure the forestry industry is better equipped to capitalize on future business opportunities, the 2016-2017 Economic Plan contains initiatives totalling $230 million over five years designed to:

- foster the competitiveness and development of the forestry industry;
- increase the contribution of private forests to the industry's supply.

TABLE B.50

Financial impact of measures for the forestry sector
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Foster the competitiveness and development of the forestry industry	−38.1	−43.8	−47.1	−41.6	−38.4	−209.0
Increase the contribution of private forests	−7.0	−7.8	−2.0	−1.9	−1.8	−20.5
TOTAL	**−45.1**	**−51.6**	**−49.1**	**−43.5**	**−40.2**	**−229.5**

Competitiveness of the Québec forestry industry - Main observations

Competitiveness of the sawmill industry

According to a study that compared fir, spruce, jack pine, larch (FSPL) softwood supply and processing costs between Québec and Ontario:

- the operating costs of Québec sawmills were on average about $7.50 per cubic metre lower than their Ontario counterparts in 2010, 2012 and 2014;
- the relatively low value of the basket of products reduces the profitability of Québec sawmills;
- increasing the allowable weight of logging trucks during freeze period, introducing a program to finance forest roads and allowing loggers to leave small stems in the forest are forestry practices that could make Québec plants more competitive.

Profitability of the sawmill industry

The results of the financial model developed by the Ministère des Finances du Québec, as part of the mandate commissioned by the Cellule d'intervention forestière, show that the Québec FSPL softwood industry was generally profitable in 2014.

- For all the regions analyzed, the industry generated total revenues of some $2.05 billion and realized estimated earnings after tax and depreciation of $95.12 million, for a profit margin of $5.11 per cubic metre of processed timber.

However, the overall profitability calculated for 2014 is based on a fragile balance, primarily due to favourable conditions on the softwood market, where prices were at a 10-year high.

Raising plant productivity, increasing capacity utilization through consolidation and adopting more efficient forestry practices is essential to attract new investments and improve the sector's competitiveness.

Sawmill productivity

To raise their productivity in the long run, sawmills need to focus on investment, innovation and human capital. However, issues persist in this regard, including:

- the decline in investment during the economic slowdown that may have hindered innovation in the wood processing industry;
- a sharp drop in the allowable cut in the last decade that resulted in underutilization of production capacity at many wood processing plants; unless consolidated, this poses a challenge to the industry's ability to make investments and generate profits;
- a shortage of specialized labour, which could also hinder reinvestment in the industry.

Competitiveness of the Québec forestry industry - Measures to improve the business environment

It is essential to minimize uncertainty surrounding timber supply for primary processing plants. Sufficient supply is important to maintaining capacity utilization rates in order to foster job creation in the forestry sector. It is therefore important to:

- support implementation of a wood production strategy to increase the allowable cut in the long term and the stability of supply;
- encourage the mobilization of private forest timber;
- encourage the consolidation of industrial timber processing capacities to stimulate investment.

As well, certain policies can be adapted to allow businesses to realize efficiency gains, for example:

- by allowing businesses to have the most accurate information on forest inventories, given that they need such information to make operating decisions, as does the government in order to manage and plan the resource;
- by revising transport and harvesting rules, particularly for small stem harvesting, which hampers sawmill productivity;
- by revising the financing of certain operations or expenditures for which the industry pays its share for the benefit of communities such as the construction of multi-use roads and forest fire, insects and disease prevention.

Lastly, it is essential to support innovation within a framework of a shared, long term vision to ensure the sustainability and enhance the value of forests. Going forward, the government can have a leverage effect on the development and demonstration of technologies and the emergence of new sectors by encouraging partnerships.

However, any action taken must:

- be consistent with the legal framework of the Sustainable Forest Development Act;
- respect free trade agreements, considering, for example, the possibility of countervailing duty[1] or antidumping[2] investigations of Québec exporters included in the North American Free Trade Agreement (NAFTA) and World Trade Organization (WTO).

1 "Countervailing duties" are special trade import duties to neutralize the effects of any subsidy granted by a State on the manufacturing, production or export of a national product abroad.

2 Dumping means exporting products to another country at a price either below the price charged in the home market or below the cost of production. Antidumping duties are imposed specifically on a producer and not on all producers of a given country.

8.3.1 **Foster the development of the forestry industry**

With its transformation in recent years, the Québec forestry industry has little financial leeway to proceed with the modernization and restructuring required to improve its productivity.

To fully capitalize on the opportunities arising from the recovery of the traditional sector and the emergence of the green economy, the Québec forestry industry must act in order to become more competitive and attract investments.

As such, Budget 2016-2017 includes initiatives that will allow this industry to modernize and diversify its operations:

- a reimbursement program for the costs of multi-use roads that is fair to the other users;
- gradual funding of forest protection costs;
- implementation of a program to support innovation and diversification in the forest products industry;
- funding for a LiDAR forest data acquisition program;
- changes to harvesting methods to improve the quality of harvested timber;
- revision of the mechanism for applying the timber supply guarantee regime.

Overall, these initiatives will cost the government $209 million by 2020-2021.

TABLE B.51

Financial impact of measures to foster the development of the forestry industry
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Reimbursement program for the cost of multi-use roads(1)	−26.5	−25.9	−22.9	−21.4	−19.5	−116.2
Gradual funding of forest protection costs(1)	−5.1	−8.9	−15.2	−11.2	−9.9	−50.3
Support for innovation	−2.5	−5.0	−5.0	−5.0	−5.0	−22.5
LiDAR forest data acquisition program(2)	—	—	—	—	—	—
Improve the quality of harvested timber(1)	−4.0	−4.0	−4.0	−4.0	−4.0	−20.0
Revision of the mechanism for applying the supply guarantee	—	—	—	—	—	—
TOTAL	**−38.1**	**−43.8**	**−47.1**	**−41.6**	**−38.4**	**−209.0**

(1) Net financial impact of the measure, which is funded by the Natural Resources Fund.
(2) Financed by the funds available to the Ministère des Forêts, de la Faune et des Parcs.

❑ Reimbursement program for the cost of multi-use roads

Businesses that harvest timber on public land must bear the heavy cost of building and maintaining access roads. However, all Quebecers benefit from these roads, for example, hunters, trappers, fishermen, mining businesses and other forestry businesses.

With a view to fair treatment of the various users of roads giving access to public lands, Budget 2016-2017 provides for the implementation of a reimbursement program for the cost of building and repairing multi-use roads.

— The cost of roads within harvesting sites will be borne exclusively by forestry businesses.

This five-year program will have an annual envelope of $48 million.

The program will reimburse up to 90% of the cost of building, improving and rebuilding bridges and multi-use roads (roads not located within harvesting sites).

The Ministère des Forêts, de la Faune et des Parcs will hold back 10% of the program envelope ($4.8 million), which will be used for the strategic development of a road network and for cases of force majeure.

— The projects funded from this envelope will be selected based on an analysis of their economic and financial impact in order to give priority to projects with a structuring impact on the Québec economy.

The funds available under the program will be distributed to the regions based on timber volumes assigned and regional particularities.

The program will be financed by the Natural Resources Fund.

The details of the program will be announced at a later date by the Minister of Forests, Wildlife and Parks.

❑ Gradual funding of forest protection costs

In Québec, forest protection falls under the purview of two independent bodies: the Société de protection des forêts contre les insectes et maladies (SOPFIM) and the Société de protection des forêts contre le feu (SOPFEU).

Forest protection costs are part of the owner's obligations. In Québec, the State is the principal owner of the forest; the funding of these two bodies is therefore assumed jointly by the government and the forestry industry.

In this context, under Budget 2016-2017, the costs associated with funding forest protection will be gradually assumed by the government as of 2016-2017 and fully assumed in 2018-2019.

Representing a financial impact of $50.3 million over five years, this measure will be financed by the Natural Resources Fund.

❑ Support for innovation

In light of increasingly fierce global competition, innovation and diversification have become essential for the renewal and increased competitiveness of the forest products industry.

Innovation includes, particularly, improving production processes and developing new high value-added products that will allow the forest products industry to better withstand the effects of volatile commodity prices and thereby ensure its sustainability and growth.

As such, Budget 2016-2017 calls for implementing a program to support innovation and diversification in the forest products industry. This program will offer support for innovative projects that pave the way to new opportunities.

— Financial assistance will be granted to support R&D activities, studies and investment projects.

To this end, additional appropriations of $22.5 million over the next five years will be allocated to the Ministère des Forêts, de la Faune et des Parcs, including $2.5 million in 2016-2017 and $5 million annually for the following four years. The amounts for 2016-2017 will be paid out of the Contingency Fund.

The details of the program will be announced at a later date by the Minister of Forests, Wildlife and Parks.

❑ LiDAR forest data acquisition program

Airborne LiDAR is a remote sensing technique used to compile data for detailed three-dimensional mapping of terrain and treetops.

For the forestry industry, this tool optimizes forestry planning and reduces supply costs. At the present time, since the territory is only partially mapped, only a few forestry businesses benefit from this data.

To allow full coverage of Québec's forests, the Economic Plan provides for the acquisition of LiDAR data over 300 000 km^2 or the remaining portion of unmapped forests and the creation of user-friendly derivative products for use by government and industry stakeholders.

The data compiled will also be very useful in other sectors, particularly mining, transportation and the environment.

The appropriations of the Ministère des Forêts, de la Faune et des Parcs will be used to fund the acquisition of this data.

❑ Improve the quality of harvested timber

Currently, commercial stems with a diameter of 9 cm or more must be harvested.

The processing methods of many plants are not adapted to small-diameter stems, making their processing unprofitable.

To improve the efficiency of forestry operations, the 2016-2017 Economic Plan calls for changes to forest harvesting methods in order to allow forest producers to leave small merchantable stems on the cutover.

This change will result in a loss of $4 million in stumpage revenues for the government annually.

❑ Revision of the mechanism for applying the timber supply guarantee

Under the Sustainable Forest Development Act (SFDA), supply guarantee holders must pay an annual royalty on the total volumes of timber they may purchase under the guarantee.

Since holders must pay a royalty on these volumes during the year even if they waive their right to such volumes, there is no incentive for them to quickly commit to the portion of the territory they actually intend to harvest. Such a situation can prevent or delay harvesting of the allowable cut by another forestry business.

In order to encourage supply guarantee holders to waive, as soon as possible during the harvesting period, the volumes they have no intention of harvesting, the *Regulation* respecting the method for assessing the annual royalty and the method and frequency for assessing the market value of standing timber purchased by guarantee holders pursuant to their supply guarantee will be amended.

The amendments to the Regulation, which will come into force in fiscal 2016-2017, will allow a supply guarantee holder to deduct from its annual royalty up to 50% of the total annual value calculated at the beginning of the year, based on the waiver date.

For timber covered by special development plans, supply guarantee holders may deduct from their annual royalties, the first 50% of the volumes waived, regardless of the waiver date.

In this way, supply guarantee holders will avoid costs in connection with timber volumes they will not harvest.

At the discretion of the Minister of Forests, Wildlife and Parks, these volumes may be left standing, sold on the free market or sold to one or more timber processing plants, thus optimizing timber harvesting that meets the needs of forestry businesses.

Forum on transformation, modernization and innovation in the forest products industry

To ensure its sustainability, the forest products industry must invest to modernize and innovate. It must also diversify its production in order to adapt to market fluctuations and structural changes.

Consequently, in 2016, the Ministère des Forêts, de la Faune et des Parcs will hold a forum on transformation, modernization and innovation in the forest products industry.

This forum will seek to mobilize the industry and its partners to look for solutions to ensure the future of the Québec forest products industry. The goal of the forum is also to find ways, particularly through innovation, to facilitate the industry's transformation and modernization.

The following are some of the avenues that should be analyzed:

- improve plant equipment and processes to raise productivity;
- develop new uses for sawmill by-products;
- use the chemical compounds of wood to create bioproducts of the future;
- develop the bio-energy sector to reduce greenhouse gas emissions;
- continue innovation efforts to increase the use of wood in construction.

8.3.2 **Increase the contribution of private forests**

The 130 000 owners of private forests in Québec play an important role in the forestry economy. Private forests account for 33% of the total allowable cut in Québec.

Private forest harvesting has strong growth potential, given that only 43% of the allowable cut was harvested in 2014-2015. Greater mobilization of this resource would give Québec processing plants access to additional supplies at a competitive price.

In this regard, Budget 2016-2017 sets out a series of measures aimed at increasing the contribution of private forests to Québec's forestry production:

— increase the tax exemption threshold on forestry operations to $65 000;

— increase the property tax refund for forest producers;

— income-averaging for forest producers;

— additional funding for the private forest development program with a view to increasing timber harvesting.

TABLE B.52

Financial impact of measures to increase the contribution of private forests
(millions of dollars)

	2016-2017	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**	**Total**
Increase the tax exemption threshold on forestry operations to $65 000	–0.1	–0.5	–0.5	–0.5	–0.5	–2.1
Increase the property tax refund for forest producers	–0.1	–0.2	–0.2	–0.2	–0.2	–0.9
Income-averaging for forest producers	–0.8	–1.1	–1.3	–1.2	–1.1	–5.5
Additional funding for the private forest development program with a view to increasing timber harvesting	–6.0	−6.0	—	—	—	−12.0
TOTAL	**–7.0**	**–7.8**	**–2.0**	**–1.9**	**–1.8**	**−20.5**

❑ Increase the tax exemption threshold on forestry operations to $65 000

In Québec, forest producers must pay tax on forestry operations equal to 10% of their net income if it exceeds $10 000.

To provide tax incentives for timber harvesting by private forest owners, Budget 2016-2017 increases the tax exemption threshold on forestry operations from $10 000 to $65 000 commencing the day following Budget Speech 2016-2017.

■ The first exemption threshold increase

Set at $10 000 for more than 50 years, the tax exemption threshold on forestry operations no longer meets the objective of exempting small producers.

The new threshold of $65 000 factors in changes in the value of the resource.

■ Administrative relief for private forest owners

Increasing the tax exemption threshold on forestry operations to $65 000 will reduce paperwork and tax-related costs for forestry SMBs and private forest owners.

— Over 250 forest producers, including more than 150 individuals, will no longer have to pay the tax and will see their paperwork reduced.

The measure represents support of $2.1 million over five years for private forest owners.

❑ Increase the property tax refund for forest producers

To support forest development on private land by owners ready to invest, the government is offering a property tax refund to these forest producers.

More specifically, this is a refundable tax credit of 85% of the municipal and school taxes paid for a forest property, provided the development costs incurred are equal to or greater than the amount of the property taxes paid.

■ Annual indexing of development costs

To factor in changes in the costs forest producers face to develop their woodlots, Budget 2016-2017 calls for the adoption of an annual indexing formula for development costs.

— Briefly, the composite index rate combines two consumer price indices that reflect the general increase in the cost of silviculture development, according to the type of silviculture work.[10]

To this end, the Minister of Forests, Wildlife and Parks will soon present amendments to the Regulation respecting the reimbursement of real estate taxes of certified forest producers*.*

■ Close to 7 500 forest producers to benefit from the measure

The tax measure benefits on average 7 500 forest producers per year, for a cost of over $12 million, translating into an average property tax refund of $1 665 per forest producer.

This increase represents additional support of $0.9 million for private forest owners over the next five years.

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10 The methodology selected will be the same as the one used by the Bureau de mise en marché des bois for establishing the value of silviculture work in public forests, as required in section 120 of the Sustainable Forest Development Act*.*

❑ Income-averaging for forest producers

To mobilize more timber from private forests for industrial processing, it is important to ensure that woodlot operators enjoy a favourable business environment.

However, increased production and sales can, for some forest producers, result in additional income subject to a higher tax rate in a given taxation year. This tax consequence makes it less appealing for private woodlot owners to sell or produce more mature timber to supply the industry.

To stimulate the sale of timber from private forests to supply processing plants, Budget 2016-2017 includes an income-averaging measure for forest producers.

As such, these operators can defer a portion of their income from the sale of harvested timber from private forests for up to seven years. This deferral will be permitted for a portion not exceeding 85% of timber income of up to $200 000 generated in a taxation year ending no later than December 31, 2020.

— For each year of income-averaging, forest producers must include in their income calculation at least 10% of the portion of the deferred timber income.

The income-averaging measure will apply to an individual or a corporation recognized as a forest producer by the Ministère des Forêts, de la Faune et des Parcs. To be eligible for the measure, a corporation must have no more than $15 million in consolidated paid-up capital.

An individual may also use the income-averaging measure for forest producers to calculate its contribution to the Health Services Fund.

The measure represents support of $5.5 million over the next five years for private forest producers.

Illustration of the benefits of income-averaging for forest producers

An individual who typically earns $60 000 in employment income and who, in 2016, generates income of $200 000 from the sale of private forest timber, will have an additional $44 375 in cash the first year thanks to the income-averaging measure.

In total, this forest producer will save $9 685 in Québec income tax and on its contribution to the Health Services Fund (HSF) due to the application of a lower average tax rate arising from the income-averaging measure.

Impact of income-averaging for forest producers, for an individual earning $200 000 from the sale of timber, in 2016
(dollars)

		2017 to 2023		
	2016	**Per year**	**Total**	**Total**
Income				
Employment income	60 000	60 000	420 000	480 000
Timber income	200 000	—	—	200 000
Income before deferral	**260 000**	**60 000**	**420 000**	**680 000**
Income deferral				
Deduction of 85% resulting from the sale of timber	−170 000	—	—	−170 000
Inclusion of deferred income(1)	—	24 286	170 000	170 000
Taxable income after deferral	**90 000**	**84 286**	**590 000**	**680 000**
Québec income tax and HSF contribution(2)				
Before deferral	58 457	7 768	54 379	112 836
After deferral	14 082	12 724	89 068	103 150
Gain due to income deferral	**44 375**	**−4 956**	**−34 690**	**9 685**

Note: Figures may not add up to the total given due to rounding.
(1) Based on uniform income-averaging over a period of up to 7 years.
(2) Calculated according to the 2016 tax rates for an individual living alone.

❑ Additional funding for the private forest development program with a view to increasing timber harvesting

Greater use of private forest resources could increase the volume of timber available to processing plants.

In particular, the private forest development program offers financial and technical assistance to forest producers for forestry activities in private forests, more specifically technical assistance for silviculutre work, the execution of silviculture work and certain certification-related activities.

To increase private forest timber harvesting, Budget 2016-2017 includes an enhancement to the private forest development program.

To this end, additional appropriations of $12 million will be allocated over the next two years to the Ministère des Forêts, de la Faune et des Parcs, i.e. $6 million in 2016-2017 and $6 million in 2017-2018.

The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.4 Plan Nord and development of the mining sector

The Plan Nord is an important component of Québec's Economic Plan.

In the past year, the Société du Plan Nord, which began operations on April 1, 2015, began implementation of the guidelines and priorities set out in its 2015-2020 Action Plan.

Low global prices for certain commodities, such as iron, are hindering the development of some investment projects. However, those involving other resources for which market conditions are more favourable, such as diamonds and gold, are going ahead.

The Government is actively deploying the Plan Nord to maintain a business environment conducive to investment and to support local and Aboriginal communities.

To this end, the Société du Plan Nord will have an envelope of more than $450 million over the next five years, paid out of the Fonds du Plan Nord, of which close to $175 million will be available in 2016-2017.

TABLE B.53

Planned initiatives of the Société du Plan Nord – 2016-2017 to 2020-2021
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total – 5 years
Intervention envelope	173.8	73.2	63.3	71.2	73.3	454.8

Budget 2016-2017 also includes additional initiatives:

- new investments of $15 million to connect the infrastructures acquired at Port of Sept-Îles and the new multi-user dock in Pointe-Noire;
- a call for projects to support hydrometallurgy research;
- a feasibility study on the deployment of a permanent telecommunications network in Nunavik;
- support for renewable energy projects in Plan Nord territory;
- support for road infrastructure projects;
- an increase in Hydro-Québec's contribution to the Fonds du Plan Nord;
- increased assistance for exploration in the North.

The new initiatives announced in budget 2016-2017 will have an impact of $19.9 million over five years.

TABLE B.54

Financial impact of new Plan Nord and mining development
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total— 5 years
Connect the infrastructures acquired at Port of Sept-Îles to the new multi-user dock at Pointe-Noire(1)	—	—	—	—	—	—
Support hydrometallurgy research	−1.0	−2.0	−2.0	—	—	−5.0
Feasibility study on the deployment of a permanent telecommunications network in Nunavik	−1.5	—	—	—	—	−1.5
Support for renewable energy projects in Plan Nord territory(1)	—	—	—	—	—	—
Support for road infrastructure projects(1)	—	—	—	—	—	—
Increase assistance for exploration in the North	−0.1	−1.5	−3.3	−4.1	−4.4	−13.4
TOTAL	**−2.6**	**−3.5**	**−5.3**	**−4.1**	**−4.4**	**−19.9**

(1) The amounts required by the Société du Plan Nord to finance this initiative are already included in the government's fiscal framework.

Société du Plan Nord – Report on its first year of operations

The Société du Plan Nord began operations on April 1, 2015, following enactment of the Act respecting the Société du Plan Nord (Chapter S-16.011).

The Société, which is under the purview of the Minister of Energy and Natural Resources and Minister responsible for the Plan Nord, coordinates and helps implement the Government's guidelines for the Plan Nord.

Report on first year of operations

For its first year of operation, a budget of some $80 million was made available to the Société from the Fonds du Plan Nord.

In addition to opening four regional offices, the Société contributed to promising new initiatives for the territory's development.

Opening of four regional offices

In fall 2015, the Société opened four regional offices in Sept-Îles, Roberval, Baie-Comeau and Chibougamau.

These offices allow the Société to maintain ongoing ties with the local communities, work closely with local partners and execute mandates based on an approach adapted to the different regional context.

Promising new initiatives

During the past year, the Société announced promising new initiatives that will make a tangible contribution to improving infrastructures and to the development of local and Aboriginal communities, including:

- acquisition of strategic infrastructures providing multi-user access at the Port of Sept-Îles and its new multi-user dock, under clear and predictable conditions for businesses;
- contribution to a telecommunications project providing satellite Internet service to Nunavik communities and businesses;
- implementation of the Fonds d'initiatives du Plan Nord ($2 million annually).

8.4.1 Facilitate access to the territory and contribute to its development

The Plan Nord territory is vast, its wealth diversified and it is home to many communities.

The availability of modern, safe transportation and telecommunications infrastructures adapted to the needs of its communities is a prerequisite to stimulating development north of the 49th parallel and to bringing these communities closer together.

Access to cutting-edge knowledge and technologies is also necessary to ensure sustainable development of the territory and the development of its numerous resources.

Budget 2016-2017 includes a contribution to five structuring projects that will facilitate access to the territory and allow the acquisition of knowledge:

- installation of a conveyor to connect the infrastructures acquired at the Port of Sept-Îles to the new multi-user dock at Pointe-Noire;
- a call for projects to support hydrometallurgy research;
- conduct a feasibility study with a view to deploying a permanent telecommunications network in Nunavik;
- support for renewable energy projects in the Plan Nord territory;
- support for road infrastructure projects.

❑ Connect the infrastructures acquired at the Port of Sept-Îles to the multi-user dock at Pointe-Noire

Access to the Port of Sept-Îles, and more specifically, to the new multi-user dock in Pointe-Noire is essential for the development of the Labrador Trough mining projects and mining development in the Côte-Nord.

Since the start of its construction in February 2012, the new dock was not accessible because it was blocked by land belong to Cliffs Natural Resources.

Recently, the Government acquired, through Investissement Québec and the Société du Plan Nord, the infrastructures providing access to the dock.

- Acquired for $66.75 million, the infrastructures are operated by the Société ferroviaire et portuaire de Pointe-Noire, a limited partnership that will provide multi-user access to the infrastructures, under clear and predictable conditions for businesses.
- This new limited partnership will ultimately include the Société du Plan Nord and its private partners.

Following this acquisition, the Government is announcing in Budget 2016-2017 additional investments of $15 million to install a conveyor connecting the recently acquired rail infrastructures to the multi-user dock.

— These investments will be financed by the Société du Plan Nord with amounts from the Fonds du Plan Nord.

❑ Support for hydrometallurgy research

Development of the rare earths sector can help diversify the Québec mining sector and strategically position Québec in innovation niches such as aerospace, transport electrification and emerging energies.

— Québec has several lithium and rare earths exploration projects in the regions of Nord-du-Québec and Abitibi-Témiscamingue.

The development of this sector requires in-depth knowledge of hydrometallurgy, a technique currently used in Québec for the production of rare earth and traditional metals.

Budget 2016-2017 provides for the issue of a call for hydrometallurgy projects in order to further capitalize on this sector.

The projects will be analyzed according to the following criteria:

— expertise of the promoters, quality of the project and the financial involvement of other partners;

— the synergy between the establishments and the regions;

— the scope of the project, i.e. from basic research to process validation.

Details of the call for projects will be announced by the Minister of the Economy, Science and Innovation and by the Minister of Energy and Natural Resources and Minister responsible for the Plan Nord.

To support hydrometallurgy research, additional appropriations of $1 million in 2016-2017 and $2 million annually in 2017-2018 and 2018-2019 will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation. The amounts for 2016-2017 will be paid out of the Contingency Fund.

Examples of hydrometallurgy research projects
Research projects to increase Québec's hydrometallurgy knowledge are currently underway, including: – the creation of a Groupe de recherche et d'expertise sur les métaux stratégiques du Québec, in Abitibi-Témiscamingue and in Chibougamau, led by the Université du Québec en Abitibi-Témiscamingue; – the set-up of a hydrometallurgy platform in Québec City by the Consortium de recherche appliquée en traitement et transformation des substances minérales (COREM).

❑ Feasibility study on the deployment of a permanent telecommunications network in Nunavik

Access to digital technologies is essential not only to ensure the safety and well-being of northern populations but also to attract and retain workers and businesses in the Plan Nord territory.

The satellite telecommunications network in Nunavik today cannot adequately meet the needs of businesses and communities.

To remedy this situation, the implementation of a permanent telecommunications system is envisioned in the medium term to replace the current network.

Since such a solution cannot be deployed quickly, the Government announced, on July 30, 2015 a contribution of $11.5 million not only to ensure satellite Internet service for Nunavik businesses and communities over the next five years but also to install equipment that will be used after this transition period.

To ensure the sustainability of the network, both in terms of services and funding, the Government is announcing in Budget 2016-2017 that a study will be carried out in order to find a permanent telecommunications solution for Nunavik.

— The results of this study will make it possible to compare the different options and choose the best solution to serve Nunavik.

This study will be funded by the Société du Plan Nord with $1.5 million from the Fonds du Plan Nord.

— The federal government will also be asked to participate in funding the selected solution.

❑ Support for renewable energy projects in Plan Nord territory

Many northern communities and businesses in Plan Nord territory are not served by the Hydro-Québec grid but rather by thermal power stations operating on diesel, which are responsible for significant greenhouse gas emissions (GHG).

Introducing renewable energy sources that reduce GHG emissions would help diversify and stabilize the energy offer on the territory and contribute to:

- its sustainable development;
- the retention and development of local businesses operating on the territory.

In Budget 2016-2017, the government is announcing its support for projects that will replace the fossil fuels used by off-grid communities and businesses with renewable energy sources with less GHG emissions.

The projects could, for example, make it possible to:

- use forest biomass and by-products for energy purposes;
- wind, wave or solar power to generate electricity.

Project eligibility and funding level will be determined on a case-by-case basis and according to such criteria as the investments and savings generated, the presence of financial partners and the impact in terms of reduction of GHG emissions.

The selected projects will be funded by the Société du Plan Nord from the funds available in the Fonds du Plan Nord.

- The federal government will also be asked to participate in funding this project.

❑ Support for road infrastructure projects

Access to safe transportation infrastructures adapted to the needs of users is essential to promote the territory's development.

Budget 2016-2017 includes support for two road infrastructure projects:

— repair of the James Bay route;

— construction of a new section connecting Routes 138 and 389.

■ Repair of the James Bay road

The James Bay route is the backbone of the road network in the Eeyou Istchee Baie-James region.

This road of almost 700-kilometre long, which runs from Matagami to Chisasibi and through Nemaska, Waskaganish, Eastmain, Wemindji and Radisson, is an important regional development lever to support the deployment of the Plan Nord.

The condition of the road has deteriorated in the last few years.

Budget 2016-2017 reaffirms that the government will continue the urgent repair work on the James Bay road up to the actual maximal authorized amount of $85 million.

— In the past year, close to $10 million was invested in preparatory studies and to begin work deemed a priority.

— This work will continue in 2016-2017.

More extensive work on this strategic road is currently under study. The cost, scope, schedule and funding of such work will be subject to approval over the next few months.

— Québec has also asked the federal government to contribute financially, under the Building Canada Plan, to this project.

■ Construction of a section connecting Routes 138 and 389

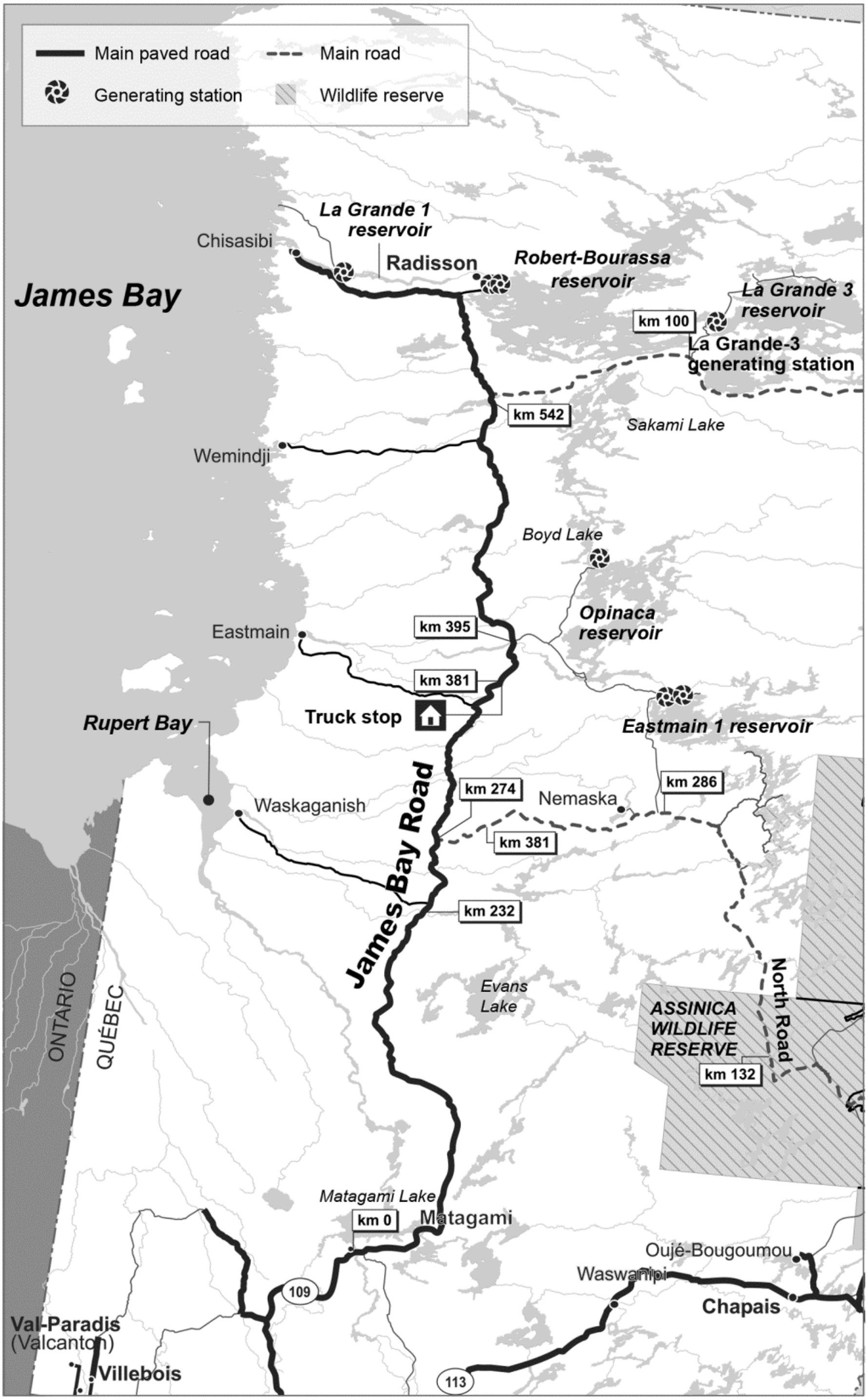
Route 389 is almost 570 km long and connects Baie-Comeau to Fermont, in the Côte-Nord.

In summer 2016 work will begin to build a new section connecting Route 389 to Route 138 and that will run through the new Baie-Comeau industrial park. This new 4-kilometre section will:

- increase the efficiency of Route 389;
- facilitate installation of a graphite ore concentrator in the new Baie-Comeau industrial park as part of the project launched by Mason Graphite mining company, which plans to operate a graphite mine at lac Guéret, 285 kilometres north of Baie-Comeau.

ILLUSTRATION B.2

Map of the James Bay road



Source : Hydro-Québec.

8.4.2 **Financial framework of the Fonds du Plan Nord**

The Fonds du Plan Nord, established into the Ministère des Finances in June 2011, is intended to foster the development and protection of the Plan Nord territory.

This special fund, primarily allocated to the operation and funding of the activities of the Société du Plan Nord, derives most of its revenue from:

- a part of the tax spinoffs stemming from investment projects carried out or planned in the Plan Nord territory (annual endowment);
- annual contributions from Hydro-Québec.

❑ Endowment of the Fonds du Plan Nord in 2016-2017

The annual endowment of the Fonds du Plan Nord is established based on the tax spinoffs attributable to the economic activity generated in the Plan Nord territory.

Based on the most recent data, the annual endowment and the amounts currently in the Fonds du Plan Nord will provide the Société du Plan Nord with $454.8 million to finance its operations and activities over the next five years.

- In 2016-2017, some $175 million will be made available to the Société du Plan Nord notably to support implementation of the 2015-2020 Action Plan.

TABLE B.55

Financial framework of the Fonds du Plan Nord
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total – 5 years
Revenue						
– Annual endowment	74.0	74.6	64.5	70.5	73.0	356.7
– Hydro-Québec contribution	15.0	15.0	15.0	15.0	15.0	75.0
– Other revenue(1)	1.6	0.8	0.9	1.1	1.2	5.5
Total – Revenue	**90.6**	**90.4**	**80.4**	**86.6**	**89.2**	**437.2**
Expenses(2)						
– Contribution to the SPN(3)	173.8	73.2	63.3	71.2	73.3	454.8
– Other expenses(4)	0.2	0.2	0.1	0.1	0.1	0.7
Total – Expenses	**173.9**	**73.3**	**63.5**	**71. 3**	**73.5**	**455.5**
BALANCE (5)	**−83.4**	**17.1**	**17.0**	**15.3**	**15.7**	**−18.3**

Note: Figures may not add up to the total indicated due to rounding.
(1) Includes revenue from surplus cash investments in the Fonds du Plan Nord.
(2) The expenses set out in the Fonds du Plan Nord for 2016-2021, including contributions to the Société du Plan Nord, are already included in the government's fiscal framework, with the exception of $1.5 million in 2016-2017 in connection with the feasibility study with a view to deploying a permanent telecommunications network in Nunavik.
(3) The amounts made available to the Société du Fonds du Plan Nord are used to support mainly the initiatives set out in the 2015-2020 Action Plan and the projects announced in this budget.
(4) Includes the Fonds du Plan Nord management fees and the financial impact of a loan to Les Diamants Stornoway
(5) The 2016-2017 annual deficit, explained by the Société's interest in the Société ferroviaire et portuaire de Pointe-Noire, will be offset by the balance currently in the Fonds du Plan Nord.

8.4.3 Increase in Hydro-Québec's contribution to the Fonds du Plan Nord

Since its creation, the Fonds du Plan Nord receives an annual contribution of $10 million from Hydro-Québec.

— This contribution supports the implementation of the Government's priority initiatives in the deployment of the Plan Nord, including those set out in the 2015-2020 Action Plan.

Budget 2016-2017 increases Hydro-Québec's annual contribution to the Fonds du Plan Nord from $10 million to $15 million.

The additional $5 million annual contribution will be made available to the Société du Plan Nord to support the implementation of investment projects in the Plan Nord territory.

8.4.4 Increased assistance for exploration in the North

Mining exploration in regions with limited access entails high costs for mining businesses, thereby hindering exploration investments in these areas.

To provide additional support to businesses with mining projects in difficult-to-access regions of the North, the government is announcing a 25% increase in the fiscal assistance for mining exploration that will apply to costs incurred the day following the budget speech.

The rates of the refundable tax credit relating to resources for mining expenses in the Middle North and Far North will therefore increase from:

— 31% to 38.75% for junior companies;

— 15% to 18.75% for other companies.

Thanks to this increase, businesses with mining exploration projects in the Middle North and Far North will have more cash available to reinvest in exploration.

This additional assistance will help support mining investment and ensure the growth of the mining sector in the years ahead in a context where funding of exploration work has slowed due to the fact that some commodity prices are currently low.

TABLE B.56

Rate of the tax credit relating to resources for eligible mining expenses
(per cent)

	Junior company[1]		Other company	
	Before Budget 2016-2017	After Budget 2016-2017	Before Budget 2016-2017	After Budget 2016-2017
Middle North and Far North	31	38.75	15	18.75
Elsewhere in Québec	28	28	12	12

(1) Junior company means a business that is not a mineral resource, oil or gas producer and is not part of a group within which a member is such a producer.

Higher drilling costs in difficult-to-access regions

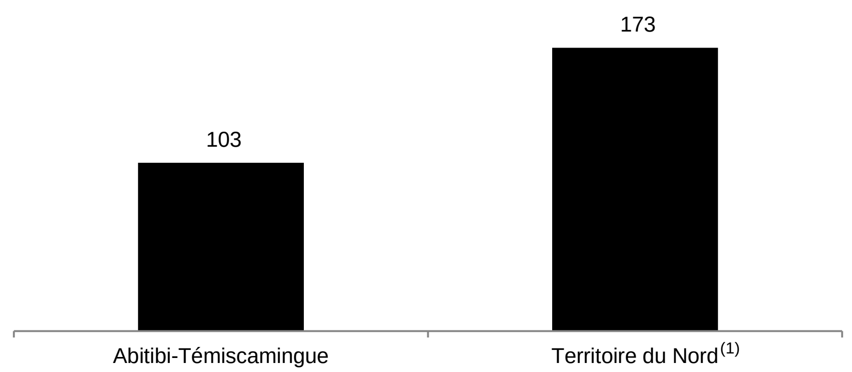
Québec's geology provides an especially interesting environment for mining exploration. However, access difficulties associated with lack of transportation infrastructures present a challenge as they result in higher drilling costs mainly due to the higher cost of mobilizing people and equipment.

The cost per metre drilled therefore varies from one administrative region to the next. For example, in 2014, drilling costs in the North were almost 70% higher than in Abitibi-Témiscamingue.

In addition to the issues related to access to the exploration site, the technical specifications required for drilling certain substances also have an impact on costs.

Comparison of diamond drilling costs for the main mining regions of Québec – 2014

(dollars per metre drilled)



(1) Represents the costs for the Côte-Nord and Nord-du-Québec.

Source: Institut de la statistique du Québec.

❑ Additional assistance of over $13 million

The 25% increase in the rate of the refundable tax credit relating to resources for mining exploration expenses in the North represents additional assistance of over $13 million for mining companies over the next five years.

TABLE B.57

Financial impact of the assistance for exploration in the North
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Increase in the assistance for exploration in the North	−0.1	−1.5	−3.3	−4.1	−4.4	−13.4

Eligibility of exploration expenses

The flow-through share system and the refundable tax credit for resources are tax measures designed to support mining exploration. The tax measures draw on concepts that tax authorities have interpreted numerous times. Despite this, there seems to be a difference of opinion between the industry and the tax authorities on the eligibility of certain expenses for the application of these tax measures.

In order to provide for a common understanding of the issue raised by the mining industry, the Ministère des Finances will hold consultations on the matter.

Supporting employment in a context of low metal prices

To support employment in the mining sector during an economic cycle marked by low prices for many metals, the government will implement a plan to accelerate the restoration of abandoned mining sites. The environmental liability reduction target for these sites will therefore increase from 50% to 80% by 2021-2022.

As such, investments of some $620 million over the next six years will stimulate economic development in the mining regions affected by the current decline in commodity prices and at the same time improve the quality of the environment.

8.5 Focus on our tourist attractions

Québec's tourism industry makes an important contribution to the Québec economy. It is a key lever for economic development, particularly in the regions, supporting job creation and economic diversification.

— With its 32 000 businesses and some 350 000 jobs, this industry accounts for about 2.5% of Québec's GDP.

Due to the changing nature of the industry and strong competition among tourism markets, in October 2015, the government implemented the 2016-2020 Action Plan for the tourism industry.

— Prepared together with the industry, this action plan takes the tourism industry's development to the next level.

— It ensures greater cohesion in marketing Québec as a tourism destination abroad along with adequate funding for the development of world-class products.

Conditions are conducive to an increase in international tourism in Québec, particularly with the decline of the Canadian dollar.

To ensure the success of the 2016-2020 Action Plan, Budget 2016-2017 includes over $150 million of initiatives over five years to encourage tourism:

— support of nearly $90 million to develop winter, culture, event and nature/adventure tourism;

— investments of $30.9 million to develop the built, cultural and natural heritage of the Société des établissements de plein air du Québec (Sépaq);

— support for efforts to diversify and develop Québec's tourism offer by expanding the program to support the development of tourist attractions (PADAT);

— promote Québec tourism abroad by maintaining the annual $4 million contribution from Québec sales tax revenue to the Fonds de partenariat touristique beyond March 31, 2017;

— support of $9.1 million to promote Québec's identity and interests on the international scene.

TABLE B.58

Financial impact of measures to leverage our tourist attractions
(millions of dollars)

		Financial Impact					
	Amounts	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**	**Total**
Develop winter, culture and nature tourism							
– Enhance Québec's tourism offer	40.0	—	−0.3	−1.6	−2.8	−4.1	−8.8
– Support for Sépaq for infrastructure development	29.6	−0.1	−0.8	−1.3	−1.7	−2.2	−6.1
– Implementation of new regional partnership agreements	12.0	−1.8	−3.0	−3.0	−3.0	−1.2	−12.0
– Support for Québec tourism business projects	8.0	−2.0	−2.0	−2.0	−2.0	—	−8.0
Subtotal	**89.6**	**−3.9**	**−6.1**	**−7.9**	**−9.5**	**−7.5**	**−34.9**
Develop Sépaq's heritage	30.9	−0.4	−0.8	−1.4	−1.7	−2.2	−6.5
Support for efforts to diversify and develop Québec's tourism offer	9.6	—	—	—	—	—	—
Promote Québec tourism abroad	16.0	—	−4.0	−4.0	−4.0	−4.0	−16.0
Promote Québec's identity and interests on the international scene	9.1	−2.7	−2.1	−2.1	−2.1	−0.1	−9.1
TOTAL	**155.2**	**−7.0**	**−13.0**	**−15.4**	**−17.3**	**−13.8**	**−66.5**

8.5.1 Highlight winter, culture, event and nature/adventure tourism

The 2016-2020 Action Plan for the tourism industry provides, in particular, for the deployment of six sector-based strategies for the following activities:

- maritime tourism;
- tourism north of the 49th parallel;
- winter tourism;
- nature/adventure tourism;
- cultural and event tourism;
- business and congress tourism.

These strategies leverage the critical mass of attractions that motivate people to travel, encourage extended stays and generate greater spinoffs. They are underpinned by a variety of products in which Québec has a competitive international edge and allow it to build a world-class offer.

To support the development of winter, culture and event and nature/adventure tourism, $89.6 million will be invested to:

- enhance Québec's tourism offer through strategic structuring projects that will increase the drawing power of priority products and areas of focus;
- allow Sépaq to develop infrastructures that will enhance the offer of winter and nature/adventure activities in partnership with businesses in the targeted communities;
- implement new regional partnership agreements that support projects to discover complementary products involving regional initiatives in areas of focus;
- support Québec business projects by offering personalized guidance to promoters of promising projects in order to increase their potential for success and return on investment.

The details of the nature/adventure, culture and event tourism strategies will be announced by the Minister of Tourism in the near future.[11]

[11] The winter tourism strategy was announced in 2014.

Additional appropriations of $3.8 million in 2016-2017, $5.3 million in 2017-2018 and $6.6 million in 2018-2019 will be allocated to the Ministère du Tourisme. As well, additional appropriations of $0.1 million in 2016-2017, $0.8 million in 2017-2018 and $1.3 million in 2018-2019 will be allocated to the Ministère des Forêts, de la Faune et des Parcs. The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.5.2 **Develop Sépaq's built, natural and cultural heritage**

Sépaq's mission is to ensure the accessibility, promotion and protection of the public land and equipment entrusted to it by the government.

To preserve the built, cultural and natural heritage under its purview, Sépaq must invest at least 2% of the value of its assets annually to maintain these assets in good condition and be able to offer a quality tourism product.

Budget 2016-2017 therefore includes $30.9 million of additional investments over four years to safeguard the built, cultural and natural heritage. These investments will allow Sépaq to maintain buildings and infrastructures in order to ensure visitor safety and comfort.

To fund these investments, additional appropriations of $0.4 million in 2016-2017, $0.8 million in 2017-2018 and $1.4 million in 2018-2019 will be allocated to the Ministère des Forêts, de la Faune et des Parcs. The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.5.3 **Support efforts to diversify and develop Québec's tourism offer**

The primary objective of the program to support the development of tourist attractions (PADAT) is to stimulate and support private investments in order to improve Québec's tourism offering by granting loans and loan guarantees.

The results of this program, launched in 2012-2013, are convincing. The PADAT's initiatives in its first three years of operation have largely surpassed the $160 million target, with over $230 million of support already provided.

An analysis of the PADAT's initiatives shows that the industry's needs are better met by financial assistance in the form of loans as there were very few applications for loan guarantees.

Therefore, in order to offer financial assistance that responds to the reality of eligible tourism operators and that will contribute to the diversification and development of Québec's tourism offering, Budget 2016-2017 provides for removing the ceiling[12] on financial assistance that can be granted in the form of a loan.

By expanding this program, $40 million of new investments could be generated to develop Québec's tourist attractions over each of the next two years.

[12] The current rules require that no more than 60% of the total financial assistance granted by the PADAT take the form of loans and 40% take the form of loan guarantees.

8.5.4 Promote Québec tourism abroad

To maximize the outcome of the efforts to promote Québec as a tourism destination abroad, the tourism industry requires a framework suited to its reality and that will allow it to be more responsive to market changes and imperatives.

Following the lead of other Canadian provinces, and in response to a request from the industry, the Government has decided to delegate its responsibilities for Québec's promotion abroad to an outside membership-based association, the Alliance de l'industrie touristique du Québec.

To allow the Ministère du Tourisme to continue and even increase its contribution to the funding of this new body, Budget 2016-2017 provides for maintaining the $4 million increase in the Québec sales tax (QST) revenue allocated to the Fonds de partenariat touristique beyond March 31, 2017.

— The contribution of the Ministère du Tourisme for the promotion of Québec as a tourism destination abroad comes from the QST revenue transferred to the Fonds de partenariat touristique.

— Since 2013, transfers to the Fonds de partenariat touristique have increased by $4 million, from $22.5 million to $26.5 million annually.

Alliance de l'industrie touristique du Québec

The Alliance de l'industrie touristique du Québec (Alliance) was officially created on January 28 following the adoption, on December 2, 2015, of an Act mainly to improve the regulation of tourist accommodation and to define a new system of governance as regards international promotion. Its mandate is to:

- recommend to the Minister of Tourism a unique multi-year destination marketing strategy based on the broad orientations defined by the Minister, and provide an annual action plan;
- coordinate, implement or delegate initiatives to promote and market Québec as a tourism destination outside its borders and measure the benefits;
- plan Québec-wide promotional campaigns.

To support initiatives designed to promote Québec abroad, the Alliance will receive $30 million annually:

- a participation of $7 million from the tourism industry;
- a contribution of $10-million contribution from regional tourism associations;
- an amount of $13 million from the Ministère du Tourisme.

8.5.5 Québec on the international scene: an agile and distinctive diplomacy

Budget 2016-2017 supports the Ministère des Relations internationales et de la Francophonie through investments aimed at stepping up the promotion of Québec's identity and interests abroad and supporting Québec diplomacy.

❑ Investments of $9.1 million over five years

To encourage the promotion of Québec's identity and interests, the budget of the Ministère des Relations internationales et de la Francophonie will contain additional investments:

- additional appropriations of $2 million annually from 2016-2017 to 2019-2020 to support international conferences such as:
  - the Conférence of Montréal;
  - a conference on radicalization organized in partnership with UNESCO;
  - a conference on public health organized jointly by the Québec government and the federal government.
- additional recurring funding of $100 000 to launch a Québec-Cuba cooperation initiative;
- an amount of $550 000 in 2016-2017 for international solidarity and development programs.

The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.6 The environment: a transition to a low-carbon economy

As part of the Government Sustainable Development Strategy 2015-2020, the government wishes to encourage innovation and the development of a greener economy.

Numerous initiatives to protect or improve the quality of the environment support economic growth and involve partnerships with enabling effects that incorporate sustainable development principles.

As well, support conducive to the development of green technologies will confirm Québec's leadership in the fight against climate change and deepen its expertise in environmental protection.

Consequently, to protect and improve the quality of the environment and encourage initiatives conducive to the development of a green economy, this budget proposes initiatives in several areas:

- the rehabilitation of contaminated soil;
- the promotion of electrification of public and private transportation;
- innovation in green technologies;
- improvement of the Route verte.

Overall, these initiatives will entail over $900 million in investments and numerous partnerships with municipalities, the private sector and the research community that will have a significant leverage effect in all the regions of Québec.

TABLE B.59

Financial impact of measures to support the growth of the environment sector
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Rehabilitation of contaminated soil						
– Support employment in a context of low metal prices	—	—	—	—	—	—
– Support for decontamination of municipal and private sites						
▪ ClimatSol-Plus program[1]	−10.0	−10.0	−10.0	—	—	−30.0
▪ Rehabilitation of sites with strong economic development potential	−4.3	−4.3	−4.3	−5.0	−5.0	−22.9
Promote electrification of public and private transportation						
– A green shift for public transit	—	—	—	—	—	—
– Continue electrification efforts for private transportation	—	—	—	—	—	—
Innovation in green technologies						
– Support for clean technology research[1]	−0.6	−0.6	−0.6	−0.6	−0.6	−3.0
– Assistance for innovative businesses in the soil contamination sector	−0.7	−0.7	–0.7	—	—	−2.1
– Support for carbon capture research[1]	−5.0	−5.0	−5.0	—	—	−15.0
Improvement of the Route verte						
– Safety enhancements to the Route verte	−2.0	−3.0	−4.0	−4.0	−4.0	−17.0
– Maintenance of the Route verte	−0.5	−2.5	−2.5	−2.5	−2.5	−10.5
TOTAL	**−23.1**	**−26.1**	**−27.1**	**−12.1**	**−12.1**	**−100.5**

(1) Measures financed by the Green Fund.

8.6.1 Rehabilitation of contaminated soil

Soil contamination is a worldwide problem resulting from the industrial era and Québec has not been spared. The government must not saddle future generations with a heavy environmental liability.

Aside from the fact that soil decontamination improves the quality of the environment and the safety of the population, some contaminated sites have strong economic development potential. Their rehabilitation will inject new life into neighbourhoods and increase economic activity in the municipalities concerned.

The government therefore plans to step up its soil decontamination efforts by supporting:

- employment in a context of low metal prices;
- the decontamination of municipal and private sites.

These measures will support the soil protection and contaminated land rehabilitation policy that will be unveiled shortly by the Minister of Sustainable Development, Environment and Fight Against Climate Change and that will reflect the government's commitment to environmental protection and sustainable revitalization of the territory.

This policy will have a positive impact on the environment and the economy as it calls for urban densification and green space while reducing the cost of decontamination for developers. It will also stimulate the soil decontamination and treatment industry.

❑ Support employment in a context of low metal prices

To date, 120 mining sites have been rehabilitated using effective, economical techniques. As a result, Québec has built expertise in the characterization of this type of contaminated land and the use of innovative and less costly technology to restore old mining sites.

The Québec government still has under its real responsibility 498 mining sites requiring rehabilitation on its territory, representing some $775 million of work.

To support employment in the mining sector during this economic cycle marked by low metal prices, the government is announcing implementation of a plan to step up restoration of abandoned mining sites, with the goal of reducing the environmental liability of mining sites by 80% by 2021-2022. The previous target was 50%.

This plan involves investments totalling some $620 million over the next six years, which in addition to improving the quality of the environment will have a major impact on economic development in the mining regions affected by the decline in commodity prices, particularly in the Plan Nord territory.

Financial guarantee requirement in connection with the plan for the redevelopment and restoration of mining sites

To stop inheriting abandoned mining sites, the Québec government has tightened mining restoration rules. As such, since 2013, the Mining Act requires that a redevelopment and restoration plan be approved by the Minister of Energy and Natural Resources before a mining lease is issued.

As well, a financial guarantee equal to 100% of the projected cost of the site restoration work must be paid within two years of the plan's approval.

Given the importance of this financial guarantee, the government is announcing that the Tax Administration Act will be amended to allow the Minister of Revenue to apply to the financial guarantee any amount due for reimbursement to a mining operator when the operator is in default of its obligations with respect to said guarantee.

This measure is in addition to those already in place and that will significantly reduce the risk that the government will have to pay for the work required to redevelop and restore mining sites.

Support for decontamination of municipal and private sites

To provide municipalities and private businesses with additional resources to continue rehabilitating their contaminated lands, the government announced the ClimatSol-Plus program in Budget 2015-2016.

This program stems from the 2013-2020 Climate Change Action Plan, in which priority is given to supporting municipalities and communities in their initiatives to reduce GHG emissions, adapt to climate change and sustainably develop the territory.

The government also pledged, as part of the 2016-2019 partnership arrangement with municipalities, to support municipalities in their soil decontamination investments.

The government will therefore invest $55 million in the coming years, mainly to support municipalities in their work to restore contaminated sites.

ClimatSol-Plus program

The government is announcing an increase of the ClimatSol-Plus envelope to $30 million. This program will be financed by the Green Fund at a rate of $10 million annually over the next three years as of 2016-2017.

The change in the vocation of these contaminated lands will revitalize the communities concerned by focusing on sustainable mobility or the creation of green space.

Rehabilitation of sites with strong economic development potential

In response to municipal needs, a new component will be added to the ClimatSol-Plus program to facilitate the decontamination of lands with strong economic development potential. Based on the current criteria, certain projects are not eligible for the program.

The objective of this second component is to reduce development costs by preventing, for instance, urban sprawl.

To this end, the government is announcing $25 million in new investments over five years. In this regard, additional appropriations will be allocated to the Ministère du Développement durable, de l’Environnement et de la Lutte contre les changements climatiques (MDDELCC). The amounts for 2016-2017 will be paid out of the Contingency Fund.

Examples of eligible ClimatSol-Plus projects
Cité de la logistique: major industrial development in East-end Montréal As part of the development of the Montréal land-use plan, six strategic planning sectors were targeted, including the Cité de la logistique project. Located near the Port of Montréal, in the Assomption Sud sector and stretching to Autoroute 25 (Louis-H. Lafontaine industrial park sector), this project is one of the priorities in Montréal’s economic action plan. The Cité de la logistique project requires the rehabilitation of 86.2 hectares of vacant industrial land, making this industrial-port area a major development sector. **Densifying the perimeter of Québec City with eco-neighbourhoods** The Pointe-aux-Lièvres eco-neighbourhood will be located north of Nouvo Saint-Roch, near Vieux-Québec and the Vieux-Port, in a formerly industrial area that requires extensive land rehabilitation due to contamination as a result of various past activities. Québec City is looking to breathe new life into this area by creating a neighbourhood whose layout and infrastructures will have to meet high sustainable development standards, close to residential neighbourhoods.

Simplifying the administrative management of the ClimatSol-Plus program

A number of municipalities have reported problems with the way the old ClimatSol program was administered. In response to municipal concerns and as a follow-up to the *Faire confiance : pour une reddition de comptes au service du citoyen*, the terms and conditions of the ClimatSol-Plus program will be adjusted, for example, by streamlining the document requirements and reducing application processing time.

8.6.2 Promoting the electrification of public and private transportation

The government would like Hydro-Québec and Caisse de dépôt et placement du Québec to play an active role in the electrification of public and private transportation.

- Electricity will play an increasingly important role in public and private transportation.

Québec, through Hydro-Québec, has the energy and technology required to take up the challenges associated with the electrification of public and private transportation:

- clean, renewable energy;
- a reliable transmission and distribution network;
- recognized expertise and technologies of interest.

❑ A green shift for public transit

The Government is mandating Hydro-Québec to grant financial assistance to public transit companies or organizations designated by the Government.

- For projects selected by the government, Hydro-Québec Distribution will grant financial assistance to the designated organizations.
- The financial assistance will apply to the cost of the electric power infrastructures required for the propulsion of the project's rolling stock (e.g. transformers, catenaries).
  - Hydro-Québec will not be responsible for these infrastructures. The government corporation will not assume their ownership, maintenance or operation.

Legislative amendments will be necessary to implement this measure.

❑ Ongoing efforts to electrify private transportation

At the initiative of Hydro-Québec and its private partners, Canada's first public charging network, the Electric Circuit, was inaugurated in March 2012.

— To date, Québec has 773 public charging stations, including the 616 Electric Circuit stations. Of the total, 30 are fast-charge stations.

The government plans to encourage Hydro-Québec to continue developing the Electric Circuit with a view to making it easier for users to transition to private modes of transportation with a small carbon footprint.

— The implementation of the Electric Circuit has had a significant impact on GHG emissions, more specifically, 769 tonnes of CO_2 emissions avoided since its inauguration.

Therefore, for 2016, the government is setting to Hydro-Québec a target of 800 public charging stations in the Electric Circuit, including 60 fast-charge stations.

❑ Partnership agreements with Caisse de dépôt et placement du Québec

Following the adoption of an Act to allow the Caisse de Dépôt et placement du Québec to carry out infrastructure projects (the "Caisse"*)*, the government submitted two electrification projects to the Caisse for analysis: the public transit system on the new Champlain bridge, and the Train de l'Ouest.

These projects could have a major impact on the development of key sectors in several municipalities in the Montréal area.

— The modernization of municipal infrastructures is vital to the economic and social development of communities. Public transit networks in particular not only stimulate investments and productivity, they also improve quality of life by reducing road congestion and GHG emissions.

Although they tend to initiate the municipal infrastructure projects on their territories, some municipalities may be interested in contributing to the Caisse's public transit projects since the scope of these projects would meet their citizens' needs.

The government therefore plans to allow municipalities to enter into agreements to participate in public infrastructure projects initiated by the Caisse. Legislative amendments will be required to this end.

Transportation Electrification Action Plan 2015-2020

Québec has one of the most enviable energy portfolios in the world with 40% of energy consumption supplied by electricity generated by renewable energy sources.

As a result, Québec is especially well placed in the fight against climate change, in particular by implementing measures favouring transportation electrification.

In October 2015, the government unveiled the Transportation Electrification Action Plan 2015-2020 and in so doing, took another step towards a low-carbon economy. The objectives of the plan are as follows:

- reach 100 000 plug-in electric and hybrid vehicles registered in Québec;
- reduire the annual GHG emissions produced by transportation by 150 000 tonnes;
- reduce by 66 million the number of litres of fuel consumed annually in Québec;
- reach 5 000 jobs in the electric vehicle industry and bring about a total of $500 million of investments.

Program to support the purchase of electric school buses

One of the measures in the Action Plan is the introduction of a program to support the purchase of electric school buses, funded by a $30-million envelope over five years, including $6 million in 2016-2017.

The program will, in particular:

- provide school bus operators with financial assistance to electrify their fleets;
  - School boards and private schools are also eligible for the program.
- contribute to the development of emerging industrial sectors in Québec engaged in transportation electrification.

The financial assistance offsets about 60% of the cost difference between a diesel and electric school bus.

8.6.3 **Innovation in green technologies**

Technologies with added environmental value, regardless of the sector in which they are used, can replace conventional techniques to reduce the production footprint and fit in perfectly in a context of industrial innovation with strong growth potential.

To stimulate the development, implementation and use of clean technologies, this budget includes:

— support for clean technology research;

— assistance for innovative businesses in the soil decontamination sector;

— support for research on carbon capture.

These initiatives are consistent with the priorities in the 2013-2020 Climate Change Action Plan whose objective is to support innovation, research, development, the demonstration and the commercialization of technologies to reduce GHG emissions.

❑ Support for clean technology research

Supporting clean technology is essential to encouraging innovation and the development of a greener economy. The emergence of these new technologies will allow Québec to maintain its leadership in the fight against climate change with a view to sustainable development.

In an effort to acquire more knowledge in this area, improve citizens’ quality of life and enhance Québec’s competitiveness abroad, the government is announcing that it will allocate $3 million to create a research chair for the development of green technologies.

Interested researchers, research organizations and universities will be able to participate in a request for proposals that will be issued by the government in 2016-2017.

— This project will be overseen by Ministère de l’Éducation et de l’Enseignement supérieur, in collaboration with the Ministère du Développement durable, de l’Environnment et de la Lutte contre les changements climatiques.

The government’s contribution of $0.6 million annually for five years starting in 2016-2017 will be financed by the Green Fund.

❑ Assistance for innovative businesses in the soil decontamination sector

Land rehabilitation improves the quality of the environment, enhances the safety of the population and revitalizes communities. However, the high costs often associated with decontamination remain an obstacle to many projects.

In Budget 2016-2017, the government is announcing new financial assistance to businesses for the application of environmental technologies relating to soil decontamination.

This assistance will help businesses demonstrate and test new soil and water rehabilitation technologies with a view to facilitating their implementation and generalizing their use.

Eligible projects will have to demonstrate technologies that limit or correct environmental damage to water and soil.

The government will allocate additional appropriations of $2 million over three years to the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques. The amounts for 2016-2017 will be paid out of the Contingency Fund.

❑ Support for carbon capture research

Québec is aiming to reduce its GHG emissions to 20% below the 1990 level in 2020 and to 37.5% below this level in 2030.

To achieve these targets, support must be provided for R&D projects on the creation of new valorisation processes for GHG emissions.

Université Laval and the Québec firm CO_2 Solutions recently developed and patented an enzyme to capture CO_2. The results of the pilot project were conclusive, and the process is now ready to advance to the commercialization stage.

The technology developed by CO_2 Solutions was selected for a pilot project in Alberta, which along with Saskatchewan, have developed expertise in the capture and reuse of CO_2. Québec can therefore contribute, with its Canadian partners, to the development of knowledge and best practices in order to reduce our GHG emissions by capturing carbon while simultaneously enhancing the economic aspect of the projects by exploiting and reusing the carbon for other purposes.

Budget 2016-2017 is announcing a $15-million envelope over three years for the creation of the Valorisation carbone Québec consortium, which will include CO_2 Solutions, Université Laval and other organizations from the private and public sectors. This amount will be paid out of the Green Fund.

This consortium will be tasked with developing and implementing concrete solutions to capture and reuse CO_2 in applications that will have a positive impact on the Québec economy such as conversion into biofuel, the production of reinforced concrete and enhanced oil recovery.

Once developed, this technology could allow some sectors to reduce their GHG emissions more cost effectively.

8.6.4 **Improvement of the Route verte**

Québec has over 10 000 kilometres of bicycle paths. In particular, the Route verte, the longest cycling route in North America, crosses 393 municipalities in 16 Québec regions and is over 5 000 kilometres long.

A few years ago, the Route verte was named the world's top cycle route by National Geographic. It also won the World Leisure International Innovation Prize. As such, it has become an asset for the development of Québec's tourism industry.

Moreover, due to its size and reputation, the Route verte encourages people to switch from cars to active modes of transportation and in so doing, contributes to GHG reduction.

❑ Safety enhancements to the Route verte

Among the stretches of the Route verte, over 2 000 kilometres are on paved shoulders that run along roads where parking is prohibited, both in rural and urban areas.

In some cases, the stretches on the paved shoulders of the Route verte border high-speed, busy roads. These stretches pose a higher risk for cyclists and motorists due to the narrowness of certain shoulders.

Cycling accidents happen every year in Québec. These sometimes involve serious injuries and even death. Between 2012 and 2014, an average of 1 881 accidents involving cyclist were recorded, of which 96 resulted in serious injury and 15 in death.

To ensure the safety of cyclists on the Route verte and other paths in the cycling network, as well as the safety of motorists, particularly in high-speed, busy areas, the government will invest $50 million under the 2016-2026 Québec Infrastructure Plan to expand shoulders and for other safety features, including traffic lights for cyclists and road crossings.

❑ Maintenance of the Route verte

Maintaining a network of over 5 000 kilometres is a constant challenge that requires the ongoing engagement of all the stakeholders. As well, the increase in the number of kilometres accessible to the public requires additional funds for maintenance and improvements.

Budget 2016-2017 therefore calls for an investment of $10.5 million for the next five years, with $0.5 million to be provided in 2016-2017 and $2.5 million for each fiscal year covering the period of 2017-2018 to 2020-2021.

— These additional appropriations will be allocated to the Ministère des Transports, de la Mobilité durable et de l'Électrification des transports. The amounts for 2016-2017 will be paid out of the Contingency Fund.

Maintenance of the Route verte is performed together with the municipalities, which also contribute to its funding.

Preventing environmental risks associated with dams failures

Whether public or private, dams play a key role in controlling high and low flows. In so doing, they protect people and property, preserve the environment and ensure adequate farmland irrigation.

Although uncommon, dam failures can happen for a variety of technical reasons or natural causes. Aside from the consequences for the security of populations near the dam and local economies, floods due to dam breaks can have an environmental impact, including contamination of water bodies, wildlife displacement, a reduction in animal and plant species and disruptions to crop production and harvest cycles.

Stepping up corrective maintenance of government dams

The Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELCC) oversees the management of almost 750 dams. As the owner, its responsibilities are to ensure their maintenance and to fulfill legal obligations in this regard.

Maintenance must be performed on about 300 dams, some of which are mechanized and require specialized expertise.

To accelerate this maintenance, additional amounts are provided in the "public dams" envelope allocated to the MDDELCC under the 2016-2026 Québec Infrastructure Plan. The funds will be used for pilot projects involving maintenance of mechanized dams deemed strategic due to the control they exercise over the high and low flows in catchment areas.

- These projects will be carried out with partnerships throught specialized expertise in mechanized dams.

Assistance from the SOFIL for municipal dams

A recent study on municipal dam safety revealed that about 40 high-capacity dams belonging to small municipalities with limited financial means require corrective work.

To help these municipalities carry out the necessary work within the timelines stipulated in the *Dam Safety Act*, the Société de financement des infrastructures locales (SOFIL) offers financial assistance through the gas tax and Québec contribution program (TECQ), including financial support for preliminary studies if they lead to repair work.

- This program contributes to the funding of local infrastructures for drinking water, wastewater, local roads, public transit and others, for example, those that reduce the risk of catastrophes.

Municipalities will therefore be able to use up to 20% of their envelope under the SOFIL's TECQ program to repair vulnerable dams.

Preventing environmental risks associated with dams failures (cont'd)

Demolition of public dams

Some public dams under the purview of the MDDELCC are not vital to the government's mission.

To avoid the need for work to ensure the safety of dams considered not essential, the MDDELCC will prioritize the demolition of 14 dams.

- The MDDELCC will demolish these dams in the coming years in order to comply with the obligations stipulated in the *Dam Safety Act*.

This demolition will help contain repair costs and at the same time eliminate any risks the dams may pose to the public, property and the environment.

Appropriations of some $1 million annually are planned to this end.

8.7 Fostering the development of the agri-food industry

Agriculture and food processing generate benefits for all of Québec. These two industries combined account for almost 120 000 direct jobs in Québec and $11 billion or 3.4% of Québec GDP. Many exporters are found in this sector.

These sectors face a number of challenges, particularly international competition, marketing of Québec products and plant modernization in order to remain competitive.

To respond to these realities, the government would like to work with the stakeholders to develop a strategy in 2016-2017.

Budget 2016-2017 recognizes the need for immediate action and is announcing $45 million over the next five years to support the agriculture and food processing sector, broken down as follows:

— $5 million to allow the agri-food sector to seize export opportunities;

— $5 million to support research in food processing;

— $5 million to encourage the use of the best farming practices to improve the sector's productivity;

— $25 million for the program to support the positioning of Québec's alcoholic beverages;

— $5 million for oversight of the Québec alcoholic beverage industry.

TABLE B. 60

Financial impact of measures for agriculture and food processing
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Allow the agri-food sector to seize export opportunities	−1.0	−1.0	−1.0	−1.0	−1.0	−5.0
Supporting research in food processing	−1.0	−1.0	−1.0	−1.0	−1.0	−5.0
Using the best farming practices to improve the sector's productivity	−1.0	−2.0	−2.0	—	—	−5.0
Support the positioning of Québec's alcoholic beverages	−5.0	−5.0	−5.0	−5.0	−5.0	−25.0
Oversight of Québec's alcoholic beverage industry	−1.0	−1.0	−1.0	−1.0	−1.0	−5.0
TOTAL	**−9.0**	**−10.0**	**−10.0**	**−8.0**	**−8.0**	**−45.0**

Agri-food strategy

The agri-food sector is constantly changing, as are consumer needs. The Government would like to define a shared vision that will serve as a foundation for the development of a genuine Québec agri-food strategy.

The process will involve consumers, agricultural producers, fishers, processors, distributors and other partners of the agri-food sector.

The Minister of Agriculture, Fisheries and Food will announce the process for developing Québec's agri-food strategy.

8.7.1 **Allow the agri-food sector to seize export opportunities**

At a time of heightened international competition, it is vital to support the agri-food sector by ensuring it can seize growth opportunities on international markets.

Created in 1990, the Agri-food Export Group Québec-Canada, is the largest agri-food export association in Canada. Over the years, the Group has developed numerous services and launched hundreds of activities to make it easier for Québec agri-food exporters to access markets outside Québec and abroad.

The Group manages the Exportateurs de classe mondiale program, funded by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. Created in 2015, this program provides financial assistance to help Québec agri-food businesses deploy their own export strategy.

In light of the program's popularity, Budget 2016-2017 provides additional funding of $5 million over the next five years for the Exportateurs de classe mondiale program.

To this end, appropriations of $1 million will be allocated to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation annually from 2016-2017 to 2020-2021. The amounts required for 2016-2017 will be paid out of the Contingency Fund.

Export of processed agri-food products

The Institut du Québec published, in November 2015, a report on Québec's agri-food industry in which it underscores the important role of Québec's agri-food processing.

Businesses in the agri-food processing sector purchase 70% of Québec's agriculture production and account for about 80% of its international agri-food exports.

- These exports are shipped to over 150 countries, with the U.S. being the main destination.

Recently concluded free trade agreements and opportunities due to the booming economies of emerging nations open the door to promising markets for Québec's agri-food industry that could generate major economic benefits for all of Québec.

- With average annual growth of 2.5% in the last decade and 6.1% between 2010 and 2013, processed food exports offer strong growth potential.

An analysis of the growth outlook on the domestic market reveals that in order to grow, Québec's agri-food industry will essentially have to expand abroad.

8.7.2 **Supporting research in food processing**

The food processing industry plays a vital role in the Québec economy. It is the largest employer in Québec's manufacturing sector, processing close to 70% of Québec's agricultural production.

This industry must pick up the pace of technology adoption, which is lagging behind other manufacturing industries and limiting its competitiveness and innovation opportunities.

To support businesses in this sector, Budget 2016-2017 provides for the creation of a food processing research consortium in association with McGill University. The consortium's work will seek to make these businesses more competitive by intensifying their technology R&D and innovation efforts.

This research consortium will also seek to initiate and increase partnerships between industry and the research community, as well as make it easier for businesses to recruit qualified individuals by funding research projects that employ students.

To this end, appropriations of $1 million will be allocated annually to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation from 2016-2017 to 2020-2021. The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.7.3 **Using the best farming practices to improve the sector's productivity**

Agriculture is important for the economic development of Québec's regions. However, not all the regions enjoy optimal growing conditions, which could affect investment profitability prospects.

Drainage and liming enhance crop productivity and allow farmers to reuse land with replanting potential.

Budget 2016-2017 is announcing a $5-million envelope over three years to expand the farmland drainage support program to include a liming component in order to increase soil productivity.

Drainage and liming

Drainage and liming enhance crop productivity and allow farmers to reuse land with replanting potential. It is known that:

- better drainage allows land to dry and warm up faster in spring, thereby extending the growing season;
- liming, a technique that rebalances soil pH by neutralizing its acidity, improves soil structure, offsets the acidification created by biological activity and improves nutrient assimilation by crops.

To this end, additional appropriations of $1 million in 2016-2017 and $2 million annually in 2017-2018 and 2018-2019 will be allocated to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.7.4 **Support the positioning of Québec's alcoholic beverages**

Québec's alcoholic beverage industry is changing rapidly. The variety of products offered, including wine, beer, mead, liqueurs and alcoholic beverages derived from berries and maple syrup, is expanding.

To ensure implementation of the measures arising from the bill respecting the development of the small-scale alcoholic beverage industry, the Economic Plan provides for:

— renewal of the Programme d'appui au positionnement des alcools québécois dans le réseau de la Société des alcools du Québec (PAPAQ);

— better oversight of the industry by the Régie des alcools, des courses et des jeux (RACJ).

These measures translate into $30 million of support for the development of the alcoholic beverage industry over the next five years.

Economic spinoffs for all Québec regions

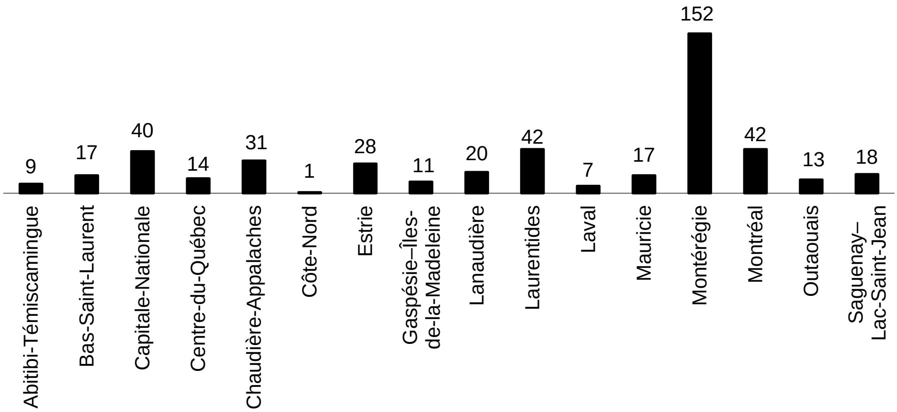
The development of Québec's alcoholic beverage industry helps drive the growth of the agri-tourism sector. Québec's numerous wine, cider and beer routes allow travellers to discover and visit local producers in Québec's various regions.

Developing the industry helps create jobs in all regions, supports agriculture and tourism, opens the door to new markets and stimulates exports.

All Québec regions benefit from the development of and economic benefits generated by Québec's alcohol production industry.

- As an example, micro-breweries are found in all regions and in municipalities of all sizes where they are often major employers.
- Due to its milder climate, which is conducive to the development of vineyards, Montérégie is home to nearly a third of Québec's alcoholic beverage producers, who hold 152 of the 462 alcohol production permits issued in Québec.

Number of alcohol production permits(1) by region – February 23, 2016
(number)



(1) Includes all small-scale and industrial production permits.
Sources: Régie des alcools, des courses et des jeux and Ministère des Finances du Québec.

Bill respecting the development of the small-scale alcoholic beverage industry

In December 2015, the government tabled a bill to encourage the development of the small-scale alcoholic beverage industry.

More specifically, this bill seeks to support Québec's small-scale alcoholic beverage producers by:

- permitting the sale of Québec artisan products in grocery and convenience stores;
- permitting holders of small-scale beer producers' permits to sell their products at the place where they are produced, for consumption elsewhere;
- creating an artisan producers cooperative permit, which cooperative will be a distillation facility bringing together members who are holders of a permit for the artisan production of alcohol and spirits from their production residue, in particular;
- by having the Régie des alcools, des courses et des jeux, set the conditions for the new class of producer's permit for the small-scale production of spirits.

In so doing, the government continues to support and facilitate the development of the alcoholic beverage industry in Québec and stimulates the regional economy through the development of promising agri-tourism operators.

❑ Program to support the positioning of Québec alcoholic beverages

To foster the emergence of quality products in sufficient quantity to be profitable for the producer, the government must provide support to the Québec wine industry.

Sales of Québec wines at the Société des alcools du Québec (SAQ) have doubled in just a few years. This performance is due to, among other things, the introduction of the Origine Québec program by the government corporation and the effectiveness of the PAPAQ.

The PAPAQ supports businesses in the Québec alcohol sector that hold a small-scale producer's permit and that sell their products in the SAQ network. In Budget 2016-2017, the government is announcing that the program will be maintained for the foreseeable future.

An envelope of $5 million annually over five years will be allocated to the Ministère des Finances to fund the PAPAQ and to oversee the development of the alcoholic beverage industry. The appropriations required for 2016-2017 will be paid out of the Contingency Fund.

❑ Oversight of Québec's alcoholic beverage industry

The government is seeking to ensure responsible development of the alcoholic beverage industry so that Québec consumers have access to quality products. In addition, the direct sale of artisan products in grocery stores will open the door to many new products on this market. An enhanced offer requires regulation to encourage and ensure responsible consumption. The RACJ will also introduce additional measures to control artisan products, which will require the hiring of additional resources.

To this end, as of 2016-2017, additional appropriations of $1 million annually over five years will be allocated to the Ministère des Finances. Amounts required for 2016-2017 will be paid out of the Contingency Fund.

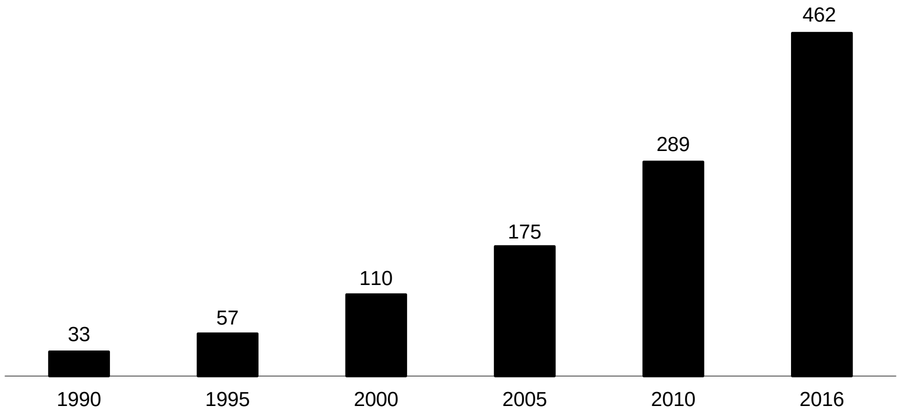
A growing industry

Due to new trends in the alcoholic beverage industry, such as artisan distillation, the sector is introducing innovative products to meet consumer expectations.

Consequently, applications for producer permits are up.

- Since 1989, la Régie des alcools, des courses et des jeux (RACJ) has been responsible for issuing permits for alcoholic beverage production. At February 23, 2016, 462 permits had been issued.
- Of this number, close to 175 permits, still in effect, were issued between 2010 and 2016.

Change in the number of alcohol production permits (1) in effect in Québec – February 23, 2016
(number)



(1) Includes all small-scale and industrial production permits.
Sources: Régie des alcools, des courses et des jeux and Ministère des Finances du Québec.

8.8 The Maritime Strategy: a regional development driver

The Maritime Strategy, unveiled on June 29, 2015, is a major economic project for Québec. As such, the government allocated an envelope of more than $1.5 billion to implement its first 2015-2020 action plan.

- The objectives of this plan are to stimulate sustainable growth of Québec's maritime economy and encourage the creation of quality jobs in all Québec regions.

The Maritime Strategy is expected to generate some $9 billion in investments by 2030 and create upwards of 30 000 direct jobs across the territory.

A number of initiatives are already underway. This past year, the government stepped up its efforts to fully and sustainably leverage Québec's maritime potential. In this regard, the government:

- created, in June 2015, the Secrétariat aux affaires maritimes, tasked with coordinating and ensuring the government's maritime initiatives dovetail with each other in order to maximize the benefits derived;
- made over $45 million available to encourage business investments;
- created 16 industrial port zones in 10 cities, including Trois-Rivières, Bécancour, Port-Cartier and Saguenay, for which a $300-million envelope was confirmed on March 3, 2016.

To further stimulate the maritime economy, Budget 2016-2017 is adding close to $10 million over five years to the amounts already announced, for:

- the maintenance of the *Coriolis II* oceanography research vessel;
- the construction of a temporary boardwalk in Percé in summer 2016 and for a study to find a permanent solution;
- project funding for the Interdisciplinary Centre for the Development of Ocean Mapping Centre;
- the fight against aquatic invasive species, including the Asian carp;
- for studies and work in connection with deployment of the Maritime Strategy.

TABLE B.61

Financial impact of initiatives to continue implementation of the Maritime Strategy
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Maintenance of the *Coriolis II* vessel	−1.1	−1.1	−1.2	−1.4	−1.4	−6.2
Construction of a temporary boardwalk in Percé and performance of a study	−0.4	—	—	—	—	−0.4
Project funding for the Interdisciplinary Centre for the Development of Ocean Mapping Centre	−0.1	−0.2	−0.2	—	—	−0.5
Fight against aquatic invasive species – Asian carp	−0.3	−0.7	−0.7	—	—	−1.7
Studies and work in connection with the deployment of the Maritime Strategy	−0.8	—	—	—	—	−0.8
TOTAL	**−2.7**	**−2.0**	**−2.1**	**−1.4**	**−1.4**	**−9.6**

8.8.1 *Coriolis II* oceanography research vessel

The property of a consortium of Québec universities, the *Coriolis II* oceanography research vessel is a key research platform for data acquisition and studies on the Estuary and the Gulf of Saint Lawrence.

— The *Coriolis II* has already been used by twelve universities from five Canadian provinces and is often chartered by the Canadian private sector.

— It has also been used for international missions in collaboration with researchers from France, the U.S., Norway and Argentina.

The vessel is subject to numerous regulations issued by Transport Canada and classification societies.

Therefore, to ensure the vessel remains seaworthy and compliant with regulations, Budget 2016-2017 is allocating $6.2 million for its maintenance.

— This assistance will enable the vessel to remain operational and contribute to the advancement of oceanography and research on aquatic resources, ecosystem health and marine biotechnology, particularly on the Estuary and the Gulf of Saint Lawrence.

Additional appropriations of $1.1 million in 2016-2017 and 2017-2018, $1.2 million in 2018-2019 and $1.4 million in 2019-2020 and 2020-2021 will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation. The amounts required for 2016-2017 will be paid out of the Contingency Fund.

8.8.2 Construction of a temporary boardwalk in Percé and a study on finding a permanent solution

At the core of Percé's tourism industry, the boardwalk on the Anse du Sud coast draws over 400 000 visitors each year and is one of the region's top attractions.

The boardwalk has repeatedly suffered weather damage over the last two decades, and maintenance work is no longer enough to ensure its stability.

Before starting to rebuild a permanent boardwalk, the City of Percé would like to erect a temporary boardwalk that could be dismantled at the end of the 2016 tourist season and ultimately be used for other purposes.

— A study on the various design options will be carried out in the next year.

To support the City of Percé, $0.4 million will be earmarked for the temporary boardwalk and the study leading to a decision on the coastline's development. To this end, additional appropriations of $0.4 million in 2016-2017 will be allocated to the Ministère des Affaires municipales et de l'Occupation du territoire. The amounts will be paid out of the Contingency Fund.

8.8.3 Project funding for the Interdisciplinary Centre for the Development of Ocean Mapping

Created in 2002, the Interdisciplinary Centre for the Development of Ocean Mapping Centre is a not-for-profit marine geomatics research and development organization dedicated to the enhancement of state-of-the-art technology for marine geospatial data acquisition, management and graphic representation. Aside from its research and development activities, the Centre sets itself apart through the support services it offers businesses, particularly:

— support for the acquisition and interpretation of high-density data for the modelling and prevention of climate change impacts on coastlines;

— technological support for the identification and characterization of aquaculture sites;

— the development of technologies and methodologies to support the characterization, inspection and monitoring of marine infrastructures.

To ensure the advancement of knowledge in the maritime and marine fields, Budget 2016-2017 is providing $0.5 million in funding over three years for the Interdisciplinary Centre for the Development of Ocean Mapping. Additional appropriations of $0.1 million in 2016-2017 and $0.2 million in 2017-2018 and 2018-2019 will be allocated to the Ministère de l'Économie, de la Science et de l'Innovation. The amounts for 2016-2017 will be paid out of the Contingency Fund.

8.8.4 Fight against aquatic invasive species, including the Asian carp

The Maritime Strategy action plan sets out specific actions designed to develop an approach that will enable Québec to adequately manage the threat posed by the Asian carp in particular.

As such, Budget 2016-2017 earmarks $1.7 million over three years to be used to prepare an action plan that will include:

- analyzing the risks for Québec and possible management and mitigation measures;
- developing Asian carp expertise as it relates to Québec's reality and setting up monitoring specifically for this species;
- strengthening ties with the partners concerned, particularly the governments of Canada, Ontario and the U.S. states in the Great Lakes region.

Additional appropriations of $0.3 million in 2016-2017 and $0.7 million in 2017-2018 and 2018-2019 will allocated to the Ministère des Forêts, de la Faune et des Parcs to prepare the action plan. The amounts required for 2016-2017 will be paid out of the Contingency Fund.

Asian carp

In many regions of the world, exotic invasive species, particularly aquatic species, have caused major ecological, economic and social damage.

- As an example, the invasion of the Mississippi River by Asian carp has caused serious damage to aquatic ecosystems, fishing and public safety.
- There are signs that Asian carp may have also made their way into the Great Lakes.

Asian carp are native to Asia's big rivers. The similar characteristics of Asian rivers and the Saint-Lawrence River are such that the latter could be an ideal habitat for this species.

Québec must therefore prepare for the likely arrival of these invaders, which damage native fish populations and aquatic ecosystems and can therefore have serious repercussions on tourism, recreation, the value of waterfront properties, public safety and health.

8.8.5 **Studies and work in connection with the deployment of the Maritime Strategy**

The availability of reliable, up-to-date strategic information is essential to supporting the implementation and monitoring of the Maritime Strategy. This information is obtained, in particular, from economic studies.

To this end, Budget 2016-2017 is earmarking $0.8 million for the Secrétariat aux affaires maritimes. More specifically, the additional funding will allow to carry out studies on:

— the socio-economic characterization of the marine biotechnology sector in Québec;

— diagnosis regarding the fit betweeen workforce training, skills and needs in the maritime sector.

Additional appropriations of $0.8 million in 2016-2017 will be allocated to the Ministère du Conseil exécutif. The amounts required for 2016-2017 will be paid out of the Contingency Fund.

8.9 Culture

Culture contributes to the personal growth of all Quebecers at all stages of their lives. In order to promote culture and use of the French language, Budget 2016-2017 provides for:

— better access to culture for children;

— implementing a strategy to enhance the status and promote the French language;

— consolidating museum institutions;

— simplifying the tax credit for Québec film and television productions.

TABLE B.62

Financial impact of promoting culture and the French language
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Make culture more accessible to children	−5.0	−5.0	−5.0	−5.0	−5.0	**−25.0**
Strategy to enhance the status and promote the French language	−3.0	—	—	—	—	**−3.0**
Museum institutions	−2.0	—	—	—	—	**−2.0**
Simplification of the tax credit for Québec film and television productions	−0.2	−0.6	−1.0	−1.0	−1.0	**−3.8**
TOTAL	**−10.2**	**−5.6**	**−6.0**	**−6.0**	**−6.0**	**−33.8**

8.9.1 Making culture more accessible to young children

The benefits of developing creativity and exposure to culture at a young age and their transposition into adulthood are increasingly recognized. Participation in cultural activities is a habit that is developed at a very young age.

Although information technology can make culture accessible to children, frequently, the cultural offer is generally not available for very young audiences. It is therefore necessary to strengthen the cultural offering for this group since they are the future creators and consumers of culture.

Creators and cultural organizations that target young audiences face additional challenges to adapt and track this group's needs, particularly the 4- to 11-year-old clientele.

To build, in particular, the cultural offering for children aged 4 to 11 years by increasing support to creators through the Conseil des arts et des lettres du Québec, additional appropriations of $5 million per year will be allocated to the Ministère de la Culture et des Communications starting in 2016-2017.

8.9.2 Strategy to enhance the status of French and encourage its use

Québec is unique in North America in that French is the means of expression of the majority of the population. It is also the language of work. Consequently, a mastery of French is essential for full participation in Québec society and particularly for new comers, allowing them to enrich Québec's cultural vitality.

The government will implement a strategy to enhance the status of French so that it is a source of pride for Quebecers of all origins. The strategy will focus on reinforcing French as the language of work and services, particularly among immigrants and new Quebecers who do not use French regularly and who work for small and medium-sized businesses.

In this regard, additional appropriations of $3 million will be allocated to the Ministère de la Culture et des Communications in 2016-2017.

8.9.3 **Museum institutions**

Public museums[13] and private museums, including the Montreal Museum of Fine Arts, are economic and tourism drivers that are essential to the vitality and drawing power of the cities in which they are located.

The major exhibitions presented by the museums generate considerable economic spinoffs, in addition to offering the Québec population privileged access to culture.

— In 2013-2014, over 2 million people visited Québec's public museums and the Montreal Museum of Fine Arts. Of this number, 23% were from outside Québec.

— As well, the Montreal Museum of Fine Arts ranks first in Canada, twelfth in North America and fifty-eighth in the world in number of visitors. Moreover, its cost per visitor is considerably less than that of its counterparts in Canada and the U.S.

To support the core mission of large museums and consolidate their funding, the government is increasing the subsidies granted to museums by $2 million in 2016-2017, including $1.5 million to the Montreal Museum of Fine Arts. This amount will be paid out of the Contingency Fund.

New Pavilion at the Musée national des beaux-arts du Québec

The Musée national des beaux-arts du Québec is a source of architectural pride for Québec City. It is home to Québec's national reference art collection comprising over 38 000 works covering 400 years of history, including the most important collection of Inuit art in Québec.

The new pavilion of the Musée national des Beaux-Arts du Québec will open its doors in June. Its construction was made possible by the financial contributions of various partners, including $45 million from the Québec government. This new pavilion will be the entrance to the museum complex and enable it to showcase Québec's post-1960 contemporary art collection, including Inuit art, decorative art and design.

[13] The Musée national des beaux-arts du Québec, the Musée de la civilisation and the Musée d'art contemporain de Montréal.

8.9.4 Simplifying the tax credit for Québec film and television productions

Since 1991, the tax credit for Québec film and television productions has been supporting Québec film and television productions at a rate of up to 56% of the labour cost depending on the type of production. Changes in technology and the public's viewing habits require that the financial assistance be adjusted.

As such, Budget 2016-2017 provides for:

- eliminating the concept of prime time;
- changing the age criteria for youth productions.

These adjustments to the tax credit for Québec film and television productions translate into an additional $3.8 million in financial assistance over five years.

❑ Eliminating the prime time concept

To qualify for financial assistance, some productions must be broadcast in prime time. However, with the proliferation of channels, this concept no longer fits in with the new market norms and unnecessarily complicates the administration of this measure.

In order to be responsive to market changes and to facilitate administration of the tax credit, the concept of prime time will be withdrawn from the legislation. Since it is also used in the tax credit for film productions services and in order to harmonize these two measures, the concept of prime time will also be withdrawn in this respect.

❑ Changing the age criteria for youth productions

The tax credit for Québec film and television productions distinguishes between productions geared to children under the age of 13 and to other age categories. This criterion no longer reflects today's reality, mainly because of the arrival of specialty channels that offer a variety of youth programming without regard to age.

Therefore, to adapt to this trend and to facilitate administration of the measure, the concept of "children under age 13" will be replaced with the concept "minor children," in other words, children under 18 years of age. This new definition will be harmonized with all film and television tax credits.

Montréal 2017: a year of major celebrations

The 2017 celebrations marking the 375th anniversary of Ville de Montréal coincide with the 150th anniversary of the Canadian Confederation and the 50th anniversary of the 1967 World Exposition, providing an opportunity to reaffirm Montréal's role as an economic, cultural and historical metropolis.

The government has confirmed that it will support Montréal with structuring projects reflecting its history and distinctive image.

The Québec government's gift for the 2017 celebrations
(millions of dollars)

	Québec's contribution
New pavilion for the Montreal Museum of Fine Arts	18.5
Redevelopment of Parc Jean-Drapeau	35.0
Creation of greenways and blueways on the territory of the Communauté métropolitaine de Montréal	50.0
Tourist development projects at Saint Joseph's Oratory	26.4
Donation of a major work of art to the Ville de Montréal	2.5
Rehabilitation of the passenger terminal and the Alexandra Pier	20.0
Support for the Cité mémoire multimedia project	6.0
TOTAL	**158.4**

The government has also committed to providing some of the funding required to cover a portion of Autoroute Ville-Marie, a project whose cost is under study.

As well, the government is collaborating with Aboriginal developers to create conditions conducive to large structuring projects to showcase the past and present of the Aboriginal people in the 2017 celebrations.

The government also made a commitment in Budget 2014-2015 to offer financial support of up to $60 million for the development of the celebration program if the Ville de Montréal, the federal government and private partners commit to providing substantial financial support for this major event.

- The Québec government is therefore confirming its intention to support the celebrations by providing $21.7 million in 2016-2017, for a total participation of $39.6 million for the 2014-2017 period.

- The Ville de Montréal has confirmed that it will support the celebrations by providing $14 million in 2016. For its part, the Société des célébrations du 375e anniversaire de Montréal is responsible for implementing a funding strategy and mobilizing the private partners.

The federal government is now invited to indicate its intentions in terms of financial participation for the celebrations in 2017, a year that marks not only the history of Montréal but that of Canadian Confederation as well.

8.10 **The financial sector**

The financial sector makes an important contribution to Québec's economic growth , allowing Quebecers to build wealth and increasing their financial security while protecting their assets. The financial sector also helps finance the projects of entrepreneurs, the main creators of jobs in our economy.

This sector alone accounts for about 6.2% of GDP, or $19 billion,[14] and generates close to 150 000 jobs,[15] or 4.3% of total employment in Québec.

The smooth operation of the financial sector rests on modern corporate legislation and public confidence, hence the need for strict oversight while remaining mindful of business development.

This dynamic sector has changed significantly in recent years, and its future greatly depends on its ability to innovate and develop ways of doing things that reflect the needs and realities of the 21st century.

Budget 2016-2017 is announcing that a bill will be tabled to review all the legislation governing the financial sector with a view to creating an integrated, coherent framework dedicated to promoting the interests of Quebecers.

❑ The need to adapt the regulatory framework to the new realities of Québec's financial sector

Québec must ensure that the regulation of its financial sector is adapted to new technological realities and the new business models used by financial institutions while at the same ensuring that the regulatory framework adequately protects the public's interests.

Since the oversight structure of the financial sector also plays an important role in the public's confidence, it too needs to evolve. The public must be able to count on effective regulatory authorities whose mandates are clearly defined and that are able to adapt to market changes. Regulators must master all the levers needed to ensure efficient market operation and optimal economic conditions.

A review was conducted on the modernization of Québec's regulatory framework. Reports on the application of legislation governing the financial sector, tabled in the last few years, have highlighted the need to adapt both the regulatory regime and its structure to the new realities, including new distribution methods for products and services, the development of international standards and streamlining.

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14 Institut de la statistique du Québec. PIB et indice de concentration géographique des services financiers, Canada et provinces, 2014 revised data, January 29, 2016.

15 Institut de la statistique du Québec. Emplois salariés et rémunération de l'industrie des services financiers, Canada et provinces, 2015 edition, May 25, 2015.

Recent report on the application of financial sector legislation

Six reports on the application of financial sector legislation have been tabled in the last few years:

- the Report on the Application of the Act respecting insurance and the Act respecting trust companies and savings companies. (April 30, 2013);
- the Report on the application of the Act respecting financial services cooperatives (December 5, 2013);
- Report on the application of the Securities Act (May 29, 2014);
- Report on the Application of the Act respecting the distribution of financial products and services (June 12, 2015);
- Report on the Application of the Derivatives Act. (June 12, 2015);
- Report on the Application of the Real Estate Brokerage Act (June 12, 2015).

❑ Reform of financial sector legislation

A legislative reform is imperative if Québec is to uphold its reputation as a jurisdiction with a strictly regulated financial sector. Consequently, all the statutes governing the sector were reviewed with the following priorities in mind:

- serve the consumer's interest;
- maximize the efficiency and effectiveness of the regulatory structure;
- reduce the regulatory burden.

This major reform will create an integrated, coherent framework dedicated exclusively to promoting the interests of the Québec public, which should be able to easily obtain financial products and services that suit their needs in a regulatory framework that provides appropriate protection.

Efficient, well equipped and mission-driven regulatory authorities will help maintain a climate of confidence that will benefit all Québecers.

9. PROMOTING THE STARTUP AND GROWTH OF INNOVATIVE COMPANIES

Supporting the startup and growth of innovative companies is essential to promote job creation, regional development, innovation, exports and entrepreneurship.

Financing innovative companies requires special expertise and support from specialized teams with business knowledge and networks.

Moreover, because investments in tax-advantaged funds generate significant economic spinoffs in Québec SMBs, the government will continue its support for such funds so that they can expand their activities in Québec.

In addition, the government intends to support entrepreneurship in every region of Québec and in sectors that traditional investors have generally neglected.

Accordingly, Budget 2016-2017 proposes to devote $44.9 million over the next five years to promote the startup and growth of innovative companies through the following initiatives:

- support for the seed phase of innovative companies;
- an increase of $96 million in the capitalization of Teralys Capital Innovation Fund;
- the creation of a fund to support female entrepreneurship;
- an increase in support for tax-advantaged funds for Québec businesses;
- the extension of local investment funds;
- support for social economy hubs;
- support for the Université de Sherbrooke’s Innovation, Partnership, Entrepreneurship strategy.

TABLE B.63

Financial impact of measures to promote startup and growth of innovative companies
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Support the seed phase of innovative companies(1)	—	—	—	—	—	—
$96 million increase in the capitalization of the Teralys Capital Innovation Fund(1)	—	—	—	—	—	—
Fund to support female entrepreneurship(1)	—	—	—	—	—	—
Increase tax-advantaged funds support for Québec businesses	−15.8	−20.7	−4.9	—	—	−41.4
Extension of the local investment funds(1)	—	—	—	—	—	—
Support for social economy hubs	−0.5	—	—	—	—	−0.5
Support for the Université de Sherbrooke's Innovation, Partnership, Entrepreneurship strategy	−0.6	−0.6	−0.6	−0.6	−0.6	−3.0
TOTAL	**−16.9**	**−21.3**	**−5.5**	**−0.6**	**−0.6**	**−44.9**

(1) No financial impact is anticipated as government participation will take the form of an investment with expected return.

9.1 Support the seed phase of innovative companies

Seed financing is the form of investment that attracts the fewest private investors because of the high-risk level and the intensive and specialized support required at this phase of financing.

Since the majority of venture capital investments in Québec are made at the startup and post-startup phase, it is essential that the government maintains its efforts to finance technological businesses in their earliest phase.

The existence of quality projects at the seed financing stage will ensure that active investors in Québec can benefit from projects with high-growth potential in their more advanced phases.

Budget 2016-2017 announces $65 million in additional support to establish three technology seed funds, i.e.:

- the life sciences seed fund, AmorChem II;
- the Québec City-based seed fund, InnovExport;
- a clean technologies seed fund.

Taking into account the leverage effect of matching public and private investor funds, $125 million will be available to finance Québec's innovative technology companies over the next few years.

TABLE B.64

Capitalization of three technology seed funds
(millions of dollars)

	Government	Other investors	Total
Life sciences seed fund, AmorChem II	20.0	30.0	50.0
Québec City-based seed fund, InnovExport	15.0	15.0	30.0
Clean technologies seed fund	30.0	15.0	45.0
TOTAL	**65.0**	**60.0**	**125.0**

Investment Capital in Québec

In 2015, PricewaterhouseCoopers was empowered by the main players in Québec's investment capital industry to conduct a study entitled *Portrait de l'offre en capital d'investissement au Québec*. Investment capital in Québec consists of both venture capital and development capital.

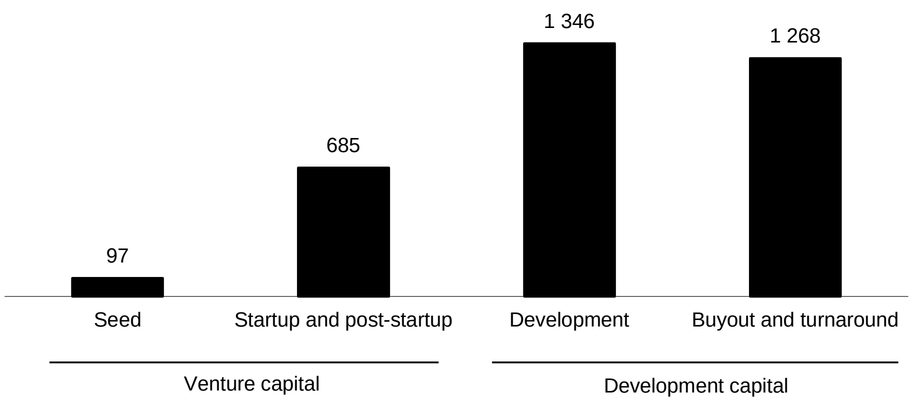
Venture capital includes financing businesses at the seed financing, startup and post-startup phases. Seed financing is associated with the initial phase of the creation of a business, startup financing which involves financing the first activities of a business, and the post-startup financing is for businesses that have already developed a product, but are not yet generating significant profits in relation to the investment.

- In Québec, from 2012 to 2014, annually seed investments accounted for $97 million on average, while $685 million on average was invested in startup and post-startup stages.

Development capital includes the financing of businesses at the development, buyout and turnaround stages. Business development financing is for businesses with a viable product, a developed market, significant customers and sustained revenue growth that have reached the break-even point. Buyout stage financing involves financing the acquisition of a business or its control by investors, while the turnaround stage targets businesses that have experienced financial difficulties but where measures allowing a return to profitability have been identified and implemented.

- In Québec, from 2012 to 2014, more than $1.3 billion per year was invested on average in the development stage, while close to $1.3 billion per year was invested on average in the buyout and turnaround stages.

Annual average value of financing by investment phase in Québec between 2012 and 2014
(millions of dollars)



Source: PricewaterhouseCoopers, *Portrait de l'offre en capital d'investissement au Québec*, December 8, 2015.

9.1.1 Life sciences seed fund AmorChem II

In Budget 2016-2017, the government announces a partnership with Merck and the Fonds de solidarité FTQ to establish a new seed fund, AmorChem II. This fund is expected to invest in promising projects in the life sciences sector coming from Québec universities and research centres.

The first fund managed by the AmorChem team was one of the three seed funds established at the initiative of the government of Québec based on a competition announced in 2009. Since the capital in this fund is now entirely committed, its main limited partners are taking steps to ensure that the team continues its investment activities through the new AmorChem II fund.

The first closing of AmorChem II was fixed at $50 million, and the government plans to invest up to $20 million, with Merck and Fonds de solidarité FTQ each investing up to $15 million. In the coming year, the AmorChem team will continue its efforts to increase the Fund's capitalization by attracting new investors to finance its activities.

The AmorChem II life sciences seed fund will have the following objectives:

— make 15 new investments in projects from Québec universities and research centres in the life sciences sector;

— support the creation of businesses in the life sciences sector;

— maintain framework agreements for technology licences and research contracts with the main Québec universities and research centres.

By committing to support the creation of AmorChem II, the government and its partners wish to ensure the continuity of seed funding, a vital link in the overall investment strategy of the life sciences sector in Québec.

TABLE B.65

Minimum capitalization of the AmorChem II Fund
(millions of dollars)

	Allocation
Québec government	20.0
Fonds de solidarité FTQ	15.0
Merck	15.0
TOTAL	**50.0**

As the agent of the Québec government, Investissement Québec will be in charge of rolling out this new fund. This investment gives effect to the announcement in Budget 2015-2016 to stimulate corporate venture capital investments in Québec.

The government will participate in the form of an investment with an objective of financial profitability. To this end, the amounts necessary for the participation of the Québec government will be made available through an advance to the Economic Development Fund.

Details about this new fund will soon be made public by the Minister of the Economy, Science and Innovation and the fund's partners.

9.1.2 Technology seed fund based in Québec City InnovExport

Budget 2015-2016 provided up to $15 million to invest in a venture capital fund based in Québec City and able to invest in all the regions of Québec. Thanks to a partnership with the Fonds de solidarité FTQ, Fondaction, City of Québec and a group of private investors, the government announces the creation of the InnovExport fund with a capitalization of $30 million.

The InnovExport Fund will have the objective of supporting, during the coming years, the launch and development of more than 50 innovative export-focused business projects. Based in Québec City, this fund will invest in businesses at the seed or startup phase, already supported by an incubator, an accelerator or an equivalent structure, that are developing innovative products or services intended for export and located in Québec with the intention of growing here.

The InnovExport Fund will work in collaboration with Le Camp, the Québec City accelerator-incubator, to ensure the promotion of its activities among incubators and accelerators throughout Québec.

In addition, the InnovExport Fund will rely on a group of fifteen entrepreneurs, the Groupe des 15, which will invest in the fund and participate in project selection and support.

As the Québec government agent, Investissement Québec will be in charge of rolling out this new fund. The government will participate in the form of an investment with an objective of financial profitability. To this end, the amounts necessary for the participation by the government of Québec will be made available through an advance to the Economic Development Fund.

Details about this new fund will soon be made public by the Minister of the Economy, Science and Innovative and the fund's partners.

TABLE B.66

Capitalization of the InnovExport Fund
(millions of dollars)

	Allocation
Québec government	15.0
Institutional investors	12.7
Groupe des 15	2.3
TOTAL	**30.0**

9.1.3 **Clean technologies seed fund**

Use of new technologies and better performing equipment and processes achieves greater energy efficiency, promotes sustainable development and fights climate change.

To better equip businesses in the clean technologies sector at the seed stage, Budget 2016-2017 provides an investment of up to $30 million in a new seed fund whose target size will be $45 million.

The mission of this fund is the development and application of clean technologies adapted to all industrial sectors in order to promote sustainable development and reduce greenhouse gas emissions in Québec.

Beyond financing, the seed fund will aim to support entrepreneurs in developing effective business plans and offer support services to improve entrepreneurial and innovation capacity.

This new fund will cooperate with the various players in the clean technology sector, in particular venture capital funds, accelerators like Ecofuel, as well as various economic development players in this sector. This fund, financed in part by the government, must satisfy the following investment parameters:

— a minimum fund size of $30 million with a financial model that respects best business practices;

— capital that will be matched on the basis of $2 from the government for a minimum of $1 from other investors;

— good knowledge of the ecosystem of the clean technologies sector in the seed and startup stages in Québec;

— a management team with a history of entrepreneurial performance, mastery of the venture capital investment process and good governance.

TABLE B.67

Targeted capitalization of a clean technologies seed fund
(millions of dollars)

	Allocation
Québec government	30.0
Other investors	15.0
TOTAL	**45.0**

As the Québec government agent, Investissement Québec will be in charge of rolling out this new fund. The government will participate in the form of an investment with an objective of financial profitability. To this end, the amounts necessary for the participation by the Québec government will be made available through an advance to the Economic Development Fund.

Details of the rollout of this new initiative will be made public by the Minister of the Economy, Science and Innovation when all conditions for success will be satisfied.

The Ecofuel accelerator

The Ecofuel accelerator, driven by the Cycle Capital Management platform, has been working with entrepreneurs in the clean technologies sector since 2014 to support them in the startup of companies that will be globally competitive.

In addition to an investment that can reach $100,000, Ecofuel offers its entrepreneurs, at no cost, an intensive program of training, networking and mentoring workshops as well as access to offices in Montréal. The goal of Ecofuel is to develop entrepreneurship in Québec and assist in carrying out business projects in the clean technologies sector.

Ecofuel is a platform open to all investors and partners in the clean technologies sector. The program includes financing from investor members in the form of a convertible debenture.

The objective of Ecofuel is to assist entrepreneurs in building sustainable business models that will generate revenues in an environment stimulated by the other participants of the cohort, mentors and the clean technologies ecosystem.

In addition to the financial and logistic support of Cycle Capital Management and its investors, Ecofuel can count on the support and collaboration of Écotech Québec and Sustainable Development Technology Canada.

9.2 $96 million increase in the capitalization of Teralys Capital Innovation Fund

To ensure the continuation of the activities of Teralys Capital, the Québec government and its partners seized the opportunity to create an alliance with the federal government, as part of its Venture Capital Action Plan in 2014, to finance the Teralys Capital Innovation Fund.

When its creation was announced, the target size of the Teralys Capital Innovation Fund was $375 million, consisting of $125 million in public capital and $250 million in private capital. The contributions of the Québec government and the government of Canada are made on a matching principle of $1 of public capital for $2 of private capital, up to $62.5 million each.

The size of the first closing, completed in the fall of 2014, was $279 million. The private sector contribution reached $186 million and that of the governments totaled $93 million, with $46.5 million coming from each of them.

Over the last year, the Teralys Capital team brought in additional capital totalling $64 million from private limited partners. Based on the matching principle, the Québec government and the federal government will contribute $32 million to the second closing of Teralys Capital Innovation Fund, therefore $16 million each.

Teralys Capital Innovation Fund of $375 million is now the largest fund of funds in Canada. The new capital will make $96 million in additional funds available to finance venture capital funds that focus on financing innovative Québec businesses in the life sciences, green and industrial innovation and information and communications technologies sectors.

TABLE B.68

Additional capitalization in Teralys Capital Innovation Fund
(millions of dollars)

	Initial capitalization	Additional capitalization	Total capitalization
Québec government	46.5	16.0	62.5
Federal government	46.5	16.0	62.5
Private investors	186.0	64.0	250.0
TOTAL	**279.0**	**96.0**	**375.0**

Teralys Capital Innovation Fund

The mission of the fund of funds, Teralys Capital Innovation Fund, is to invest principally in venture capital funds working in the promising information and communications technologies, green and industrial innovation and life sciences sectors.

To date, it has committed to invest more than $170 million in ten technology venture capital funds, including White Star Capital, iNovia Capital and Persistence Capital Partners, and in four businesses with strong growth potential in the information technologies and life sciences sectors.

Having achieved its maximum capitalization of $375 million, Teralys Capital Innovation Fund will continue its investment activities in the next few years thanks to the support of the Québec government and the federal government, but also due to significant support from private investors.

$125 million in public capital and $250 million in private capital

The Québec government and the government of Canada jointly contribute $125 million to the fund according to a matching principle of $1 of public capital for $2 of private capital.

The raising of $250 million was possible because of commitments from various types of private investors, specifically:

- institutional investors, such as the Caisse de dépôt et placement du Québec, the Fonds de solidarité FTQ, Fondaction, National Bank, Mouvement Desjardins, Fiera Capital, La Capitale, Lune Rouge, Bpifrance and Consensus Business Group;
- public businesses, such as Knight Therapeutics and Open Text, companies respectively specialized in the life sciences and information technologies sectors;
- successful Québec entrepreneurs who have created thousands of jobs and significant economic spinoffs for Québec.

9.3 Fund to support female entrepreneurship

Since 2011, the government has been supporting the Femmessor Network, an organization whose mission is to help women actively participate in Québec's economic growth in order to promote female entrepreneurship.

With its activities, the network supports women entrepreneurs in their startup, consolidation, expansion and business acquisition projects, offering financing, coaching and training services as well as networking activities in every region of Québec.

During 2015-2016, the Ministère de l'Économie, de la Science et de l'Innovation helped the Femmessor Network define a new business model, in order to do more for women entrepreneurs. Now, Femmessor Québec will support, inform, guide, refer, advise and coach women entrepreneurs.

To round out financing for women entrepreneurs in Québec, the government is announcing, as part of Budget 2016-2017, a commitment of up to $8 million to set up the Fonds Femmessor Québec in collaboration with other investors, to finance the projects of businesses tied to Femmessor Québec.

❑ A fund to support women entrepreneurs' projects

The Fonds Femmessor Québec will support investment in the projects of businesses owned by one or more women entrepreneurs, and will foster the creation and retention of jobs in Québec.

The fund will be financed by a government commitment of up to $8 million. This commitment will be met according to a matching-capital principle whereby the government contributes $1 for a minimum of $1 contributed by another investor.

The Fonds Femmessor Québec's objectives are as follows:

— encourage female entrepreneurship in Québec;

— support investment in projects undertaken by businesses owned by one or more women entrepreneurs and foster the creation and retention of jobs in Québec;

— offer an array of financial tools that meet different financing needs, especially in the areas of growth and acquisition;

— keep investment decisions supported by a majority of women entrepreneurs in the regions;

— match all women-owned businesses financed by the fund with mentors or specialized coaches.

As the Québec government agent, Investissement Québec will be in charge of rolling out this new fund. The government will participate in the form of an investment with an objective of financial profitability. To this end, the amounts necessary for the participation of the Québec government will be made available through an advance to the Economic Development Fund.

Details about this new fund will soon be made public by the Minister responsible for Small and Medium Enterprises, Regulatory Streamlining and Regional Economic Development.

Femmessor Québec: a new business model

History of the Femmessor Network

Since 2001, the Femmessor Network has been supporting female entrepreneurship in Québec. Femmessor is present in all of Québec's regions through 17 corporations, run by a majority of women entrepreneurs. These organizations provide financing, coaching, training and networking activities to businesses majority-owned by women entrepreneurs, for startup, growth, acquisition and consolidation projects.

From 2001 to 2015, the Femmessor Network loaned a total of more than $11 million, generating investments of more than $72 million and enabled the creation and retention of 2 700 jobs. From 2011 to 2015, the Femmessor Network supported and advised more than 25 000 women entrepreneurs at seminars, conferences, training sessions and networking activities.

Femmessor Québec's new model

During 2015-2016, the Ministère de l'Économie, de la Science et de l'Innovation helped the Femmessor Network define a new business model. The objectives were to focus activities and resources on the needs of women entrepreneurs, centralize administration, develop and diversify the available financing solutions, and enhance coaching quality in all Québec regions.

To this end, 15 regional Femmessor and the Femmessor Network merged, and two Femmessor disposed of their assets to form a single corporation named Femmessor Québec, which was created on November 16, 2015.

It is expected that Femmessor Québec's investment component will be covered by the Fonds Femmessor Québec, financed by the government and other investors. The fund will make direct investments in the projects of women entrepreneurs. Private investors, women entrepreneurs and the Femmessor Québec representatives in all regions of Québec will work together to choose projects.

9.4 Increase tax-advantaged funds support for Québec businesses

Tax-advantaged funds play a major role in Québec's economic development. They invest in all sectors of activity and at all development stages of Québec's businesses, mainly in SMBs. Their investments help retain and create thousands of jobs in Québec.

Given their contribution to the financing of Québec businesses, as part of Budget 2016-2017, the government is announcing changes to Capital régional et coopératif Desjardins's (CRCD) and Fondaction's rules governing issuance. Changes will also be made to how the Fonds de solidarité FTQ's investment requirement is applied, so it can make more strategic investments in Québec.

The measures to increase tax-advantaged fund support for Québec businesses will cost the government $41.4 million over five years.

Moreover, changes to CRCD's rules of governance will also be announced, in line with the government's desire to improve all three tax-advantaged funds' rules of governance.

TABLE B.69

Financial impact of the measures to increase tax-advantaged funds support for Québec businesses
(millions de dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Increase CRCD's participation in regional economic development	−8.9	−8.9	—	—	—	−17.8
Increase from 15% to 20% in the tax credit rate for Fondaction	−6.9	−11.8	−4.9	—	—	−23.6
Implementation of a new strategic plan for the Fonds de solidarité FTQ	—	—	—	—	—	—
TOTAL	**−15.8**	**−20.7**	**−4.9**	**—**	**—**	**−41.4**

9.4.1 Increase Capital régional et coopératif Desjardins' participation in regional economic development

The mission of the CRCD fund, which was created in 2001, is to invest in Québec SMBs, mainly those located in resource regions, as well as in cooperatives.

Budget 2016-2017 stipulates the following, starting in 2016, so CRCD can continue its work and increase its contribution to Québec's economic development:

— annual issues of up to $135 million, for two years;

— a reduction in the tax credit rate for the purchase of CRCD shares from 45% to 40%.

These changes will cost the government $17.8 million over two years.

Moreover, in addition to its direct investments in businesses, CRCD will invest at least $20 million in the years to come for the capitalization of new venture capital funds, in particular in partnership with the government.

❑ Issues of up to $135 million

In 2013, CRCD reached its total capitalization ceiling of $1.25 billion. Given that, its annual share issues have been limited to an amount equal to the previous year's redemptions.

To allow CRCD to conduct its business, as of its 2016-2017 financial year, it will be able to issue up to $135 million in shares annually for two years, even though the capitalization ceiling has been reached.

❑ Tax credit rate adjustment

The tax credit allowed for the acquisition of CRCD shares is intended to offset part of the risk shareholders assume as a result of the fund's mission and the nature of its investments. Over the years, the CRCD has grown in size, the fund has raised its profile and has demonstrated good historical returns.

Accordingly, given these new realities, the tax credit allowed for the purchase of CRCD shares will be reduced from 45% to 40% as of the 2016 issue.

❑ Additional venture capital investment

Being able to issue more shares will allow CRCD to be more present in resource regions and cooperatives, as well as contribute more to the capitalization of technology venture capital funds.

Financing venture capital funds, which are managed by specialized teams with business networks and entrepreneurship skills, is essential to the proper functioning of Québec's financing ecosystem. However, while the need for capital is considerable with these funds, the number of potential investors is limited.

CRCD will therefore invest a minimum of $20 million in initiatives for the capitalization of new venture capital funds in the years to come, in particular initiatives in partnership with the government. To that effect, CRCD will present an investment strategy and submit annual reporting to the government.

❑ Improvement of CRCD rules of governance

As part of Budget 2014-2015, the government announced changes to the rules of governance of labour-sponsored funds. The bill containing these changes was carried by the National Assembly in April 2015.

— The changes are intended to ensure that the rules of governance of labour-sponsored funds correspond to best practices in this field.

In keeping with the government's desire to improve the governance of tax-advantaged funds, Budget 2016-2017 provides for changes to CRDC's rules of governance.

The changes made to CRCD's incorporating statute will be based on the fundamental principles of sound governance established by the government in its work on the governance of labour-sponsored funds, taking into account the fund's specific features.

■ Notion of independent person

A definition of independent person will be added to CRCD's incorporating statute and will apply to qualify members of the board of directors and its committees as independent persons.

Essentially, a person will be able to qualify as independent if he or she has no direct or indirect relationship of any kind that could interfere with his or her judgment, the organization that created the fund, Desjardins Group, or its affiliates.

■ Composition of the board of directors

At this time, Desjardins Group can name eight of the thirteen members of the board of directors, even if they do not have an arm's length relationship with the organization.

From now on, a minority of the members of the board of directors, six out of thirteen, will be named by Desjardins Group; the majority will need to qualify as independent persons.

Furthermore, the chairman of the board of directors will have to be chosen by the members of the board of directors, among those who qualify as independent persons.

Finally, to ensure a balance between stability in the board of directors and renewal of skills, each member of the board of directors' term of office will be limited. The proposed legislative amendments will provide for a gradual implementation of these new rules.

■ The position of General Manager

Given the role of CRDC's General Manager, which involves, among other things, negotiating the terms of the management agreement and validating the quality of services with the fund manager, a Desjardins Group entity, the person in this position will be required to meet pre-established criteria so that his or her duties are carried out independently of the manager.

Particularly, this person must not be an employee, manager or administrator of a Desjardins caisse, Desjardins Group or one of its subsidiaries, or have held such a position in the year preceding the date of his or her nomination.

The General Manager's term of office will be a maximum of five years, renewable further to a performance assessment by the other members of the board of directors.

■ Governance-related committees

The principal functions of governance-related committees will be introduced in an act incorporating CRCD, in particular those targeting governance and ethics, human resources, and the approval process for investments.

The majority of the members of these committees will have to be independent persons.

The committee that handles human resources functions will, among other tasks, develop and propose to the board of directors a competency and experience profile for the appointment of the general manager and chairman of the board. It will also be mandated to develop performance evaluation criteria for the general manager. For the board chair position, the committee will consult with Desjardins Group to ensure that the profile is defined in keeping with expectations for this type of position.

9.4.2 Increase from 15% to 20% in the tax credit rate for Fondaction

Founded in 1995, Fondaction invests in Québec SMBs in all sectors, with a mission to prioritize investing in companies with a positive social impact.

Therefore, the fund mainly supports businesses in the social economy sector, that are environmentally conscious and with a participatory management framework. Over the years, Fondaction has gone even further to encourage the development of new technology in sustainable development.

To allow Fondaction to accelerate its growth and to reach its investment goals, Budget 2016-2017 includes, for two years, starting in the 2016-2017 fiscal year:

- an increase to 20% of the tax credit for the purchase of shares from the fund;
- a $250 million cap on annual shares issued.

In addition, Fondaction is committed to investing a minimum of $50 million over two years in businesses or projects that positively contribute to the reduction of the impact of climate change.

These modifications represent a cost of $23.6 million over three years for the government.

❑ Increase in the tax credit rate for two years

To allow Fondaction to reach an optimal size and to fulfill its mission, the tax credit rate applicable to the purchase of Fondaction shares will be raised to 20% as of its 2016-2017 fiscal year, which begins on June 1, 2016. In return, its annual shares issued will be limited to $250 million.

These changes will be in effect for the fund's next two fiscal years.

❑ Fondaction's committment to invest in green technology

Fondaction is committed to invest a minimum of $50 million over the next two years in businesses or projects that positively contribute to objectives aiming to reduce the impact of climate change.

Furthermore, Fondaction wants to be a partner of choice for the government of Québec in reaching the objectives it set at the 2015 Paris Climate Conference (COP21). Certain investment projects in line with its mission could be developed with the government.

Fondaction will report to the government annually on its investment plan aiming to reduce the impact of climate change.

To further contribute and foster the development of a greener economy and increased energy efficiency solutions, Fondaction will make all of its new, eligible investments in businesses or funds with an aim to support, promote and encourage sustainable development.

9.4.3 Implementation of a new strategic plan for the Fonds de solidarité FTQ

The Fonds de solidarité FTQ, founded in 1983, has a mission to invest in Québec SMBs in all sectors and at all stages of business development across the province.

It plays a major role in the direct financing of businesses, particularly by creating and maintaining numerous jobs. It also contributes to the capitalization of several of venture capital funds and the development of a number of specific projects, particularly in partnership with the government.

Thus, in order for the Fonds de solidarité FTQ to further increase its economic impact in Québec, the government will make some adjustments to the investment fund's requirement. This review essentially aims to increase the fund's contribution to strategic investments that have a structuring effect on Québec.

❑ Increase the Fonds de solidarité FTQ's strategic investments in Québec

To strengthen its involvement in Québec's economy, the fund will implement new investment initiatives associated with its new strategic planning to better invest its capital and increase its impact on the Québec economy.

This planning is based on five main strategic areas: excellence, innovation, continuity, restructuring and infrastructure:

— certain outstanding economic sectors;

— innovation;

— the sustainability of Québec businesses;

— the restructuring of businesses in temporary difficulty;

— infrastructures of public interest.

In the medium term, the fund intends to invest an additional $1.4 billion in Québec's economy.

The implementation of this strategy will result in an increase in strategic investments in order to support the expansion of businesses in key sectors and to promote the rise of Québec's economic leaders. The Fonds de solidarité FTQ could also work alongside the government in financing major projects like the partnership put in place to support the Maritime Strategy.

Furthermore, the fund's new plan will allow it to continue its contribution to financing innovation through its support for venture capital funds and Québec's sectors of excellence, particularly aeronautics and biotechnology.

❑ Adjustments to the investment requirement

In return for the tax assistance granted, tax-advantaged funds must comply with an investment requirement that a minimum proportion of their portfolio be made up of eligible investments, like investments in Québec SMBs with assets less than $100 million or net assets less than $50 million. The goal of this requirement is to ensure that the funds collected through government assistance are used as a financing tool that contributes to the success of Québec businesses.

For Budget 2015-2016, the investment requirement, which was 60% of the net assets, was increased by 1% over five years to 65%. Therefore, for its 2015-2016 fiscal year, which began on June 1, 2015, the Fonds de solidarité FTQ's investment requirement is 61%.

In addition to investments in Québec SMBs, other investments can be eligible for the requirement through certain categories. Each category:

- targets specific investments, for instance, strategic investments, major investments or investments in local or venture capital funds;
- is limited in its eligible investments according to the fund's net assets, the goal being to ensure that a significant part of the fund's investments is invested in SMBs.

Therefore, adjustments made to the fund's investment requirement imply changes in the limits attributed to each category. However, the total portion of investments that could be eligible for categories other than SMBs remains unchanged. These modifications are presented in detail in the section A of the Additional Information 2016-2017 document.

9.5 Extension of local investment funds

Québec's economic growth, and particularly that of its regions, relies largely on the startup of new businesses and the expansion of smaller businesses. Yet, it can sometimes be difficult for these types of businesses to gain access to financing adapted to their realities.

Local investment funds (LIFs), which are managed by RCMs,[16] can be catalysts in local entrepreneurship, particularly by fostering access to capital for startups, expansion or succession in traditional or social economy businesses.

It was stipulated that RCMs could no longer provide financial assistance through LIFs starting on December 31, 2015, and must begin paying back government loans on June 1, 2016.

In order to ensure continuity in the support provided to businesses and entrepreneurship, the maturity of interest-free loans granted for the financing of LIFs has been extended to December 31, 2019.

— The renewal of LIFs coincides with the terms of the municipality partnership agreement for the 2016-2019 period, signed on September 29, 2015.

With this deferral, RCMs will be able to grant financial assistance allowing for an additional $20 million in investments each year, from 2015-2016 to 2019-2020 from the existing capitalization.

16 Each RCM now has the option to exercise this jurisdiction or to entrust it through an agreement, in whole or in part, to a not-for-profit organization or local development centre in its territory that previously assumed this responsibility.

9.6 Support for social economy hubs

Social economy enterprises contribute to our collective well-being and to regional economic development by creating substantial spinoffs in terms of creating lasting jobs and wealth, particularly in the regions.

They are also an important vector for innovation in that they fill niches not filled by traditional business. These niches meet needs expressed by communities by offering innovative solutions to society's new challenges.

To acknowledge the role of the social economy hubs, Budget 2016-2017 allocates an additional $0.5 million in 2016-2017 in assistance to the Chantier de l'économie sociale.

Through its agreements with the social economy hubs, the Chantier de l'économie sociale will, with the additional envelope, be able to follow up on priority requests from all of the social economy hubs.

- This will allow the social economy hubs to develop a repositioning plan that can target activities fostering financial independence, while consolidating their foundations in the new context of regional economic development.

To achieve this, an additional $0.5 million appropriation will go to the Ministère de l'Économie, de la Science et de l'Innovation in 2016-2017. The amounts will come from the Contingency Fund.

Social economy hubs and the Chantier de l'économie sociale

Present across Québec, the 22 hubs of the social economy[1] are groups of businesses and support actors dedicated to maximizing the social economy's contribution to regional development.

- They engage in support actions for entrepreneurial development that are based on businesses' needs and are in keeping with their partners' respective mandates.

Their role is to promote the social economy and foster concertation and partnership among local and regional social economy stakeholders, so as to harmonize action and maximize its impact.

The Chantier de l'économie sociale consolidates its ties with the regions through direct partnership agreements with social economy hubs, primarily comprised of collectives and support organizations.

1 Including a First Nations social economy hub.

Support for refurbishing vacation camps

Located across Québec, vacation camps are a positive experience for youth, allowing them to grow and discover the world. Given the wide array of activities they offer, from music, sports or science camps to special needs camps, there are vacation camps that can suit the preferences of every child.

Since they were built, many of them 40 to 60 years ago, thousands of children have benefited from the facilities of Québec's camps. Some of their infrastructure is ageing, requiring investment to upgrade it, in particular to meet current building codes.

Here, resources that could help vacation camp refurbishment projects are available from different departments, depending on project type. For example:

- the community entrepreneurship capital spending program, of the Ministère de l'Économie, de la Science et de l'Innovation;
  - Here, a request for projects was issued on March 4, 2016. Projects filed before March 31, 2016 will be analyzed using a twenty-criterion checklist which includes the project's impact on the business's development and response to the needs of clienteles and the community.
- the vacation camp accessibility financial assistance program, of the Ministère de l'Éducation et de l'Enseignement supérieur.

9.7 Support for the Université de Sherbrooke's Innovation, Partnership, Entrepreneurship strategy

As a key partner of actors in the economic development ecosystem, universities foster the creation of high-potential, innovative businesses.

To support university engagement in fostering the meeting of science, entrepreneurship and innovation, Budget 2016-2017 will support the Université de Sherbrooke's Innovation, Partnership and Entrepreneurship strategy with financial assistance matched with that of the Ville de Sherbrooke over a five-year period.

The government's support for the Université de Sherbrooke's Innovation, Partnership and Entrepreneurship strategy is intended to:

- stimulate and support entrepreneurs' projects that arise from multidisciplinary initiatives;
- finance the development of prototypes and proofs of concept to accelerate the marketing of technological innovations;
- bring the experience of industry leaders and seasoned entrepreneurs into university research projects;
- make the university's laboratories and research and manufacturing equipment more accessible to businesses;
- create an entrepreneurial environment that stimulates creativity and innovation;
- strengthen the ties between Université de Sherbrooke and economic development organizations.

By stimulating collaboration with industry, the university will promote the creation of innovative businesses in strategic sectors: information technology, transportation, energy and healthcare. The Québec government wants to support this engagement and partnership by investing an amount of up to $3 million over a five-year period, equal to the investment made by the Ville de Sherbrooke for that period.

To this end, an additional appropriation of up to $3 million will be disbursed at the rate of $600 000 a year over a five-year period to the Ministère de l'Économie, de la Science et de l'Innovation. For 2016-2017, the amounts allocated will come from the Contingency Fund.

NEARLY $13 BILLION IN SUPPORT OF THE QUÉBEC ECONOMY

In Budget 2016-2017, the government is following through with its Economic Plan with new initiatives totaling more than $3.6 billion over the next five years. The measures aim to:

- increase funding for education;
- provide support to individuals in families;
- develop the economy;
- improve government performance.

From now until 2020-2021, by targeting key economic sectors such as the aerospace industry, life sciences and tourism, and positioning an environment conducive to private investment, the set of measures presented in this budget will provide nearly $13 billion in support to the Québec economy, including:

- $3.8 billion in support for innovation in the manufacturing sector;
- $5.3 billion due to support for innovation in key sectors of the Québec economy.

TABLE B.70

Economic support from measures in the Economic Plan Budget 2016-2017 from now until 2020-2021
(millions of dollars)

	Cost of new initiatives	Investments supported
Strengthen the financing of education	**828**	**1 136**
Support individuals and families		
Alleviate the tax burden of individuals	509	534
Increase support to individuals and communities	186	254
Subtotal	**695**	**788**
Promote economic development		
Respond to aspirations of workers and needs of employers	311	311
Accelerate innovation and investment in manufacturing	848	3 824
Enhance support for SMBs in Quebec	282	331
Adopt a cutting-edge digital strategy	162	573
Support innovation in key sectors of Québec's economy	609	5 278
Promote the startup and growth of innovative companies	45	563
Subtotal	**2 256**	**10 880**
Improve the performance of the State	**−132**	**—**
TOTAL	**3 647**	**12 804**

Note: Since the figures have been rounded off, they may not add up to the total indicated.

The Québec Economic Plan aims to achieve more than $35 billion in investment

Since Budget 2014-2015, the government has used its Québec Economic Plan to ensure an environment conducive to economic growth and job creation.

The new initiatives of the Québec Economic Plan presented in Budget 2016-2017 are added to those already implemented previously by the government.

The set of actions preceding the initiatives of Budget 2016-2017 represent $21.8 billion in economic support.

- The measures in Budget 2014-2015 were aimed at investing nearly $7.2 billion in the Québec economy.
- The additional initiatives of the *Fall 2014 Economic and Financial Update – Québec* promoted $735 million in private investments.
- The implementation of the new and improved tax holiday for major investment projects in February 2015 will bring in an additional $4 billion in investments.
- The actions of Budget 2015-2016 will bring nearly $10 billion of support into the Québec economy, including the investment made for the continuation of the C Series program at Bombardier.

Overall, including the impact of the measures in Budget 2016-2017, the set of initiatives announced by the government since Budget 2014-2015 total nearly $35 billion in support to the Québec economy.

TABLE B.71

Economic support expected in the Québec Economic Plan
(millions of dollars)

	Cost of initiatives	Investments
Budget 2014-2015	816	7 169
Fall 2014 Economic and Financial Update - Québec	195	735
New and improved tax holiday for major investment projects	10(1)	4 035
Budget 2015-2016(2)	3 393	9 893
Subtotal	**4 414**	**21 832**
Budget 2016-2017	3 647	12 804
TOTAL – QUÉBEC ECONOMIC PLAN	**8 061**	**34 636**

(1) Represent the cost for the first five years.
(2) Including investment for continuation of the Bombardier C Series program.

A plan that will support more than 25 000 jobs

With the Economic Plan in Budget 2016-2017, the government is acting on several fronts to support the growth of the Québec economy.

— The new measures aimed at stimulating private investment and supporting innovation in several sectors of activity will support the implementation of projects for the creation of well-paid jobs in businesses.

In the end, the measures announced in the Economic Plan will contribute to the creation and maintenance of more than 25 000 jobs in all sectors of the Québec economy.

APPENDIX 1: FINANCIAL IMPACT OF MEASURES IN THE QUÉBEC ECONOMIC PLAN

TABLE B.72

Financial impact of measures in the Québec Economic Plan announced in Budget 2016-2017
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Increase funding for education						
– The Plan for Success in Education and Higher Education	−164.0	−168.0	−168.0	−162.0	−162.0	−824.0
– Amount financed from government priorities	40.0	2.0	2,0	2.0	2.0	48.0
– Green and sports infrastructures	−2.1	−7.4	−12.8	−14.8	−14.8	−51.9
Subtotal	**−126.1**	**−173.4**	**−178.8**	**−174.8**	**−174.8**	**−827.9**
Supporting individuals and families						
Tax relief for individuals						
– Immediate reduction of the health contribution	−130.4	−144.7	−184.7	−17.2	—	−509.0(1)
Strengthen support for people and communities	−27.5	−31.1	−31.8	−29.5	−66.4	−186.3
Subtotal	**−157.9**	**−175.8**	**−21.5**	**−46.7**	**−66.4**	**−695.3**
Promote economic development						
Fulfill workers' aspirations and employers' needs						
– Enhancement of the work premiums	−41.9	−41.9	−41.9	−41.9	−41.9	−209.5
– Tax shield enhancement	−8.6	−8.6	−8.6	−8.6	−8.6	−43.0
– Promote the labour market participation of experienced workers	—	—	−13.2	−13.2	−13.2	−39.6
– Foster participation in the Objectif emploi program	—	−2.6	−2.6	−2.6	−2.6	−10.4
– Support youth skills development by integration companies	−2.0	—	—	—	—	−2.0
– Support for the retention of foreign students	−0.9	−0.7	−0.4	—	—	−2.0
– Promote francization of newcomers	−4.0	—	—	—	—	−4.0
Subtotal	**−57.4**	**−53.8**	**−66.7**	**−66.3**	**−66.3**	**−310.5**

TABLE B.72

Financial impact of measures in the Québec Economic Plan announced in Budget 2016-2017 (cont'd)
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Promote economic development (cont'd)						
Accelerating innovation and investment in manufacturing						
– Use of clean power produced in Québec to foster investment in the manufacturing and natural resources processing sectors	—	−42.0	−84.0	−169.0	−244.0	−539.0
– Tax reduction for innovative companies: support for the commercialization of Québec intellectual property	−2.7	−16.6	−30.3	−38.5	−47.1	−135.2
– Promoting environmentally friendly renovation: the creation of RénoVert	−130.3	−43.4	—	—	—	−173.7
Subtotal	**−133.0**	**−102.0**	**−114.3**	**−207.5**	**−291.1**	**−847.9**
Increased support for Québec SMBs						
– Additional reduction in the Health Services Fund contribution for Québec SMBs	−5.7	−29.0	−48.0	−60.5	−101.5	−244.7
– Exporting Québec innovations	−7.5	−12.5	−12.5	—	—	−32.5
– Promote transfers of family businesses	−5.0	—	—	—	—	−5.0
Subtotal	**−18.2**	**−41.5**	**−60.5**	**−60.5**	**−101.5**	**−282.2**

TABLE B.72

Financial impact of measures in the Québec Economic Plan announced in Budget 2016-2017 (cont'd)

(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Total
Promote economic development (cont'd)						
Implementing a cutting-edge digital strategy	−12.8	−29.4	−35.9	−41.6	−42.2	−161.9
Supporting innovation in Québec's key economic sectors						
– New Québec aerospace strategy	−5.0	−10.0	−15.0	−20.0	−20.0	−70.0
– Life sciences	−2.6	−12.2	−11.7	−6.7	−0.6	−33.8
– Foster the development of the forestry industry	−45.1	−51.6	−49.1	−43.5	−40.2	−229.5
– Plan Nord and development of the mining sector	−2.6	−3.5	−5.3	−4.1	−4.4	−19.9
– Focus on our tourist attractions	−7.0	−13.0	−15.4	−17.3	−13.8	−66.5
– The environment: a transition to a low-carbon economy	−23.1	−26.1	−27.1	−12.1	−12.1	−100.5
– Fostering the development of the agri-food industry	−9.0	−10.0	−10.0	−8.0	−8.0	−45.0
– The Maritime Strategy: a regional development driver	−2.7	−2.0	−2.1	−1.4	−1.4	−9.6
– Culture	−10.2	−5.6	−6.0	−6.0	−6.0	−33.8
– The financial sector	—	—	—	—	—	—
Subtotal	**−107.3**	**−134.0**	**−141.7**	**−119.1**	**−106.5**	**−608.6**
Promoting the startup and growth of innovative companies	−16.9	−21.3	−5.5	−0.6	−0.6	−44.9
Subtotal – Promote economic development	**−345.6**	**−382.0**	**−424.6**	**−495.6**	**−608.2**	**−2 256.0**
Improve government performance	21.0	33.5	29.5	23.5	24.5	132.0
FINANCIAL IMPACT OF THE ANNOUNCED MEASURES	**−608.6**	**−697.7**	**−790.4**	**−693.6**	**−824.9**	**−3 647.2**(1)
Funding measures						
– Funding from the Green Fund	139.2	60.4	22.6	9.6	9.6	241.4
Subtotal	**139.2**	**60.4**	**22.6**	**9.6**	**9.6**	**241.4**
TOTAL FINANCIAL IMPACT	**−469.4**	**−637.3**	**−767.8**	**−684.0**	**−815.3**	**−3 405.8**

Note : A negative amount indicates a cost for the government.
(1) Including the financial impact of $32 million for the immediate reduction of the health contribution for the 2015-2016 fiscal year.

Section C

THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2016 AND 2017

1. THE ECONOMIC SITUATION IN QUÉBEC

1.1 Conditions are in place for faster economic growth

Economic growth in Québec is expected to accelerate to 1.5% in 2016 and 1.6% in 2017, compared to 1.1% growth in 2015. In 2015, the economy benefited from the weakness in oil prices and the Canadian dollar. International exports of goods peaked and the economy was buttressed by public infrastructure investment.

— Furthermore, uncertainty over the global economy delayed a recovery in business investment. In addition, in 2015, the Québec economy felt a backlash of weak economic growth in Canada.

The positive impact of low energy prices and Canadian dollar should be more pronounced in 2016 and 2017. Recent signs indicate that the beneficial effects are gradually materializing.

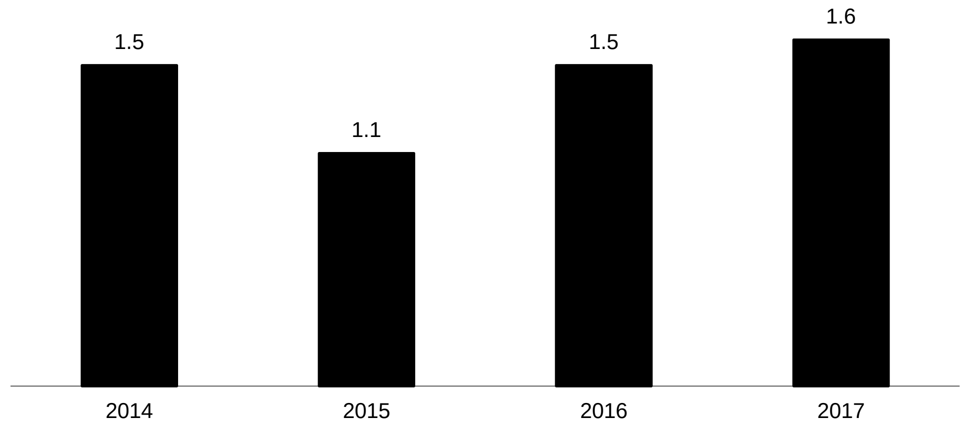
— The labour market is still showing growth, driven by the private sector.

— International exports continue to benefit from the robust U.S. economy and weak Canadian dollar.

— The value of machinery and equipment investment rebounded in 2015. The upswing is expected to firm up, reflecting business confidence and the desire to meet heightened demand.

CHART C.1

Economic growth in Québec
(real GDP, percent change)



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

Note: The economic forecast in The Québec Economic Plan 2016-2017 does not include the impact of measures to be announced in the upcoming federal budget on March 22, 2016.

Sustained increases in the standard of living in Québec

The standard of living in Québec has improved substantially since 2007. The improvement, as measured by growth in real GDP per capita, trends in a similar manner to economic growth.

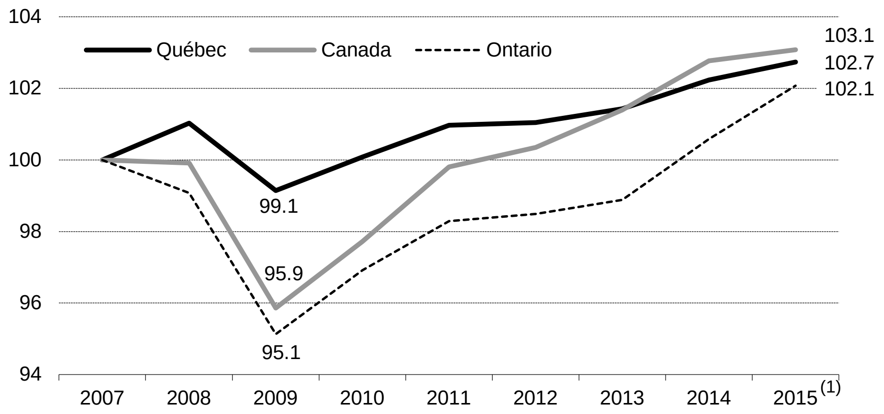
- The 2008-2009 recession was not as severe in Québec as in the rest of Canada. Real GDP contracted by 0.8% in Québec, compared to 3.1% in Ontario and 2.9% in Canada.
- Consequently, Quebecers saw only a slight decline in their standard of living in 2009 (−1.9%), compared to significant declines in Canada (−4.1%) and Ontario (−4.0%).

Since 2010, Québec, Ontario and Canada have been gradually raising their standards of living back to pre-recession levels. In Québec, economic growth rapidly raised the standard of living to above its 2007 level.

- From 2007 to 2015, real GDP per capita rose by 2.7% in Québec, compared to 2.1% in Ontario.

In the coming years, economic growth will increase the standard of living in Québec at a similar pace to that anticipated in Ontario and Canada.

Standard of living
(Real GDP per capita, index, 2007=100)



(1) For 2015, Ontario Ministry of Finance forecasts for Ontario and Ministère des Finances du Québec forecasts for Québec. Recorded data for Canada.

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

1.2 Exports, consumption and investment drive growth

Real GDP growth will be sustained by robust export growth and household consumption. In addition, non-residential business investment in Québec is expected to return to growth.

- Exports will continue to be an economic growth engine. A robust U.S. economy and low Canadian dollar are expected to spur international exports.
- At the same time, domestic demand's contribution to Québec's economic growth will strengthen in 2016 and 2017.
  - Household consumption will pick up pace, fuelled by continued job creation in the private sector, low energy prices and elimination of the health contribution.
  - Spending and investments by governments will continue to support economic growth.
  - In addition, business investment will gradually start growing again, after remaining weak since 2013.
    - Businesses are expected to increase their investments gradually in order to meet increased demand for their goods and services.

TABLE C.1

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

	2015	2016	2017
Contribution of domestic demand	**0.6**	**1.2**	**1.3**
Household consumption	1.4	1.9	1.7
Residential investment	0.9	0.1	−0.7
Non-residential business investment	−4.7	0.0	2.8
Government spending and investment	0.3	0.2	0.3
Contribution of the external sector	**0.5**	**0.5**	**0.3**
Total exports	1.8	2.8	2.6
– International exports	2.9	3.6	3.0
Total imports	0.7	1.5	1.9
Contribution of inventories	**0.0**	**−0.2**	**0.0**
REAL GDP	**1.1**	**1.5**	**1.6**

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

Low oil prices: positive impacts still to come

Oil prices continued to fall in recent months. A barrel of oil lost nearly 70% of its value between June 2014 and February 2016. The price of a barrel of Brent crude oil fell from US$115 in June 2014 to US$36 in February 2016, while the price of West Texas Intermediate (WTI) dropped from US$107 per barrel to US$34 over the same period.

The drop in oil prices was accompanied by a sharp depreciation in the Canadian dollar, which slid from 94 U.S. cents in June 2014 to a low of 69 U.S. cents in January 2016.

These trends have beneficial effects on the economy, although they may take time to materialize.

The full impact of an oil price drop on consumption can take over two years to materialize

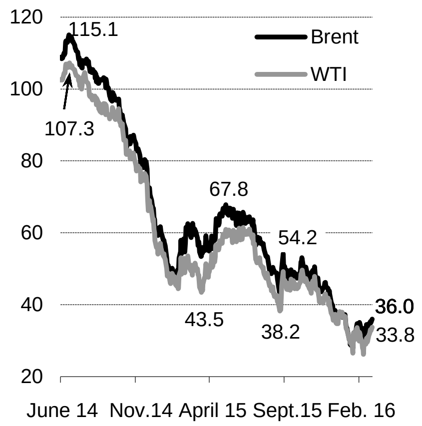
Simulations by the Ministère des Finances du Québec using IHS Global Insight's world economic forecasting model show that it would take an average of three quarters for the full impact of lower oil prices to materialize.

However, the full positive impact on consumption growth can take over two years to materialize during periods of financial market instability such as recently seen.

- In Canada, for example, the lag time may be up to ten quarters, longer than the global average, due to the negative impact of low oil prices on producing regions.

Change in oil prices

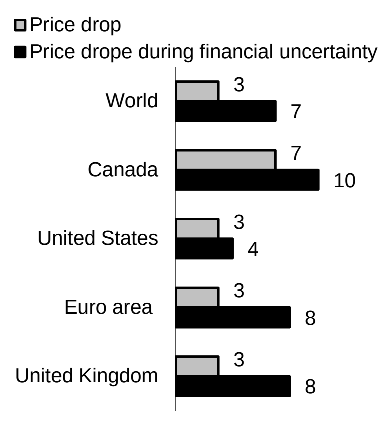
(U.S. dollars per barrel)



Source: Bloomberg.

Lag time between an oil price drop and its full impact on consumption growth

(number of quarters)



Sources: IHS Global Insight and Ministère des Finances du Québec.

Value of manufacturing shipments in Québec dampened by weak natural resource prices

The value of Québec's manufacturing shipments fell by 0.6% in 2015, after increasing by 6.4% in 2014. The downward trend was largely due to falling commodity prices.

- Excluding the major natural resource extraction industries, manufacturing shipments rose by 4.6% in 2015.

Moreover, several industries saw an increase in shipments in 2015, pointing to a manufacturing upturn. In particular:

- transportation equipment shipments rose by 9.2% in 2015, including a 10.2% increase in aerospace products and parts;
- wood product shipments were up 6.9% in 2015, while paper industry shipments climbed by 6.6%.

Québec manufacturing shipments by industry in 2015
(percent change and value in billions of dollars)

	Change (%)	**Value** ($ billion)
Transportation equipment	9.2	20.1
Wood	6.9	7.2
Paper	6.6	9.3
Plastics and rubber products	5.0	7.8
Machinery	4.9	6.5
Metal products	3.4	7.9
Food	2.4	21.8
Chemical products	1.7	9.2
Electrical equipment, compliances and components	−7.6	3.3
Subtotal	**4.6**	**93.0**
Non-metal mineral products	−1.1	2.9
Primary metal processing	−3.6	19.1
Other(1)	−12.4	29.9
Total	**−0.6**	**144.9**

(1) Includes the petroleum and coal industry in particular. The value of Québec shipments in this industry is confidential owing to the reduced number of processing firms. The value of shipments in this industry for Canada as a whole contracted by 28.6% in 2015.
Sources: Statistics Canada and Ministère des Finances du Québec.

World price index for metals from Quebec (WPIMQ)

Reflecting the imbalance in metal supply and demand, the world price index for metals from Quebec fell by 18.1% in 2015 over the previous year. The drop is primarily attributable to lower iron ore and aluminum prices, which dropped by 42.7% and 11.1%, respectively.

- The **industrial metals** subcomponent, which reflects the prices of iron ore, nickel, zinc and copper, dropped by 36.3% in 2015.
- The **precious metals** subcomponent, which is mainly influenced by the price of gold, saw a moderate decrease of 8.7% over the same period.

Overall, metal prices were negatively impacted by the appreciation of the U.S. dollar, as they are generally quoted in U.S. dollars.

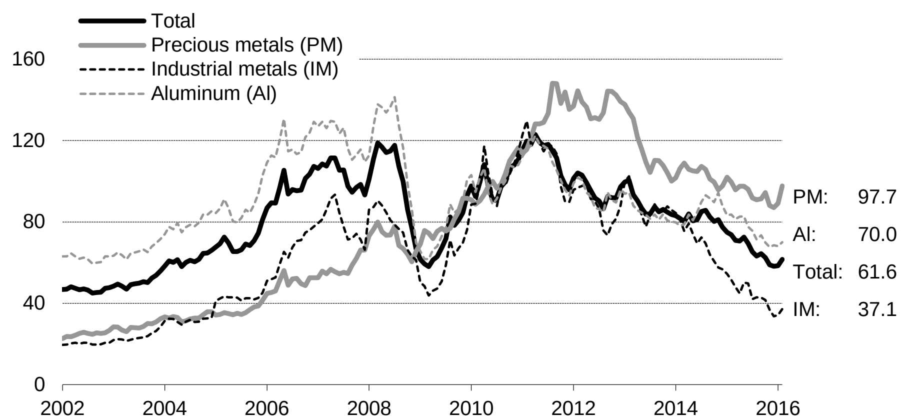
In addition, industrial metal prices slid owing to moderation in growth of the Chinese economy, as well as specific factors. In particular, the drop of iron ore prices as a result of the abundance of iron ore from Australia, where production costs are lower.

WPIMQ outlook

After trending down for several years, metal prices appear to have reached a cyclical trough.

- The adjustment in production of several industrial metals should lead to price stabilization.
- The price of aluminum is expected to rebound with the cap on Chinese exports and sustained demand stemming from increasing use of this metal in certain industries. The price of gold will be influenced by financial market conditions.

World price index for metals from Quebec and its subcomponents(1)
(index, 2010 = 100, monthly data)



(1) The index includes the prices for the principal metals mined in Quebec (iron, nickel, zinc, copper, gold and silver) as well as aluminum. Prices used to calculate the index are expressed in U.S. dollars.
Sources: Institut de la statistique du Québec, Bloomberg, World Bank and Ministère des Finances du Québec.

1.3 Job creation remains robust, especially in the private sector

Job creation was robust in 2015. Québec added 37 300 jobs in 2015 compared to 2014, an increase of 0.9%. Québec's unemployment rate averaged 7.6%.

— Between January and December 2015, 48 600 jobs were gained.

The majority of jobs created in 2015 were full-time positions and concentrated in the private sector. Compared to 2014, in 2015:

— 45 000 full-time jobs were created;

— the number of payroll jobs in the private sector rose by 28 400, representing 49.7% of private payroll employment created in Canada. The strong employment growth in the private sector reflects rising business confidence.

Employment growth will firm up even more with the strengthening of economic growth. The projected job creation takes demographic factors into account, particularly the declining population between the ages of 15 and 64.

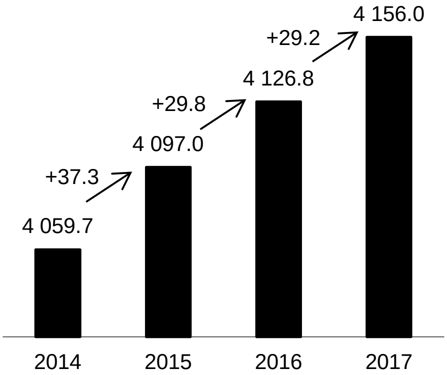
— Thus, nearly 30 000 jobs on average should be created in 2016 and 2017, an annual increase of 0.7%.

— The unemployment rate is expected to continue falling, reflecting greater use of the available labour pool.

CHART C.2

Change in employment in Québec

(thousands)

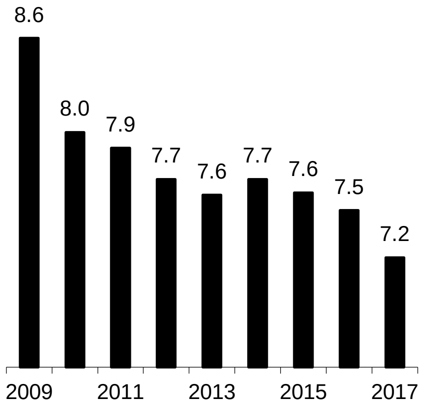


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.3

Change in Québec's unemployment rate

(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

Improvement in the labour market in 2015

Annual data from the Labour Force Survey show that Québec gained 37 300 jobs (0.9%) on average in 2015 compared to 2014.

- 28 400 payroll jobs were created in the private sector in Québec in 2015, representing nearly half of the 57 200 private-sector payroll jobs created in Canada as a whole.
- In 2015, there were 45 000 more full-time jobs than in 2014, whereas the number of part-time jobs decreased by 7 700.

Québec's labour market is catching up to Canada's

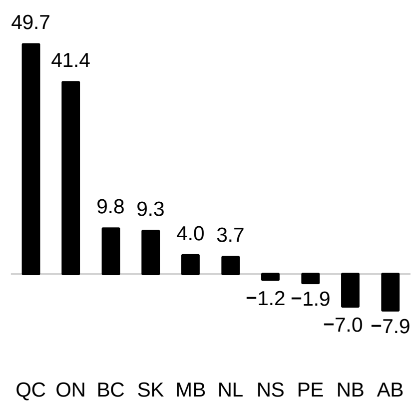
Thanks to Québec's dynamic labour market, the gaps with the rest of Canada have narrowed substantially in recent years.

- Between 1998 and 2002, the employment rate among 15-64 year-olds, that is, the proportion of individuals in this age group who were employed, averaged 66.9% in Québec, compared to 70.4% in Canada as a whole.
- In 2015, the employment rate among 15-64 year-olds was higher in Québec (72.8%) than in Canada as a whole (72.5%).

The increase in the employment rate for the Québec population between the ages of 15 and 64 is a positive change. However, there is room for improvement in the persistent employment rate gaps between Québec and Canada for the population aged 55 and over. For example, in 2015, the employment rate of the population aged:

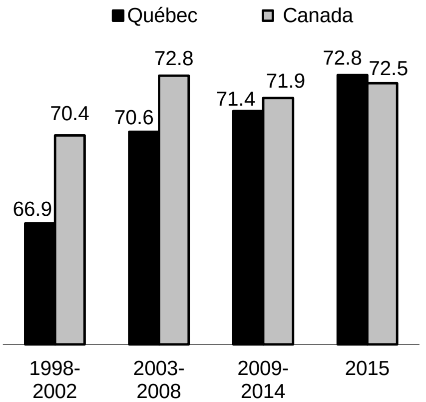
- 55-59 was 68.0% in Québec, compared to 69.8% in Canada;
- 60-64 was 45.3% in Québec, compared to 50.5% in Canada;
- 65-69 was 17.4% in Québec, compared to 24.6% in Canada.

Share of private payroll employment in Canada in 2015
(per cent)



Source: Statistics Canada.

Employment rate in Québec and Canada for 15-64 year-olds
(per cent)



Source: Statistics Canada.

1.4 Household consumption expenditure fuels economic activity

Growth in household consumption expenditure, in real terms, is expected to accelerate to 1.9% in 2016 and 1.7% in 2017, following a growth rate of 1.4% in 2015.

— Consumers will benefit from low energy prices, allowing them to use their savings to purchase other goods and services.

In nominal terms, household consumption expenditure is projected to rise by 3.5% in 2016 and 3.7% in 2017, after increasing by 2.6% in 2015.

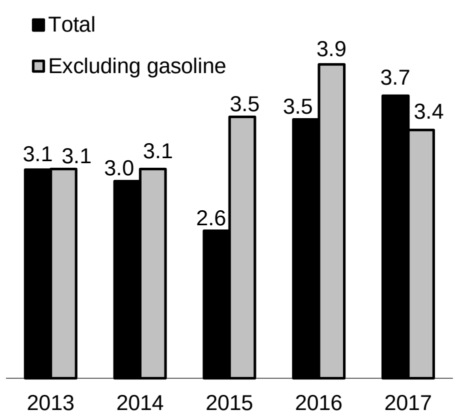
— Excluding the gasoline component, which was affected by a sharp drop in prices, household consumption stood at 3.5% in 2015, revealing optimism among households.

Moreover, nominal growth in household disposable income, expected to be 3.2% in 2016 and 3.1% in 2017, will drive further growth in consumption expenditure.

— Sustained job creation, particularly in the private sector, will lead to faster wage growth. In addition, households will benefit from the immediate reduction in the health contribution and federal tax cuts for the middle class.

CHART C.4

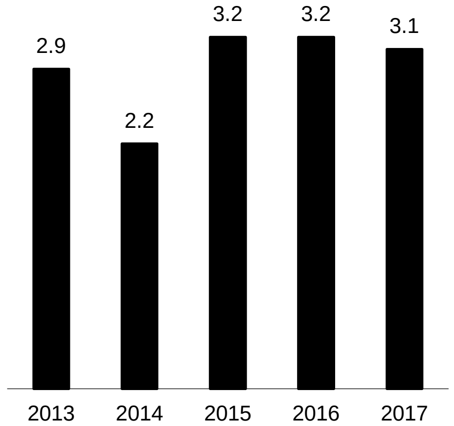
Household consumption expenditure in Québec
(percent change, in nominal terms)



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

CHART C.5

Household disposable income in Québec
(percent change, in nominal terms)



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

1.5 Investment is rebounding

❑ Upturn in non-residential business investment

The sudden decline in non-residential business investment, which started in 2013, is expected to give way to a gradual recovery.

— In real terms, non-residential business investment as a whole is expected to pick up in 2016 and 2017.

A number of key factors are in place to support an upswing in investment. In particular, the pressure on current production capacities is increasing. The rise in the industrial capacity utilization rate in the manufacturing sector should help shore up investor confidence.

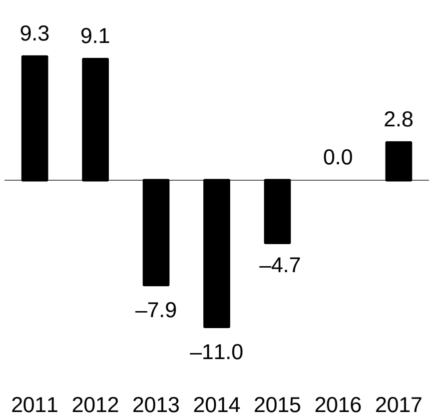
— Robust U.S. demand and a depreciation of the Canadian dollar stimulate exports and drive up demand for Québec products.

— In addition, household consumption continues to rise, in particular due to robust job creation, which leads to wage growth.

  — Moreover, the weak loonie heightens demand for Québec and Canadian goods and services, to the detriment of imports.

CHART C.6

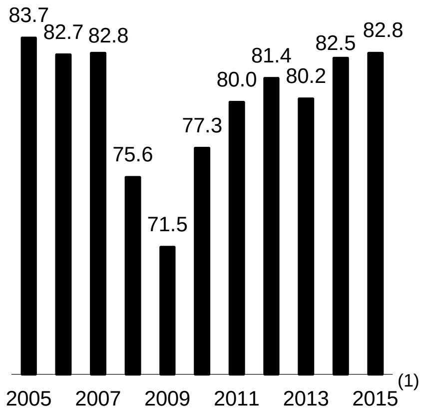
Non-residential business investment in Québec
(percent change, in real terms)



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

CHART C.7

Industrial capacity utilization rate in the manufacturing sector in Canada
(per cent)



(1) Cumulative of available quarters.
Source: Statistics Canada.

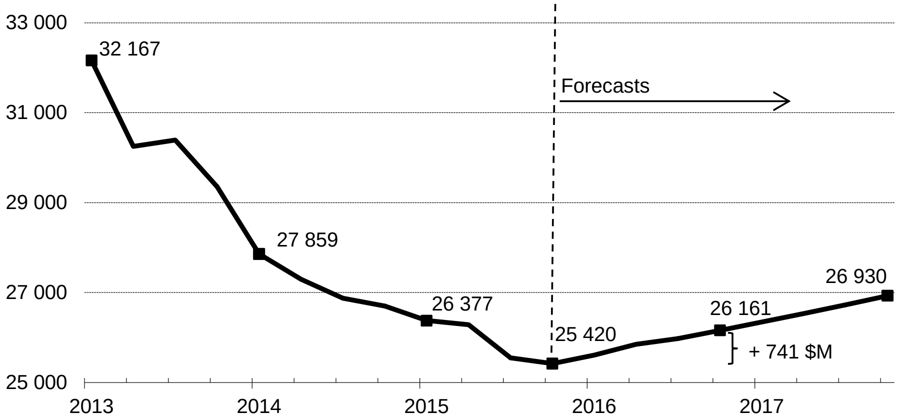
Gradual upturn in non-residential business investment in 2016

The decline in non-residential business investment since 2013 should give way to a gradual recovery. A turnaround is expected at the end of 2015.

In 2016, non-residential business investment is expected to grow in real terms in each quarter.

- At year-end 2015, these investments should stand at $25.4 billion.
- A $741-million increase in investment is anticipated between the fourth quarter of 2015 and the fourth quarter of 2016. This represents a growth rate of nearly 3.0%.
- Non-residential business investment is projected to reach $26.2 billion at year-end 2016 and nearly $27 billion at year-end 2017.

Change in non-residential business investment in real terms
(millions of 2007 dollars)



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

❑ Machinery and equipment investment signal an upturn

There are already signs of an upturn in non-residential business investment, particularly in machinery and equipment.

— Machinery and equipment investment, which enables businesses to boost productivity, among other things, rose by 7.9% in nominal terms in 2015.

— The upturn should continue. A 9.0% increase in the value of machinery and equipment investment is expected in 2016.

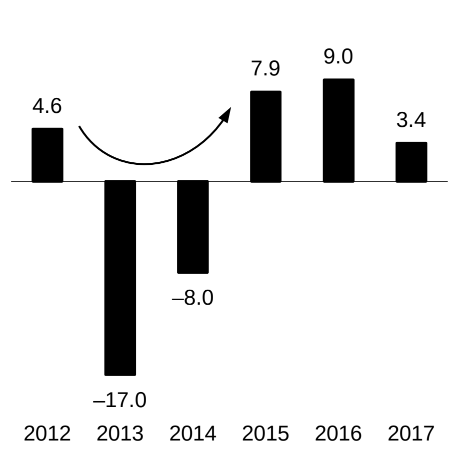
The upswing in machinery and equipment investment, which precedes other investment subcategories, points to an upturn in total business investment.

— Businesses make greater use of their existing facilities before increasing their production capacity substantially.

— The total value of non-residential business investment is projected to rise by 3.7% in 2016 and 4.0% in 2017.

CHART C.8

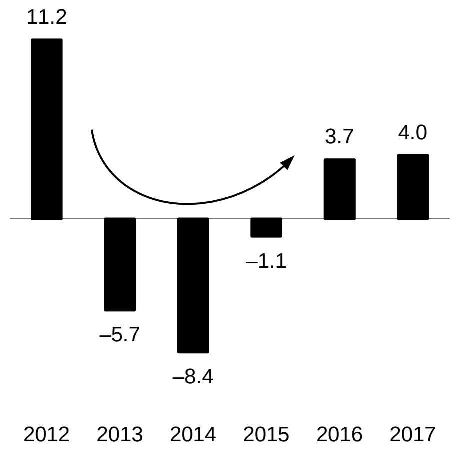
Business investment in machinery and equipment in Québec
(percent change, in nominal terms)



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

CHART C.9

Total non-residential business investment in Québec
(percent change, in nominal terms)



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

❑ The evolution of the residential sector reflects demographic determinants

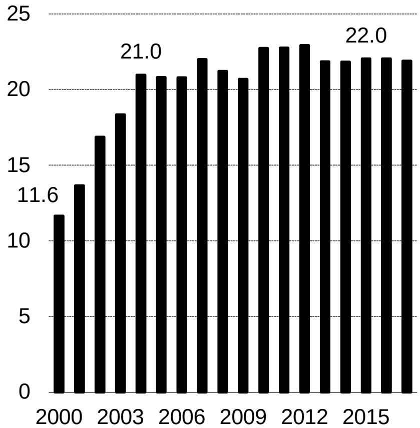
In 2015, residential investment in real terms rose by 0.9%, fuelled by the LogiRénov home renovation tax credit. This tax credit is an initiative introduced by the government in April 2014.

In 2016 and 2017, residential investment is projected to remain at around the same level as in 2015, that is, approximately $22 billion.

— Currently, housing starts are keeping pace with household formation in Québec.
  — Roughly 36 000 new units should be built in 2016, followed by 34 400 units in 2017, levels in line with demographic determinants.

CHART C.10

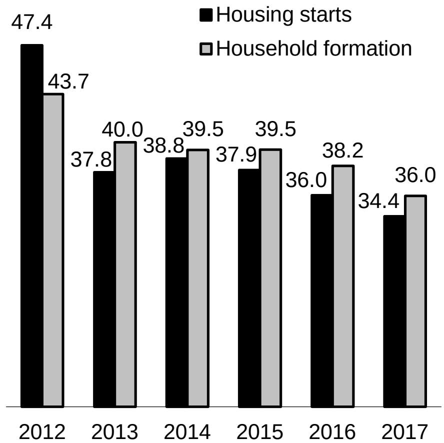
Residential investment in Québec
(billions of dollars, in real terms)



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

CHART C.11

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 du Québec.

❑ Government investments remain at record highs

Public administrations in Québec (federal, provincial and municipal governments) will maintain a high level of infrastructure investment.

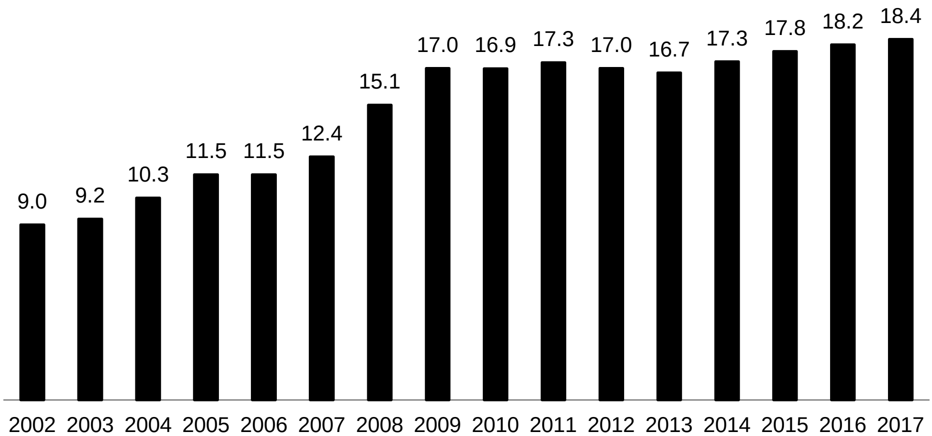
- Between 2007 and 2015, the total value of infrastructure investments by all levels of government rose by more than 40%.
  - Total infrastructure investment stood at $17.8 billion in 2015.
- In 2016 and 2017, the value of investments by all levels of government is expected to reach $18.2 billion and $18.4 billion, respectively.

In addition, government enterprises will continue to make significant infrastructure investments, contributing to Québec's economic prosperity. These investments, totaling $4 billion in 2016-2017 and $3.7 billion in 2017-2018, will come primarily from Hydro-Québec.

Furthermore, the federal government's new infrastructure investment plan will add to the major investments provided under the Québec Infrastructure Plan.

CHART C.12

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



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

1.6 Québec exporters benefit from U.S. economic growth

Québec's total exports will keep growing. They are expected to increase in real terms by 2.8% in 2016 and 2.6% in 2017.

— In particular, international exports of goods, which are at record highs, will continue to be a key driver of the Québec economy.

— They will be sustained by growing U.S. demand, the United States being Québec's chief trading partner, and a weak Canadian dollar.

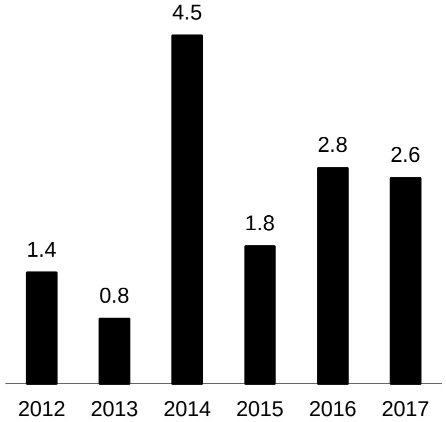
Furthermore, continually strong exports will foster an upturn in business investment as well as job creation.

Total imports, for their part, are expected to climb in real terms by 1.5% in 2016 and 1.9% in 2017. Imports will be supported by more robust domestic demand.

— However, import growth will be hampered by a low Canadian dollar, which makes foreign goods more expensive.

CHART C.13

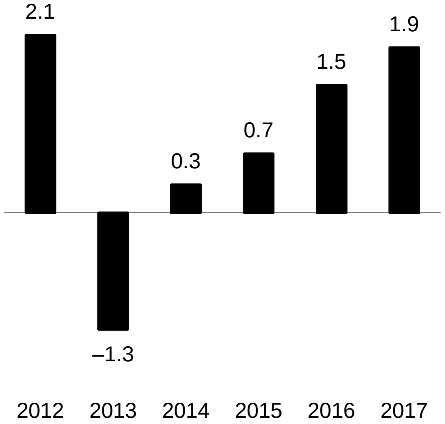
Québec's total exports
(percent change, in real terms)



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

CHART C.14

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



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

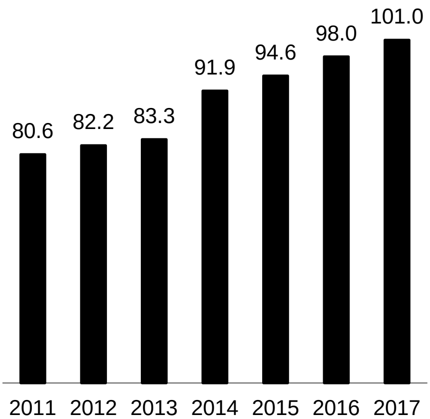
❑ The economic situation in Canada dampened interprovincial exports

In 2016 and 2017, growth in total exports will be supported by the strong contribution from international exports, as well as by a rebound in interprovincial exports.

- International exports are projected to continue their robust growth.
  - They are expected to increase by 3.6% in 2016 and 3.0% in 2017, driven by strong U.S. demand and a weak Canadian dollar, which makes Québec products more competitive on international markets.
  - In 2017, international exports are expected to total $101 billion in real terms, exceeding their pre-recession peak.
- Québec interprovincial exports, slowed in 2014 and 2015 by the decline in oil sector investment, are expected to gradually strengthen as the Canadian economy recovers.
  - After contracting by 3.3% in 2014 and stagnating in 2015, Québec exports to the rest of Canada are expected to rise by 1.5% in 2016 and 2.0% in 2017.

CHART C.15

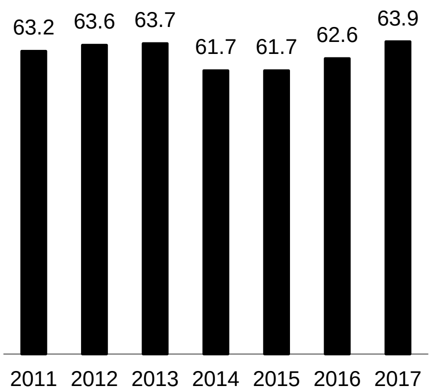
Québec's international exports
(billions of dollars, in real terms)



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

CHART C.16

Québec's interprovincial exports
(billions of dollars, in real terms)



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

Evolution of Québec exports to the United States

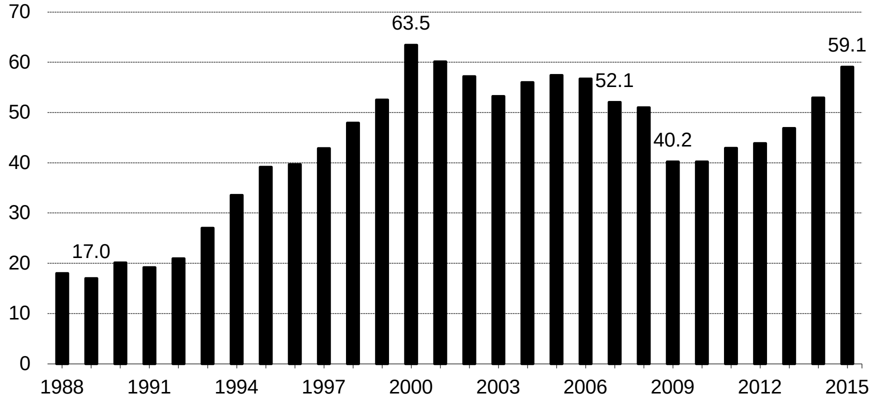
After contracting during the 2008-2009 recession, Québec's international exports of goods to the United States have gained momentum in recent years.

- The value of goods exports to the United States rose by 13.0% in 2014 and 11.6% in 2015.
- The increase in 2015 represented the fifth consecutive year of export growth. The value of exports in 2015 surpassed the levels prior to the 2008-2009 recession.

This positive trend is expected to continue, given robust economic growth south of the border and depreciation of the Canadian dollar, which gives Québec products a competitive edge.

- Note that the positive impact of the weak Canadian currency on exports takes effect gradually, averaging two years before it is fully felt.
- Accordingly, the low Canadian dollar will support export growth in the coming years.

Québec's international exports of goods to the United States
(billions of dollars, in nominal terms)



Source: Institut de la statistique du Québec.

Foreign demand for Québec products

The index of foreign demand for Québec products (IFDQP) reveals the growth potential of Québec's international goods exports, taking into account global economic activity.

- The index combines measures of U.S. demand for consumer goods and investment and a measure of global GDP excluding the United States.

Québec's international exports should benefit from higher foreign demand and a weak Canadian dollar

In 2012 and 2013, growth in Québec's international exports of goods lagged behind growth in foreign demand due, in particular, to a strong Canadian dollar near parity with the U.S. dollar.

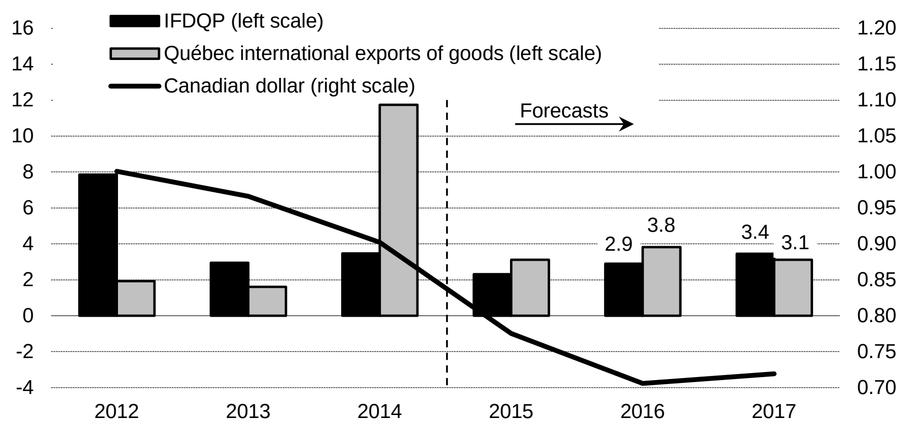
Since then, however, the Canadian dollar has been trending down, averaging 90 U.S. cents in 2014 and 78 U.S. cents in 2015, which boosted Québec exports to foreign markets.

For the next two years, real exports of Québec goods are expected to continue being supported by the combined effect of higher foreign demand and a weak Canadian dollar.

- Foreign demand for Québec products is projected to increase by 2.9% in 2016 and 3.4% in 2017. The growth is primarily attributable to the favourable investment and consumption outlook for the United States.

- At the same time, whereas the value of the Canadian dollar put a drag on Québec exports in the past, it is expected to drive exports in the coming years.

Foreign demand, Québec international exports of goods and Canadian dollar
(percent change in IFDQP and Québec international exports of goods, in real terms, and Canadian dollar exchange rate in U.S. dollars)



Sources: IHS Global Insight, Bank of Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

Québec's international exports of goods by sector

In real terms, Québec's international exports of goods grew by 10.9% in 2014 and 4.1% in 2015. In nominal terms, the growth rate was 14.7% in 2014 and 7.7% in 2015.

- This strong performance is essentially attributable to economic expansion in the United States and depreciation of the Canadian dollar, which makes Québec products more competitive on international markets.

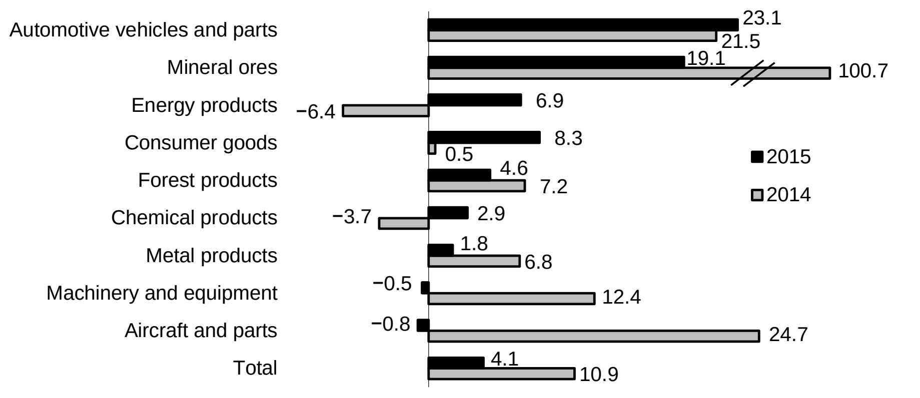
Some export sectors excelled, in particular:

- automotive vehicles and parts exports, which increased by 21.5% in 2014 and 23.1% in 2015;
- mineral ore exports, which doubled in volume in 2014 (+100.7%) and climbed a further 19.1% in 2015, driven by substantial mining investment in recent years.

Other sectors struggled in 2015, in particular aircraft and parts (−0.8%) and machinery and equipment (−0.5%), which edged down after growing by 24.7% and 12.4%, respectively, in 2014.

- Canada's aerospace product and parts manufacturing industry saw an 8.3% increase in unfilled export orders in 2015, hitting a new high of over $52 billion.
- The significant increase in unfilled orders bodes well for aerospace product and parts exports.

Québec international exports of goods by sector
(percent change, in real terms)



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

❑ Positive contribution of the external sector to economic growth

Net exports, which account for changes in exports and imports, contributed 0.5 percentage point to real GDP growth in 2015.

— This contribution stemmed from a combination of strong export growth and moderate import growth.

In 2016 and 2017, net exports should continue to make a positive contribution to economic growth.

— Net exports will add 0.5 percentage point to economic growth in 2016 and 0.3 percentage point in 2017.

1.7 Growth in nominal GDP

Following 2.0% growth in 2015, nominal GDP, which measures the value of output taking the effect of prices into account, is expected to increase by 3.2% in 2016 and 3.3% in 2017.

The 2.0% growth in nominal GDP in 2015 stemmed from a 1.1% increase in real GDP and a slight 0.9% rise in GDP prices.

— The modest growth in GDP prices in 2015 is mainly attributable to weak domestic demand prices, which were affected by the decrease in energy costs.

In 2016 and 2017, a gradual acceleration of domestic demand prices and stronger economic growth is expected to strengthen nominal GDP growth. This progress will be the combined effect of:

— an acceleration in real GDP growth to 1.5% in 2016 and 1.6% in 2017;

— a rise in the GDP deflator of 1.6% in 2016 and 1.7% in 2017.

TABLE C.2

Economic growth in Québec
(percent change)

	2015	2016	2017
Real GDP	1.1	1.5	1.6
Prices – GDP deflator	0.9	1.6	1.7
Nominal GDP	2.0	3.2	3.3

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

❑ Sustained consumer price growth excluding energy

Following an increase of 1.1% in 2015, the consumer price index (CPI) is expected to rise by 1.5% in 2016 and 2.4% in 2017.

— In 2015, the drop in oil prices led to significantly lower prices at the pump. The decline was reflected in the energy component of the CPI, which fell by 10.2%.

— The CPI excluding food and energy, the two most volatile elements of the index, rose by 1.8% in 2015 and the CPI excluding energy increased by 2.1%.

In 2016, total CPI inflation is expected to be 1.5%.

— The drop in oil prices at the beginning of 2016 should result in a 4.2% decrease in the energy component of the CPI.

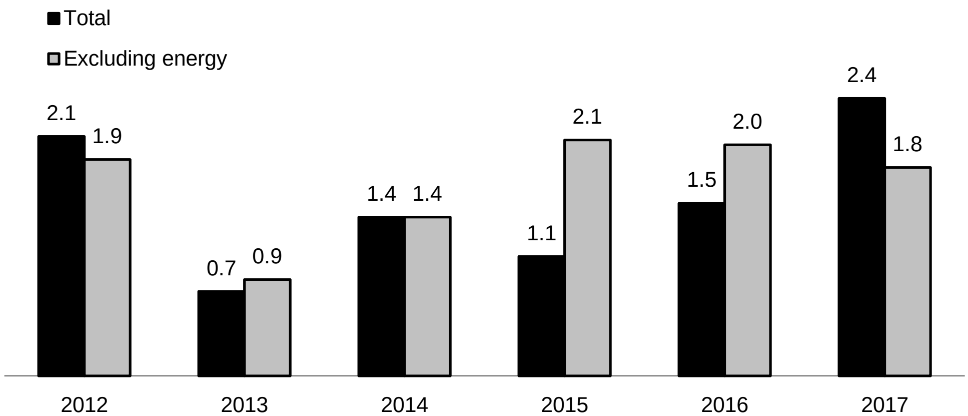
— The downward trend in energy prices will be offset by the price impact of continued economic growth and depreciation of the Canadian dollar.

In 2017, the overall CPI is projected to increase by 2.4%.

— A gradual rebound in oil prices will drive an increase of 9.5% in the energy component. In addition, strengthening of economic activity will help spur price increases.

CHART C. 17

Change in the consumer price index in Québec
(percent change)



Sources: Statistics Canada and Ministère des Finances du Québec.

1.8 Comparison with private sector forecasts

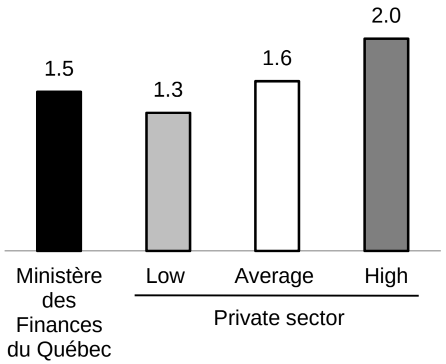
The Ministère des Finances du Québec's economic growth forecasts for 2016 and 2017 are cautious. They are slightly below the average private sector forecasts.

— For 2016, the projected 1.5% growth in real GDP is 0.1 percentage point below the average private sector forecast of 1.6% growth.

— For 2017, the projected 1.6% growth in real GDP is 0.3 percentage point below the average private sector forecast of 1.9% growth.

CHART C. 18

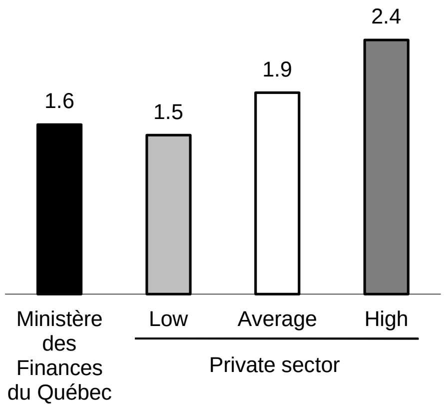
Economic growth in Québec in 2016
(real GDP, percent change)



Source: Ministère des Finances du Québec summary as of March 1, 2016, which includes the forecasts of 11 private sector institutions.

CHART C. 19

Economic growth in Québec in 2017
(real GDP, percent change)



Source: Ministère des Finances du Québec summary as of March 1, 2016, which includes the forecasts of 11 private sector institutions.

TABLE C. 3

Economic outlook for Québec
(percent change, unless otherwise indicated)

	2015	2016	2017
Output			
Real gross domestic product	1.1	1.5	1.6
Nominal gross domestic product	2.0	3.2	3.3
Nominal gross domestic product ($ billion)	377.5	389.6	402.5
Components of GDP (in real terms)			
Final domestic demand	0.6	1.2	1.3
– Household consumption	1.4	1.9	1.7
– Government spending and investment	0.3	0.2	0.3
– Residential investment	0.9	0.1	−0.7
– Non-residential business investment	−4.7	0.0	2.8
Exports	1.8	2.8	2.6
Imports	0.7	1.5	1.9
Labour market			
Population (thousands)	8 263.6	8 329.5	8 394.8
Population aged 15 and over (thousands)	6 843.3	6 887.8	6 932.0
Jobs (thousands)	4 097.0	4 126.8	4 156.0
Job creation (thousands)	37.3	29.8	29.2
Unemployment rate (%)	7.6	7.5	7.2
Other economic indicators (in nominal terms)			
Household consumption	2.6	3.5	3.7
– Excluding gasoline	3.5	3.9	3.4
– Excluding food and rent	2.2	3.4	3.7
Housing starts (thousands of units)	37.9	36.0	34.4
Residential investment	2.5	2.1	1.0
Non-residential business investment	−1.1	3.7	4.0
Wages and salaries	2.1	3.1	3.1
Household income	3.2	3.1	3.2
Net operating surplus of corporations	−5.0	5.9	6.0
Consumer price index	1.1	1.5	2.4
– Excluding food and energy	1.8	1.8	1.8
GDP per capita ($)	45 687	46 770	47 950
Disposable income per capita ($)	26 725	27 364	27 989

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

1.9 Five-year economic outlook for 2016-2020

The Ministère des Finances du Québec's five-year forecast is cautious and slightly below the average private sector forecast for real GDP growth, price increases and nominal GDP growth.

— For real GDP, the Ministère des Finances du Québec forecasts an average growth rate of 1.5% from 2016 to 2020, compared to the average 1.6% growth rate forecast by the private sector.

— For nominal GDP, the Ministère des Finances du Québec forecasts an average growth rate of 3.2% from 2016 to 2020, compared to the average 3.5% growth rate forecast by the private sector.

TABLE C.4

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

	2015	2016	2017	2018	2019	2020	Average 2016-2020
Real GDP							
Ministère des Finances du Québec	1.1	1.5	1.6	1.6	1.5	1.4	1.5
Private sector average	1.3	1.6	1.9	1.6	1.5	1.4	1.6
Price change(1)							
Ministère des Finances du Québec	0.9	1.6	1.7	1.8	1.7	1.6	1.7
Private sector average	1.2	1.7	1.9	2.0	1.9	1.9	1.9
Nominal GDP							
Ministère des Finances du Québec	2.0	3.2	3.3	3.3	3.2	3.0	3.2
Private sector average	2.5	3.3	3.8	3.5	3.5	3.3	3.5

Note: Averages may not add due to rounding.
(1) GDP deflator.
Source: Ministère des Finances du Québec summary as of March 1, 2016, which includes the forecasts of 11 private sector institutions.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

The Québec economy is open to the world. In 2014, total exports accounted for over 46% of Québec's nominal GDP.

— Even though Québec has diversified trade in recent years, Canada and the United States are still its main trading partners.

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

Economic activity in Québec is influenced by the situation of its main trading partners, in particular through exports. Thus, in the coming years:

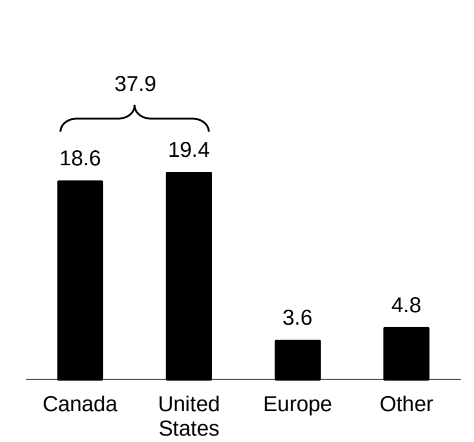
— exports to the United States are expected to continue increasing due to ongoing growth of the U.S. economy and depreciation of the Canadian dollar;

— exports to the rest of Canada are expected to pick up again as the negative effects of low energy prices in the Western provinces dissipate;

— exports to the rest of the world should see a moderate increase in connection with the gradual strengthening of the global economy.

CHART C. 20

Share of exports in Québec's GDP, by destination
(percentage of nominal GDP, 2014)

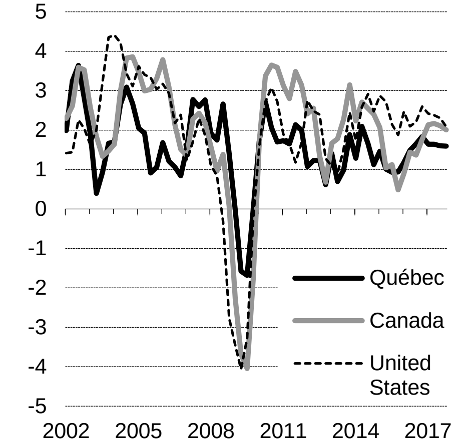


Note: Figures have been rounded off.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART C. 21

Change in real GDP

(annual percent change)



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

2.1 The economic situation in Canada

❑ Canada's economy slowed by the oil sector

Following a 2.5% increase in 2014, Canada's real GDP growth decelerated to 1.2% in 2015.

— The protracted weakness in oil prices led to a significant decline in investment in the oil sector, slowing economic activity in the oil-producing provinces.

— By contrast, falling oil prices, the weak Canadian dollar and robust economic growth in the United States benefited provinces that do not produce oil, moderating the slowdown in Canada's economy as a whole.

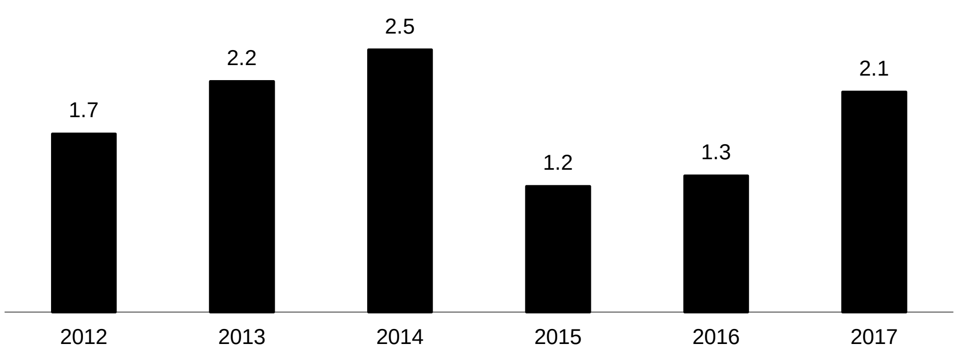
In 2016 and 2017, Canada's real GDP growth is expected to be 1.3% and 2.1%, respectively. The negative effects of low energy prices will gradually wane as the positive effects strengthen.

— The oil-producing provinces will likely continue facing difficulties in 2016. However, the overall impact on the Canadian economy will attenuate as economic activity in the non-resource sector strengthens. A gradual rebound in oil prices should support economic activity in 2017.

— In provinces that do not produce oil, the positive impact of low oil prices and a weak loonie should be more pronounced, leading to an acceleration of investment and employment outside the oil sector.

CHART C.22

Economic growth in Canada
(real GDP, percent change)



Sources: Statistics Canada and Ministère des Finances du Québec.

A shifting economy in Canada

On January 20, 2016, the Bank of Canada released its *Monetary Policy Report*, in which it says that the Canadian economy is in the midst of a long-term and complex process of reorientation toward the non-resource sector.

- According to the Bank, the adjustments involve shifts in economic activity and a reallocation of labour that involve a long-term reduction in the resource share of the Canadian economy and an increase in the non-resource share.

A transition with various channels of transmission

According to the Bank of Canada, the adjustment has many channels of transmission, with varying effects, timing and magnitude.

First, the restructuring of the resource sector was front-loaded relative to other adjustments and immediately began to reduce output in that sector. The commodity-producing sector has shrunk rapidly, significantly reducing investment and employment.

- According to the Bank, the effects of this process on the level of Canada's GDP are expected to peak roughly in mid-2016.

The second main channel of the adjustment involves the broader real income effects in the Canadian economy of the decline in the terms of trade.

- Lower wealth and real domestic income can weigh on household expenditures and business investment.
- The effect of this channel was slower to materialize, but is being felt in the economy and is expected to continue being felt over the next few quarters.

Finally, a reallocation of productive resources to the non-resource sector, facilitated by the depreciation of the exchange rate, is helping to gradually rebuild capacity in the non-resource sector and accelerate economic growth.

- This adjustment process takes more time, extending over several years.

Canada's two-tiered economy

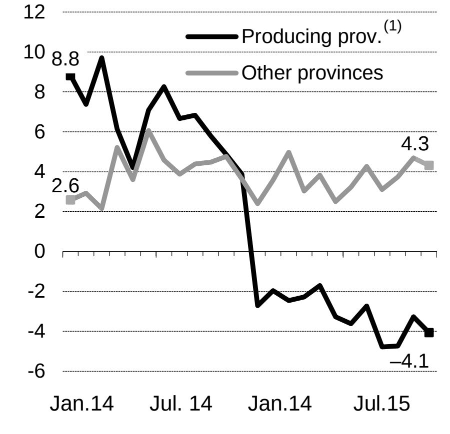
In 2015, the plunge in oil prices, low Canadian dollar and robust economic growth in the United States benefited provinces that do not produce oil, especially Québec, Ontario and British Columbia.

By contrast, the protracted weakness in oil prices led to a deterioration in the economic situation in the oil-producing provinces, that is, Alberta, Saskatchewan and Newfoundland and Labrador.

This divergence is reflected in a number of economic indicators. More specifically:

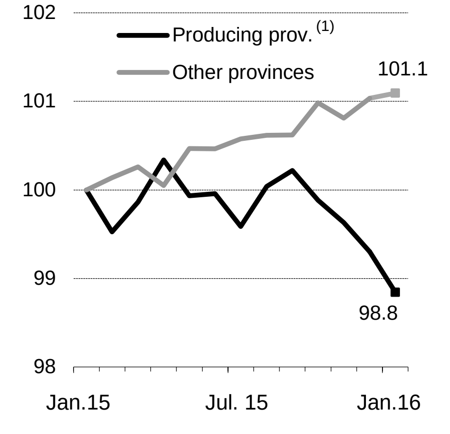
- retail sales in nominal terms have been sliding since January 2015 in the oil-producing provinces, but increasing in the other provinces;
- moreover, consumer confidence has waned significantly in the Prairie Provinces. According to the Conference Board of Canada, the Index of Consumer Confidence has fallen by more than half in the Prairies, from 104.0 points in January 2014 to 42.4 points in February 2016;
- in addition, job losses rose in the oil-producing provinces at the end of 2015, whereas the other provinces saw continued employment growth;
- housing starts in the oil-producing provinces fell 13.4% in 2015 over 2014, whereas they were up 9.4% in the other provinces.

Change in retail sales
(annual percent change, in nominal terms)



(1) The oil-producing provinces are Alberta, Saskatchewan and Newfoundland and Labrador.
Source: Statistics Canada.

Change in employment
(index, January 2015 = 100)



(1) The oil-producing provinces are Alberta, Saskatchewan and Newfoundland and Labrador.
Source: Statistics Canada.

❑ The labour market remains resilient, despite job losses in the resource sector

The national labour market remained resilient in 2015.

- Overall, 144 400 jobs were created in Canada, an increase of 0.8%. Of that number, 82 600 jobs were created in Québec and Ontario.
- However, the job market in oil-producing provinces was hit hard during the year.
  - In Alberta, for example, the unemployment rate rose from 4.6% in January 2015 to 7.4% in January 2016, exceeding the Canadian average.

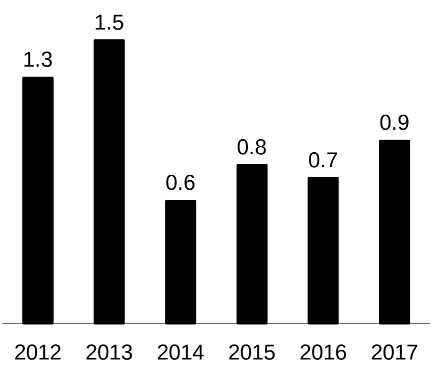
In 2016, the employment level in Canada is expected to increase by 0.7%, which represents roughly 134 000 new jobs.

- An acceleration in economic activity in the central provinces, in particular Québec and Ontario, is expected to fuel robust growth in employment in these regions.
- The difficult labour market conditions in oil-producing provinces are expected to continue.
- Canada's unemployment rate is projected to edge up from 6.9% in 2015 to 7.1% in 2016.

The anticipated upturn in Canada's economy in 2017 should further support job creation. Employment is forecast to expand by 0.9%, adding nearly 170 000 new jobs and pushing the unemployment rate down to 6.9%.

CHART C.23

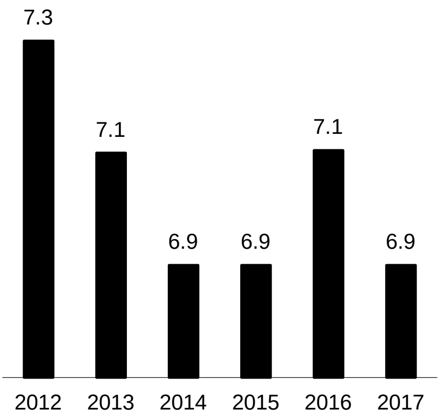
Job creation in Canada
(percent change)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.24

Unemployment rate in Canada
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Household consumption will grow at a moderate pace

Canadian household consumption is projected to increase by 1.9% in 2016 and 2.0% in 2017 in real terms, after growing by 1.9% in 2015. This is a slightly slower pace of growth than in previous years, reflecting the slowdown in Canada's economy.

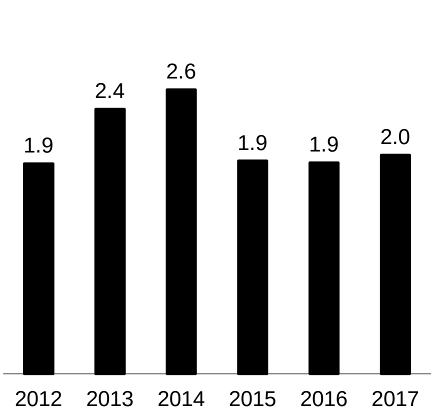
Household consumption expenditure will be supported by, in particular, low pump prices, which enable households to use the money they save to purchase other goods and services.

— However, the increasing job losses in the oil sector will lead to sluggish growth in wages and salaries, which will have a dampening effect on consumer spending.

  — The dampening effect will be partially offset, though, by strong growth in employment in provinces that do not produce oil, supporting wage growth in these regions.

CHART C.25

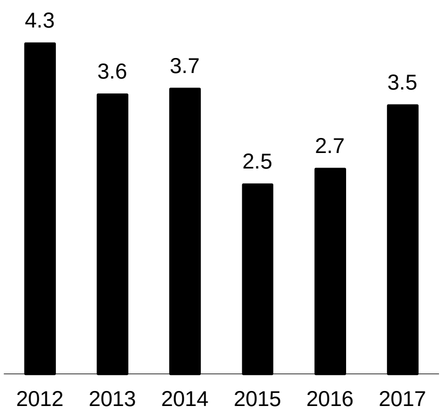
Household consumption expenditure in Canada
(percent change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.26

Wages and salaries in Canada
(percent change, in nominal terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ The Canadian real estate sector should stabilize

Canada's housing market was surprisingly robust in early 2015 as low interest rates fuelled demand for new homes.

— Housing starts rose in Ontario and British Columbia in 2015, by 18.6% and 10.9%, respectively.

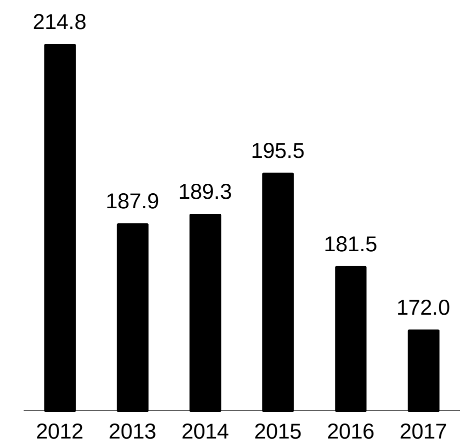
— The gains more than offset the sluggish housing starts in oil-producing provinces, including Saskatchewan (−37.6%) and Alberta (−8.1%).

The upswing in Canada's real estate sector is not likely to last, however. In fact, the demand for new housing, tied to household formation, has largely been filled in recent years in the major urban centres of Toronto and Vancouver. In addition, housing activity in the oil-producing provinces will likely continue trending down.

— As a result, residential investment in Canada is expected to contract 3.7% in 2016 and 2.7% in 2017, in real terms.

CHART C.27

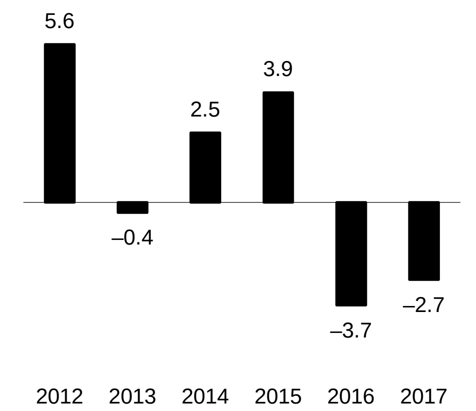
Housing starts in Canada
(thousands)



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

CHART C.28

Residential investment in Canada
(percent change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ The energy sector will continue dampening business investment in Canada

In 2015, non-residential business investment decreased by 8.9% in real terms, including a 15.8% decline in the energy sector.

— Falling oil prices drove down energy investment. At the same time, the decrease in oil prices, weak Canadian dollar and strengthening U.S. demand put increased pressure on the use of production capacity in the manufacturing sector.

— The impact on manufacturing investment is gradual, whereas the impact of reduced investment in the oil sector is immediate.

In 2016, non-residential business investment will drop by 5.6%.

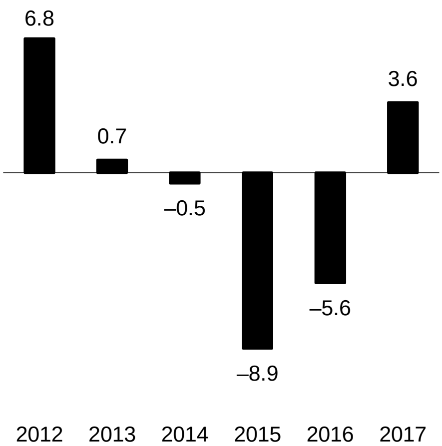
— The renewed oil price drops at the beginning of the year are expected to cause a downturn in energy investment (−11.4%) for the second year in a row. On the other hand, upward pressure on production capacity utilization will be more pronounced, supporting a pickup in investment in the manufacturing sector.

In 2017, an anticipated turnaround in oil prices should allow for an upturn in energy investment. The combined effect of the oil price turnaround and expanding investment in Canada's manufacturing sector should drive a 3.6% increase in total non-residential business investment.

CHART C.29

Non-residential business investment in Canada

(percent change, in real terms)

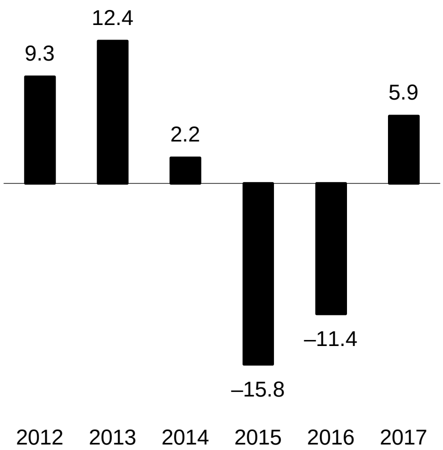


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.30

Non-residential business investment in the energy sector in Canada

(percent change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

Cash costs and breakeven costs in the oil industry

Several producers are able to continue operating

Cash costs, that is, costs excluding investments needed to carry out projects, is the minimum amount at which producers can keep their operations up and running. According to the International Monetary Fund, cash costs in 2014 were roughly:

- US$31 per barrel in Brazil;
- US$23 per barrel in Canada;
- US$14 per barrel in the United States;
- US$5 per barrel in Saudi Arabia.

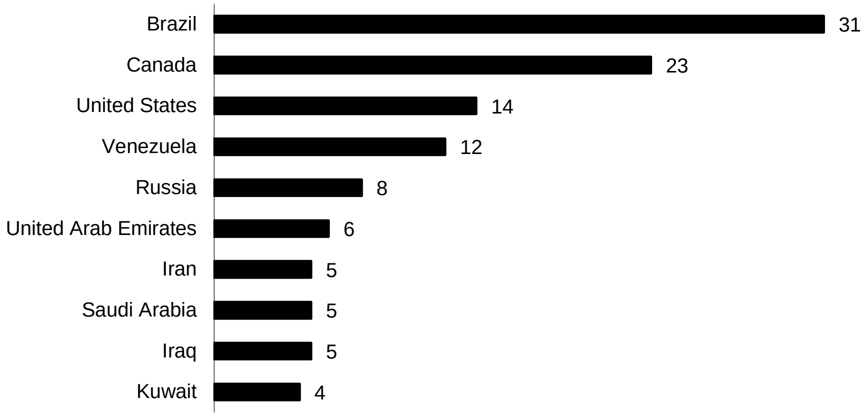
Current oil prices will enable several companies to continue producing oil. However, since they are averages, current prices may be too low to cover some producers' cash costs.

The oil price needed to launch new projects in Canada is around US$80 per barrel

The breakeven cost, which includes fixed capital costs for equipment and facilities, is the minimum price threshold needed to invest in new projects.

- According to the Bank of Canada, the threshold is close to US$80 per barrel for crude oil from Western Canada's oil sands and almost US$20 per barrel for oil from Saudi Arabia, one of the world's top producers.

Cash costs for oil production in 2014
(U.S. dollars per barrel)



Source: International Monetary Fund.

❑ Ongoing growth in exports

Good export performance should continue supporting economic growth in Canada over the next few years. Following 3.0% growth in 2015, exports in real terms are expected to expand by 3.8% in 2016 and 3.0% in 2017.

— Depreciation of the loonie, which makes Canadian exporters more competitive, and continued growth in the U.S. economy will continue to boost exports.

— Falling oil prices have little impact on the volume of oil exports.

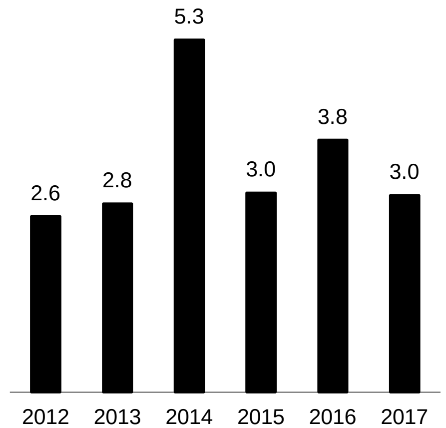
As for imports, they are expected to increase by 0.3% in 2016 and 2.7% in 2017 in real terms, after rising by 0.1% in 2015.

— The modest growth in imports in 2015 and 2016 is due, in particular, to the downturn in energy investment and depreciation of the Canadian dollar, which makes imported products costlier.

— In 2017, reinforcement of economic growth in Canada is expected to drive import growth.

CHART C.31

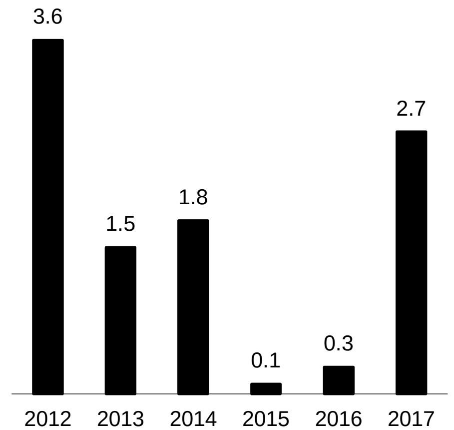
Canadian exports
(percent change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.32

Canadian imports
(percent change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

Decrease in unit labour costs in Canada

Like other economies, Canada benefited from the depreciation of its currency against the U.S. dollar. In fact, the low Canadian dollar, which has been sliding since 2012 with falling commodity prices, helped reduce production costs for manufactured Canadian goods expressed in U.S. dollars.

- Unit labour costs in Canadian dollars decreased by 1.2% in 2014. Expressed in U.S. dollars, the decrease was 8.1%, the biggest decline among the G7 nations.

The sharp decrease in unit labour costs shows the importance of the exchange rate to the Canadian manufacturing sector's competitiveness.

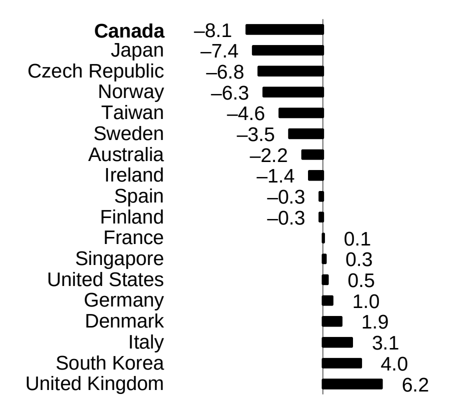
Favourable outlook for the coming years

In the next few years, Canada's manufacturing sector should become increasingly competitive on international markets, facilitating the transition of the Canadian economy to the non-resource sector.

- The Canadian manufacturing sector's competitiveness in the U.S. marketplace will be supported by the protracted weakness in the Canadian dollar, which is expected to remain below US$0.80 for the next few years.

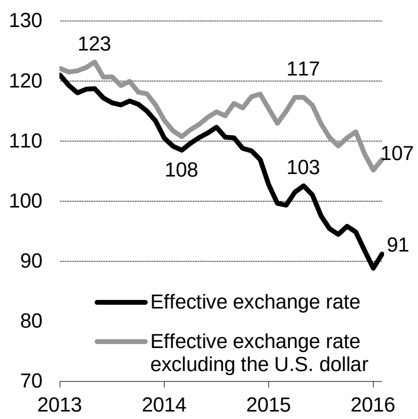
- The competitiveness of the manufacturing sector will also get a boost from the recent depreciation of the Canadian dollar against the currencies of the country's trading partners excluding the United States.

Change in unit labour costs in the manufacturing sector, 2013 to 2014
(U.S. dollars, percent change)



Sources: Conference Board and Ministère des Finances du Québec.

Canadian-dollar effective exchange rate indexes[1]
(indexes, year 1992 = 100)



(1) Weighted average of Canadian dollar exchange rates against the currencies of Canada's top six trading partners.
Sources: Bank of Canada and Ministère des Finances du Québec.

❑ Gradual acceleration in Canada's nominal GDP growth

In 2015, the drop in oil prices and depreciation of the Canadian dollar influenced Canadian GDP prices.

— Low oil prices drove down the value of Canadian exports, Canada being a net exporter of petroleum products.

— In contrast, the low Canadian dollar drove up import prices.

— Furthermore, the decrease in gasoline prices continued to put downward pressure on domestic demand prices.

The slowdown in price growth, coupled with slower economic activity, resulted in modest growth of 0.6% in nominal GDP.

In 2016, nominal GDP growth should accelerate to 2.2%.

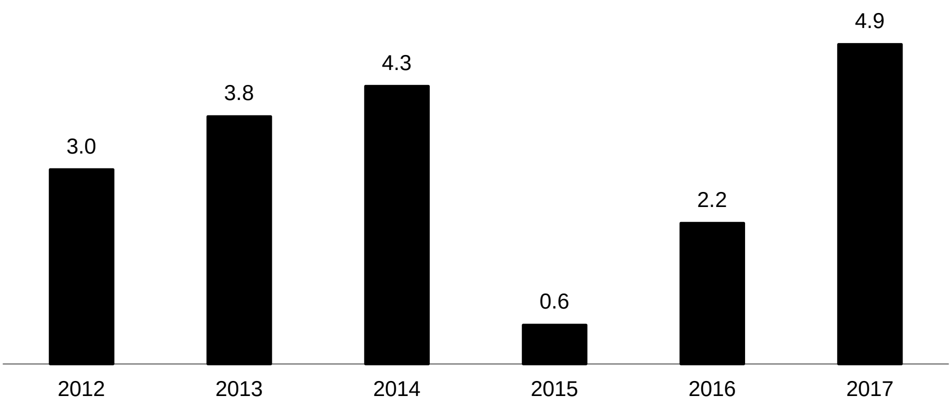
— The impact of lower oil prices should gradually wane, enabling a gradual pickup in GDP prices.

In 2017, growth in Canada's nominal GDP is expected to rebound to 4.9%.

— The gradual recovery in oil prices will have a positive effect on the GDP deflator through domestic demand prices and export prices. Moreover, an acceleration in the real economy will provide an additional boost for nominal GDP growth.

CHART C.33

Nominal GDP in Canada
(percent change)



Sources: Statistics Canada and Ministère des Finances du Québec.

2.2 The economic situation in the United States

❑ The U.S. economy will be driven by domestic demand

After growing by 2.4% in 2015, the U.S. economy continues to expand, with expected growth of 2.3% in 2016 and 2017.

For the next two years, U.S. economic growth will be driven by domestic demand, which is projected to rise by 3.0% in 2016 and 2.7% in 2017, after increasing by 2.8% in 2015. Domestic demand will benefit from:

— an increase in consumer spending, spurred by faster wage growth and low gasoline prices;

— continuing catch-up in the residential sector, which will stimulate residential investment;

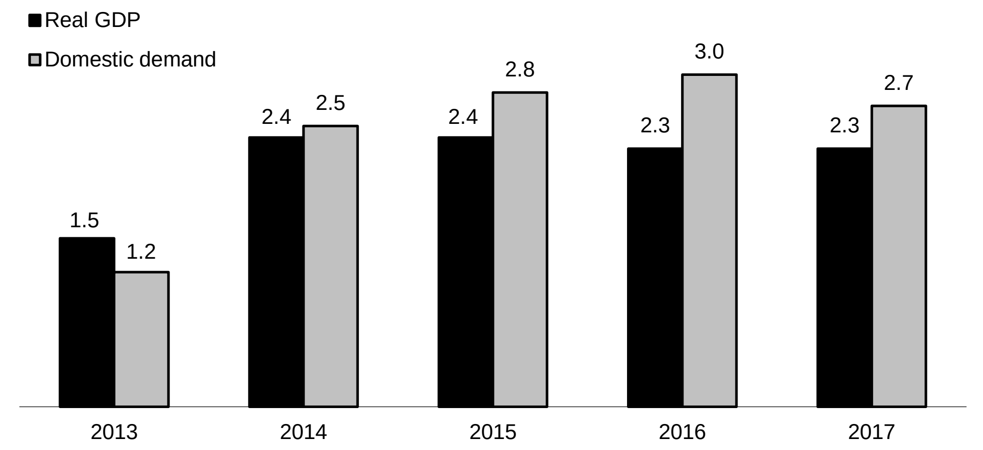
— greater business investment in the non-energy sector;

— a one-time increase in federal government spending in 2016.

However, real GDP growth will be moderated by weak export growth as a result of the strong U.S. dollar and the less-favourable global economic conditions.

CHART C.34

Economic growth in the United States
(GDP and domestic demand, percent change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Consumer spending spurred by improved labour market conditions

Consumer spending rose by 3.1% in 2015 and is expected to continue with robust growth of 2.7% in 2016 and 2.6% in 2017.

— Consumption will be supported by an increase in real personal disposable income, of 3.1% in 2016 and 2.8% in 2017, due mainly to faster hourly wage growth and consistently high job creation.

In addition, consumer spending will be boosted by the impact of low oil prices on household purchasing power as well as by higher house prices, which increase household net worth.

— The household savings rate stood at 5.2% in January 2016, with consumers saving part of their increased purchasing power stemming from lower oil prices. In the coming quarters, an increasing share of those savings may go towards consumption.

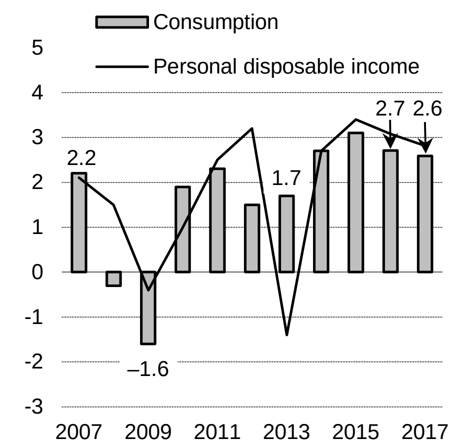
— Real estate prices rose by 5.1% in 2015, which may prompt stronger growth in consumer spending. A 10% increase in home value is estimated to increase consumer sending by nearly 0.6%.

Furthermore, despite the significant turmoil in financial markets at the beginning of the year, consumer confidence remained high, averaging 95 points in January and February 2016.

CHART C.35

Consumption and personal disposable income in the United States

(percent change, in real terms)

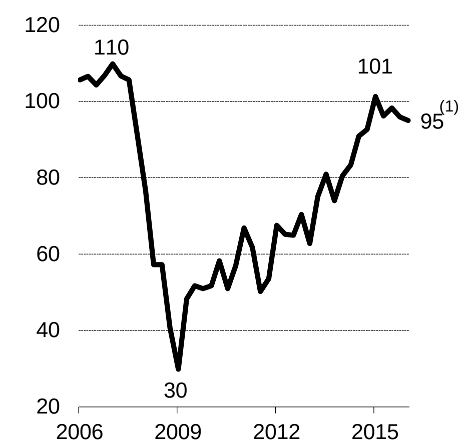


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.36

Consumer confidence in the United States

(index, 1985 = 100, quarterly data)



(1) Average for January and February 2016.
Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Ongoing improvement in the labour market

After peaking at 2.9 million new jobs in 2015, U.S. job creation is expected to moderate over the next two years and stand at 2.4 million jobs in 2016 and 1.5 million in 2017.

U.S. employment continued its sharp upward trend in recent months, while the unemployment rate continued to trend down.

— The last quarter of 2015 saw an average of over 250 000 jobs created each month.

— The unemployment rate was 4.9% in February 2016, down 6/10ths from February 2015.

This strong job creation is partly catch-up. A shrinking under-utilized labour pool and weaker growth among the potential labour pool will moderate job creation over the next few years.

Nevertheless, labour market conditions in the United States will continue to improve.

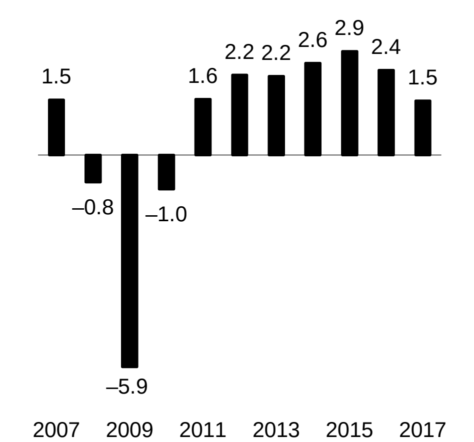
— The under-utilized labour pool will shrink further with the creation of over 100 000 jobs a month, the threshold at which the unemployment rate remains stable.

— Average hourly wage growth in the private sector is expected to rise from 2.1% in 2015 to 2.3% in 2016 and 2.8% in 2017.

CHART C.37

Job creation in the United States

(annual change, millions)

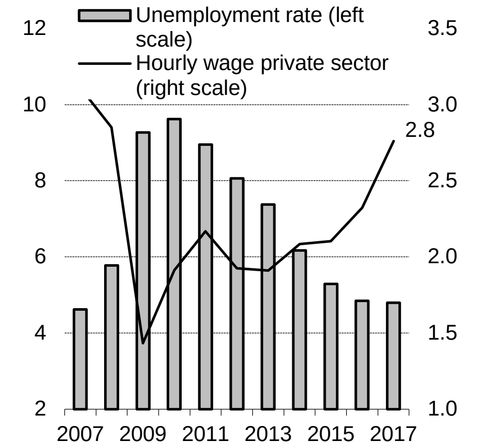


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.38

Unemployment rate and hourly wage in the United States

(per cent, annual data)



Sources: IHS Global Insight and Ministère des Finances du Québec.

More sustained wage growth in the United States

Following the 2008-2009 recession, 7.6 million jobs were lost in the United States. Despite the ground made up since 2010, a portion of the labour force remains under-utilized, resulting in weak hourly wage growth.

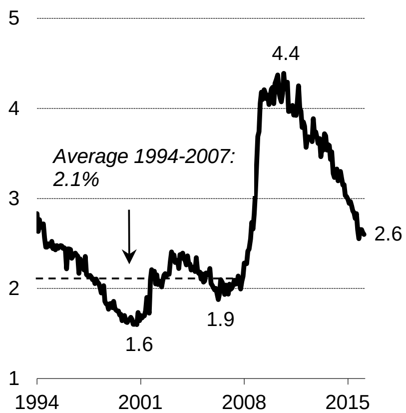
- The large pool of potential workers willing to join the labour market has suppressed wage growth, which has averaged below the annual rate of 3%, the threshold established by the U.S. Federal Reserve as the "normal" growth.
- On average, the hourly wage has risen by 2.1% annually since 2010, a slower pace than the average annual growth of 3.2% from 1990 to 2007.

The under-utilized labour pool has shrunk considerably since 2010

There have been several signs of improvement in the job market recently and this should lead to stronger hourly wage growth in the coming quarters.

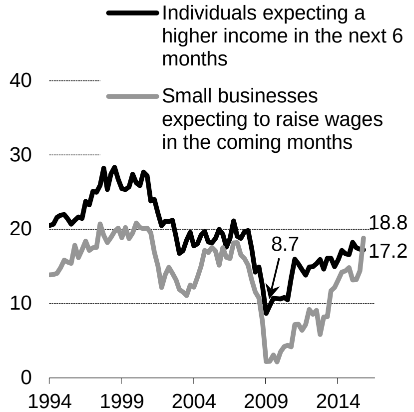
- For example, the share of discouraged unemployed persons and involuntary part-time workers in the population aged 16 and over dropped from a high of 4.4% in 2010 to 2.6% in February 2016.
- The share of individuals expecting their income to increase within the next six months rose substantially from a low of 8.7% on average in the first quarter of 2009 to 17.2% in the fourth quarter of 2015.
- At the same time, the share of independent small-business owners planning to give their employees a pay raise in the coming months reached a high of 18.8% in the fourth quarter of 2015.

Under-utilized labour pool[1]
(per cent of population aged 16 and over, monthly data)



(1) Includes discouraged unemployed persons and involuntary part-time workers.
Sources: IHS Global Insight and Ministère des Finances du Québec.

Wage outlook
(per cent, quarterly data)



Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Positive outlook for non-energy investment

After slowing to 2.9% in 2015, growth in real business investment is expected to gain traction, reaching 3.9% in 2016 and 4.8% in 2017.

An expansion of total business investment in 2016 will be supported primarily by the positive impact of robust U.S. consumption. However, some of the factors seen in 2015 will continue, dampening investment. Those factors include, in particular:

— the negative impact of low oil prices on firms in the energy sector, which will put a drag on investments in this sector;

— the strong U.S. dollar and uncertain global economic conditions, which will continue to curtail growth in business investment by U.S. exporters.

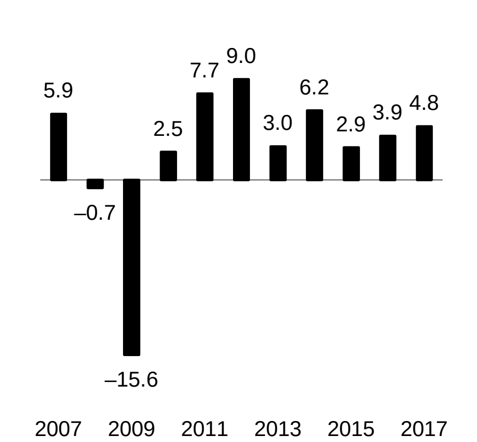
■ More sustained growth in the non-energy sector

Despite the adverse effect of the strong dollar on business investment by exporting firms, investment in the non-energy sector, which accounts for nearly 95% of total business investment in the United States, is expected to outpace the historical trend.

— Non-energy investment is expected to rise by 5.1% in 2016 and 4.7% in 2017, surpassing the average growth rate of 3.1% between 2000 and 2007.

CHART C.39

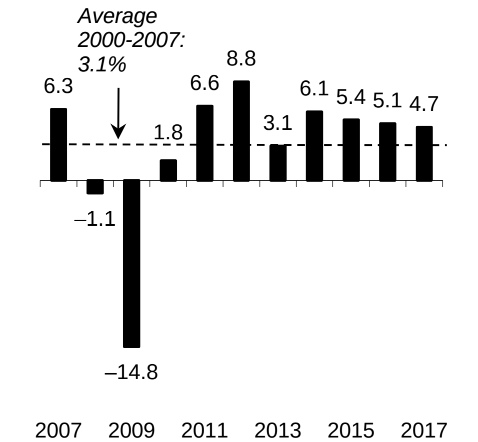
Business investment in the United States
(percent change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.40

Investment in the non-energy sector in the United States
(percent change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Continued growth in residential investment

The recovery in the U.S. residential sector is ongoing. Following 8.7% growth in 2015, residential investment is projected to rise by 8.4% in 2016 and 6.9% in 2017.

— This strong growth will be boosted by household formation, which should be around 1.2 million during the next two years. In addition, job creation for people between the ages of 25 and 34 was up 2.4% in 2015, a nearly 30-year record.

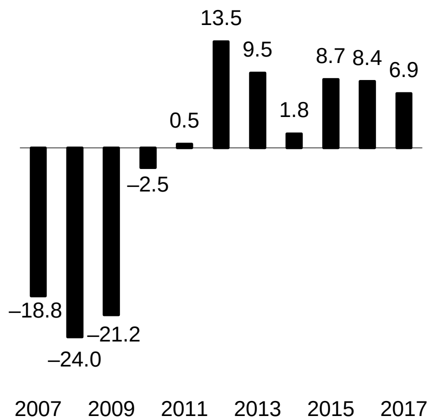
— The growth in residential investment should also be supported by the fact that households are gradually getting back into the housing market after cleaning up their balance sheets in the wake of the 2008-2009 recession.

Housing starts are expected to reach 1.2 million units in 2016 and 1.5 million units in 2017.

— They will be boosted by the shrinking inventory of homes for sale, which in 2015 was the lowest it had been since 2005. This situation should encourage construction companies to build new homes.

CHART C.41

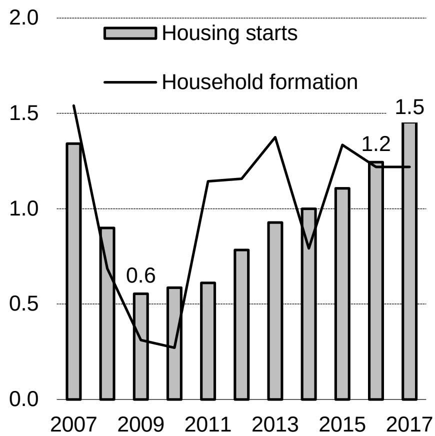
Residential investment in the United States
(percent change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.42

Housing starts and household formation in the United States
(millions)



Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Increased spending by the U.S. federal government in 2016

Spending by all levels of government in the United States is projected to increase in real terms by 2.1% in 2016 and 0.5% in 2017, after rising by 0.7% in 2015.

— Federal government spending in real terms is expected to rise by 3.4% in 2016 and then decrease by 0.6% in 2017.

— Spending by state and local governments is projected to increase by 1.3% and 1.2% in the next two years, respectively.

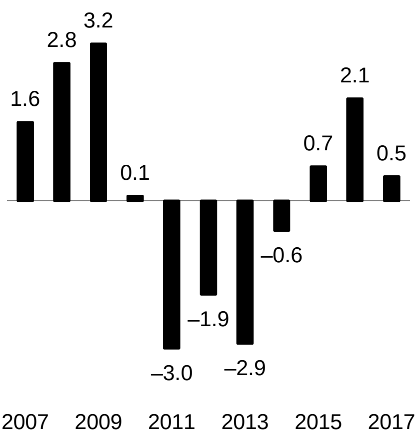
The growth in government spending in the United States will stem from:

— a one-time increase in federal government spending in 2016 under the terms of budget agreements that temporarily raise discretionary spending, especially for transportation, education and defence;

— increased spending by state and local governments, which have higher revenues, as a result of labour market improvement and higher infrastructure transfers.

CHART C.43

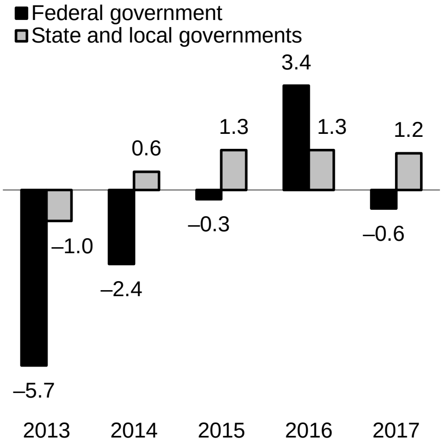
Government spending in the United States[1]
(percent change, in real terms)



(1) Spending by all levels of government.
Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.44

United States federal, state and local government expenditures
(percent change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Exports tempered by appreciation of the U.S. dollar

After rising by 1.1% in 2015, exports are projected to climb by 1.6% in 2016 and 3.3% in 2017. U.S. exports should continue to grow at a moderate pace over the next few years.

— A higher dollar makes U.S. firms less competitive on the global market.

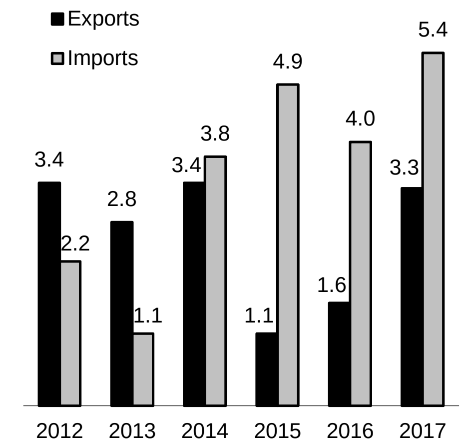
— The still-uncertain global economic situation results in weaker economic growth among several of the United States' key trading partners, including Canada and Latin America.

Imports are expected to continue getting a boost from stronger domestic demand and appreciation of the U.S. dollar.

— As a result, imports should expand by 4.0% in 2016 and 5.4% in 2017, after rising by 4.9% in 2015.

CHART C.45

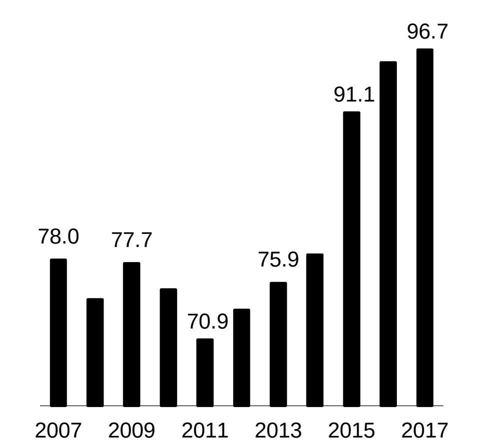
U.S. exports and imports
(percent change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.46

U.S. dollar exchange rate(1)
(index, March 1973 = 100)



(1) U.S. dollar exchange rate weighted by trade with the United States' top seven trading partners, annual averages.
Sources: Bloomberg and Ministère des Finances du Québec.

U.S. manufacturing sector recently influenced by the strong dollar

While the U.S. economy is still on solid ground, appreciation of the dollar curtails U.S. real GDP growth.

The U.S. manufacturing sector has showed signs of a slowdown for several months now.

- Since October 2015, the ISM Manufacturing Index has been below 50 points, indicating a contraction in this sector.
- Manufacturing production was up 1.2% in January 2016 over the same period the previous year, representing a significant slowdown compared to the 4.7% growth posted in January 2015.

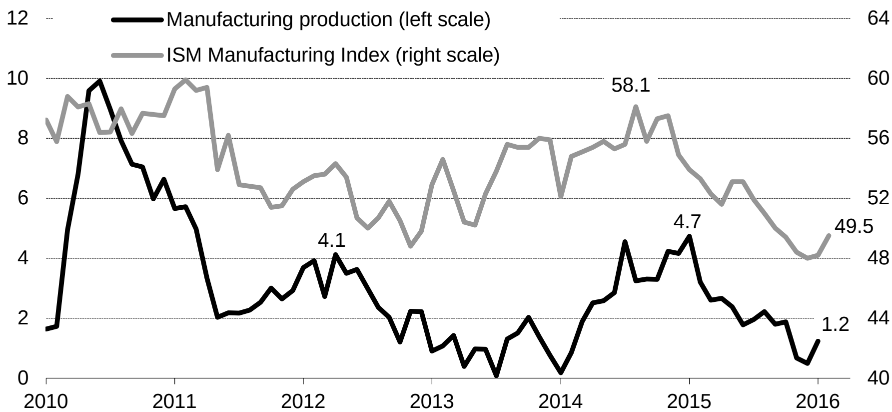
The strength of the U.S. dollar is partially responsible for the recent slump in the country's manufacturing sector. The greenback appreciated 16% in 2015 against the currencies of the United States' major trading partners, making U.S. exporting firms less competitive.

- The Federal Reserve Bank of New York estimates that a 10% appreciation of the U.S. dollar reduces exports by 2.6% the year following the appreciation.
- Some analysts estimate that exports represent 20% of final demand for the U.S. manufacturing sector.

The negative impact of the strong dollar on the U.S. economy as a whole is expected to be limited, as the economy will continue to benefit from robust domestic demand.

- In 2015, the share of exports in U.S. real GDP was 13% and the manufacturing sector contributed just 9% to total employment in the United States.

Manufacturing production and ISM Manufacturing Index
(annual percent change in manufacturing production and ISM index in level)



Sources: IHS Global Insight and Ministère des Finances du Québec.

3. CHANGES IN FINANCIAL MARKETS

❑ Turbulent start to the year for financial markets

Growing concern about the global economic situation recently led to heightened volatility across financial markets.

— For example, the Shanghai Stock Exchange Composite Index and the S&P 500 plummeted by 25% and 12%, respectively, between the end of December and mid-February. In addition, the demand for less-risky assets led to lower bond yields in the United States, Canada and Germany.

This turmoil reflects major changes in the global economy.

— China is transitioning to a growth model driven by consumption and services. The country is experiencing a moderation in economic growth during the transition.

— Oil prices have plunged 70% since mid-2014, causing difficulties in several oil-producing economies.

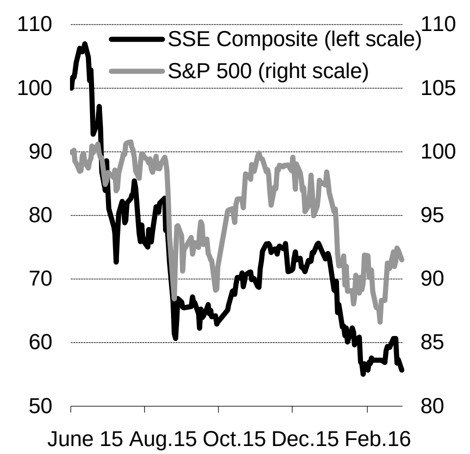
— At the end of 2015, the U.S. Federal Reserve announced the first interest rate hike in ten years. The rate increase marked the start of reallocation of financial assets around the globe.

Despite the turmoil, the fundamentals of the world economy remain favourable and global growth is expected to continue in 2016 and 2017.

CHART C.47

Chinese and U.S. stock market indexes

(indexes, June 1, 2015 = 100)

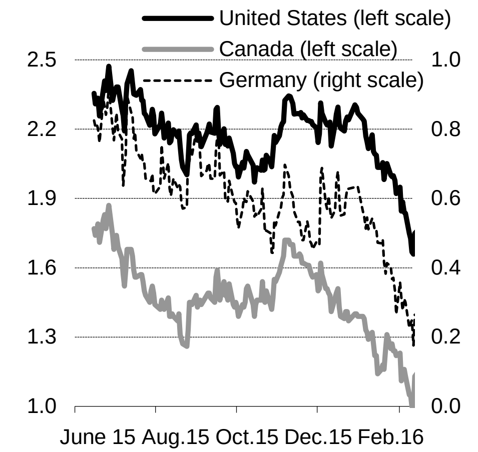


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.48

Yield on 10-year government bonds

(per cent)



Sources: Statistics Canada, Bloomberg and Datastream.

❑ The U.S. Federal Reserve is expected to continue raising its key interest rate

In December 2015, the U.S. Federal Reserve (Fed) raised its key interest rate 25 basis points to a target range of 0.25%-0.50%.

— The Fed expected that economic conditions would evolve in a manner that would warrant only gradual increases of the federal funds rate.

However, owing to the turmoil in financial markets at the start of 2016, as well as concerns about global economic developments, the pace of monetary tightening in the United States is uncertain.

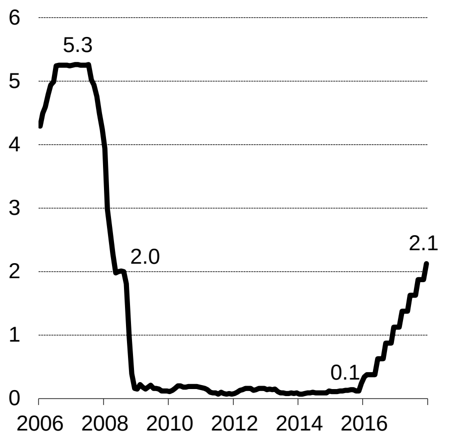
The Ministère des Finances du Québec expects an easing of tensions on financial markets and continued economic growth in the United States.

— These changes should allow the Fed to continue raising its key interest rate gradually as of June 2016. Interest rate hikes are likely to continue over the coming years.

CHART C.49

Key interest rate in the United States

(federal funds rate, per cent)

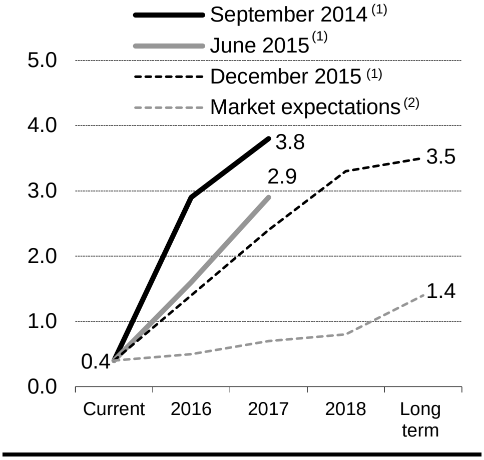


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.50

U.S. Federal Reserve projections for the key interest rate and financial market expectations

(per cent at year-end)



(1) Median projection of the 17 participants in the Federal Open Market Committee.
(2) Based on the overnight index swap (OIS) curve on March 4, 2016.
Sources: U.S. Federal Reserve and Bloomberg.

Negative interest rates in several countries

A number of central banks have introduced negative interest rates

Since the 2008-2009 financial crisis, central banks have had considerably less leeway to stimulate the economy, with policy rates down to near zero in several advanced economies.

Against this backdrop, some central banks have introduced negative interest rates to spur credit growth and inflation.

- In June 2014, the European Central Bank (ECB) reduced its deposit facility rate to below zero.
- In January 2016, the Bank of Japan followed suit by cutting its interest rate for certain deposits to −0.10%. Japanese officials said they may lower it even further if the economic situation warrants.
- Other central banks in Europe, such as the Swiss National Bank (SNB) and the central banks in Sweden and Denmark, have also adopted negative interest rates in recent years.

Central banks pursue different objectives

Central banks may have different objectives in adopting negative interest rates. For instance, the objective may be to:

- encourage commercial banks to inject liquidity into the real economy in the form of credit, instead of depositing it in the central bank;
- stimulate inflation through domestic demand, where certain central banks, such as the ECB and SNB, are dealing with very low or negative inflation;
- put downward pressure on the exchange rate in order to spur exports.

❑ Extended status quo for the Bank of Canada

In January 2016, the Bank of Canada (BoC) left its target for the overnight rate unchanged at 0.50%. In 2015, the BoC lowered the rate twice to offset the negative impact of falling oil prices on the Canadian economy.

— According to the BoC, the long-term reorientation of the Canadian economy toward the non-resource sector is being facilitated by the lower Canadian dollar, strengthening demand in the United States and the accommodative monetary and financial conditions.

— In addition, the BoC expects fiscal policy in Canada to provide an increasing contribution to economic growth over the coming years with the upcoming federal budget expected to include additional fiscal stimulus.

The weak Canadian dollar and accommodative fiscal policy should enable the BoC to leave its key interest rate unchanged until at least mid-2017.

❑ Record-low bond yields

Canadian bond yields have fallen sharply in recent months, reaching record lows in February.

— Canadian rates have trended in lockstep with U.S. rates, which have been trending down. The trending pattern reflects the increased demand for less-risky financial assets stemming from the turmoil in international financial markets at the beginning of the year.

Canadian bond yields are expected to gradually trend upward over the coming quarters as a result of the anticipated increase in U.S. rates and gradual improvement in the outlook for Canada.

TABLE C. 5

Canadian financial markets
(average annual rate in per cent, unless otherwise indicated)

	2015	2016	2017
Target for the overnight rate	0.6	0.5	0.6
3-month Treasury bills	0.5	0.5	0.7
10-year bonds	1.5	1.5	2.3
Canadian dollar (in U.S. cents)	77.5	70.6	71.9

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

❑ A continuing weak Canadian dollar in 2016 and 2017

The Canadian dollar depreciated nearly 15% in 2015, falling from an average value of 90.2 U.S. cents in 2014 to 77.5 U.S. cents in 2015. It was especially weakened by falling oil prices.

— The downward trend continued in early 2016, with the loonie falling to 69 U.S. cents in mid-January before edging up.

The loonie is expected to remain weak against the U.S. dollar in the coming quarters, averaging 70.6 U.S. cents in 2016 and 71.9 U.S. cents in 2017.

— Oil prices will remain low, as global oversupply continues to exert downward pressure on price in the short term. The value of the Canadian dollar is highly correlated to oil prices.

— The U.S. Federal Reserve is expected to pursue increases in its key interest rate in 2016, whereas the Bank of Canada is expected to wait several quarters before raising its key interest rate.

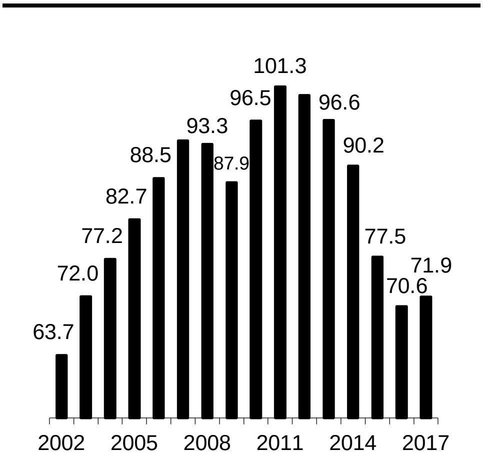
  — The interest rate spread between the two countries will be in favour of the U.S. dollar.

— Lastly, the U.S. dollar is projected to remain high against the currencies of the United States' top trading partners owing to the relative strength of the U.S. economy.

CHART C.51

Canadian dollar exchange rate

(U.S. cents, annual average)

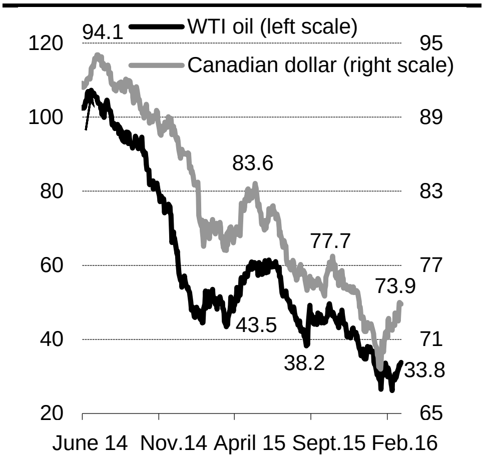


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.52

Price of WTI oil and Canadian dollar exchange rate

(U.S. dollars per barrel and U.S. cents, daily data)



Sources: Bloomberg and Ministère des Finances du Québec.

❑ Oil prices will remain low

Oil prices are expected to remain weak in 2016, especially with the persistent oversupply. Equilibrium in the oil market will be gradually restored.

According to the U.S. Energy Information Administration, oil production by countries not belonging to the Organization of the Petroleum Exporting Countries (OPEC), particularly in the United States, will decrease in 2016. However, the decrease will be largely offset by increased production by OPEC members, primarily Iran.

— Consequently, in 2016, global oversupply is expected to be around 1.1 million barrels per day (mb/d).

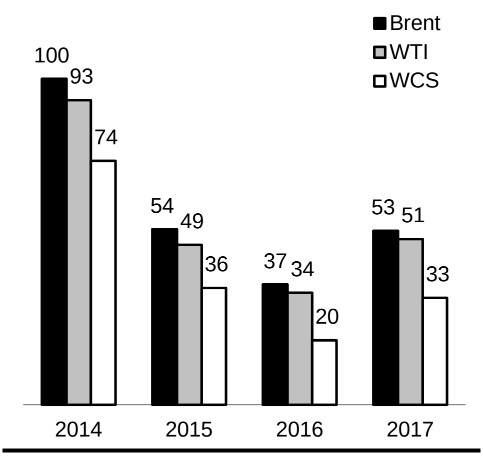
— Oversupply is expected to drop to 0.3 mb/d on average in 2017 due to contraction in U.S. production and strengthening global demand, leading to a moderate price increase.

The price of Brent crude oil is projected to average US$37 per barrel in 2016 and US$53 in 2017. The price of West Texas Intermediate (WTI) is expected to average US$34 in 2016 and rise to US$51 in 2017.

— The price of Western Canada Select (WCS), the benchmark price for oil in Western Canada, is expected to be US$20 per barrel in 2016 and US$33 in 2017.

CHART C.53

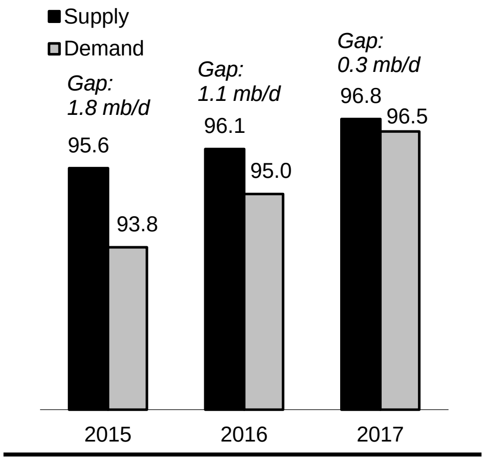
Change in Brent, WTI and WCS oil prices
(U.S. dollars per barrel)



Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.54

Global oil supply (excluding inventories) and demand
(millions of barrels per day)



Sources: U.S. Energy Information Administration and Ministère des Finances du Québec.

4. THE INTERNATIONAL ECONOMIC CONTEXT

Overall, the outlook for global economic growth is favourable. Global economic growth is forecast to be 3.1% in 2016 and 3.3% in 2017, after standing at 3.0% in 2015. The gradual strengthening of global economic growth will be supported by:

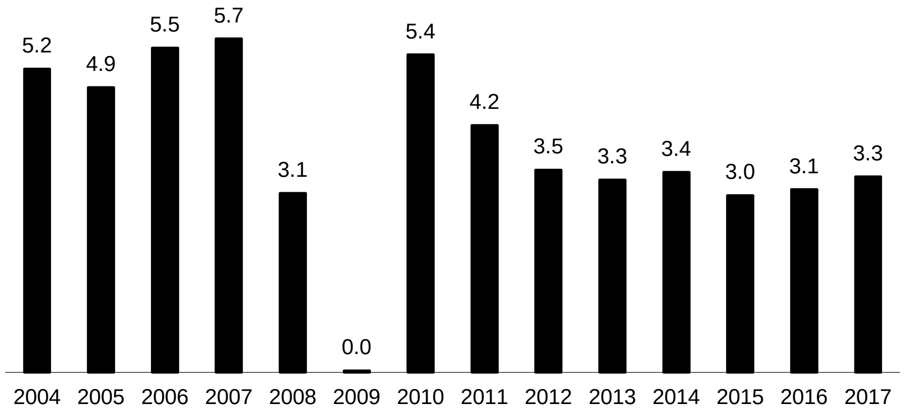
— continued expansion of advanced economies, mainly the United States and Europe;

— improvement in the economic situation in several emerging economies that are less reliant on the natural resource sector.

Furthermore, economic growth in China will moderate while remaining above 6.0% per year and will be outpaced by economic growth in India.

CHART C.55

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



Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

Moving to a new level of global economic growth

Global economic growth averaged 4.5% per year between 2000 and 2007. Growth was driven primarily by China, which accounted for nearly one quarter of the increase in world real GDP.

Still, the world economy has not returned to the growth rates seen prior to the global recession in 2008-2009. A number of analysts call this the new "normal".

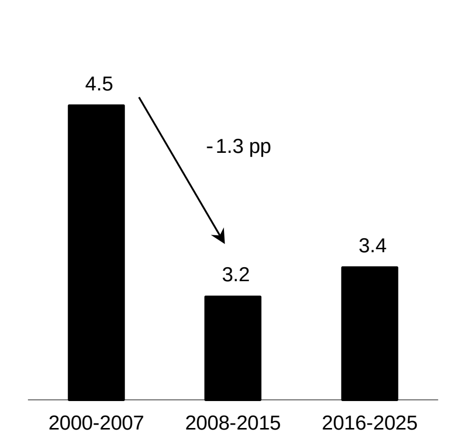
- The average global growth rate between 2008 and 2015 was 3.2% per year, 1.3 percentage points lower than the rate between 2000 and 2007.
- Although a slight improvement is anticipated in the coming years, world real GDP growth is expected to remain below the historic rates, averaging 3.4% between now and 2025.

Significant decline in the growth rate of the working-age population.

The slowdown in global growth is attributable in part to slower growth in the global population between 15 and 64 years of age.

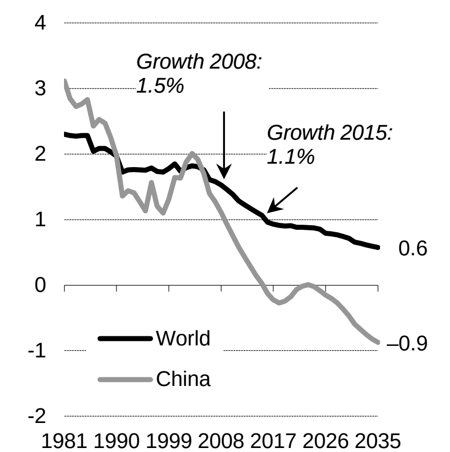
- After averaging 1.9% between 1981 and 2007, the annual growth rate of the population aged 15-64 slowed to 1.5% in 2008. It was 1.1% in 2015 and is expected to gradually drop to 0.6% in 2035.
- More specifically, China, which had made the greatest contribution to global growth since the start of the 2000s, saw its working-age population (15-64) decelerate from 2.0% growth in 2003 to 0.0% growth in 2015. In 2035, this segment of the Chinese population is expected to contract by 0.9%.

Global economic growth
(average annual percent change)



Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances du Québec.

Population aged 15-64
(annual percent change)



Sources: Organisation for Economic Co-operation and Development and Ministère des Finances du Québec.

4.1 Ongoing expansion in advanced economies

Advanced economies are expected to see a growth rate of 1.9% in 2016, the same rate as in 2015, and 2.0% in 2017.

— Consumption in these countries will benefit from consumers' increased purchasing power stemming from falling oil prices and hourly wage growth.

— In addition, highly accommodative monetary policy still in effect in several advanced economies will help drive growth.

Overall, the economic outlook for advanced economies remains favourable.

— In the United States, economic growth will still be driven by robust domestic demand, despite the strong U.S. dollar and the monetary tightening initiated by the Federal Reserve in December 2015.

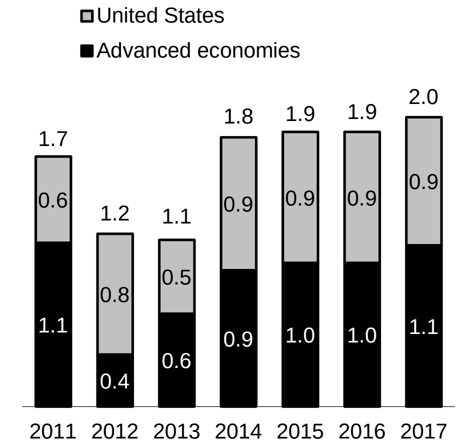
— In the euro area, growth will be supported by exceptionally accommodative monetary conditions, even though the fiscal position of some countries is still of concern.

— In Japan, household consumption is expected to benefit from the downward trend in oil prices. In addition, the negative interest rates adopted by the Bank of Japan at the start of 2016 could provide economic stimulus.

CHART C.56

Growth of advanced economies

(growth in per cent and contribution in percentage points)

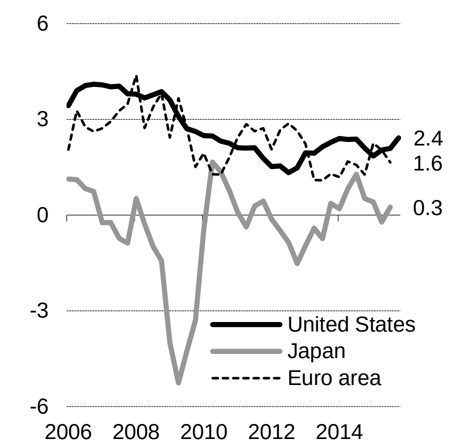


Note: Figures at the top indicate real GDP growth in purchasing power parity.
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART C.57

Hourly wage in selected advanced economies

(annual percent change)



Sources: Organisation for Economic Co-operation and Development and Ministère des Finances du Québec.

4.2 More moderate growth in emerging economies

After slowing to 3.9% in 2015, growth in emerging economies is expected to accelerate to 4.0% in 2016 and 4.3% in 2017. Despite the gradual strengthening, emerging economies will see lower growth rates than the average rate of 5.7% between 2010 and 2014, due to:

— the negative impact of lower oil and other commodity prices on economic activity in several producing countries. Brazil and Russia will likely continue to experience economic difficulties;

— the Chinese economy's transition to a model driven by consumption and services, which is moderating economic growth in a country that accounts for 17% of the global economy;

— tightening of financial conditions in a number of emerging economies in response to capital outflows stemming from, in particular, the U.S. Federal Reserve's decision to raise its key interest rate.

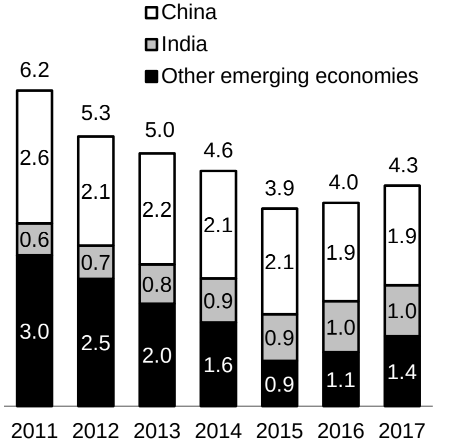
Despite these challenges, economic growth in emerging economies will be supported for the next two years by the strong performance of economies such as India and Indonesia.

— Real GDP growth will be particularly robust in India as a result of the government reforms.

CHART C.58

Growth in emerging economies

(growth in per cent and contribution in percentage points)

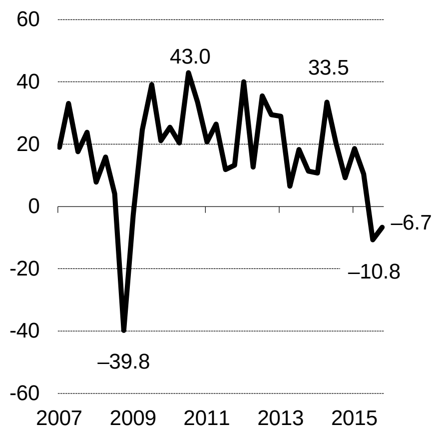


Note: Figures at the top indicate real GDP growth in purchasing power parity.
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART C.59

Net capital flows in emerging economies(1)

(billions of U.S. dollars, quarterly data)



(1) Net portfolio flows.
Sources: Bloomberg and Ministère des Finances du Québec.

Foreign currency debt is making emerging economies vulnerable

In the last few years, growth in emerging economies has been accompanied by higher debt load.

- According to the International Monetary Fund, the estimated total debt of non-financial businesses in emerging economies in 2014 was US$18.2 trillion.
- It had reached 74% of emerging economies' GDP, a 23-percentage-point increase over 2007. In China, the debt/GDP ratio rose 25 percentage points over the same period.

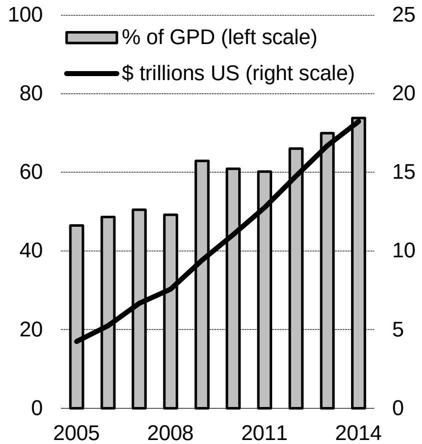
In several emerging economies, a large share of this business debt is in foreign currency, especially U.S. dollars.

- In 2014, the percentage of total business debt denominated in foreign currency was 65% in Hungary and 52% in Indonesia and Mexico.

Businesses have taken advantage of the favourable financing conditions afforded by advanced nations' highly accommodative monetary policies to borrow in foreign currencies. The size of their debt has increased emerging economies' exposure to foreign exchange and interest rate risks.

- Continued interest rate hikes by the U.S. Federal Reserve and appreciation of the U.S. dollar could continue fuelling capital outflows from emerging economies.

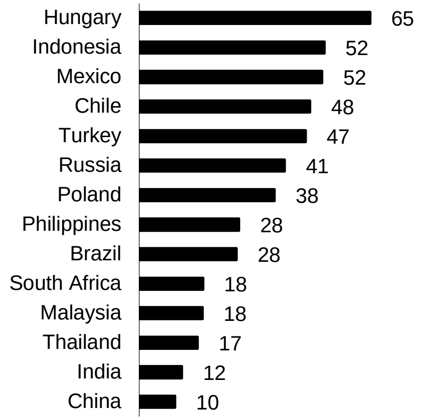
Debt of non-financial businesses in emerging economies
(percentage of GDP, trillions of U.S. dollars)



Source: International Monetary Fund, *Global Financial Stability Report*, October 2015.

Business debt(1) in foreign currencies

(percentage of total debt)



(1) Debt consists of cross-border and domestic obligations and borrowings.
Sources: International Monetary Fund and Ministère des Finances du Québec.

4.3 Outlook by country

Canada's real GDP rose by 1.2% in 2015 and is forecast to expand by 1.3% in 2016 and 2.1% in 2017. Attenuation of the negative impact of lower energy prices, coupled with a weaker Canadian dollar and continuing growth in the U.S. economy, should underpin real GDP growth.

However, economic growth will vary across Canada's regions. Persistently low oil prices will continue to drive down investment of oil-producing provinces, whereas provinces not involved in oil production will benefit from weak oil prices.

TABLE C. 6

Global economic growth outlook
(real GDP, percent change)

	Weight(1)	2015	2016	2017
World(2)	**100.0**	**3.0**	**3.1**	**3.3**
Advanced economies(2)	**42.8**	**1.9**	**1.9**	**2.0**
Canada	1.5	1.2	1.3	2.1
United States	15.9	2.4	2.3	2.3
Euro area	12.2	1.5	1.6	1.6
– Germany	3.4	1.7	1.6	1.6
– France	2.4	1.1	1.3	1.6
– Italy	2.0	0.8	1.1	1.1
United Kingdom	2.4	2.2	2.2	2.1
Japan	4.4	0.4	0.9	0.7
Emerging and developing economies(2)	**57.2**	**3.9**	**4.0**	**4.3**
China	16.6	6.9	6.3	6.2
India(3)	6.8	7.5	7.5	7.2
Brazil	3.0	–3.8	–3.3	0.5
Russia	3.3	–3.7	–1.6	0.1

(1) Weight in global GDP in 2014.
(2) Data based on purchasing power parity.
(3) For the fiscal year (April 1 to March 31).
Sources: IHS Global Insight, International Monetary Fund, Datastream, Eurostat, Statistics Canada and Ministère des Finances du Québec.

In the **United States**, economic growth was 2.4% in 2015 and is expected to stand at 2.3% in 2016 and 2017. For the next two years, the U.S. economy will benefit from robust domestic demand. However, real GDP growth will be suppressed by, in particular, moderate export growth under the impact of a higher U.S. dollar.

In the **euro area**, the economic growth rate was 1.5% in 2015 and is expected to be 1.6% in 2016 and 2017. The economy will benefit from low oil prices, which will drive consumption and investment, as well as highly accommodative monetary policy. However, slower growth in a number of emerging economies will curtail export growth in the euro area.

In the **United Kingdom**, real GDP is expected to expand by 2.2% in 2016 and 2.1% in 2017, following 2.2% growth in 2015. Domestic demand will be spurred by the improved labour market and by support measures in the real estate sector. However, real GDP growth could be tempered by high household debt.

In **Japan**, economic growth was 0.4% in 2015 and is expected to be 0.9% in 2016 and 0.7% in 2017. Household consumption should get a boost from the downturn in oil prices. In addition, the adoption of negative interest rates by the Bank of Japan could stimulate the economy. However, economic growth could be weakened by the anticipated 2-percentage-point increase in the consumption tax in April 2017, to 10%.

In **China**, economic growth is expected to continue to moderate, slowing from 6.9% in 2015 to 6.3% in 2016 and 6.2% in 2017. Growth will nevertheless be sustained, driven by a greater contribution from household consumption and growth in the service sector. On the other hand, exports will make a smaller contribution to economic growth.

In **India**, real GDP is expected to grow by 7.5% in 2016 and 7.2% in 2017, after expanding by 7.5% in 2015. The Indian economy should benefit from the impact of the government reforms as well as from an increase in wages and retirement allowances in 2016. The favourable outlook for exports to the United States and the United Kingdom, two major markets for India, will support the country's economy, whose growth is outpacing that of China.

In **other emerging economies**, countries with a natural resource-dependent economy will be affected by falling prices.

— Low oil prices will continue to weigh heavily on the growth outlook for producing countries, such as Brazil and Russia.

— However, commodity-importing economies, such as some Asian countries, should see sustained growth.

5. MAIN RISKS THAT MAY INFLUENCE THE FORECAST SCENARIO

The economic and financial forecasts used in this budget are based on several assumptions, some of which are associated with risks that could affect the global economic and financial scenario and the anticipated developments in the Quebec economy, which is open to the world.

— A number of the risks are external. A different development in the economies of our main trading partners and increased tensions in different parts of the world are two of the most common examples.

— Other risks are internal and could drive some of Quebec's and Canada's economic variables in a different direction than expected.

❑ Widespread slowdown in the global economy

The start of 2016 saw significant turmoil in financial markets. Stock market indexes around the world fell sharply due to investor fear related to China's economic slowdown.

However, the financial turbulence has had little effect on the real economy to date. Consequently, the economic scenario used by the Ministère des Finances is based on the assumption that the financial turbulence will pass and that it primarily reflects the global reallocation of assets. The fundamentals of the world economy remain favourable.

Nonetheless, a turnaround in the current economic cycle is still possible. A turnaround could be triggered by, among other forces:

— further financial market turmoil, which may lead to greater risk aversion and an erosion of investor confidence in the economic outlook;

— negative developments in the economic situation, particularly a sharper-than-expected slowdown in China's economy or renewed instability in Europe;

— a stronger-than-expected contraction in a number of emerging economies centred around natural resource production, such as Russia and Brazil.

The Quebec economy has favourable fundamentals, but could be adversely affected by developments in the global economy.

❑ Different oil price trends

The scenario in this budget is based on an extended period of low oil prices followed by a gradual increase in 2017. However, oil prices could evolve along a different track than expected.

— First, prices could be lower as a result of resilience in U.S. oil production, a greater increase in production by members of the Organization of Petroleum Exporting Countries (OPEC) and a slowdown in global demand.

— Second, joint action by OPEC members and other leading producers to stem oil production could restore equilibrium in the market sooner than expected and drive oil prices higher than anticipated.

If oil prices evolve along a different track than expected, it could affect global economic growth, the Canadian and Quebec economies, as well as the value of the Canadian dollar.

— In Canada, lower-than-anticipated oil prices would have a greater negative impact on oil-producing provinces.

❑ Unexpected developments in the Canadian economy

Falling oil prices change the sources of economic growth in Canada. The oil sector has been hit hard. Other sectors, however, such as manufacturing, benefit from the lower cost of energy inputs and the weaker Canadian dollar, as it makes them more competitive on foreign markets

Interactions between the winners and losers make it difficult to predict how the Canadian economy will develop. Economic paths in Canada may diverge from forecasts.

— First, Canada's economy may decelerate more than expected, particularly if oil prices continue to fall.

— Second, sectors and regions that benefit from lower oil prices may recover more quickly and see stronger growth, strengthening Canada's overall economic growth.

❑ A delayed upturn in investment in Quebec

Non-residential business investment in Quebec fell sharply in 2013 and has not yet recovered, despite strong household consumption, robust export growth and favourable financial conditions.

The conditions are in place for renewed growth in non-residential business investment in the coming years. Moreover, an upturn in business investment in machinery and equipment was already seen in 2015.

However, a pickup in investment depends on business confidence in the economic outlook, whereas the global economic situation is uncertain.

Thus, continued or heightened uncertainty over the global economy may delay a recovery in business investment in Quebec. The short-term impact would be lower-than-anticipated growth in the real GDP.

❑ Weaker growth in the U.S. economy

After expanding by 2.4% in 2014 and 2015, the U.S. economy is expected to grow by 2.3% over the next two years. This is the highest growth rate among all of the advanced economies.

However, economic growth in the United States may be weaker than expected in the next two years due, in particular, to external sources of uncertainty.

— A slowdown in the global economy could cause consumers and businesses to be cautious in their spending and investment decisions.

— In addition, appreciation of the U.S. dollar, especially in a context where the Federal Reserve continues with the interest rate hikes initiated in December 2015, could result in weaker export growth.

❑ A still-uncertain geopolitical climate

Serious conflicts are occurring in various parts of the world. While the global economy seems to have adjusted to permanent geopolitical insecurity, heightened conflict could dim the global economic outlook.

— The economic and financial scenario hinges on the assumption that the conflicts and associated risks will continue to be contained.

— If not, they could put downward pressure on global economic growth and trade and it is very difficult to quantify the impact of such developments.

Section D

THE GOVERNMENT'S DETAILED FINANCIAL FRAMEWORK

INTRODUCTION

This section of The Québec Economic Plan presents the government's detailed financial framework for 2015-2016 to 2017-2018.[1]

The information provided concerns:

- the detailed change in consolidated revenue and expenditure, as well as adjustments made since Budget 2015-2016;
- the change in the financial framework for each of the reporting entity's sectoral components, particularly the general fund, special funds, specified purpose accounts, non-budget-funded bodies and the health and social services and education networks.

The five-year financial framework, i.e. the government's financial forecasts up to 2020-2021, is presented in Section A of this document.

Change to the presentation of Generations Fund revenue

When the Generations Fund was established in 2006, the presentation of budgetary information was centred on the revenue and expenditure of the general fund. Presenting the revenue of the Generations Fund separately made it possible to more easily assess all of the revenues tha.t were dedicated to the fund.

However, in 2016, given the many revenue sources dedicated to the Generations Fund, this presentation complicates the explanation of the change in own-source revenue provided in the budget documents.

To make it easier to understand and analyze the change in the government's consolidated revenue, Generations Fund revenue will henceforth be broken down by revenue source instead of being grouped under a single heading.

- For example, the specific tax on alcoholic beverages dedicated to the Generations Fund, which used to be entered in "Generations Fund revenue," is now entered in "Consumption taxes."

However, deposits of dedicated revenues in the Generations Fund provided for by the *Balanced Budget Act* are still presented separately in the financial framework.

[1] Throughout this section, the budgetary data for 2015-2016 and subsequent years are forecasts.

1. CHANGE IN CONSOLIDATED REVENUE AND EXPENDITURE

1.1 Change in the budgetary balance

The government's consolidated financial framework shows a balanced budget in 2015-2016 and the maintenance of a balanced budget thereafter.

Expenditure will grow at a rate below that of revenue.

- In 2016-2017, consolidated revenue will grow by 3.2%, exceeding the growth rate of consolidated expenditure, i.e. 2.5%.
- Growth in consolidated revenue will amount to 2.7% in 2017-2018 and that of expenditure, 2.3%.

The financial framework remains balanced while dedicated revenues continue to be deposited in the Generations Fund. These deposits will total $2.0 billion in 2016-2017 and $2.5 billion in 2017-2018.

TABLE D.1

Consolidated summary financial framework – Budget 2016-2017
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Own-source revenue	80 331	82 386	84 566
% change	*3.8*	*2.6*	*2.6*
Federal transfers	19 089	20 180	20 759
% change	*3.0*	*5.7*	*2.9*
Consolidated revenue	**99 420**	**102 566**	**105 325**
% change	***3.6***	***3.2***	***2.7***
Expenditure	−87 634	−89 720	−91 906
% change	*2.5*	*2.4*	*2.4*
Debt service	−10 055	−10 418	−10 515
% change	*−2.1*	*3.6*	*0.9*
Consolidated expenditure	**−97 689**	**−100 138**	**−102 421**
% change	***2.0***	***2.5***	***2.3***
Contingency reserve	−300	−400	−400
SURPLUS (DEFICIT)	**1 431**	**2 028**	**2 504**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 431	−2 028	−2 504
BUDGETARY BALANCE[1]	**—**	**—**	**—**

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

❑ Adjustments for 2015-2016 to the financial framework since Budget 2015-2016

Overall, the adjustments to the financial framework since Budget 2015-2016 leave the balance unchanged, thus maintaining budgetary balance.

— Adjustments related to the economic situation leave the budgetary situation unchanged. These adjustments stem from a shortfall of $390 million in consolidated revenue and a $413-million reduction in consolidated expenditure, which can be explained, in particular, by a downward adjustment in debt service.

— In addition, the adjustments attributable mainly to consolidated entities make it possible overall to offset the adjustments related to the economic situation and to introduce a contingency reserve of $300 million.

TABLE D.2

Adjustments for 2015-2016 to the financial framework since Budget 2015-2016
(millions of dollars)

	2015-2016		
	Adjustments related to the economy	**Other adjustments**	**Total**
BUDGETARY BALANCE[1] – BUDGET 2015-2016			**—**
Consolidated revenue			
Own-source revenue excluding government enterprises			
General fund	−254	—	−254
Consolidated entities	144	−274	−130
Government enterprises	6	−7	−1
Own-source revenue	**−104**	**−281**	**−385**
Federal transfers	−286	−69	−355
Total consolidated revenue	**−390**	**−350**	**−740**
Consolidated expenditure			
Expenditure excluding debt service			
Program spending	—	—	—
Consolidated entities	101	356	457
Debt service	312	116	428
Total consolidated expenditure	**413**	**472**	**885**
Contingency reserve	**—**	**−300**	**−300**
Deposits of dedicated revenues in the Generations Fund	**—**	**155**	**155**
TOTAL	**23**	**−23**	**—**
BUDGETARY BALANCE[1] – BUDGET 2016-2017			**—**

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

1.2 Change in consolidated revenue

This section presents the updated consolidated revenue of the government and the change in this revenue for 2015-2016 to 2017-2018.

The government's revenue will total $99.4 billion in 2015-2016, i.e. $80.3 billion in own-source revenue and $19.1 billion in revenue from federal transfers.

— Consolidated revenue is adjusted downward by $740 million compared with the forecast in Budget 2015-2016.

Revenue is expected to grow by 3.6% in 2015-2016, 3.2% in 2016-2017 and 2.7% in 2017-2018.

TABLE D.3

Change in consolidated revenue
(millions of dollars)

	Budget 2015-2016		Budget 2016-2017		
	2015-2016	Adjustments	2015-2016	2016-2017	2017-2018
Own-source revenue					
Own-source revenue excluding government enterprises	75 754	−384	75 370	77 536	79 600
% change	*5.3*		*4.7*	*2.9*	*2.7*
Government enterprises	4 962	−1	4 961	4 850	4 966
% change	*−7.0*		*−8.2*	*−2.2*	*2.4*
Subtotal	**80 716**	**−385**	**80 331**	**82 386**	**84 566**
% change	***4.4***		***3.8***	***2.6***	***2.6***
Federal transfers	19 444	−355	19 089	20 180	20 759
% change	*3.9*		*3.0*	*5.7*	*2.9*
TOTAL	**100 160**	**−740**	**99 420**	**102 566**	**105 325**
% change	***4.3***		***3.6***	***3.2***	***2.7***

1.2.1 Consolidated own-source revenue excluding government enterprises

Consolidated own-source revenue excluding government enterprises consists chiefly of tax revenue, which is made up of personal income tax, contributions for health services, corporate taxes, school property tax and consumption taxes. How it changes is closely tied to economic activity in Québec and to changes in the tax systems.

Consolidated own-source revenue excluding government enterprises also includes revenue from other sources, i.e. duties and permits and miscellaneous revenue, such as interest, the sale of goods and services, as well as fines, forfeitures and recoveries.

Most consolidated own-source revenue excluding government enterprises is deposited in the general fund to finance the government's missions. The remainder of this revenue is paid, in particular, into special funds (for funding specific programs), the Generations Fund (for reducing the debt), as well as to non-budget-funded bodies and the health and social services and education networks (for funding their activities).

❑ Adjustments for 2015-2016

For fiscal 2015-2016, consolidated own-source revenue excluding government enterprises amounts to $75.4 billion, an increase of 4.7% compared to the revenue observed for fiscal 2014-2015.

Compared with the forecast in Budget 2015-2016, consolidated own-source revenue excluding government enterprises is adjusted downward by $384 million, which represents a downward adjustment of 0.5% in forecast revenue.

■ Tax revenue

Revenue from personal income tax is adjusted upward by $253 million for fiscal 2015-2016 compared with the forecast in Budget 2015-2016. This adjustment reflects essentially the recurrence of the higher level of tax payable for 2014, which is offset, however, by lower-than-expected withholdings at source since the beginning of the fiscal year due to the lower-than-anticipated level of salaries and wages observed in 2015.

TABLE D.4

Change in consolidated own-source revenue excluding government enterprises
(millions of dollars)

	Budget 2015-2016		Budget 2016-2017		
	2015-2016	Adjustments	2015-2016	2016-2017	2017-2018
Tax revenue					
Personnal income tax	28 218	253	28 471	29 639	30 776
% change	*4.7*		*3.4*	*4.1*	*3.8*
Contributions for health services	6 571	−76	6 495	6 463	6 195
% change	*2.0*		*1.5*	*−0.5*	*−4.1*
Corporate taxes	6 447	−43	6 404	6 565	6 838
% change	*12.7*		*9.7*	*2.5*	*4.2*
School property tax	2 030	3	2 033	2 135	2 215
% change	*6.3*		*4.0*	*5.0*	*3.7*
Consumption taxes	18 701	−299	18 402	18 906	19 407
% change	*3.8*		*4.2*	*2.7*	*2.6*
Other revenue					
Duties and permits	3 627	154	3 781	3 763	3 764
% change	*12.0*		*15.2*	*−0.5*	*0.0*
Miscellanous revenue	10 160	–376	9 784	10 065	10 405
% change	*4.9*		*5.0*	*2.9*	*3.4*
TOTAL	**75 754**	**–384**	**75 370**	**77 536**	**79 600**
% change	***5.3***		***4.7***	***2.9***	***2.7***

Contributions for health services are adjusted downward by $76 million for 2015-2016, reflecting the lower-than-anticipated growth in salaries and wages in 2015 and 2016, as well as the reduction of the health contribution as of 2016.

Revenue from corporate taxes is adjusted downward by $43 million for fiscal 2015-2016. This lower level takes into account the downward adjustment in the growth of the net operating surplus of corporations in 2015 and the monitoring of tax revenues since the beginning of the fiscal year.

Revenue from consumption taxes is adjusted downward by $299 million in 2015-2016. This adjustment reflects mainly the lower-than-expected sales tax revenue stemming from the downward adjustment to the growth of household consumption (excluding food and rent)[2] in 2015 and 2016.

[2] Given that food is zero-rated for the most part and that rent is exempt from the tax base, consumption (excluding food and rent) is the economic variable that most faithfully represents the tax base for the Québec sales tax.

■ Other revenue

Revenue from duties and permits is adjusted upward by $154 million in 2015-2016, reflecting essentially higher-than-expected revenue from emission allowances under Québec's cap-and-trade system for greenhouse gas emission allowances.

In addition, miscellaneous revenue is adjusted downward by $376 million, owing to, in particular, the fact that interest income and revenue from fines, forfeitures and recoveries are lower than anticipated.

❑ Outlook for 2016-2017 and 2017-2018

Consolidated own-source revenue excluding government enterprises will increase by 2.9% in 2016-2017 and 2.7% in 2017-2018. This growth reflects essentially the change in economic activity forecast for those years.

■ Tax revenue

Personal income tax, the government's largest revenue source, will grow by 4.1% in 2016-2017 and 3.8% in 2017-2018, settling at $29.6 billion and $30.8 billion, respectively.

- This change reflects, in particular, growth in household income, indexation of the personal income tax system and the progressive nature of the tax system.
- It also reflects the growing contribution of pension income to the growth of income subject to tax, particularly income from private pension plans.

Contributions for health services will decrease by 0.5% in 2016-2017 and 4.1% in 2017-2018, to $6.5 billion and $6.2 billion, respectively. This change reflects mainly the anticipated increase of 3.1% in salaries and wages in 2016 and 2017. It also takes into account the reduction of the tax burden on individuals and SMBs.

- Attention should be drawn, in particular, to the gradual elimination of the health contribution as of 2016 and the reduction of the Health Services Fund contribution rate announced for Québec SMBs.

Revenue from corporate taxes will grow by 2.5% in 2016-2017 and 4.2% in 2017-2018, to $6.6 billion and $6.8 billion, respectively.

- This change reflects, in particular, the growth rate of the net operating surplus of corporations, which is expected to be 5.9% and 6.0% for 2016 and 2017, respectively.

The growth of 5.0% and 3.7% in revenue from the school property tax in 2016-2017 and 2017-2018, respectively, can be attributed mainly to the increase in the number of students, as well as the increase in property values on the territory of certain school boards.

Revenue from consumption taxes is expected to increase by 2.7% in 2016-2017 and 2.6% in 2017-2018, to $18.9 billion and $19.4 billion, respectively.

— This growth reflects mainly growth of 3.4% and 3.7% in household consumption (excluding food and rent) in 2016 and 2017, respectively.

■ Other revenue

Revenue from duties and permits will undergo a slight decline of 0.5% in 2016-2017, while they will remain stable in 2017-2018.

Miscellaneous revenue will rise by 2.9 % in 2016-2017 and 3.4% in 2017-2018.

1.2.2 **Revenue from government enterprises**

❑ Adjustments for 2015-2016

For 2015-2016, revenue from government enterprises is maintained at $5.0 billion. The downward adjustment to Hydro-Québec's results is offset by an increase in the results of other government enterprises, including primarily Loto-Québec and the Société des alcools du Québec.

❑ Outlook for 2016-2017 and 2017-2018

Revenue from government enterprises will stand at $4.9 billion in 2016-2017 and $5.0 billion in 2017-2018.

— In 2016-2017, the 2.2% decrease in revenue from government enterprises is chiefly attributable to the results of Hydro-Québec, which will decline because of the anticipated reduction in net exports of electricity.[3]

— In 2017-2018, anticipated revenue will rise by 2.4% due to the increase in the results of Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLEAU D.5

Change in revenue from government entreprises
(millions of dollars)

	Budget 2015-2016		Budget 2016-2017		
	2015-2016	**Adjustments**	**2015-2016**	**2016-2017**	**2017-2018**
Hydro-Québec	2 750	−50	2 700	2 600	2 700
Loto-Québec	1 130	38	1 168	1 147	1 174
Société des alcools du Québec	1 040	10	1 050	1 070	1 108
Other(1)	42	1	43	33	−16
TOTAL	**4 962**	**−1**	**4 961**	**4 850**	**4 966**
% change	***−7.0***		***−8.2***	***−2.2***	***2.4***

(1) Includes the forecast for other government enterprises and the impact of Hydro-Québec's $42-million electricity discount in 2017-2018.

3 The decrease in net electricity exports for 2016-2017 is due to the shutdown of a transmission line with New England from April to June 2016 for major maintenance work.

1.2.3 Revenues from federal transfers

❑ Adjustments for 2015-2016

In 2015-2016, consolidated revenues from federal transfers are expected to increase by 3.0%, to nearly $19.1 billion. This represents $355 million less than forecast in Budget 2015-2016.

This decrease of $355 million in 2015-2016 is explained, in particular, by:

— downward adjustments of $112 million in health transfers and $67 million in transfers for post-secondary education and social programs. These adjustments are due mainly to the upward adjustment of the value of the special Québec abatement, a value that is subtracted from these transfers;

— a downward adjustment of $176 million for other federal transfer programs on account of, in particular, the lower-than-anticipated compensatory payment in respect of the Canada Student Loans Program.

TABLE D.6

Change in consolidated federal transfer revenues
(millions of dollars)

	Budget 2015-2016		Budget 2016-2017		
	2015-2016	Adjustments	2015-2016	2016-2017	2017-2018
Equalization	9 521	—	9 521	10 030	10 501
% change	*2.5*		*2.5*	*5.3*	*4.7*
Health transfers	5 599	−112	5 487	5 944	6 095
% change	*6.0*		*3.9*	*8.3*	*2.5*
Transfers for post-secondary education and other social programs	1 609	−67	1 542	1 629	1 666
% change	*1.3*		*−2.9*	*5.6*	*2.3*
Other programs	2 715	−176	2 539	2 577	2 497
% change	*5.9*		*6.5*	*1.5*	*−3.1*
TOTAL	**19 444**	**−355**	**19 089**	**20 180**	**20 759**
% change	***3.9***		***3.0***	***5.7***	***2.9***

❑ Outlook for 2016-2017 and 2017-2018

In 2016-2017, consolidated federal transfers are expected to total nearly $20.2 billion, an increase of 5.7%. This growth can be attributed primarily to:

— a 5.3% increase in equalization revenue, explained essentially by the increase in the Canadian equalization envelope, which is tied to the growth of Canada's nominal GDP, and by the decrease in the share of Québec, among the recipient provinces, of the consumption tax and personal income tax bases;

— an 8.3% increase in health transfers, which stems from annual growth of 6% in the Canada Health Transfer (CHT) envelope for the provinces as a whole, coupled with the adjustment of the value of the special Québec abatement;

In 2017-2018, consolidated federal transfers are expected to reach nearly $20.8 billion, which represents an increase of 2.9%. This growth is explained, in particular, by:

— the anticipated increase of 4.7% in Québec's equalization payments as a result of a reduction in Québec's share of certain tax bases, in relation to the average fiscal capacity forecast for the ten provinces;

— a 3.1% decrease in revenue for other federal transfer programs arising, in particular, from a decline in revenue following the end of the Canada-Québec agreement on the Communities and Large Urban Centres components of the Building Canada Fund 2007-2014.

1.3 Change in consolidated expenditure

Consolidated expenditure consists primarily of program spending by government departments, spending by special funds, non-budget-funded bodies and public establishments of the health and social services and education networks, and debt service.

Consolidated expenditure will stand at $97.7 billion in 2015-2016, $100.1 billion in 2016-2017 and $102.4 billion in 2017-2018, representing an increase of 2.0%, 2.5% and 2.3%, respectively.

— Consolidated expenditure is adjusted downward by $885 million compared with Budget 2015-2016.

TABLE D.7

Change in consolidated expenditure
(millions of dollars)

	Budget 2015-2016		Budget 2016-2017		
	2015-2016	**Adjustments**	**2015-2016**	**2016-2017**	**2017-2018**
Program spending[1]	66 460	—	66 460	68 238	70 156
% change	*1.2*		*1.7*	*2.7*	*2.8*
Other consolidated expenditures[2]	21 631	−457	21 174	21 482	21 750
% change	*2.6*		*4.9*	*1.5*	*1.2*
Expenditure excluding debt service	**88 091**	**−457**	**87 634**	**89 720**	**91 906**
% change	***1.5***		***2.5***	***2.4***	***2.4***
Debt service	10 483	−428	10 055	10 418	10 515
% change	*1.5*		*−2.1*	*3.6*	*0.9*
TOTAL	**98 574**	**−885**	**97 689**	**100 138**	**102 421**
% change	***1.5***		***2.0***	***2.5***	***2.3***

(1) Program spending includes transfers intended for consolidated entities.
(2) Other consolidated expenditures include, in particular, consolidation adjustments.

1.3.1 **Expenditure excluding debt service**

❑ Adjustments for 2015-2016

In 2015-2016, consolidated expenditure excluding debt service will stand at $87.6 billion, which represents a downward adjustment of $457 million. This adjustment is explained mainly by the decrease in spending related to special funds and non-budget-funded bodies.

Program spending, which makes up the bulk of consolidated expenditure, is maintained at the same level for 2015-2016.

❑ Outlook for 2016-2017 and 2017-2018

In 2016-2017 and 2017-2018, consolidated expenditure excluding debt service will amount to $89.7 billion and $91.9 billion, respectively.

Growth in expenditure excluding debt service will stand at 2.4% in 2016-2017 and in 2017-2018.

Program spending

Adjustments to the program spending objectives in 2016-2017 and 2017-2018 in relation to Budget 2015-2016 stem mainly from investments in education and health and the measures of the Economic Plan.

— These investments are funded in part through expenditure reallocations.

In addition, certain reallocations between revenue and expenditure with consolidated entities in the health sector affect program spending, but do not have any effect on the budgetary balance.

As a result, program spending will grow by 2.7% in 2016-2017 and 2.8% in 2017-2018.

TABLEAU D.8

Change in program spending
(millions of dollars)

	2015-2016	2016-2017	2017-2018
PROGRAM SPENDING - BUDGET 2015-2016	**66 460**	**67 889**	**69 788**
% change	***1.2***	***2.2***	***2.8***
Plan for Success in Education and Higher Education	—	164	166
Action for vulnerable clientele groups in health and social services	—	88	88
Économie, Science et Innovation	—	34	57
Other increases	—	70	64
Expenditure reallocations	—	−88	−88
Sous-total	**—**	**268**	**287**
Reclassement des dépenses en santé(1)	—	81	81
RÉVISIONS	**—**	**349**	**368**
PROGRAM SPENDING - BUDGET 2016-2017	**66 460**	**68 238**	**70 156**
% change	***1.7***	***2.7***	***2.8***

(1) Expenses previously financed by the Fund to Finance Health and Social Services Institutions (FINESSS), corresponding to the reduction in the health contribution for 2016-2017 announced in Budget 2015-2016.

1.3.2 **Consolidated debt service**

❑ Adjustments for 2015-2016

In 2015-2016, consolidated debt service should stand at $10.1 billion, i.e. $7.3 billion for direct debt service and $2.7 billion for interest on the liability related to the retirement plans of public and parapublic sector employees.

Compared with the March 2015 budget, debt service has been adjusted downward by $428 million in 2015-2016 mainly because of lower-than-expected interest rates and the higher-than-anticipated return on the Retirement Plans Sinking Fund (RPSF) in 2014-2015, which affects debt service as of 2015-2016. The income of the RPSF is recorded as a deduction from debt service.

❑ Outlook for 2016-2017 and 2017-2018

Debt service is expected to rise by 3.6% in 2016-2017 and 0.9% in 2017-2018, owing mainly to the anticipated increase in interest rates and the debt.

TABLE D.9

Change in consolidated debt service
(millions of dollars)

	Budget 2015-2016		Budget 2016-2017		
	2015-2016	**Adjustments**	**2015-2016**	**2016-2017**	**2017-2018**
Direct debt service	7 633	−320	7 313	7 951	8 313
Interest on the retirement plans liability(1)	2 844	−99	2 745	2 475	2 215
Interest on the employee future benefits liability(2)	6	−9	−3	−8	−13
TOTAL	**10 483**	**−428**	**10 055**	**10 418**	**10 515**
% change	***1.5***		***−2.1***	***3.6***	***0.9***

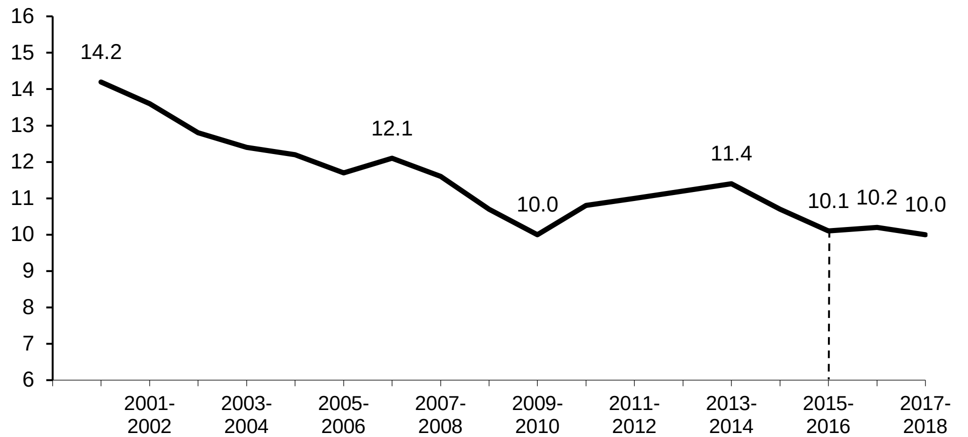
(1) This corresponds to the interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.
(2) This corresponds to the interest on the obligation relating to the survivor's pension plan less the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave less the investment income of the Accumulated Sick Leave Fund.

Proportion of revenue devoted to consolidated debt service

The proportion of revenue devoted to consolidated debt service will stand at 10.1% in 2015-2016, 10.2% in 2016-2017 and 10.0% in 2017-2018, compared with 14.2% in 2000-2001.

CHART D.1

Consolidated debt service
(percentage of consolidated revenue)



2. FINANCIAL FRAMEWORK BY SECTOR

The consolidated financial framework has several sectoral components included in the government reporting entity that reflect the financial organization of public and parapublic sector activities. Table D.10 presents the forecast revenue and expenditure of these different components for fiscal 2015-2016 to 2017-2018.

Tables D.11 to D.19 present, for 2015-2016 to 2017-2018, the transactions carried out by the general fund, special funds, specified purpose accounts, non-budget-funded bodies and the health and social services and education networks, as well as tax-funded expenditures.

Lastly, to determine consolidated revenue and expenditure levels, financial transactions between entities in the government reporting entity are eliminated.

TABLE D.10

Financial framework for consolidated revenue and expenditure by sector
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
General fund	73 924	76 542	78 929
Special funds	13 445	13 746	13 607
Generations Fund	1 431	2 028	2 504
Specified purpose accounts	1 062	982	862
Non-budget-funded bodies	20 312	20 651	21 591
Health and social services and education networks	39 458	40 346	40 907
Tax-funded transfers(1)	6 323	6 265	6 334
Consolidated adjustments(2)	−56 535	−57 994	−59 409
Total consolidated revenue	**99 420**	**102 566**	**105 325**
Expenditure			
General fund	−66 460	−68 238	−70 156
Special funds	−11 379	−12 062	−12 001
Specified purpose accounts	−1 062	−982	−862
Non-budget-funded bodies	−19 231	−19 752	−20 813
Health and social services and education networks	−38 687	−39 526	−40 016
Tax-funded transfers(1)	−6 323	−6 265	−6 334
Consolidated adjustments(2)	55 508	57 105	58 276
Consolidated expenditures excluding debt service	**−87 634**	**−89 720**	**−91 906**
Debt service			
General fund	−8 019	−8 318	−8 283
Consolidated entities(3)	−2 036	−2 100	−2 232
Total consolidated debt service	**−10 055**	**−10 418**	**−10 515**
Total consolidated expenditure	**−97 689**	**−100 138**	**−102 421**
Contingency reserve	−300	−400	−400
SURPLUS (DEFICIT)	**1 431**	**2 028**	**2 504**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 431	−2 028	−2 504
BUDGETARY BALANCE(4)	**—**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Includes consolidation adjustments.
(4) Budgetary balance within the meaning of the Balanced Budget Act.

Change in consolidated expenditure by sector

The following table shows the change in consolidated expenditure by sector for 2015-2016 to 2017-2018.

Change in consolidated expenditure by sector
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Expenditure			
General fund (program spending)	−66 460	−68 238	−70 156
% change	*1.7*	*2.7*	*2.8*
Special funds	−11 379	−12 062	−12 001
% change	*2.5*	*6.0*	*−0.5*
Specified purpose accounts	−1 062	−982	−862
% change	*6.2*	*−7.5*	*−12.2*
Non-budget-funded bodies	−19 231	−19 752	−20 813
% change	*7.1*	*2.7*	*5.4*
Health and social services and education network	−38 687	−39 526	−40 016
% change	*0.2*	*2.2*	*1.2*
Tax-funded transferts(1)	−6 323	−6 265	−6 334
% change	*−4.8*	*−0.9*	*1.1*
Consolidated adjustments(2)	55 508	57 105	58 276
Consolidated expenditures excluding debt service	**−87 634**	**−89 720**	**−91 906**
% change	***2.5***	***2.4***	***2.4***
Debt service			
General fund (program spending)	−8 019	−8 318	−8 283
% change	*−1.6*	*3.7*	*−0.4*
Consolidated entities(3)	−2 036	−2 100	−2 232
% change	*−4.0*	*3.1*	*6.3*
Total consolidated debt service	**−10 055**	**−10 418**	**−10 515**
% change	***−2.1***	***3.6***	***0.9***
Total consolidated expenditure	**−97 689**	**−100 138**	**−102 421**
% change	***2.0***	***2.5***	***2.3***

(1) Includes doubtful tax accounts.
(2) Consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Includes consolidation adjustments.

2.1 General fund

The general fund is used to finance nearly three quarters of the government's consolidated expenditure.

The revenue of the general fund, which includes own-source revenue and federal transfers, will amount to $73.9 billion in 2015-2016 and increase by 3.5% in 2016-2017 and 3.1% in 2017-2018, to $76.5 billion and $78.9 billion, respectively.

The expenditure of the general fund, which includes, in particular, program spending, will stand at $74.5 billion in 2015-2016 and grow by 2.8% in 2016-2017 and 2.5% in 2017-2018, to $76.6 billion and $78.4 billion, respectively.

TABLE D.11

Summary of the budgetary transactions of the general fund
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	32 510	34 186	35 584
Consumption taxes	17 782	17 777	18 201
Duties and permits	333	311	311
Miscellaneous revenue	1 400	1 384	1 409
Governement enterprises	4 863	4 680	4 531
Own-source revenue	**56 888**	**58 338**	**60 036**
% change	***4.0***	***2.5***	***2.9***
Federal transfers	17 036	18 204	18 893
% change	*1.2*	*6.9*	*3.8*
Total revenue	**73 924**	**76 542**	**78 929**
% change	***3.3***	***3.5***	***3.1***
Expenditure			
Program spending	−66 460	−68 238	−70 156
% change	*1.7*	*2.7*	*2.8*
Debt service	−8 019	−8 318	−8 283
% change	*−1.6*	*3.7*	*−0.4*
Total expenditure	**−74 479**	**−76 556**	**−78 439**
% change	***1.3***	***2.8***	***2.5***
Contingency reserve	−300	−400	−400
SURPLUS (DEFICIT)	**−855**	**−414**	**90**

Change in the revenue of the general fund

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

Revenue of the general fund
(millions of dollars)

	2015-2016	2016-2017	% change
Own-source revenue excluding government enterprises			
Income and property taxes			
Personal income tax	21 158	22 261	*5.2*
Contributions to the Health Services Fund	7 022	7 186	*2.3*
Corporate taxes	4 330	4 739	*9.4*
Consumption taxes	17 782	17 777	*0.0*
Other revenue sources	1 733	1 695	*–2.2*
Total own-source revenue excluding government enterprises	**52 025**	**53 658**	***3.1***
Government enterprises	4 863	4 680	*–3.8*
Total own-source revenue	**56 888**	**58 338**	***2.5***
Federal transfers			
Equalization	9 521	10 030	*5.3*
Health transfers (1)	5 109	5 602	*9.6*
Transfers for post-secondary education and other social programs	1 542	1 629	*5.6*
Other programs	864	943	*9.1*
Total federal transfers	**17 036**	**18 204**	***6.9***
TOTAL	**73 924**	**76 542**	***3.5***

(1) In 2015-2016 and 2016-2017, $378 million and $342 million, respectively, from health transfers are allocated to the Fund to Finance Health and Social Services Institutions (FINESSS), which is a consolidated entity. These allocations have already been deducted from health transfers.

2.2 Special funds

The special funds are entities set up by law to finance certain activities within government departments and bodies.[4]

The activities of special funds may be funded, in particular, through tax revenues, fees or transfers from program spending.

The following table shows the forecasts pertaining to special funds for 2015-2016 to 2017-2018.

TABLE D.12

Summary of the budgetary transactions of special funds[(1)]
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	2 065	1 922	1 686
Consumption taxes	2 436	2 458	2 465
Duties and permits	2 245	2 219	2 133
Miscellaneous revenue	1 770	2 052	2 260
Own-source revenue	**8 516**	**8 651**	**8 544**
Québec government transfers	4 479	4 674	4 652
Federal transfers	450	421	411
Total revenue	**13 445**	**13 746**	**13 607**
% change[(2)]	***3.0***	***2.2***	***−1.0***
Expenditure			
Expenditure excluding debt service	−11 379	−12 062	−12 001
% change	*2.5*	*6.0*	*−0.5*
Debt service	−1 403	−1 538	−1 724
Total expenditures	**−12 782**	**−13 600**	**−13 725**
% change[(2)]	***2.5***	***6.4***	***0.9***
SURPLUS (DEFICIT)	**663**	**146**	**−118**

(1) Excludes the Generations Fund.

The revenue of the special funds will amount to $13.4 billion for 2015-2016, $13.7 billion for 2016-2017 and $13.6 billion for 2017-2018, representing a change of 3.0%, 2.2% and −1.0%, respectively.

[4] A detailed list of special funds is provided in Appendix 2.

The expenditure of the special funds excluding debt service will stand at $11.4 billion in 2015-2016, $12.1 billion in 2016-2017 and $12.0 billion in 2017-2018, representing a change of 2.5%, 6.0% and −0.5%, respectively.

The growth in spending by special funds stems mainly from:

— the Land Transportation Network Fund, for funding road networks and public transit infrastructure;

— the Green Fund, given the deployment of the 2013-2020 Climate Change Action Plan (2013-2020 CCAP);

— the Northern Plan Fund, following a non-recurring payment to the Société du Plan Nord for the purchase of a limited partnership.

TABLE D.13

Expenditure of special funds excluding debt service
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Land Transportation Network Fund (FORT)	2 742	2 671	2 815
Green Fund	557	867	798
Fonds du Plan Nord	76	172	73
Elimination of reciprocal transactions between FORT and the Green Fund	−244	−258	−250
Subtotal	**3 131**	**3 452**	**3 436**
% change	***14.1***	***10.3***	***−0.5***
Other special funds(1)	8 248	8 610	8 565
% change	*−1.3*	*4.4*	*−0.5*
TOTAL	**11 379**	**12 062**	**12 001**
% change	***2.5***	***6.0***	***−0.5***

(1) Includes other eliminations of reciprocal transactions between special funds.

Reconciliation of the expenditure budget of special funds with the government's consolidated financial framework

The Secrétariat du Conseil du trésor tables the Special Funds Budget in the National Assembly in order for the expenditure and investment forecasts of these entities to be approved.

The following table illustrates the reconciliation of the expenditures presented in the Special Funds Budget with those presented in the Economic Plan.

Debt service of the Financing Fund is excluded from Parliamentary authorization since the advances received by the fund are derived from loans made by the government. Expenditures to service the debt of these borrowings are already covered by the general fund and are repaid by the clientele of the Financing Fund.

- The Act respecting the Ministère des Finances (CQLR, chapter M-24.01) provides for special treatment of the Financing Fund because of its role as financial intermediary between the general fund and its clientele, which consists of public bodies and special funds.

In addition, the Economic Plan presents the consolidated financial framework of the Québec government including the reporting entity's various sectoral components. The spending forecasts for special funds included in the consolidated financial framework incorporate the elimination of reciprocal transactions between entities in the same sector (i.e. between special funds).

Reconciliation of the special funds' expenditure budget with the government's consolidated financial framework
(millions of dollars)

	2016-2017
Expenditure budget of special funds to be approved by the National Assembly	13 212
Dépenses ayant déjà fait l'objet d'une approbation par l'Assemblée nationale	85
Debt service of the Financing Fund	1 470
Subtotal	**14 767**
Elimination of reciprocal transactions between special funds(1)	−1 167
Expenditure of special funds presented in the Economic Plan	**13 600**

(1) Including $722 million attributable to reciprocal transactions of the Financing Fund with the other special funds.

Highway Safety Fund

Improving the road safety record is a constant objective of the government. To that end, automated monitoring devices[1] have been used in certain target areas in Québec since 2009. For example, such devices may be used in school zones and on certain road construction sites.

Fines and fees arising from offences detected by automated traffic enforcement devices are paid into the Highway Safety Fund. Created in 2007, this fund is dedicated exclusively to funding highway safety measures and highway safety and road victim assistance programs.

An advisory committee composed of seven members has been formed to make recommendations on the use of the sums paid into the Highway Safety Fund. This committee may also present proposals concerning measures and programs to be financed by the Fund.

Under a pilot project, automated traffic enforcement devices have been installed on the road network in certain municipalities. The financial surplus generated by the use of these devices will be shared with the municipalities in accordance with a formula that is to be determined. In accordance with the objective of the Highway Safety Fund, the sums paid to the municipalities must be used to fund highway safety measures and highway safety and road victim assistance programs.

1 Photo radar devices and red light camera systems.

❑ Generations Fund

For 2015-2016, 2016-2017 and 2017-2018, revenues dedicated to the Generations Fund will reach $1.4 billion, $2.0 billion and $2.5 billion, respectively.

Accordingly, as March 31, 2018, the book value of the Generations Fund will be $13.0 billion. The results of and change in the Generations Fund are presented in greater detail in Section D of *Additional Information 2016-2017*.

TABLE D.14

Summary of the budgetary transactions of the Generations Fund
(millions of dollars)

	2015-2016[(1)]	2016-2017	2017-2018
Revenue			
Consumption taxes			
Specific tax on alcoholic beverages	100	500	500
Subtotal	**100**	**500**	**500**
Duties and permits			
Water-power royalties	756	747	780
Mining revenues	80	109	150
Subtotal	**836**	**856**	**930**
Miscellaneous revenue			
Unclaimed property	50	30	15
Investment income	347	472	624
Subtotal	**397**	**502**	**639**
Government enterprises			
Indexation of the price of heritage electricity	98	170	220
Additional contribution from Hydro-Québec	—	—	215
Subtotal	**98**	**170**	**435**
Total revenue	**1 431**	**2 028**	**2 504**

(1) Excludes the deposit of $108 million from the accumulated surplus of the Commission des normes du travail.

2.3 Specified purpose accounts

A specified purpose account is a financial management mechanism that enables a government department to record separately sums paid into the Consolidated Revenue Fund by a third party under a contract or agreement that provides for the sums to be allocated to a specific purpose.

The following table shows the forecasts pertaining to specified purpose accounts for 2015-2016 to 2017-2018.

TABLE D.15

Summary of the budgetary transactions of specified purpose accounts
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Miscellaneous revenue	234	168	164
Own-source revenue	**234**	**168**	**164**
Federal transfers	828	814	698
Total revenue	**1 062**	**982**	**862**
% change	***6.2***	***−7.5***	***−12.2***
Expenditure			
Expenditure excluding debt service	−1 062	−982	−862
Total expenditures	**−1 062**	**−982**	**−862**
% change	***6.2***	***−7.5***	***−12.2***
SURPLUS (DEFICIT)	**—**	**—**	**—**

The revenue and expenditure of specified purpose accounts will amount to $1.1 billion for 2015-2016, $1.0 billion for 2016-2017 and $0.9 billion for 2017-2018.

The decrease in the revenue and expenditure of specified purpose accounts is explained chiefly by:

— the end, in 2016-2017, of the financial assistance agreement stemming from the disaster in the town of Lac-Mégantic;

— the completion of projects to computerize the health and social services network.

2.4 **Non-budget-funded bodies**

Non-budget-funded bodies were created to provide specific services to the public.[5]

The following table shows the forecasts pertaining to non-budget-funded bodies for 2015-2016 to 2017-2018.

TABLE D.16

Summary of the budgetary transactions of non-budget-funded bodies
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	54	—	—
Consumption taxes	120	120	121
Duties and permits	425	436	449
Miscellaneous revenue	5 752	6 008	5 861
Own-source revenue	**6 351**	**6 564**	**6 431**
Québec government transfers	12 894	13 012	14 073
Federal transfers	1 067	1 075	1 087
Total revenue	**20 312**	**20 651**	**21 591**
% change	***5.6***	***1.7***	***4.6***
Expenditure			
Expenditure excluding debt service	−19 231	−19 752	−20 813
% change	*7.1*	*2.7*	*5.4*
Debt service	−768	−725	−713
Total expenditures	**−19 999**	**−20 477**	**−21 526**
% change	***6.1***	***2.4***	***5.1***
SURPLUS (DEFICIT)	**313**	**174**	**65**

The revenue of non-budget-funded bodies will amount to $20.3 billion for 2015-2016, $20.7 billion for 2016-2017 and $21.6 billion for 2017-2018, representing an increase of 5.6%, 1.7% and 4.6%, respectively.

The expenditure of non-budget-funded bodies excluding debt service will stand at $19.2 billion in 2015-2016, $19.8 billion in 2016-2017 and $20.8 billion in 2017-2018, representing an increase of 7.1%, 2.7% and 5.4%.

5 A detailed list of non-budget-funded bodies is presented in Appendix 2.

The priority missions of the Régie de l'assurance maladie du Québec and the Prescription Drug Insurance Fund account, in particular, for the higher growth in the revenue and expenditure of non-budget-funded bodies.

The growth in spending by the Société de financement des infrastructures locales du Québec in 2016-2017 can be attributed mainly to acceleration of the implementation of projects under the program pertaining to the gasoline tax and Québec's 2014-2019 contribution.

TABLE D.17

Expenditure of non-budget-funded bodies excluding debt service
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Régie de l'assurance maladie du Québec (RAMQ)	11 908	12 130	13 073
Prescription Drug Insurance Fund (PDIF)	3 580	3 679	4 033
Société de financement des infrastructures locales du Québec	640	700	701
Elimination of reciprocal transactions between RAMQ and the PDIF	−3 571	−3 670	−4 024
Subtotal	**12 557**	**12 839**	**13 783**
% change	***9.7***	***2.2***	***7.4***
Other non-budget-funded bodies(1)	6 674	6 913	7 030
% change	*2.5*	*3.6*	*1.7*
TOTAL	**19 231**	**19 752**	**20 813**
% change	***7.1***	***2.7***	***5.4***

(1) Includes other eliminations of reciprocal transactions between non-budget-funded bodies.

Reconciliation of the expenditure budget of non-budget-funded bodies with the government's consolidated financial framework

The Secrétariat du Conseil du trésor tables the revenue and expenditure forecasts for non-budget-funded bodies in the National Assembly.

The following table illustrates the reconciliation of the expenditures presented in the budget of non-budget-funded bodies with those presented in the Economic Plan.

The Economic Plan presents the consolidated financial framework of the Québec government including the reporting entity's various sectoral components. The forecasts for non-budget-funded bodies included in the consolidated financial framework incorporate:

- the elimination of reciprocal transactions between entities in the same sector;
- the harmonization entries intended to harmonize the entities' forecasts with the government's accounting policies.

Reconciliation of the expenditure budget of non-budget-funded bodies with the government's consolidated financial framework
(millions of dollars)

	2016-2017
Expenditure of non-budget-funded bodies to be tabled in the National Assembly	24 536
Elimination of reciprocal transactions between non-budget-funded bodies and harmonizations(1)	−4 059
Expenditure of non-budget-funded bodies presented in the Economic Plan	**20 477**

(1) Including $3.7 billion attributable to reciprocal transactions of the Régie de l'assurance maladie du Québec with the Prescription Drug Insurance Fund.

2.5 Health and social services and education networks

The following table shows the forecasts pertaining to the health and social services and education networks for 2015-2016 to 2017-2018.

The organizational structure of the health and social services network was changed following the adoption of the *Act to modify the organization and governance of the health and social services network, in particular by abolishing the regional agencies* (S.Q. 2015, chapter 1), assented to on February 9, 2015. As of April 1, 2015, governance was reduced to two hierarchical levels consisting of the Ministère de la Santé et des Services sociaux and 34 public establishments.

As for the education networks, they are made up of school boards, the Comité de gestion de la taxe scolaire de l'île de Montréal, CEGEPS, as well as the Université du Québec and its constituents.

TABLE D.18

Summary of the budgetary transactions of the health and social services and education networks
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	2 033	2 135	2 215
Miscellaneous revenue	4 064	4 108	4 180
Own-source revenue	**6 097**	**6 243**	**6 395**
Québec government transfers	33 050	33 814	34 219
Federal transfers	311	289	293
Total revenue	**39 458**	**40 346**	**40 907**
% change	***0.3***	***2.3***	***1.4***
Expenditure			
Expenditure excluding debt service	−38 687	−39 526	−40 016
% change	*0.2*	*2.2*	*1.2*
Debt service	−803	−830	−891
Total expenditures	**−39 490**	**−40 356**	**−40 907**
% change	***0.2***	***2.2***	***1.4***
SURPLUS (DEFICIT)	**−32**	**−10**	**—**

The revenue of organizations in the health and social services and education networks will amount to $39.5 billion for 2015-2016, $40.3 billion for 2016-2017 and $40.9 billion for 2017-2018, representing an increase of 0.3%, 2.3% and 1.4%, respectively.

The expenditure of organizations in the health and social services and education networks excluding debt service will stand at $38.7 billion in 2015-2016, $39.5 billion in 2016-2017 and $40.0 billion in 2017-2018, representing an increase of 0.2%, 2.2 % and 1.2%, respectively.

2.6 Tax-funded expenditures

Refundable tax credits for individuals and corporations, which are similar to tax-funded transfer expenditures, are recorded in spending rather than as reductions in revenue. Expenditures related to doubtful tax accounts are added to these refundable tax credits.

There will be a 4.8% decrease in tax-funded expenditures in 2015-2016 in relation to the previous year and a less substantial decline in 2016-2017, i.e. 0.9 %. This change is explained, in particular, by certain measures announced in:

— Budget 2014-2015, including the revision of the rates of tax credits granted to corporations;

— the December 2014 *Update on Québec's Economic and Financial Situation,* including the introduction of a minimum eligible expenditure threshold for R&D tax credits and the investment tax credit;

— Budget 2015-2016, including the measures intended to increase the effectiveness of the sectoral tax assistance granted to corporations and the introduction of a tax shield for individuals, which offset as of 2016-2017 the impact of the measures announced previously;

— Budget 2016-2017, including the improvements to work premiums for households without children and to the tax shield.

The increase for 2017-2018 is attributed, in particular, to the change in the tax credit for home-support services for seniors and in child assistance.

TABLE D.19

Summary of budgetary transactions relating to tax-funded expenditures
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Personal income tax	4 279	4 384	4 462
Corporate taxes	1 828	1 638	1 623
Consumption taxes	216	243	249
Total revenue	**6 323**	**6 265**	**6 334**
% change	***−4.8***	***−0.9***	***1.1***
Expenditure	**−6 323**	**−6 265**	**−6 334**
% change	***−4.8***	***−0.9***	***1.1***
SURPLUS (DEFICIT)	**—**	**—**	**—**

3. NET FINANCIAL REQUIREMENTS

Surpluses or net financial requirements represent the difference between the government's cash inflow and disbursements. These surpluses or net financial requirements take into account changes in the budgetary balance on an accrual basis, resources or requirements arising from the acquisition or disposal of fixed assets, investments, loans and advances, and from other activities such as paying accounts payable and collecting accounts receivable.

The government will post a financial surplus of $233 million in fiscal 2015-2016, a financial requirement of $1.8 billion for 2016-2017 and a financial surplus of $463 million for 2017-2018.

TABLE D.20

Net financial requirements(1)
(millions of dollars)

	2015-2016	2016-2017	2017-2018
SURPLUS (DEFICIT)	**1 431**	**2 028**	**2 504**
Non-budgetary transactions			
Investments, loans and advances	−1 539	−3 281	−1 532
Capital expenditures	−2 218	−3 330	−2 885
Retirement plans and employee future benefits	3 377	3 382	3 335
Other accounts	−818	−589	−959
Total non-budgetary transactions	**−1 198**	**−3 818**	**−2 041**
NET FINANCIAL REQUIREMENTS	**233**	**−1 790**	**463**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

❑ Investments, loans and advances

Investments, loans and advances include mainly investments made by the government in its enterprises and loans and advances granted to entities not included in the government's reporting entity.

Net financial requirements for investments, loans and advances are estimated at $1.5 billion, $3.3 billion and $1.5 billion for fiscal 2015-2016, 2016-2017 and 2017-2018, respectively. In 2016-2017, investments, loans and advances include the government's investment in the implementation of Bombardier's C series program (US$1 billion, or approximately CAN$1.3 billion).

❑ Capital expenditures

In 2015-2016, forecast net financial requirements associated with net capital investments amount to $2.2 billion.

Net financial requirements attributable to net investments for fiscal 2016-2017 and 2017-2018 will stand at $3.3 billion and $2.9 billion, respectively.

TABLE D.21

Consolidated net capital investments(1)
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Investments(2)	−6 636	−7 311	−6 976
Depreciation	3 687	3 817	3 951
Net investments	**−2 949**	**−3 494**	**−3 025**
Less: PPP investments(3)	731	164	140
NET CAPITAL INVESTMENTS	**−2 218**	**−3 330**	**−2 885**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Includes mainly investments provided for under the 2016-2026 Québec Infrastructure Plan, except for those made outside the reporting entity.
(3) Investments made under public-private partnership (PPP) agreements correspond to new commitments that are taken into account in the government's gross debt. In accordance with the government's accounting policies, PPP investments are recognized in the government's assets as well as in its debt.

❑ Retirement plans and employee future benefits

Forecast growth in the non-budgetary balance for the retirement plans and employee future benefits stands at $3.4 billion per year for fiscal 2015-2016 and 2016-2017 and at $3.3 billion for fiscal 2017-2018.

❑ Other accounts

Net financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable and accounts payable.

In 2015-2016, the change in these other accounts of the government raises net financial requirements by $818 million. Net financial requirements will stand at $589 million and $959 million for fiscal 2016-2017 and 2017-2018, respectively.

❑ Net financial requirements by sector

The following table shows net financial requirements by sector.

TABLE D.22

Net financial requirements by sector[1]
(millions of dollars)

	2015-2016	2016-2017	2017-2018
General fund	2 088	755	2 195
Consolidated entities[2]	−3 394	−4 573	−4 236
Generations Fund	1 539	2 028	2 504
NET FINANCIAL REQUIREMENTS	**233**	**−1 790**	**463**

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.
(2) Excludes the Generations Fund.

APPENDIX 1: SENSITIVITY ANALYSIS OF ECONOMIC VARIABLES

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

❑ Sensitivity of the Québec economy to external shocks

The forecasts for the Québec economy are based on numerous analyses, including periodic assessments of the main economic statistics and the results obtained with various econometric models.

Given that the Québec economy is characterized by considerable openness to trade, Québec's economic variables are influenced by several external factors. The most important of these factors are related to the activities of Québec's main trading partners, the United States and the rest of Canada.

■ Impact of external variables on the Québec economy

An analysis conducted with a Structural VAR[6] model has made it possible to estimate, on the basis of historical data, the sensitivity of Québec's economic variables to certain important external variables.

— The findings show that a change of 1% in U.S. real GDP entails on average a change of 0.5% in Québec's real GDP.

Moreover, the model makes it possible to quantify the extent to which the economy of Ontario influences that of Québec.

— Accordingly, a change of 1% in Ontario's real GDP gives rise on average to a change of 0.4% in Québec's real GDP.

— Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2012, exports to Ontario accounted for roughly 60% of Québec's interprovincial exports.

TABLE D.23

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

External shocks of 1%	Maturity[(1)] (quarters)	Impact on Québec's real GDP (percentage points)
U.S. real GDP	2	0.5
Ontario real GDP	2	0.4

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

6 Vector autoregression. This econometric technique is used to estimate, on the basis of numerous observations, the extent to which changes in one economic variable affect another economic variable (impulse response). The estimates were made using quarterly data from Statistics Canada's 1993 System of National Accounts (SNA 1993), for the 1981-2010 period.

❑ Sensitivity of own-source revenue to economic fluctuations

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

— According to the overall sensitivity analysis, a change of 1 percentage point in nominal GDP has an impact of about $650 million on the government's consolidated own-source revenue.

This sensitivity analysis is based on a revision of each tax base in proportion to the revision of nominal GDP.

— In reality, a change in economic outlook can have a greater impact on some economic variables, as well as greater repercussions on certain tax bases and smaller ones on others.

Sensitivity analyses set an average historical relationship between the change in consolidated own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

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

— In these situations, the change in own-source revenue can be greater or lower than the change in nominal GDP.

TABLE D.24

Sensitivity of consolidated own-source revenue to major economic variables

Variables	Growth forecasts for 2016	Impacts for fiscal 2016-2017
Nominal GDP	3.2%	A variation of 1 percentage point changes own-source revenue by roughly $650 million.
– Salaries and wages	3.1%	A variation of 1 percentage point changes personal income tax revenue by about $270 million.
– Employment insurance	0.2%	A variation of 1 percentage point changes personal income tax revenue by roughly $5 million.
– Pension income	7.0%	A variation of 1 percentage point changes personal income tax revenue by around $40 million.
– Net operating surplus of corporations	5.9%	A variation of 1 percentage point changes corporate income tax revenue by almost $30 million.
– Household consumption	3.5%	A variation of 1 percentage point changes QST revenue by about $165 million.
– Residential investments	2.1%	A variation of 1 percentage point changes QST revenue by approximately $20 million.

❑ Sensitivity of debt service to a change in interest rates and exchange rates

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

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

APPENDIX 2: CONSOLIDATED REVENUE AND EXPENDITURE BY DEPARTMENTAL PORTFOLIO

The budget documents produced by the government provide a detailed picture of the budgets of government entities.

— These documents group these entities according to their financial organization as budgetary entities, special funds or non-budget-funded bodies.

However, the budgetary data pertaining to these entities are not presented on a consolidated basis by departmental portfolio.

— To fulfil its missions, the government sets up programs that are administered directly by government departments or bodies. A portfolio includes all of the programs that fall under the responsibility of a minister.

Like many jurisdictions and with the intention to continue adopting best practices for the presentation of budgetary information, the government has undertaken to implement a new presentation of consolidated revenue and expenditure by departmental portfolio.

Main steps leading to the presentation of revenue and expenditure by departmental portfolio

The government announced in Budget 2015-2016 its intention to gradually implement by 2017-2018 a new presentation of consolidated revenue and expenditure by departmental portfolio.

The approach used to determine the level of consolidated revenue and expenditure by portfolio has three main focuses:

- developing a model for consolidating revenue and expenditure by departmental portfolio;
- making the necessary improvements to budgetary information systems in order to adapt the budget documents to the new presentation and provide the information necessary for decision-making;
- making any adjustments required for the government management framework, which contributes in particular to optimum use of the resources of the Administration, not only in the case of expenditures funded by general taxes but also in the case of those funded by other sources.

The government aims to present a forecast for consolidated revenue and expenditure by portfolio for 2017-2018 in its Budget 2017-2018.

❑ Objectives of the new presentation

Presentation of consolidated revenue and expenditure by departmental portfolio:

- makes available consolidated budgetary information broken down by activity sector (rather than by financial organization);

- provides an additional budgetary management tool that contributes to the accountability of public decisions-makers regarding their departmental portfolio as a whole.

❑ Follow-up on the progress of work

Over the past year, work has been carried out to make it possible to present consolidated revenue and expenditure by portfolio in 2017-2018.

In regard to the consolidation method, major efforts have been devoted to:

- breaking down the forecast for revenue and expenditure by portfolio;

- identifying reciprocal transactions between entities in the same portfolio in order to avoid recording revenue and expenditure twice.

In regard to budgetary information systems, efforts have been deployed to further systematize the process in order to identify and eliminate reciprocal transactions between entities in the same portfolio. In addition, certain models for presenting information have been developed.

This project will be carried out by the Ministère des Finances and the Secrétariat du Conseil du trésor in close cooperation with other departments and bodies.

❑ Consolidated revenue and expenditure by portfolio for 2014-2015

Tables D.25 and D.26 present consolidated revenue for 2014-2015 by portfolio according to the 2016-2017 budgetary structure. Table D.25 classifies the revenue by sector and Table D.26, by category of revenue.

Tables D.27 and D.28 present consolidated expenditure for 2014-2015 by portfolio according to the 2016-2017 budgetary structure. Table D.27 classifies the expenditure by sector and D.28, by category of expenditure.

Since some programs are funded by reciprocal transactions between entities in different sectors or portfolios, some eliminations are necessary to avoid recording revenue or expenditure twice.

A list of the entities making up each portfolio in 2014-2015, according to the 2016-2017 budgetary structure, is provided after the tables. The list also specifies the sector of each entity.

TABLE D.25

Consolidated revenue by portfolio and sector – 2014-2015
(millions of dollars)

	Consolidated Revenue Fund			
Portfolio	**General fund**	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Affaires municipales et Occupation du territoire	12	161	—	65
Agriculture, Pêcheries et Alimentation	22	—	—	106
National Assembly	—	—	—	1
Conseil du trésor et Administration gouvernementale	3	2	—	—
Conseil exécutif	—	—	—	—
Culture et Communications	2	16	—	30
Développement durable, Environnement et Lutte contre les changements climatiques	8	544	—	5
Économie, Science et Innovation	3	309	—	6
Éducation et Enseignement supérieur	176	79	—	42
Énergie et Ressources naturelles	118	282	—	—
Famille	16	2 440	—	—
Finances	69 403(2)	2 281	1 279	460
Forêts, Faune et Parcs	67	449	—	3
Immigration, Diversité et Inclusion	394	—	—	5
Justice	218	104	—	—
Persons Appointed by the National Assembly	1	—	—	—
Relations internationales et Francophonie	—	—	—	—
Santé et Services sociaux	86	1 750	—	176
Sécurité publique	57	570	—	93
Tourisme	—	137	—	—
Transports, Mobilité durable et Électrification des transports	44	3 749	—	—
Travail, Emploi et Solidarité sociale	911	1 213	—	8
Sous-total	**71 541**	**14 086**	**1 279**	**1 000**
Inter-portfolio eliminations(1),(3)				
TOTAL	**71 541**	**14 086**	**1 279**	**1 000**

Note: Presentation according to the 2016-2017 budgetary structure. Totals may not add due to rounding.
(1) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors (intra-portfolio eliminations) or different portfolios (inter-portfolio eliminations).
(2) Includes an amount of $5 336 million from government enterprises, consisting of a net result of $5 407 million less an allocation of $71 million in revenue from Hydro-Québec to the Generations Fund.
(3) Includes the cancellation of inter-portfolio gains for consolidation purposes.

	Tax-funded expenditures	Non-budget-funded bodies	Health and social services and education networks	Intra-portfolio eliminations[1]	Consolidated revenue
	—	1 031	—	−610	**659**
	—	579	—	−558	**149**
	—	—	—	—	**1**
	—	1 570	—	−190	**1 385**
	—	3	—	−3	**—**
	—	478	—	−405	**121**
	—	35	—	−7	**585**
	—	258	—	−382	**194**
	—	35	16 186	−12 427	**4 091**
	—	41	—	−6	**435**
	—	—	—	−2 410	**46**
	6 641	2 205	—	−1 401	**80 868**
	—	153	—	−247	**425**
	—	—	—	—	**399**
	—	190	—	−194	**318**
	—	—	—	—	**1**
	—	7	—	−4	**3**
	—	15 334	24 170	−36 044	**5 472**
	—	37	—	−283	**474**
	—	136	—	−130	**143**
	—	781	—	−495	**4 079**
	—	166	—	−1 102	**1 196**
	6 641	**23 039**	**40 356**	**−56 898**	**101 044**
					−5 107
	6 641	**23 039**	**40 356**	**−56 898**	**95 937**

TABLE D.26

Consolidated revenue by portfolio and category – 2014-2015

(millions of dollars)

Portfolio	Income and property taxes	Consumption taxes
Affaires municipales et Occupation du territoire	—	—
Agriculture, Pêcheries et Alimentation	—	—
National Assembly	—	—
Conseil du trésor et Administration gouvernementale	—	—
Conseil exécutif	—	—
Culture et Communications	—	16
Développement durable, Environnement et Lutte contre les changements climatiques	—	19
Économie, Science et Innovation	—	—
Éducation et Enseignement supérieur	1 962	55
Énergie et Ressources naturelles	—	—
Famille	—	30
Finances	39 771	15 663
Forêts, Faune et Parcs	—	—
Immigration, Diversité et Inclusion	—	—
Justice	—	—
Persons Appointed by the National Assembly	—	—
Relations internationales et Francophonie	—	—
Santé et Services sociaux	1 098	20
Sécurité publique	—	—
Tourisme	—	77
Transports, Mobilité durable et Électrification des transports	—	2 154
Travail, Emploi et Solidarité sociale	71	—
Subtotal	**42 902**	**18 034**
Inter-portfolio eliminations(1),(3)	−1 167	−377
TOTAL	**41 735**	**17 657**

Note: Presentation according to the 2016-2017 budgetary structure. Totals may not add due to rounding.
(1) Includes $411 million in Québec government transfers.
(2) Corresponds to the net result, consisting of $20 871 million in revenue less $15 364 million in expenditure and $100 million in other adjustments.
(3) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different portfolios. Includes the cancellation of inter-portfolio gains for consolidation purposes.

Duties and permits	Miscellaneous revenue	Revenue from government enterprises	Federal transfers and other[1]	Consolidated revenue
5	215	—	439	**659**
25	29	—	95	**149**
—	1	—	—	**1**
—	1 384	—	1	**1 385**
—	—	—	—	**—**
1	95	—	9	**121**
529	31	—	6	**585**
2	157	—	35	**194**
—	1 673	—	401	**4 091**
126	222	—	87	**435**
13	3	—	—	**46**
1 025	3 319	5 407[2]	15 683	**80 868**
305	115	—	5	**425**
51	7	—	341	**399**
2	280	—	36	**318**
—	1	—	—	**1**
—	1	—	2	**3**
2	3 682	—	670	**5 472**
39	348	—	87	**474**
—	60	—	6	**143**
1 092	597	—	236	**4 079**
65	249	—	811	**1 196**
3 282	**12 469**	**5 407**	**18 950**	**101 044**
—	−3 152	—	–411	**–5 107**
3 282	**9 317**	**5 407**	**18 539**	**95 937**

TABLE D.27

Consolidated expenditure by portfolio and sector – 2014-2015

(millions of dollars)

Portfolio	Consolidated Revenue Fund General fund	Special funds	Specified purpose accounts	Tax-funded expenditures
Affaires municipales et Occupation du territoire	1 801	161	65	—
Agriculture, Pêcheries et Alimentation	922	—	106	—
National Assembly	126	—	1	—
Conseil du trésor et Administration gouvernementale	819	1	—	—
Conseil exécutif	399	—	—	—
Culture et Communications	656	13	30	219
Développement durable, Environnement et Lutte contre les changements climatiques	150	395	5	—
Économie, Science et Innovation	736	228	6	1 496
Éducation et Enseignement supérieur	16 616	82	42	102
Énergie et Ressources naturelles	74	265	—	242
Famille	2 600	2 420	—	2 839
Finances	96	967	460	767
Forêts, Faune et Parcs	456	437	3	45
Immigration, Diversité et Inclusion	156	—	5	—
Justice	833	95	—	—
Persons Appointed by the National Assembly	123	—	—	—
Relations internationales et Francophonie	96	—	—	—
Santé et Services sociaux	32 235	1 708	176	534
Sécurité publique	1 331	570	93	—
Tourisme	124	138	—	4
Transports, Mobilité durable et Électrification des transports	661	2 683	—	4
Travail, Emploi et Solidarité sociale	4 334	1 214	8	389
Inter-portfolio eliminations(1)				
Subtotal	**65 342**	**11 377**	**1 000**	**6 641**
Debt service	8 150	2 133	—	—
TOTAL	**73 492**	**13 510**	**1 000**	**6 641**

Note: Presentation according to the 2016-2017 budgetary structure. Totals may not add due to rounding.
(1) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors (intra-portfolio eliminations) or different portfolios (inter-portfolio eliminations).

Non-budget-funded bodies	Health and social services and education networks	Intra-portfolio eliminations(1)	Inter-portfolio eliminations(1)	Consolidated expenditure
981	—	−600		**2 408**
341	—	−561		**808**
—	—	−1		**126**
1 396	—	−199		**2 017**
3	—	−3		**399**
467	—	−405		**980**
35	—	−7		**578**
260	—	−374		**2 352**
34	15 681	−12 269		**20 288**
41	—	−2		**620**
—	—	−2 410		**5 449**
1 469	—	−1 396		**2 363**
144	—	−249		**836**
—	—	−1		**160**
189	—	−195		**922**
—	—	—		**123**
7	—	−4		**99**
15 315	23 816	−36 062		**37 722**
38	—	−280		**1 752**
118	—	−125		**259**
759	—	−408		**3 699**
148	—	−1 102		**4 991**
			−3 420	**−3 420**
21 745	**39 497**	**−56 651**	**−3 420**	**85 531**
906	922	−121	−1 720	**10 270**
22 651	**40 419**	**−56 772**	**−5 140**	**95 801**

TABLE D.28

Consolidated expenditure by portfolio and category – 2014-2015

(millions of dollars)

Portfolio	**Remuneration**	**Operating**
Affaires municipales et Occupation du territoire	84	154
Agriculture, Pêcheries et Alimentation	167	77
National Assembly	96	30
Conseil du trésor et Administration gouvernementale	943	1 039
Conseil exécutif	96	20
Culture et Communications	182	220
Développement durable, Environnement et Lutte contre les changements climatiques	141	55
Économie, Science et Innovation	88	81
Éducation et Enseignement supérieur	12 875	3 574
Énergie et Ressources naturelles	102	140
Famille	74	36
Finances	886	429
Forêts, Faune et Parcs	247	431
Immigration, Diversité et Inclusion	80	44
Justice	512	291
Persons Appointed by the National Assembly	83	22
Relations internationales et Francophonie	55	24
Santé et Services sociaux	24 125	8 760
Sécurité publique	1 141	487
Tourisme	56	109
Transports, Mobilité durable et Électrification des transports	548	2 366
Travail, Emploi et Solidarité sociale	500	243
Subtotal	**43 081**	**18 632**
Inter-portfolio eliminations(4)	−1 175	−1 753
TOTAL	**41 906**	**16 879**

Note: Presentation according to the 2016-2017 budgetary structure. Totals may not add due to rounding.

(1) Change in the provision for environmental liability attributable to the Land Transportation Network Fund (Public Accounts 2014-2015, Vol. 2, p. 116).

(2) Appropriations to be allocated to the Natural Disaster Assistance Fund of the Conseil du Trésor et Administration gouvernmentale portfolio (Expenditure Budget 2014-2015, p. 112).

(3) Appropriations to be allocated to the Administrative Tribunal of Québec of the Justice portfolio (Expenditure Budget 2014-2015, p. 106).

(4) Consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different portfolios.

Doubtful accounts and other allowances	Transfers	Allocation to a Special Fund	Subtotal	Debt service	Consolidated expenditure
5	2 165	—	**2 408**	74	**2 482**
3	561	—	**808**	1	**809**
—	—	—	**126**	—	**126**
—	40	−5(1)	**2 017**	172	**2 189**
—	283	—	**399**	—	**399**
1	577	—	**980**	20	**1 000**
—	382	—	**578**	—	**578**
147	2 036	—	**2 352**	108	**2 460**
32	3 807	—	**20 288**	460	**20 748**
1	376	1(2)	**620**	—	**620**
—	5 339	—	**5 449**	—	**5 449**
680	368	—	**2 363**	9 972	**12 335**
3	155	—	**836**	3	**839**
—	36	—	**160**	—	**160**
3	116	—	**922**	—	**922**
—	18	—	**123**	—	**123**
—	20	—	**99**	—	**99**
32	4 805	—	**37 722**	341	**38 063**
—	124	—	**1 752**	—	**1 752**
—	94	—	**259**	14	**273**
2	783	—	**3 699**	825	**4 524**
7	4 234	7(3)	**4 991**	—	**4 991**
916	**26 319**	**3**	**88 951**	**11 990**	**100 941**
—	−489	−3	**−3 420**	−1 720	**−5 140**
916	**25 830**	**—**	**85 531**	**10 270**	**95 801**

TABLE D.29

List of entities by portfolio[1]

Affaires municipales et Occupation du territoire	
Ministère des Affaires municipales et de l'Occupation du territoire	Dept
Commission municipale du Québec	BFB
Régie du logement	BFB
Territories Development Fund	SF
Société d'habitation du Québec	NBFB
Agriculture, Pêcheries et Alimentation	
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation	Dept
Commission de protection du territoire agricole du Québec	BFB
Régie des marchés agricoles et alimentaires du Québec	BFB
La Financière agricole du Québec	NBFB
National Assembly	
National Assembly	Other
Conseil du trésor et Administration gouvernementale	
Secrétariat du Conseil du trésor	Dept
Commission de la fonction publique	BFB
Natural Disaster Assistance Fund	SF
Centre de services partagés du Québec	NBFB
Commission de la capitale nationale du Québec	NBFB
Société québécoise des infrastructures	NBFB
Conseil exécutif	
Ministère du Conseil exécutif	Dept
Commission d'accès à l'information	BFB
Centre de la francophonie des Amériques	NBFB
Culture et Communications	
Ministère de la Culture et des Communications	Dept
Commission de toponymie	BFB
Conseil du patrimoine culturel du Québec	BFB
Conseil supérieur de la langue française	BFB
Office québécois de la langue française	BFB
Québec Cultural Heritage Fund	SF
Bibliothèque et Archives nationales du Québec	NBFB
Conseil des arts et des lettres du Québec	NBFB
Conservatoire de musique et d'art dramatique du Québec	NBFB
Musée d'art contemporain de Montréal	NBFB
Musée de la civilisation	NBFB
Musée national des beaux-arts du Québec	NBFB
Régie du cinéma	NBFB
Société de développement des entreprises culturelles	NBFB
Société de la Place des Arts de Montréal	NBFB
Société de télédiffusion du Québec	NBFB
Société du Grand Théâtre de Québec	NBFB
Développement durable, Environnement et Lutte contre les changements climatiques	
Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques	Dept
Bureau d'audiences publiques sur l'environnement	BFB
Green Fund	SF
Société québécoise de récupération et de recyclage	NBFB

(1) The list comprises entities of the 2016-2017 budgetary structure that carried out financial transactions in 2014-2015.

Legend: Dept: department; BFB: budget-funded body; SF: special fund; NBFB: non-budget-funded body; HSSE: health and social services and education networks.

TABLE D.29 (cont.)

List of entities by portfolio (cont.)

Économie, Science et Innovation	
Ministère de l'Économie, de la Science et de l'Innovation	Dept
Conseil du statut de la femme	BFB
Commission de l'éthique en science et en technologie	BFB
Fonds de recherche du Québec – Nature et technologies	NBFB
Fonds de recherche du Québec – Santé	NBFB
Fonds de recherche du Québec – Société et culture	NBFB
Economic Development Fund	SF
Centre de recherche industrielle du Québec	NBFB
Société du parc industriel et portuaire de Bécancour	NBFB
Éducation et Enseignement supérieur	
Ministère de l'Éducation et de l'Enseignement supérieur	Dept
Advisory Committee on the Financial Accessibility of Education	BFB
Commission consultative de l'enseignement privé	BFB
Commission d'évaluation de l'enseignement collégial	BFB
Conseil supérieur de l'éducation	BFB
University Excellence and Performance Fund	SF
Sports and Physical Activity Development Fund	SF
Institut de tourisme et d'hôtellerie du Québec	NBFB
Institut national des mines	NBFB
General and vocational colleges (CEGEPs)	HSSE
School boards	HSSE
Université du Québec and its constituents	HSSE
Énergie et Ressources naturelles	
Ministère de l'Énergie et des Ressources naturelles	Dept
Territorial Information Fund	SF
Natural Resources Fund	SF
Régie de l'énergie	NBFB
Société de développement de la Baie-James	NBFB
Société nationale de l'amiante	NBFB
Famille	
Ministère de la Famille	Dept
Curateur public	BFB
Caregiver Support Fund	SF
Educational Childcare Services Fund	SF
Early Childhood Development Fund	SF
Finances	
Ministère des Finances	Dept
Financing Fund	SF
Generations Fund	SF
Fonds du Bureau de décision et de révision	SF
Fonds du centre financier de Montréal	SF
Northern Plan Fund	SF
Tax Administration Fund	SF
Agence du revenu du Québec	NBFB
Autorité des marchés financiers	NBFB
Financement-Québec	NBFB
Institut de la statistique du Québec	NBFB
Société de financement des infrastructures locales du Québec	NBFB
Government enterprises[2]	Other

(2) At the financial level, the net result of government enterprises is credited to the Finances portfolio. However, the administration of a government enterprises may come under another portfolio.

TABLE D.29 (cont.)

List of entities by portfolio (cont.)

Forêts, Faune et Parcs	
Ministère des Forêts, de la Faune et des Parcs	Dept
Natural Resources Fund – Sustainable forest development component	SF
Fondation de la faune du Québec	NBFB
Société des établissements de plein air du Québec	NBFB
Société des parcs de sciences naturelles du Québec	NBFB
Immigration, Diversité et Inclusion	
Ministère de l'Immigration, de la Diversité et de l'Inclusion	Dept
Justice	
Ministère de la Justice	Dept
Committee on the Remuneration of Judges	BFB
Committee on the Remuneration of Criminal and Penal Prosecuting Attorneys	BFB
Commission des droits de la personne et des droits de la jeunesse	BFB
Conseil de la justice administrative	BFB
Conseil de la magistrature	BFB
Directeur des poursuites criminelles et pénales	BFB
Office de la protection du consommateur	BFB
Human Rights Tribunal	BFB
Access to Justice Fund	SF
Fonds d'aide aux victimes d'actes criminels	SF
Register Fund of the Ministère de la Justice	SF
Fund of the Administrative Tribunal of Québec	SF
Commission des services juridiques	NBFB
Fonds d'aide aux recours collectifs	NBFB
Office des professions du Québec	NBFB
Société québécoise d'information juridique	NBFB
Persons Appointed by the National Assembly	
Ethics Commissioner	BFB
Lobbyists Comissioner	BFB
Chief Electoral Officer	BFB
Québec Ombudsman	BFB
Auditor General	BFB
Relations internationales et Francophonie	
Ministère des Relations internationales et de la Francophonie	Dept
Office Québec-Amériques pour la jeunesse	NBFB
Office Québec-Monde pour la jeunesse	NBFB
Santé et Services sociaux	
Ministère de la Santé et des Services sociaux	Dept
Commissaire à la santé et au bien-être	BFB
Office des personnes handicapées du Québec	BFB
Fund to Finance Health and Social Services Institutions	SF
Health and Social Services Information Resources Fund	SF
Fund for the Promotion of a Healthy Lifestyle	SF
Corporation d'urgences-santé	NBFB
Prescription Drug Insurance Fund	NBFB
Héma-Québec	NBFB
Institut national de santé publique du Québec	NBFB
Institut national d'excellence en santé et en services sociaux	NBFB
Régie de l'assurance maladie du Québec	NBFB
Integrated health and social services centre, other public establishments and regional authorities	HSSE

TABLE D.29 (cont.)

List of entities by portfolio (cont.)

Sécurité publique	
Ministère de la Sécurité publique	Dept
Bureau des enquêtes indépendantes	BFB
Bureau du coroner	BFB
Comité de déontologie policière	BFB
Commissaire à la déontologie policière	BFB
Commissaire à la lutte contre la corruption	BFB
Commission québécoise des libérations conditionnelles	BFB
Régie des alcools, des courses et des jeux	BFB
Police Services Fund	SF
École nationale de police du Québec	NBFB
École nationale des pompiers du Québec	NBFB
Tourisme	
Ministère du Tourisme	Dept
Tourism Partnership Fund	SF
Régie des installations olympiques	NBFB
Société du Centre des congrès de Québec	NBFB
Société du Palais des congrès de Montréal	NBFB
Transports, Mobilité durable et Électrification des transports	
Ministère des Transports, de la Mobilité durable et de l'Électrification des transports	Dept
Commission des transports du Québec	BFB
Government Air Service Fund	SF
Rolling Stock Management Fund	SF
Highway Safety Fund	SF
Land Transportation Network Fund	SF
Agence métropolitaine de transport	NBFB
Société de l'assurance automobile du Québec	NBFB
Société des traversiers du Québec	NBFB
Travail, Emploi et Solidarité sociale	
Ministère du Travail, de l'Emploi et de la Solidarité sociale	Dept
Commission de l'équité salariale(3)	BFB
Commission des partenaires du marché du travail	BFB
Assistance Fund for Independent Community Action	SF
Labour Market Development Fund	SF
Goods and Services Fund	SF
Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale	SF
Administrative Labour Tribunal Fund	SF
Fonds québécois d'initiatives sociales	SF
Commission des normes du travail(3)	NBFB
Office de la sécurité du revenu des chasseurs et piégeurs cris	NBFB
Régie du bâtiment du Québec	NBFB

(3) On January 1, 2016, the activities of these bodies were transfered to the Commission des normes, de l'équité, de la santé et de la sécurité du travail, which is not included in the government reporting entity.

APPENDIX 3: ALLOCATION OF REVENUE FROM CONSUMPTION TAXES AND NATURAL RESOURCES

❑ Consumption taxes

Consumption taxes include sales taxes and specific taxes. Sales taxes include, in particular, the Québec sales tax (QST) and the tax on insurance premiums, while specific taxes are applied to fuel, tobacco products and alcoholic beverages.

For 2015-2016, revenue from consumption taxes will amount to $18.4 billion, i.e. $14.3 billion from sales taxes and $4.1 billion from specific taxes.

TABLE D.30

Revenue from consumption taxes
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Sales taxes(1)	**14 342**	**14 896**	**15 418**
Specific taxes			
Fuel	2 340	2 355	2 382
Tobacco products	1 093	1 027	977
Alcoholic beverages(2)	627	628	630
Subtotal	**4 060**	**4 010**	**3 989**
TOTAL	**18 402**	**18 906**	**19 407**

(1) Includes revenue from pari mutuel.
(2) Includes an annual amount of $100 million in 2015-2016 and an amount of $500 million in 2015-2016 and 2017-2018 dedicated to the Generation Fund.

Sales taxes

Within the meaning of the *Act respecting the Québec sales tax*,[7] sales taxes include the QST as well as the tax on insurance premiums, the tax on lodging and the specific duty on new tires.

For 2015-2016, sales tax revenue will reach $14.3 billion. More specifically:

- the revenue of the general fund derived from the QST and the tax on insurance premiums will amount to $16.3 billion;
- revenue of $79 million, derived mainly from the tax on lodging, is allocated to the Tourism Partnership Fund to promote and develop tourism;
- revenue of $21 million, derived in particular from the specific duty on new tires ($3 per tire), is dedicated to the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC) to finance the recycling of used tires.

Consolidated revenue also takes into account the cost of the solidarity tax credit and consolidation adjustments, such as the elimination of reciprocal transactions between entities in different sectors.

TABLE D.31

Allocation of sales tax revenue(1)
(millions of dollars)

	2015-2016	2016-2017	2017-2018
General fund(2)	16 278	16 744	17 196
Tourism Partnership Fund	79	79	79
RECYC-QUÉBEC	21	22	23
Solidarity tax credit and other(3)	−2 036	−1 949	−1 880
TOTAL	**14 342**	**14 896**	**15 418**

(1) Includes revenue from pari mutuel.
(2) Includes, in particular, the solidarity tax credit and the partial rebate of the QST paid on property and services acquired by establishments in the health and social services and education networks.

7 CQLR, chapter T-0.1.

■ Specific taxes

▪ Specific tax on fuel

For 2015-2016, the government's own-source revenue from the specific tax on fuel will total $2.3 billion. This amount includes:

- revenue from the specific tax of 19.2 cents per litre and 20.2 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 ($2.2 billion):
  - revenue from FORT also includes revenue from the specific tax of 1 cent per litre of gasoline sold within the territory of the Gaspésie–Îles-de-la-Madeleine administrative region to improve public transportation services in this region ($1 million);
- 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 ($15 million);
- revenue from the specific tax of 3 cents per litre of gasoline sold within the territory of the Agence métropolitaine de transport (AMT), paid to the AMT, for public transportation services in the metropolitan Montréal region ($99 million).

TABLE D.32

Allocation of revenue from the specific taxes on fuel
(millions of dollars)

	2015-2016	2016-2017	2017-2018
FORT	2 226	2 242	2 269
General fund	15	15	15
AMT	99	98	98
TOTAL	**2 340**	**2 355**	**2 382**

- **Specific tax on tobacco products**

For 2015-2016, tax revenue from the sale of tobacco products amounts to $1.1 billion, including:

— $962 million paid into the general fund;

— $131 million allocated to various special funds.

TABLE D.33

Allocation of revenue from the specific tax on tobacco products
(millions of dollars)

	2015-2016	2016-2017	2017-2018
General fund	**962**	**890**	**860**
Special funds			
Sports and Physical Activity Development Fund	60	66	66
Québec Cultural Heritage Fund	16	16	16
Fund for the Promotion of a Healthy Lifestyle	20	20	—
Early Childhood Development Fund	15	15	15
Caregiver Support Fund	15	15	15
Fonds Avenir Mécénat Culture	5	5	5
Subtotal	**131**	**137**	**117**
TOTAL	**1 093**	**1 027**	**977**

▪ Specific tax on alcoholic beverages

Tax revenue from the sale of alcoholic beverages totals $627 million in 2015-2016. This revenue will reach $630 million in 2017-2018.

— In 2015-2016, an annual amount of $100 million from the specific tax will be allocated to the Generations Fund.

— As of 2016-2017, an additional amount of $400 million will be deposited in the fund, bringing the total deposit from the specific tax on alcoholic beverages in the Generations Fund to $500 million annually.

TABLE D.34

Allocation of revenue from the specific tax on alcoholic beverages
(millions of dollars)

	2015-2016	2016-2017	2017-2018
General fund	527	128	130
Generations Fund	100	500	500
TOTAL	**627**	**628**	**630**

❑ Natural resource duties and permits

The government uses various means to enable Quebecers to benefit from the development of natural resources. It collects revenues from resource development, as well as revenue from the granting of permits.

- An exploration licence confers on the holder an exclusive right for exploration and the future development of the resource concerned. A lease (or right) to produce 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 resources, the legislation currently stipulates that a portion of the revenue derived from natural resources must be devoted to:

- the Natural Resources Fund, in particular, to fund:
  - activities fostering the development of mineral potential, including geoscientific knowledge acquisition activities, research and development on techniques for the exploration, development, redevelopment and rehabilitation of mining sites and support for the development of Québec entrepreneurship (mining heritage component),
  - forest development work to ensure the sustainability of Québec's forest (sustainable forest development component);
- reduction of the debt through the deposit in the Generations Fund of revenue from mining resources (100% as of 2015-2016) and water-power royalties.

In 2015-2016, natural resource revenue of $836 million, $259 million and $53 million will be allocated to the Generations Fund, special funds and the general fund, respectively.

TABLE D.35

Revenue from natural resources
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Duties and royalties			
Mining	86	122	162
Forest	258	292	300
Water-power	759	750	783
Oil and natural gas	—	—	—
Subtotal	**1 103**	**1 164**	**1 245**
Other duties and permits			
Minig	8	8	9
Forest	36	37	35
Oil and natural gas	1	1	1
Subtotal	**45**	**46**	**45**
TOTAL	**1 148**	**1 210**	**1 290**
Allocation of revenue			
General fund	53	28	26
Special funds(1)	259	326	334
Generations Fund	836	856	930

(1) Includes revenue paid into the Natural Resources Fund (sustainable forest development, mining heritage and mining activity management components).

APPENDIX 4: DETAILED CONSOLIDATED FINANCIAL FRAMEWORK

TABLE D.36

Detailed consolidated financial framework
(millions of dollars)

	2015-2016			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	21 158	1 174	—	—
Contributions for health services	7 022	699	—	—
Corporate taxes	4 330	192	—	—
School property tax	—	—	—	—
Consumption taxes	17 782	2 436	100	—
Duties and permits	333	2 245	836	—
Miscellaneous revenue	1 400	1 770	397	234
Government enterprises	4 863	—	98	—
Own-source revenue	**56 888**	**8 516**	**1 431**	**234**
Québec government transfers	—	4 479	—	—
Federal transfers	17 036	450	—	828
Total revenue	**73 924**	**13 445**	**1 431**	**1 062**
Expenditure				
Expenditure	−66 460	−11 379	—	−1 062
Debt service	−8 019	−1 403	—	—
Total expenditure	**−74 479**	**−12 782**	**—**	**−1 062**
Contingency reserve	−300			
SURPLUS (DEFICIT)	**−855**	**663**	**1 431**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			−1 431	
BUDGETARY BALANCE(3)				

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act.*

2015-2016				
Tax-funded expenditures[(1)]	**Non-budget-funded bodies**	**Health and social services and education networks**	**Consolidation adjustments[(2)]**	**Consolidated results**
4 279	—	—	1 860	28 471
—	—	—	−1 226	6 495
1 828	54	—	—	6 404
—	—	2 033	—	2 033
216	120	—	−2 252	18 402
—	425	—	−58	3 781
—	5 752	4 064	−3 833	9 784
—	—	—	—	4 961
6 323	**6 351**	**6 097**	**−5 509**	**80 331**
—	12 894	33 050	−50 423	—
—	1 067	311	−603	19 089
6 323	**20 312**	**39 458**	**−56 535**	**99 420**
−6 323	−19 231	−38 687	55 508	−87 634
—	−768	−803	938	−10 055
−6 323	**−19 999**	**−39 490**	**56 446**	**−97 689**
				−300
—	**313**	**−32**	**−89**	**1 431**
				−1 431
				—

TABLE D.37

Detailed consolidated financial framework

(millions of dollars)

	2016-2017			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	22 261	1 203	—	—
Contributions for health services	7 186	531	—	—
Corporate taxes	4 739	188	—	—
School property tax	—	—	—	—
Consumption taxes	17 777	2 458	500	—
Duties and permits	311	2 219	856	—
Miscellaneous revenue	1 384	2 052	502	168
Government enterprises	4 680	—	170	—
Own-source revenue	**58 338**	**8 651**	**2 028**	**168**
Québec government transfers	—	4 674	—	—
Federal transfers	18 204	421	—	814
Total revenue	**76 542**	**13 746**	**2 028**	**982**
Expenditure				
Expenditure	−68 238	−12 062	—	−982
Debt service	−8 318	−1 538	—	—
Total expenditure	**−76 556**	**−13 600**	**—**	**−982**
Contingency reserve	−400			
SURPLUS (DEFICIT)	**−414**	**146**	**2 028**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			−2 028	
BUDGETARY BALANCE(3)				

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2016-2017				
Tax-funded expenditures[1]	**Non-budget-funded bodies**	**Health and social services and education networks**	**Consolidation adjustments[2]**	**Consolidated results**
4 384	—	—	1 791	29 639
—	—	—	−1 254	6 463
1 638	—	—	—	6 565
—	—	2 135	—	2 135
243	120	—	−2 192	18 906
—	436	—	−59	3 763
—	6 008	4 108	−4 157	10 065
—	—	—	—	4 850
6 265	**6 564**	**6 243**	**−5 871**	**82 386**
—	13 012	33 814	−51 500	—
—	1 075	289	−623	20 180
6 265	**20 651**	**40 346**	**−57 994**	**102 566**
−6 265	−19 752	−39 526	57 105	−89 720
—	−725	−830	993	−10 418
−6 265	**−20 477**	**−40 356**	**58 098**	**−100 138**
				−400
—	**174**	**−10**	**104**	**2 028**
				−2 028
				—

TABLE D.38

Detailed consolidated financial framework
(millions of dollars)

	2017-2018			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	23 325	1 267	—	—
Contributions for health services	7 242	221	—	—
Corporate taxes	5 017	198	—	—
School property tax	—	—	—	—
Consumption taxes	18 201	2 465	500	—
Duties and permits	311	2 133	930	—
Miscellaneous revenue	1 409	2 260	639	164
Government enterprises	4 531	—	435	—
Own-source revenue	**60 036**	**8 544**	**2 504**	**164**
Québec government transfers	—	4 652	—	—
Federal transfers	18 893	411	—	698
Total revenue	**78 929**	**13 607**	**2 504**	**862**
Expenditure				
Expenditure	−70 156	−12 001	—	−862
Debt service	−8 283	−1 724	—	—
Total expenditure	**−78 439**	**−13 725**	**—**	**−862**
Contingency reserve	−400			
SURPLUS (DEFICIT)	**90**	**−118**	**2 504**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			−2 504	
BUDGETARY BALANCE(3)				

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2017-2018				
Tax-funded expenditures[1]	**Non-budget-funded bodies**	**Health and social services and education networks**	**Consolidation adjustments[2]**	**Consolidated results**
4 462	—	—	1 722	30 776
—	—	—	−1 268	6 195
1 623	—	—	—	6 838
—	—	2 215	—	2 215
249	121	—	−2 129	19 407
—	449	—	−59	3 764
—	5 861	4 180	−4 108	10 405
—	—	—	—	4 966
6 334	**6 431**	**6 395**	**−5 842**	**84 566**
—	14 073	34 219	−52 944	—
—	1 087	293	−623	20 759
6 334	**21 591**	**40 907**	**−59 409**	**105 325**
−6 334	−20 813	−40 016	58 276	−91 906
—	−713	−891	1 096	−10 515
−6 334	**−21 526**	**−40 907**	**59 372**	**−102 421**
				−400
—	**65**	**—**	**−37**	**2 504**
				−2 504
				—

Section E

THE QUÉBEC GOVERNMENT'S DEBT

1. DEBT

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on Québec's debt according to three concepts, i.e. gross debt, net debt and debt representing accumulated deficits.

TABLE E.1

Debt of the Québec government as at March 31
(millions of dollars)

	2015	2016P	2017P	2018P	2019P	2020P	2021P
GROSS DEBT(1)	**203 957**	**207 709**	**213 017**	**216 067**	**218 037**	**218 404**	**219 061**
% of GDP	*55.1*	*55.0*	*54.7*	*53.7*	*52.4*	*50.9*	*49.5*
Less: Financial assets, net of other liabilities	−18 377	−20 611	−24 453	−26 982	−29 099	−30 722	−33 204
NET DEBT	**185 580**	**187 098**	**188 564**	**189 085**	**188 938**	**187 682**	**185 857**
% of GDP	*50.1*	*49.6*	*48.4*	*47.0*	*45.4*	*43.7*	*42.0*
Less: Non-financial assets	−64 419	−67 368	−70 862	−73 887	−76 622	−78 677	−80 606
DEBT REPRESENTING ACCUMULATED DEFICITS	**121 161**	**119 730**	**117 702**	**115 198**	**112 316**	**109 005**	**105 251**
% of GDP	*32.7*	*31.7*	*30.2*	*28.6*	*27.0*	*25.4*	*23.8*

P: Preliminary results for 2016 and forecasts for subsequent years.
(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 represents the amount of debt issued on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2016, the gross debt should stand at $207 709 million, i.e. 55.0% of GDP. The gross debt burden is down compared with March 31, 2015.

TABLE E.2

Gross debt as at March 31
(millions of dollars)

		2015	2016P	2017P	2018P	2019P	2020P	2021P
Consolidated direct debt(1)		182 723	189 413	196 864	202 916	208 623	213 457	219 239
Plus:	Net retirement plans liability	28 041	26 704	26 658	26 160	25 305	24 149	22 778
Plus:	Net employee future benefits liability	131	69	—	—	—	—	—
Less:	Generations Fund	−6 938	−8 477	−10 505	−13 009	−15 891	−19 202	−22 956
GROSS DEBT(1)		**203 957**	**207 709**	**213 017**	**216 067**	**218 037**	**218 404**	**219 061**
% of GDP		***55.1***	***55.0***	***54.7***	***53.7***	***52.4***	***50.9***	***49.5***

P: Preliminary results for 2016 and forecasts for subsequent years.
(1) The consolidated direct debt and the gross debt exclude pre-financing.

Retirement plans liability

The net retirement plans liability, which is included in the gross debt, 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 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 $83 304 million as at March 31, 2015.

The government created the RPSF in 1993. As at March 31, 2015, the RPSF's book value stood at $55 263 million.

Thus, the net retirement plans liability represented $28 041 million as at March 31, 2015.

Net retirement plans liability as at March 31, 2015
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	51 966
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	12 264
Other plans(1)	19 074
Subtotal	**83 304**
Less: Retirement Plans Sinking Fund (RPSF)	−55 263
NET RETIREMENT PLANS LIABILITY	**28 041**

(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 the gross 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 government employees. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2015, the employee future benefits liability stood at $1 488 million.

As at March 31, 2015, the value of the sums accumulated to pay for employee future benefits programs (Accumulated Sick Leave Fund and Survivor's Pension Plan Fund) stood at $1 357 million.

Thus, the net employee future benefits liability was $131 million as at March 31, 2015.

Net employee future benefits liability as at March 31, 2015
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	877
Survivor's pension plan	412
Université du Québec programs	199
Subtotal	**1 488**
Less:	
Accumulated Sick Leave Fund	−918
Survivor's Pension Plan Fund	−439
Subtotal	**−1 357**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**131**

Generations Fund

The Generations Fund was created by the Liberal government in June 2006, through the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated solely to repaying the debt.

As at March 31, 2016, the book value of the Generations Fund is expected to be $8 477 million.

The sums accumulated in the Generations Fund are expected to reach $22 956 million as at March 31, 2021.

Generations Fund
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Book value, beginning of year	**5 659**	**6 938**	**8 477**	**10 505**	**13 009**	**15 891**	**19 202**
Dedicated revenues							
Water-power royalties							
Hydro-Québec	660	658	652	684	699	723	748
Private producers	101	98	95	96	98	100	103
Subtotal	**761**	**756**	**747**	**780**	**797**	**823**	**851**
Indexation of the price of heritage electricity	71	98	170	220	300	415	520
Additional contribution from Hydro-Québec	—	—	—	215	215	215	215
Mining revenues	—	80	109	150	241	296	336
Specific tax on alcoholic beverages	100	100	500	500	500	500	500
Unclaimed property	32	50	30	15	15	15	15
Investment income	315	347	472	624	814	1 047	1 317
Total dedicated revenues	**1 279**	**1 431**	**2 028**	**2 504**	**2 882**	**3 311**	**3 754**
Deposit from the accumulated surplus of the Commission des normes du travail	—	108	—	—	—	—	—
Total deposits	**1 279**	**1 539**	**2 028**	**2 504**	**2 882**	**3 311**	**3 754**
BOOK VALUE, END OF YEAR	**6 938**	**8 477**	**10 505**	**13 009**	**15 891**	**19 202**	**22 956**

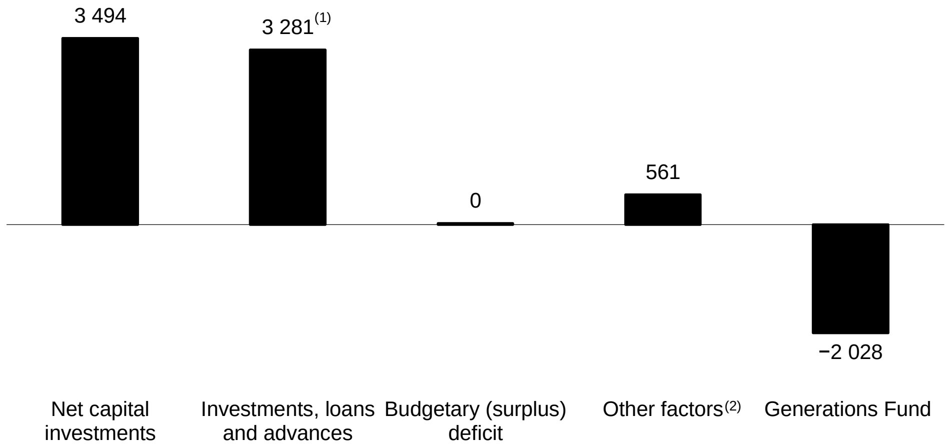
❑ Factors responsible for the growth in the gross debt

In 2016-2017, the gross debt is expected to increase by $5.3 billion, mainly because of capital investments ($3.5 billion) and investments, loans and advances ($3.3 billion).

Deposits in the Generations Fund will help to reduce the gross debt by $2.0 billion.

CHART E.1

Factors responsible for the growth in the gross debt in 2016-2017
(millions of dollars)



(1) The government's investments, loans and advances in 2016-2017 include the investment in the C Series program (US$1 billion, or approximately CAN$1.3 billion).
(2) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

Investments, loans and advances ($3 281 million) include the investment of US$1 billion (approximately CAN$1.3 billion) that the government will make in Bombardier's C Series program in 2016-2017. Under an agreement entered into with Bombardier last October, Québec will hold an equity participation of 49.5% in a limited partnership created specifically for the C Series program. Bombardier's interest will be 50.5%.

This investment will entail additional financial requirements for the government in 2016-2017 and thus an increase in the gross debt. On the other hand, the government will hold a financial asset worth the equivalent of its investment.

The government's investment in Bombardier's C Series program does not have any effect, however, on the net debt or the debt representing accumulated deficits, because the government owns a financial asset in exchange for its participation.

The table on the next page shows the factors responsible for the growth in the government's gross debt since March 31, 2000.

TABLE E.3

Factors responsible for the growth in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Investments, loans and advances	Net investment in the networks(1)	Net capital investments(2)	Other factors(3)	Deposits in the 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	52.4
2001-2002	120 562	−22		1 248	934	1 199	−9		3 350	123 912	51.9
2002-2003	123 912	728		1 921	631	1 706	237		5 223	129 135	51.7
2003-2004	129 135	358		1 367	560	1 186	625		4 096	133 231	51.4
2004-2005	133 231	664		1 303	1 486	1 006	−796		3 663	136 894	50.4
2005-2006	136 894	−37		1 488	1 013	1 179	−809		2 834	139 728	49.9
2006-2007	139 728	−109		2 213	1 002	1 177	1 078	−584	4 777	144 505	49.7
2007-2008	144 505	—		2 658	487	1 457	767	−649	4 720	149 225	48.8
2008-2009	149 225	—		966	622	2 448	−28	−719	3 289	152 514	48.5
With networks consolidated line by line(5)											
2009-2010	157 630	3 174		1 746		4 226	−2 733	−725	5 688	163 318	51.9
2010-2011	163 318	3 150		2 507		4 923	298	−760	10 118	173 436	52.9
2011-2012	173 436	2 628		1 861		5 071	1 228	−840	9 948	183 384	53.2
2012-2013	183 384	1 600	1 876	659		4 863	445	−961	8 482	191 866	54.2
2013-2014	191 866	2 824		1 349		3 977	−788	−1 421	5 941	197 807	54.8
2014-2015	197 807	1 143		2 146		2 980	1 160	−1 279	6 150	203 957	55.1
2015-2016	203 957	—		1 539		2 949	803	−1 539	3 752	207 709	55.0
2016-2017	207 709	—		3 281		3 494	561	−2 028	5 308	213 017	54.7
2017-2018	213 017	—		1 532		3 025	997	−2 504	3 050	216 067	53.7
2018-2019	216 067	—		1 861		2 735	256	−2 882	1 970	218 037	52.4
2019-2020	218 037	—		1 636		2 055	−13	−3 311	367	218 404	50.9
2020-2021	218 404	—		1 927		1 929	555	−3 754	657	219 061	49.5

(1) The net investment in the networks includes mainly loans by Financement-Québec to the health and social services and education networks. Since 2009-2010, these items have been part of net capital investments.
(2) Investments made under private-public partnership agreements are included in net capital investments.
(3) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.
(4) In 2015-2016, deposits in the Generations Fund include $1 431 million in dedicated revenues and $108 million from the accumulated surplus of the Commission des normes du travail.
(5) The line-by-line consolidation of the health and social services and education networks raised the gross debt by $5 116 million as at March 31, 2009. 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.

❑ Gross debt burden

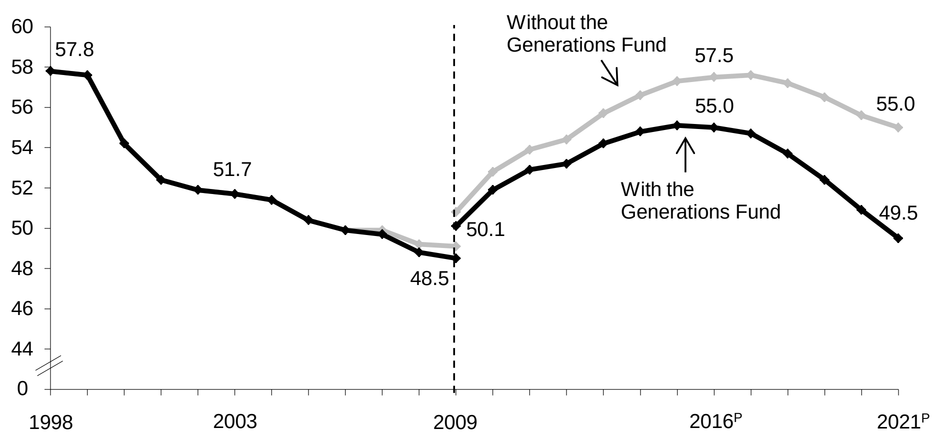
Between 1998 and 2009, the government's gross-debt-to-GDP ratio fell significantly. While the gross debt was equivalent to 57.8% of GDP as at March 31, 1998, this ratio stood at 51.7% as at March 31, 2003 and 48.5% as at March 31, 2009. The line-by-line consolidation of the health and social services and education networks with those of the government raised the gross-debt-to-GDP ratio to 50.1% as at March 31, 2009.

The increase in the ratio as of 2009 is due to the growth in capital investments and the 2008-2009 recession. A decline in the gross-debt-to-GDP ratio is expected as at March 31, 2016.

The following chart illustrates the importance of the Generations Fund. Without the deposits made in the Generations Fund, the ratio of gross debt to GDP would be much higher. As at March 31, 2021, the gross debt burden should stand at 49.5%. Without the Generations Fund, the forecast would be 55.0%, or 5.5 percentage points of GDP higher.

CHART E.2

Gross debt as at March 31(1),(2)
(percentage of GDP)



P: Preliminary results for 2016 and forecasts for subsequent years.
(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 issued in their own name. The data as of 2009 are not comparable with those for prior years, which do not include this debt.

1.2 Net debt

The net debt is equal to the Québec government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures. The net debt is obtained by subtracting from the gross debt the government's financial assets, net of other liabilities.

As at March 31, 2016, the net debt should stand at $187 098 million, or 49.6% of GDP. As a proportion of GDP, the net debt began to decrease in 2013-2014 and will continue to fall over the coming years, to 42.0% as at March 31, 2021.

TABLE E.4

Factors responsible for the growth in the net debt
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Net capital investments	Other	Generations Fund	Total change	Debt, end of year	As a % of GDP
2012-2013	167 700	1 600	1 876	4 863	4 959(1)	−961	12 337	180 037	50.9
2013-2014	180 037	2 824		3 977	−2 465(2)	−1 121	3 215	183 252	50.7
2014-2015	183 252	1 143		2 980	−516(2)	−1 279	2 328	185 580	50.1
2015-2016P	185 580	—		2 949	—	−1 431	1 518	187 098	49.6
2016-2017P	187 098	—		3 494	—	−2 028	1 466	188 564	48.4
2017-2018P	188 564	—		3 025	—	−2 504	521	189 085	47.0
2018-2019P	189 085	—		2 735	—	−2 882	−147	188 938	45.4
2019-2020P	188 938	—		2 055	—	−3 311	−1 256	187 682	43.7
2020-2021P	187 682	—		1 929	—	−3 754	−1 825	185 857	42.0

P: Preliminary results for 2015-2016 and forecasts for subsequent years.
(1) The amount of $4 959 million in 2012-2013 is explained mainly by changes made to Hydro-Québec's accounting policies. These changes led to a decrease in the value of the government's investment in Hydro-Québec and thus an increase in the net debt.
(2) The amounts of $2 465 million in 2013-2014 and $516 million in 2014-2015 are explained mainly by the other comprehensive income items of government enterprises that led to a decrease in the net debt for the years concerned.

1.3 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the Québec government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

As at March 31, 2016, the debt representing accumulated deficits should stand at $119 730 million, or 31.7% of GDP. As a proportion of GDP, the debt representing accumulated deficits began to decrease in 2013-2014 and will continue to fall over the coming years, to 23.8% as at March 31, 2021.

The following table shows the factors responsible for the growth in the debt representing accumulated deficits since March 31, 2009.

TABLE E.5

Factors responsible for the growth in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Accounting adjustments	Generations Fund	Total change	Debt, end of year	As a % of GDP
2009-2010	103 433	3 174		3 243	−725	5 692	109 125	34.7
2010-2011	109 125	3 150		431	−760	2 821	111 946	34.1
2011-2012	111 946	2 628		1 486	−840	3 274	115 220	33.4
2012-2013	115 220	1 600	1 876	4 880(1)	−961	7 395	122 615	34.6
2013-2014	122 615	2 824		−2 471(2)	−1 121	−768	121 847	33.7
2014-2015	121 847	1 143		−550(2)	−1 279	−686	121 161	32.7
2015-2016P	121 161	—		—	−1 431	−1 431	119 730	31.7
2016-2017P	119 730	—		—	−2 028	−2 028	117 702	30.2
2017-2018P	117 702	—		—	−2 504	−2 504	115 198	28.6
2018-2019P	115 198	—		—	−2 882	−2 882	112 316	27.0
2019-2020P	112 316	—		—	−3 311	−3 311	109 005	25.4
2020-2021P	109 005	—		—	−3 754	−3 754	105 251	23.8

P: Preliminary results for 2015-2016 and forecasts for subsequent years.
(1) The amount of $4 880 million in 2012-2013 is explained mainly by changes made to Hydro-Québec's accounting policies. These changes led to a decrease in the value of the government's investment in Hydro-Québec and thus an increase in the debt representing accumulated deficits.
(2) The amounts of $2 471 million in 2013-2014 and $550 million in 2014-2015 are explained mainly by the other comprehensive income items of government enterprises that led to a decrease in the debt representing accumulated deficits for the years concerned.

1.4 Debt reduction objectives

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

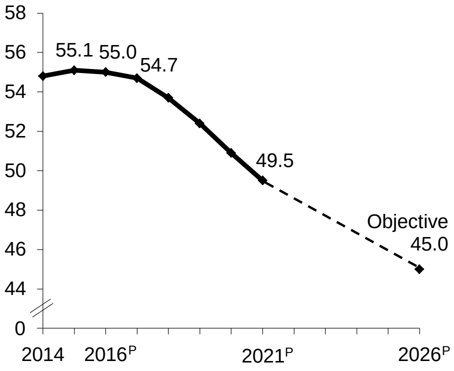
— the gross debt must not exceed 45% of GDP;

— the debt representing accumulated deficits must not exceed 17% of GDP.

CHART E.3

Gross debt as at March 31

(percentage of GDP)

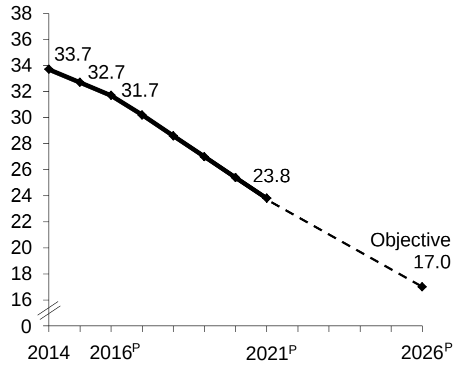


P: Preliminary results for 2016, forecasts for 2017 to 2021 and projections for subsequent years.
Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART E.4

Debt representing accumulated deficits as at March 31

(percentage of GDP)



P: Preliminary results for 2016, forecasts for 2017 to 2021 and projections for subsequent years.

To achieve these debt reduction objectives, the government established the Generations Fund in 2006. In addition to the water-power royalties paid by Hydro-Québec and private producers of hydro-electricity,[1] the following revenue sources are dedicated to the Generations Fund:

— revenue generated by the indexation of the price of heritage electricity;

— all mining revenues;

— an amount of $215 million per year from Hydro-Québec, as of 2017-2018;

— an amount of $100 million per year, in 2014-2015 and 2015-2016, derived from the specific tax on alcoholic beverages. This amount will increase to $500 million per year as of 2016-2017.

[1] The *Act to reduce the debt and establish the Generations Fund* also provides for the deposit in the Generations Fund of unclaimed property administered by Revenu Québec and income generated by the investment of the sums making up the fund.

In addition, the government has decided to deposit in the Generations Fund the accumulated surplus of the Commission des normes du travail, which should amount to $108 million. The deposit will be made in 2015-2016.

The Generations Fund is expected to amount to $22 956 million as at March 31, 2021.

TABLEAU E.6

Generations Fund
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Book value, beginning of year	**5 659**	**6 938**	**8 477**	**10 505**	**13 009**	**15 891**	**19 202**
Dedicated revenues				-			
Water-power royalties							
Hydro-Québec	660	658	652	684	699	723	748
Private producers	101	98	95	96	98	100	103
Subtotal	**761**	**756**	**747**	**780**	**797**	**823**	**851**
Indexation of the price of heritage electricity	71	98	170	220	300	415	520
Additional contribution from Hydro-Québec	—	—	—	215	215	215	215
Mining revenues	—	80	109	150	241	296	336
Specific tax on alcoholic beverages	100	100	500	500	500	500	500
Unclaimed property	32	50	30	15	15	15	15
Investment income	315	347	472	624	814	1 047	1 317
Total dedicated revenues	**1 279**	**1 431**	**2 028**	**2 504**	**2 882**	**3 311**	**3 754**
Deposit from the accumulated surplus of the Commission des normes du travail	—	108	—	—	—	—	—
Total deposits	**1 279**	**1 539**	**2 028**	**2 504**	**2 882**	**3 311**	**3 754**
BOOK VALUE, END OF YEAR	**6 938**	**8 477**	**10 505**	**13 009**	**15 891**	**19 202**	**22 956**

1.5 Public sector debt

The public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, the municipalities, universities other than the Université du Québec and its constituents, and other government enterprises. This debt has served, in particular, to fund public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2016, Québec's public sector debt is expected to stand at $276 231 million, or 73.2% of GDP. These figures must be seen in 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 E.7

Public sector debt as at March 31
(millions of dollars)

	2012	**2013**	**2014**	**2015**	**2016P**
Government's gross debt(1)	183 384	191 866	197 807	203 957	207 709
Hydro-Québec	38 514	39 631	40 361	41 662	42 899
Municipalities(2)	20 719	21 820	22 622	23 305	23 641
Universities other than the Université du Québec and its constituents(3)	1 797	1 739	1 610	1 624	1 624
Other government enterprises(4)	1 363	1 479	433	383	358
PUBLIC SECTOR DEBT	**245 777**	**256 535**	**262 833**	**270 931**	**276 231**
% of GDP	***71.3***	***72.5***	***72.8***	***73.2***	***73.2***

P: Preliminary results.
(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 ($4 702 million as at March 31, 2016).
(3) These amounts correspond to the debt contracted by universities other than the Université du Québec and its constituents in their own name. Part of this debt is subsidized by the government ($628 million as at March 31, 2016).
(4) These amounts correspond to the debt of the Financing Fund to finance government enterprises and entities not included in the reporting entity.

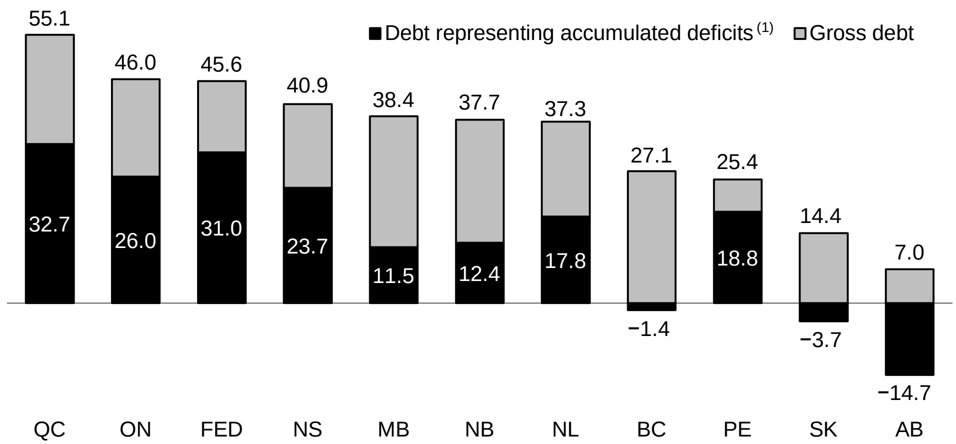
1.6 Comparison of the debt of governments in Canada

Whether on the basis of gross debt or debt representing accumulated deficits, as a percentage of GDP, Québec is the most heavily indebted province.

As at March 31, 2015, the ratio of Québec's gross debt to GDP was 55.1%, compared with 46.0% in Ontario, the second most indebted province, and 40.9% in Nova Scotia, which ranked third.

CHART E.5

Gross debt and debt representing accumulated deficits as at March 31, 2015
(percentage of GDP)



(1) A negative entry means that the government has an accumulated surplus.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

The table on the following page shows the debt of the federal government and each of the provinces as at March 31, 2015. The boxes indicate the debt concept used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

Contrary to the net debt and the debt representing accumulated deficits, the gross debt cannot be observed directly in the public accounts of the other provinces. However, the public accounts show the components of gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. Therefore, it is possible to calculate the level of the gross debt according to the same concept used by Québec.

TABLE E.8

Debt of governments in Canada as at March 31, 2015 according to various concepts

(millions of dollars)

	QC	ON	FED	NS	MB	NB	NL	BC	PE	SK	AB
Consolidated direct debt	**182 723**	**328 744**	**671 182**	**13 434**	**21 895**	**11 357**	**5 527**	**62 181**	**1 849**	**4 839**	**14 982**
Net retirement plans liability	28 041	−7 679	152 664	609	2 245	380	4 378	261	−385	7 077	11 196
Net employee future benefits liability	131	10 830	76 140	1 955	478	363	2 609	1 921	58	—	—
Generations Fund	−6 938	—	—	—	—	—	—	—	—	—	—
Gross debt	**203 957**	**331 895**	**899 986**	**15 998**	**24 618**	**12 100**	**12 514**	**64 363**	**1 522**	**11 916**	**26 178**
% of GDP	*55.1*	*46.0*	*45.6*	*40.9*	*38.4*	*37.7*	*37.3*	*27.1*	*25.4*	*14.4*	*7.0*
Less: Financial assets, net of other liabilities	−18 377	−47 409	−213 027	−967	−5 655	322	−2 186	−25 461	612	−6 364	−36 676
Net debt(1)	**185 580**	**284 486**	**686 959**	**15 031**	**18 963**	**12 422**	**10 328**	**38 902**	**2 134**	**5 552**	**−10 498**
% of GDP	*50.1*	*39.4*	*34.8*	*38.5*	*29.6*	*38.8*	*30.8*	*16.4*	*35.5*	*6.7*	*−2.8*
Less: Non-financial assets	−64 419	−97 065	−74 629	−5 758	−11 578	−8 461	−4 350	−42 154	−1 003	−8 626	−44 753
Debt representing accumulated deficits(1)	**121 161**	**187 421**	**612 330**	**9 273**	**7 385**	**3 961**	**5 978**	**−3 252**	**1 131**	**−3 074**	**−55 251**
% of GDP	*32.7*	*26.0*	*31.0*	*23.7*	*11.5*	*12.4*	*17.8*	*−1.4*	*18.8*	*−3.7*	*−14.7*

Note: The figures in boxes indicate the debt concept(s) used in the governments' budget documents.
(1) A negative entry indicates that the government has net assets or an accumulated surplus.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

2. FINANCING AND DEBT MANAGEMENT

2.1 Financing program

The government's financing program for 2015-2016 amounted to $15 532 million, i.e. $7 317 million more than forecast in March 2015. This upward revision is primarily attributable to pre-financing.

TABLE E.9

The government's financing program in 2015-2016P
(millions of dollars)

	March 2015	Revisions	Revised program
GENERAL FUND			
Net financial requirements(1)	1 891	−901	990
Repayments of borrowings	7 370	205	7 575
Change in cash position(2)	−8 952	−692	−9 644
Deposits in the Retirement Plans Sinking Fund(3) and other funds related to the retirement plans	—	1 678	1 678
Transactions under the credit policy(4)	—	−1 720	−1 720
Additional contributions to the Sinking Fund for borrowings	—	2 846	2 846
Pre-financing	—	7 584	7 584
GENERAL FUND	**309**	**9 000**	**9 309**
FINANCING FUND	**7 406**	**−1 183**	**6 223**
Subtotal – General fund and Financing Fund	**7 715**	**7 817**	**15 532**
FINANCEMENT-QUÉBEC	**500**	**−500**	**—**
TOTAL	**8 215**(5)	**7 317**	**15 532**
Including: repayments of borrowings	10 525	321	10 846

P: Preliminary results based on borrowings contracted or negotiated as at March 7, 2016.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(2) Corresponds to pre-financing carried out the previous year.
(3) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.
(4) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These amounts have no effect on the debt.
(5) This amount is $4 billion less than the financing program of $12.2 billion presented in the March 2015 budget documents. A pre-financing forecast of $4 billion was then included in the financing program. Given that pre-financing is optional, it was decided to not include forecasts in that regard for 2015-2016 as well as subsequent years. Only pre-financing that has already been carried out is shown in this table.

The financing program is expected to reach $13 978 million in 2016-2017, $16 010 million in 2017-2018 and $17 808 million in 2018-2019.

TABLE E.10

The government's financing program, 2016-2017 to 2018-2019
(millions of dollars)

	2016-2017F	2017-2018F	2018-2019F
GENERAL FUND			
Net financial requirements(1)	2 740	1 707	1 039
Repayments of borrowings	9 322	5 303	7 769
Change in cash position(2)	−7 584	—	—
GENERAL FUND	**4 478**	**7 010**	**8 808**
FINANCING FUND	**9 000**	**8 000**	**8 000**
Subtotal – General fund and Financing Fund	**13 478**	**15 010**	**16 808**
FINANCEMENT-QUÉBEC	**500**	**1 000**	**1 000**
TOTAL	**13 978**	**16 010**	**17 808**
Including: repayments of borrowings	13 835	10 556	15 810

F: Forecasts.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(2) Corresponds to pre-financing carried out the previous year.

2.2 Financing strategy

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

2.2.1 Diversification by market

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe, Australia and Asia.

Over the past ten years, 15.3% of borrowings have been contracted in foreign currencies. Nonetheless, the government keeps no exposure of its debt to these currencies (see section 2.5).

More precisely, in 2015-2016, the government carried out 21.9% of its borrowings on foreign markets, i.e.:

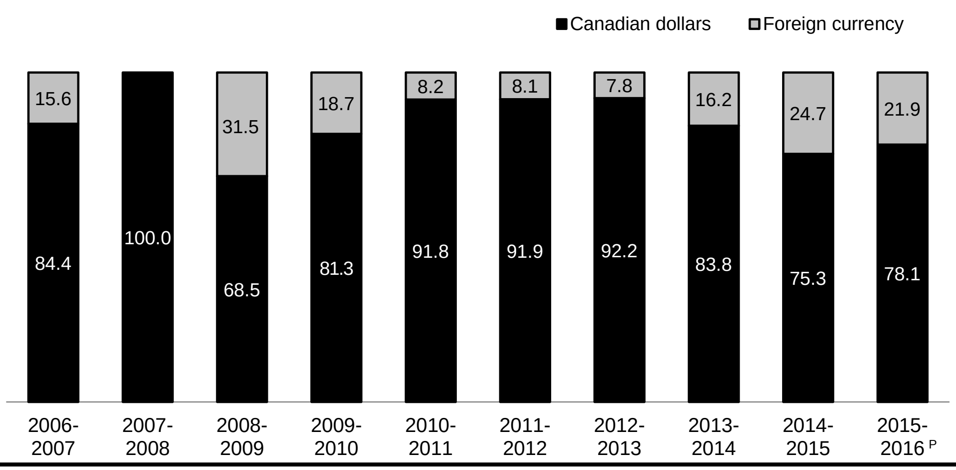
— €1 100 million (CAN$1 605 million);

— US$1 200 million (CAN$1 596 million);

— AU$205 million (CAN$207 million).

CHART E.6

Long-term borrowings by currency[1]
(per cent)



P: Preliminary results based on borrowings contracted or negotiated as at March 7, 2016.
(1) Borrowings of the general fund, the Financing Fund and Financement-Québec.

2.2.2 **Diversification by instrument**

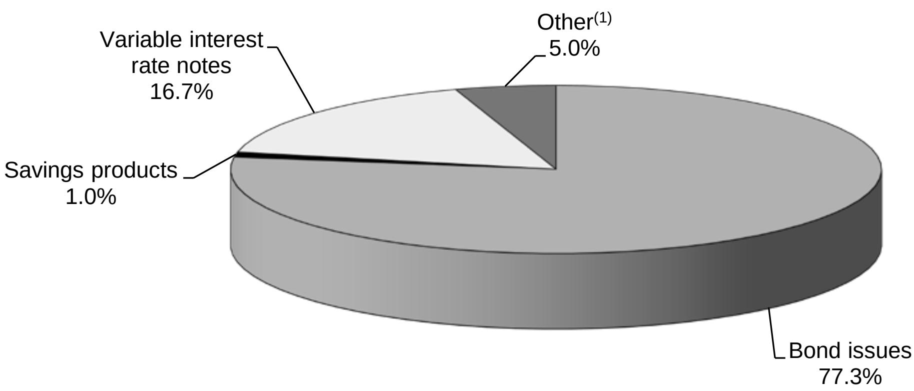
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of bond issues and variable interest rate notes.

In 2015-2016, bond issues represented 77.3% of the instruments used.

CHART E.7

Long-term borrowings contracted in 2015-2016^{P} by instrument
(per cent)



P: Preliminary results based on borrowings contracted or negotiated as at March 7, 2016.
(1) Business Assistance – Immigrant Investor Program.

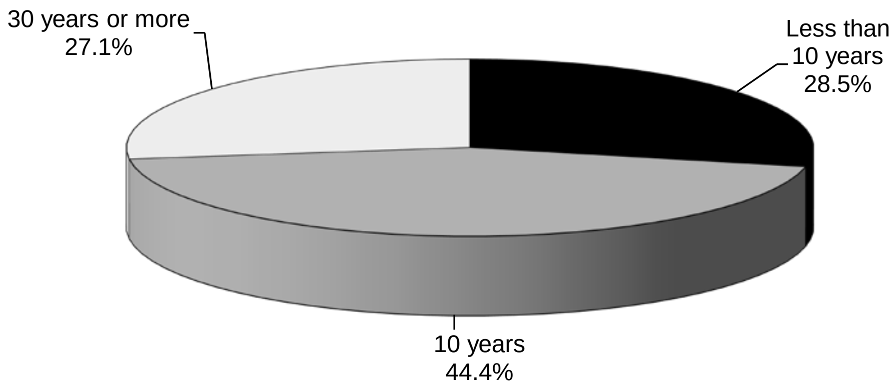
2.2.3 **Diversification by maturity**

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

In the case of borrowings contracted in 2015-2016, 28.5% had a maturity of less than 10 years, 44.4% a maturity of 10 years and 27.1% a maturity of 30 years or more.

CHART E.8

Long-term borrowings contracted in 2015-2016[P] by maturity
(per cent)

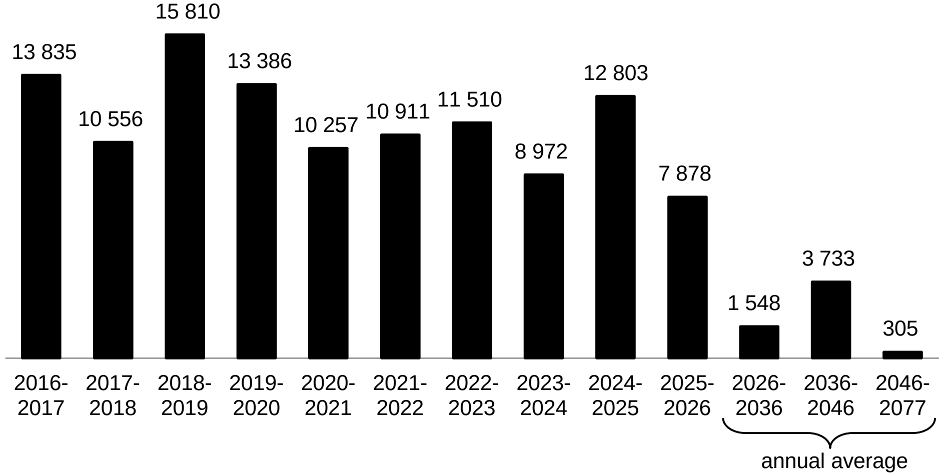


P: Preliminary results based on borrowings contracted or negotiated as at March 7, 2016.

This diversification by maturity is reflected on the maturity of the debt shown in the following chart. As at March 31, 2016, the average maturity of the debt is expected to be 12 years.

CHART E.9

Maturity of the long-term debt as at March 31, 2016^P
(millions of dollars)



P: Preliminary results.
Note: Direct debt of the general fund, debt issued to make advances to the Financing Fund and debt of Financement-Québec.

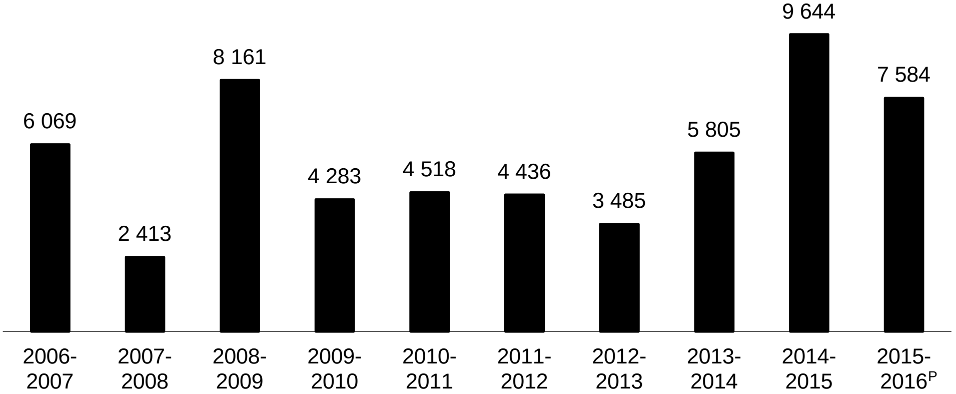
2.3 Pre-financing

The government carries out pre-financing to take advantage of favourable market conditions. These are borrowings that would normally be contracted during the subsequent fiscal year.

In 2015-2016, the government carried out pre-financing totalling $7 584 million. The average for the past ten years is $5.6 billion per year.

CHART E.10

Pre-financing
(millions of dollars)



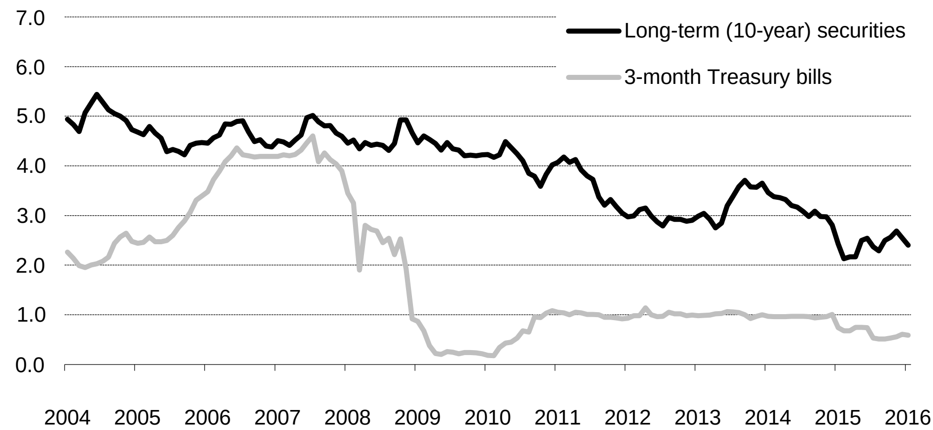
P: Preliminary results.

2.4 Yield

The yield on the Québec government's long-term securities is currently about 2.4%, while that on short-term securities is roughly 0.6%.

CHART E.11

Yield on the Québec government's securities
(per cent)

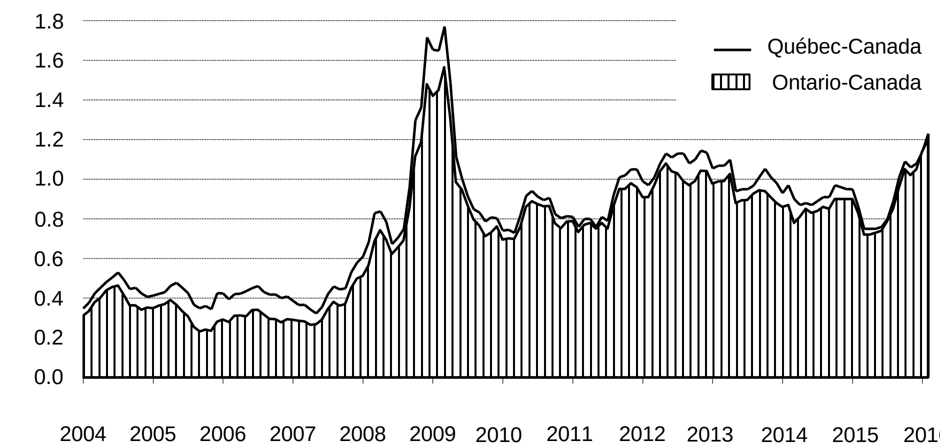


Sources: PC-Bond and Ministère des Finances du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in the summer of 2008 during the financial crisis, has narrowed considerably since then. However, the level of the spread has not returned to the levels observed prior to 2008. The same situation has also been observed in the case of the other provinces.

CHART E.12

Yield spread on long-term (10-year) securities
(percentage points)



Source: PC-Bond.

2.5 Debt management

The government's debt management strategy aims to minimize the cost of the debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

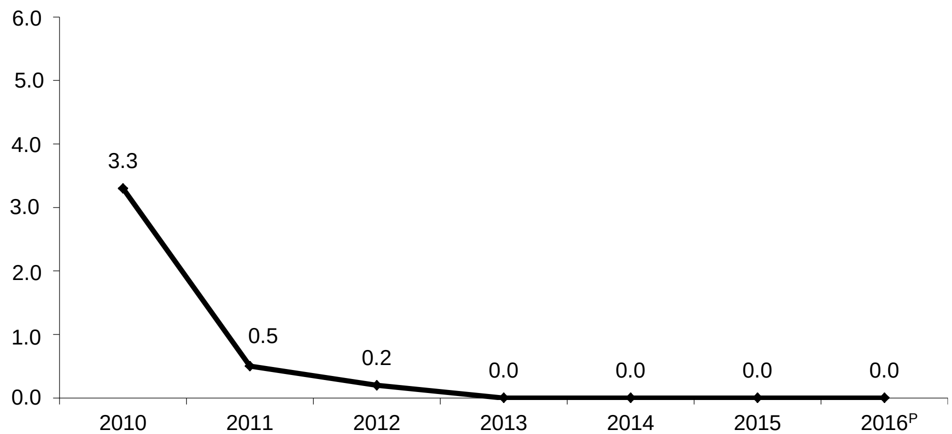
The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

❑ Proportion of the gross debt in foreign currency

As at March 31, 2016, the proportion of the government's gross debt in foreign currency, after taking into account interest rate and currency swap agreements, is expected to be nil.[2] This proportion has been nil since 2013.

CHART E.13

Proportion of the gross debt in foreign currency as at March 31
(per cent)



P: Preliminary results.
Note: Gross debt including pre-financing.

2 As at March 31, 2016, before taking into account interest rate and currency swap agreements, the proportion of the gross debt is expected to be 83.1% in Canadian dollars, 8.6% in U.S. dollars, 5.8% in euros, 1.2% in Swiss francs and 1.3% in other foreign currencies (yen, Australian dollars, and pounds sterling).

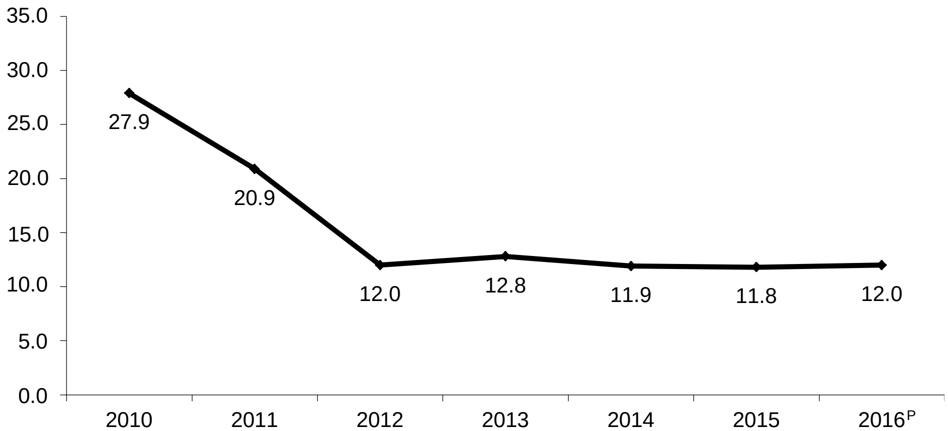
❑ Proportion of the gross debt at variable interest rates

The government keeps part of its debt at variable interest rates and part at fixed interest rates.

After taking into account interest rate and currency swap agreements, the proportion of the gross debt at variable interest rates is expected to be 12.0% as at March 31, 2016.

CHART E.14

Proportion of the gross debt at variable interest rates as at March 31[(1)]
(per cent)



P: Preliminary results.
Note: Gross debt including pre-financing.
(1) The debt at variable interest rates includes variable interest rate financial instruments as well as fixed interest rate financial instruments that mature in one year or less.

2.6 Borrowings contracted

TABLE E.11

Québec government
Summary of long-term borrowings[1] in 2015-2016[P]

Currency	$ millions	%
CANADIAN DOLLAR		
Bond issues	10 194	65.6
Variable interest rate notes	1 000	6.5
Savings products	150	1.0
Business Assistance – Immigrant Investor Program	780	5.0
Subtotal	**12 124**	**78.1**
OTHER CURRENCIES		
Euro	1 605	10.3
U.S. dollar	1 596	10.3
Australian dollar	207	1.3
Subtotal	**3 408**	**21.9**
TOTAL	**15 532**	**100.0**

P: Preliminary results based on borrowings contracted or negotiated as at March 7, 2016.
(1) The amounts include the borrowings of the general fund, the Financing Fund and Financement-Québec.

TABLE E.12

Québec government
Borrowings contracted in 2015-2016 – General fund(1)

Amount received in Canadian dollars(2)	Face value in foreign currency	Interest rate(3)	Date of issue	Date of maturity	Price to investor	Yield to investor(4)
(millions)		(%)			($)	(%)
561	—	3.50	April 15	2045-12-01	112.274	2.893
104	AU$100	4.20	May 1	2025-03-10	108.461	3.193
506	—	2.75	May 15	2025-09-01	101.146	2.622
510	—	2.75	May 19	2025-09-01	101.916	2.537
536	—	3.50	June 2	2045-12-01	107.277	3.128
506	—	2.75	June 12	2025-09-01	101.211	2.614
512	—	2.75	July 17	2025-09-01	102.466	2.473
539	—	3.50	July 31	2045-12-01	107.682	3.107
521	—	2.75	August 11	2025-09-01	104.202	2.280
929	US$700	Variable(5)	September 4	2018-09-04	100.000	Variable(6)
522	—	3.50	September 9	2045-12-01	104.411	3.269
267(7)	US$200	Variable(5)	September 24	2018-09-04	100.006	Variable(6)
516	—	3.50	September 28	2048-12-01	103.130	3.343
67(7)	US$50	Variable(5)	September 30	2018-09-04	100.012	Variable(6)
67(7)	US$50	Variable(5)	September 30	2018-09-04	100.011	Variable(6)
507	—	3.50	October 13	2048-12-01	101.436	3.427
571	—	4.50	October 22	2020-12-01	114.293	1.577
1 080	€750	1.125(8)	October 28	2025-10-28	99.018	1.230(9)
329	—	3.50	November 4	2022-12-01	109.723	2.018
199(7)	US$150	Variable(5)	November 9	2018-09-04	100.010	Variable(6)
48	AU$50	3.70	November 20	2026-05-20	99.957	3.705
501	—	3.50	November 20	2048-12-01	100.214	3.489
504	—	2.75	November 23	2025-09-01	100.751	2.662
505	—	2.75	November 24	2025-09-01	101.026	2.630
525	€350	1.125(8)	December 14	2025-10-28	99.093	1.223(9)
25	AU$25	3.70	January 25	2026-05-20	101.283	3.550
520	—	2.75	February 8	2025-09-01	103.911	2.292
501	—	2.50	February 22	2026-09-01	100.202	2.478
502	—	2.50	February 26	2026-09-01	100.498	2.446

TABLE E.12 (cont.)

Québec government
Borrowings contracted in 2015-2016 – General fund(1)

Amount received in Canadian dollars(2)	Face value in foreign currency	Interest rate(3)	Date of issue	Date of maturity	Price to investor	Yield to investor(4)
(millions)		(%)			($)	(%)
67(7)	US$50	Variable(5)	March 4	2018-09-04	99.796	Variable(6)
525	—	3.50	March 8	2048-12-01	105.073	3.247
30	AU$30	3.70	March 9	2026-05-20	101.356	3.540
1 000	—	Variable(5)	March 10	2020-06-10	100.000	Variable(6)
150(10)	—	Various	Various	Various	Various	Various
780(11)	—	Zero coupon	Various	Various	Various	Various
15 532						

Note: Borrowings contracted or negotiated as at March 7, 2016.
(1) Includes borrowings contracted by the general fund to make advances to the Financing Fund.
(2) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
(3) Interest payable semi-annually except if another frequency is indicated in a note.
(4) Yield to investor is determined on the basis of interest payable semi-annually except if another frequency is indicated in a note.
(5) Interest payable quarterly.
(6) Yield to investor is determined on the basis of interest payable quarterly.
(7) Private borrowings.
(8) Interest payable annually.
(9) Yield to investor is determined on the basis of interest payable annually.
(10) Savings products issued by Épargne Placements Québec.
(11) Business Assistance – Immigrant Investor Program.

TABLE E.13

Borrowings contracted in 2015 by Hydro-Québec

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)		(%)			($)	(%)
13	—	4.205	March 4	2017-03-02	106.785	0.770
6	—	Zero coupon	April 24	2017-04-15	97.939	1.058
19						

Note: Borrowings contracted from January 1 to December 31, 2015.
(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 except if another frequency is indicated in a note.

3. INFORMATION ON THE RETIREMENT PLANS AND ON FUNDS DEPOSITED BY THE MINISTÈRE DES FINANCES WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

3.1 Retirement plans

The Québec government participates financially in the retirement plans of its employees. These plans had 591 747 active participants and 352 273 beneficiaries as at December 31, 2014.

TABLE E.14

Retirement plans of public and parapublic sector employees as at December 31, 2014

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	543 434	248 740
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	29 154	28 858
Other plans:		
– Teachers Pension Plan (TPP)(1) and Pension Plan of Certain Teachers (PPCT)(1)	54	43 571
– Civil Service Superannuation Plan (CSSP)(1)	15	19 196
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 725	5 107
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 827	1 821
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	290	365
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)(2)	165	170
– Pension Plan of the Members of the National Assembly (PPMNA)	121	420
– Pension Plan of the Université du Québec (PPUQ)	8 962	4 025
Total for other plans	19 159	74 675
TOTAL	**591 747**	**352 273**

(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.
Source: Public Accounts 2014-2015.

❑ Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans. 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%.[3]

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

Retraite Québec is responsible for administering the retirement plans.[4]

TABLE E.15

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	4.00
2005 to 2007	7.06	7.78	8 / 6.2 / 8	4.00
2008 to 2010	8.19	10.54	8 / 6.2 / 8	4.00
2011	8.69	11.54	8 / 6.2 / 8	4.00
2012	8.94	12.30	8 / 6.2 / 8	4.00
2013	9.18	12.30	8 / 6.2 / 8	6.50
2014	9.84	14.38	8 / 6.2 / 8	8.30
2015	10.50	14.38	8 / 6.2 / 8	9.30
2016	11.12	14.38	8 / 6.2 / 8	9.63

(1) For 2004 to 2012, rate applicable to the excess of 35% of maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). Between 2012 and 2015, the contribution formula changed, gradually reducing the exemption of 35% to 25% of the MPE. For 2016, the rate applies to the excess of 25% of the MPE. In 2016, the MPE is $54 900.
(2) Rate applicable to the excess of 35% of the MPE.
(3) Rate applicable up to the annual basic exemption of the RRQ ($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 25% of the MPE if it is lower.

3 This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for payment of 7/12 of the benefits (58.3%).

4 Except for the Pension Plan of the Université du Québec (PPUQ).

❑ Changes to the plans

In 2010, the government modified RREGOP and the PPMP to enable participants to accumulate up to 38 years of service. This change, which was agreed upon during the renewal of the collective agreements with government employees, was aimed at ensuring that employees nearing the end of their career stay longer in the labour market, thus facilitating the transfer of expertise.

The PPMP was also modified with the adoption of Bill 58 by the National Assembly in 2012. The changes included in the Bill were the product of consultations with participant representatives and included several amendments fostering the financial health of the PPMP. In particular, the pension eligibility criteria were tightened. Accordingly, since January 1, 2013, new participants must 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 was increased.

3.1.1 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 Retraite Québec,[5] following the rules of the Canadian Institute of Actuaries (CIA) and the Chartered Professional Accountants of Canada (CPA Canada) for the public sector.

As at March 31, 2015, the liability for the retirement plans of public and parapublic sector employees stood at $83 304 million (net of the plans' assets). This amount is recognized in the government's gross debt.

[5] Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE E.16

Retirement plans liability as at March 31, 2015
(millions of dollars)

Government and Public Employees Retirement Plan (RREGOP)	51 966
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	12 264
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 034
– Civil Service Superannuation Plan (CSSP)	3 550
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 898
– Pension Plan of the Université du Québec (PPUQ)	3 420
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	654
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	586
– Pension Plan of the Members of the National Assembly (PPMNA)	196
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	148
– Plans' assets(1)	−4 412
Total for other plans	19 074
RETIREMENT PLANS LIABILITY	**83 304**

(1) Plans' assets, particularly those of the PPFEQ, SPMSQ and PPUQ.

❑ 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, net of contributions paid, i.e. $2 247 million in 2014-2015;

— the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations, for a cost of $879 million in 2014-2015.

In 2014-2015, government spending in respect of the retirement plans thus stood at $3 126 million.

TABLE E.17

Spending in respect of the retirement plans
(millions of dollars)

	2014-2015
Net cost of vested benefits	2 247
Amortization of revisions stemming from actuarial valuations	879
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**3 126**

3.1.2 **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, 2016, the RPSF's book value is expected to be $59 737 million.

TABLE E.18

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Imputed investment income	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
2012-2013	45 352	1 000	1 992	48 344
2013-2014	48 344	1 000	1 989	51 333
2014-2015	51 333	1 500	2 430	55 263
2015-2016P	55 263	1 500	2 974	59 737

P: Preliminary results.
(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.

As at March 31, 2015, the market value of the RPSF was higher than its book value.

TABLE E.19

Book value and market value of the Retirement Plans Sinking Fund (RPSF) 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
2012-2013	48 344	42 562	5 782
2013-2014	51 333	49 034	2 299
2014-2015	55 263	57 432	−2 169

❑ 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 borrowings contracted to make deposits increase 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 E.20

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	182 723	183 723	1 000
	Retirement plans liability	83 304	83 304	—
	Less: Book value of the RPSF	−55 263	−56 263	−1 000
(B)	Net retirement plans liability	28 041	27 041	−1 000
(C)	Net employee future benefits liability	131	131	—
(D)	Less: Generations Fund	−6 938	−6 938	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**203 957**	**203 957**	**—**

(1) This illustration is based on results as at March 31, 2015.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. Indeed, 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 17 years out of 22.

TABLE E.21

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent, on a calendar year basis)

	Return of the RPSF	Cost of new borrowings(1)	Difference (percentage points)
1994	−3.3(2)	9.2	−12.5
1995	17.0	8.9	8.1
1996	16.1	7.7	8.4
1997	13.4	6.5	6.9
1998	10.4	5.8	4.6
1999	15.3	6.0	9.3
2000	7.2	6.5	0.7
2001	−4.7	6.1	−10.8
2002	−8.5	5.8	−14.3
2003	14.9	5.2	9.7
2004	11.4	5.0	6.4
2005	13.5	4.5	9.0
2006	13.5	4.6	8.9
2007	5.2	4.7	0.5
2008	−25.6	4.5	−30.1
2009	10.7	4.4	6.3
2010	13.4	4.1	9.3
2011	3.5	3.7	−0.2
2012	9.4	3.0	6.4
2013	12.6	3.3	9.3
2014	11.9	3.2	8.7
2015	8.3	2.4	5.9

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.
(2) From February to December 1994.
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

❑ A flexible deposit policy

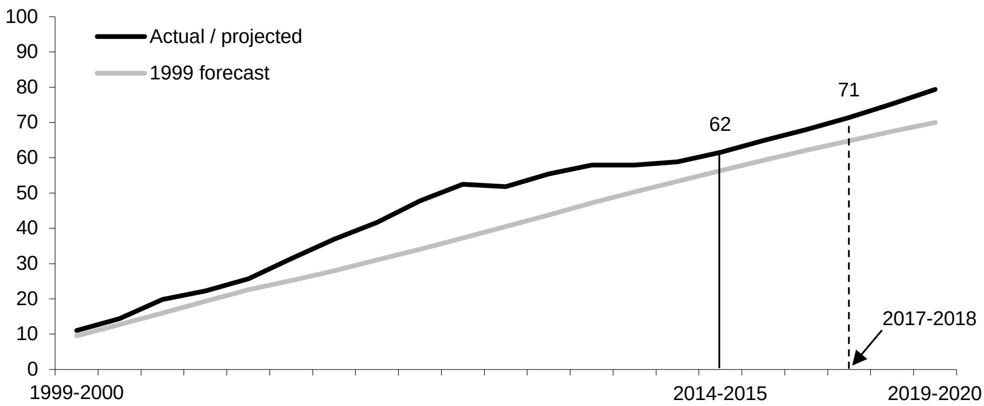
In December 1999, as part of the agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the amounts accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the necessary flexibility in applying this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

As at March 31, 2015, the RPSF's book value represented 62% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees. If deposits of $1 billion per year were made in the RPSF, the objective of 70% should be attained two years earlier than anticipated, i.e. in 2017-2018.

CHART E.15

RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



3.2 Generations Fund

The following table shows the book and market values of the Generations Fund since its creation. As at March 31, 2015, the market value of the Generations Fund was higher than its book value.

TABLE E.22

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
2012-2013	5 238	5 550	−312
2013-2014	5 659	6 299	−640
2014-2015	6 938	8 182	−1 244

(1) The first deposit in the Generations Fund was made on January 31, 2007.

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than the cost of new borrowings by the government eight years out of nine.

TABLE E.23

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent, on a calendar year basis)

	Return of the Generations Fund	Cost of new borrowings[1]	Difference (percentage points)
2007	5.6[2]	4.7	0.9
2008	−22.4	4.5	−26.9
2009	11.3	4.4	6.9
2010	12.3	4.1	8.2
2011	4.0	3.7	0.3
2012	8.4	3.0	5.4
2013	12.0	3.3	8.7
2014	11.7	3.2	8.5
2015	8.1	2.4	5.7

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.
(2) Return realized from February to December 2007, given that the first deposit was made in the Generations Fund on January 31, 2007.
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

3.3 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances

In 2015, the return on funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec was 8.30% for the RPSF, 8.13% for the Generations Fund and 8.31% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page E.47.

TABLE E.24

Market value and return in 2015 on funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances

	Return	Market value as at December 31, 2015
	(%)	($ million)
Retirement Plans Sinking Fund	8.30	59 307
Generations Fund	8.13	9 036
Accumulated Sick Leave Fund	8.31	1 018

3.3.1 Retirement Plans Sinking Fund

The RPSF posted a return of 8.30% in 2015. Its market value was $59 307 million as at December 31, 2015.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances 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 34.75% fixed-income securities (bonds, real estate debt, etc.), 17.00% inflation-sensitive investments (real estate and infrastructure) and 48.25% equities. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE E.25

Investment policy of the RPSF as at January 1, 2016
(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	34.75	34.8
Inflation-sensitive investments	17.00	17.1
Equities	48.25	48.1
TOTAL	**100.00**	**100.0**

(1) Data as at December 31, 2014. Annual Report 2014 of the Caisse de dépôt et placement du Québec.

With its investment policy, the RPSF should generate an annual return of 6.45%. 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.

3.3.2 **Generations Fund**

The Generations Fund posted a return of 8.13% in 2015. Its market value was $9 036 million as at December 31, 2015.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances 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 Generations Fund consists of 40.0% fixed-income securities (bonds, real estate debt, etc.), 15.0% inflation-sensitive investments (real estate and infrastructure) and 45.0% equities.

TABLE E.26

Investment policy of the Generations Fund as at January 1, 2016
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	40.0	34.8
Inflation-sensitive investments	15.0	17.1
Equities	45.0	48.1
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2014. Annual Report 2014 of the Caisse de dépôt et placement du Québec.

3.3.3 **Accumulated Sick Leave Fund**

The Accumulated Sick Leave Fund (ASLF) posted a return of 8.31% in 2015. Its market value was $1 018 million as at December 31, 2015.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. The ASLF's investment policy is identical to that of the RPSF.

Comparison of investment policies

Investment policies as at January 1, 2016
(per cent)

Specialized portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Short-Term Investments	1.00	1.00	1.1
Bonds	28.75	34.00	27.2
Long-Term Bonds	0.00	0.00	1.0
Real Estate Debt	5.00	5.00	5.5
Total – Fixed Income	**34.75**	**40.00**	**34.8**
Real Return Bonds	0.00	0.00	0.5
Infrastructure	6.00	5.50	4.9
Real Estate	11.00	9.50	11.7
Total – Inflation-Sensitive Investments	**17.00**	**15.00**	**17.1**
Public Equity(2)	35.75	34.50	36.7
Private Equity	12.50	10.50	11.4
Total – Equity	**48.25**	**45.00**	**48.1**
TOTAL	**100.00**	**100.00**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.
(1) Data as at December 31, 2014, from Annual Report 2014 of the Caisse de dépôt et placement du Québec.
(2) Since January 1, 2016, the Caisse has grouped its Public Equity portfolios into a global portfolio including several mandates (35% Global Quality Equity, 25% Canada, 20% Alternative weightings, 15% Growth Markets and 5% Relationship investing).

3.4 Interest on the retirement plans liability

The government records an interest charge on the retirement plans liability. This stems from the fact that, historically, it decided to manage its contributions to the retirement plans of its employees internally rather than have an external fund manage them. This reduced borrowings on financial markets and growth in the direct debt. On the other hand, the commitments in respect of the retirement plans of government employees are shown as a liability and the government must record an interest charge calculated on the value of the actuarial obligations in respect of these plans. However, the investment income of the RPSF must be subtracted from this amount. The interest charge on the retirement plans liability is included in the government's debt service.

TABLE E.27

Interest on the retirement plans liability
(millions of dollars)

	2014-2015
Interest on the actuarial obligations relating to the retirement plans(1)	5 591
Less: Investment income of the RPSF	−2 430
INTEREST ON THE RETIREMENT PLANS LIABILITY	**3 161**

(1) Net of the income of specific funds of the plans.

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 in compliance 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.[6]

[6] Chartered Professional Accountants of Canada, *CPA Canada 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 realized returns. 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.[7]

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 14 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.[8] This amortization mechanism and the period used are prescribed by GAAP.[9]

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[7] 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.

[8] 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 10 years compared with 15 years under the other plans.

[9] "…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." CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA, *CPA Canada Public Sector Accounting Handbook*, Section PS 3250, paragraph .062. For the purposes of retirement assets, CPA Canada defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and projected results.

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, the 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 E.28

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch	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 **Aa2** Aa3	AA+ AA AA−	AA (high) AA AA (low)	AA+ AA **AA−**	**AA+** AA AA−
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1 A2 A3	**A+** A A−	**A (high)** A A (low)	A+ A A−	A+ A A−
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1 Baa2 Baa3	BBB+ BBB BBB−	BBB (high) BBB BBB (low)	BBB+ BBB BBB−	BBB+ BBB BBB−
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1 Ba2 Ba3	BB+ BB BB−	BB (high) BB BB (low)	BB+ BB BB−	BB+ BB BB−
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1 B2 B3	B+ B B−	B (high) B B (low)	B+ B B−	B+ 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, except for Fitch which has assigned a "negative" outlook since December 2013, following the postponement of the return to a balanced budget to 2015-2016, announced in November 2013.

TABLE E.29

The Québec government's credit ratings

Credit rating agency	Credit rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA−	Negative(1)
Japan Credit Rating Agency (JCR)	AA+	Stable

(1) Fitch has assigned a "negative" outlook to Québec's credit rating since December 2013, following the postponement of the return to a balanced budget to 2015-2016, announced in November 2013.

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 E.30

Credit rating scales for short-term debt[1]

Definition	Moody's	Standard & Poor's	DBRS	Fitch
Very strong capacity to pay interest and repay principal over the short term.	**P−1**	**A−1**+ A−1	R−1 (high) **R−1 (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	R−2 (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) JCR does not assign a short-term credit rating to Québec.
(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 2016 are those in effect as at March 7, 2016.

CHART E.16

Credit rating assigned to Québec by Moody's

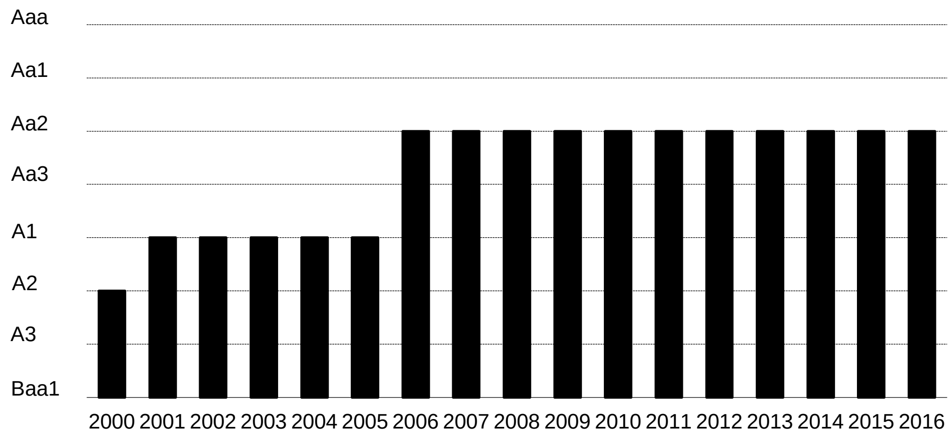


CHART E.17

Credit rating assigned to Québec by Standard & Poor's

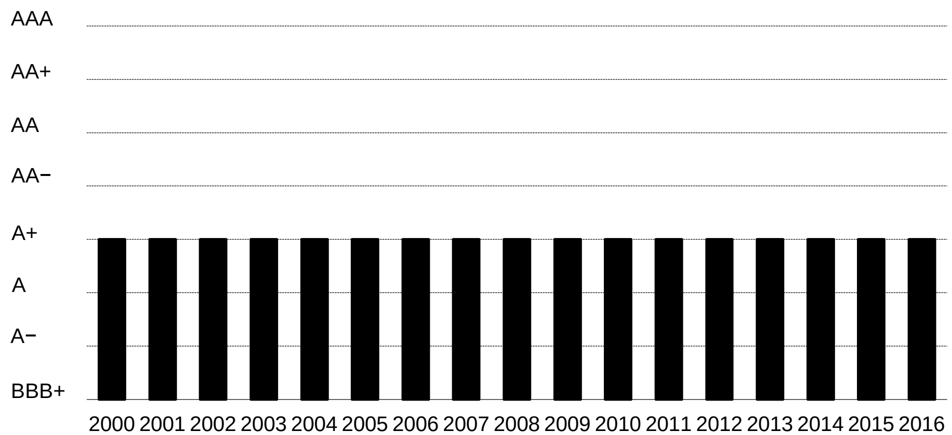
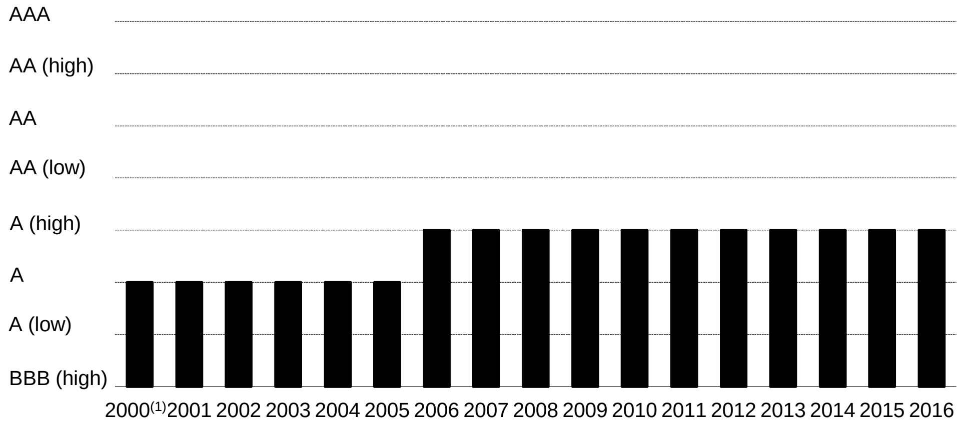


CHART E.18

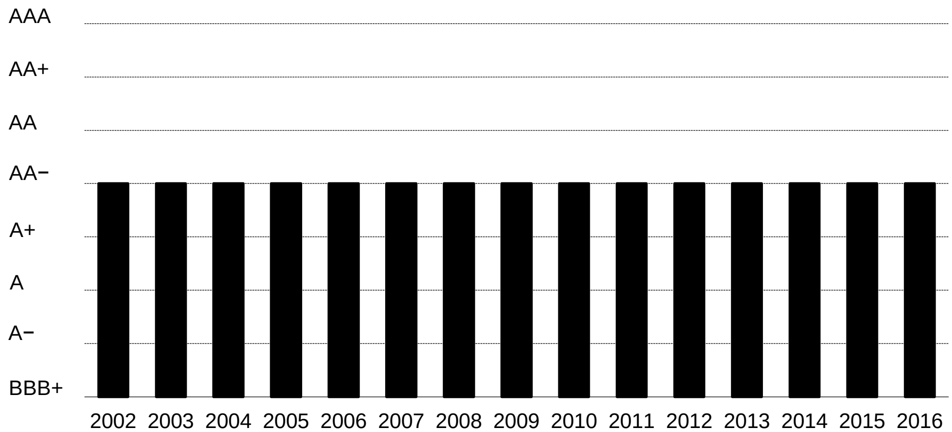
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART E.19

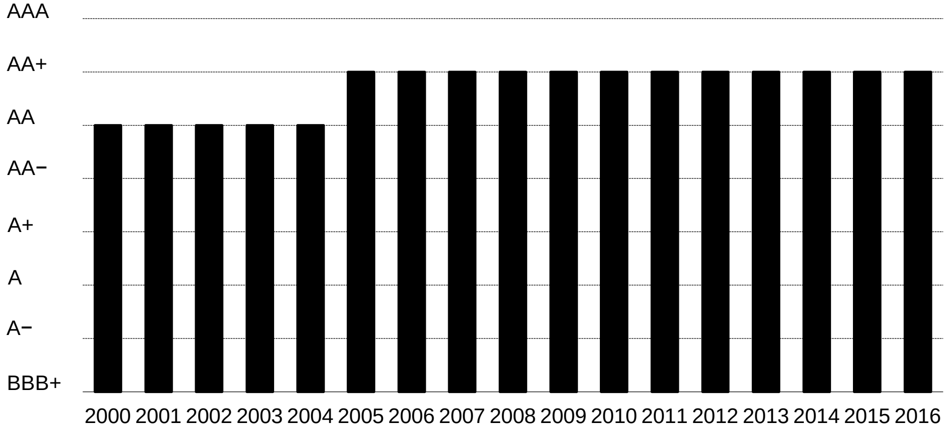
Credit rating assigned to Québec by Fitch



Note: Fitch has assigned Québec a credit rating since 2002.

CHART E.20

Credit rating assigned to Québec by JCR

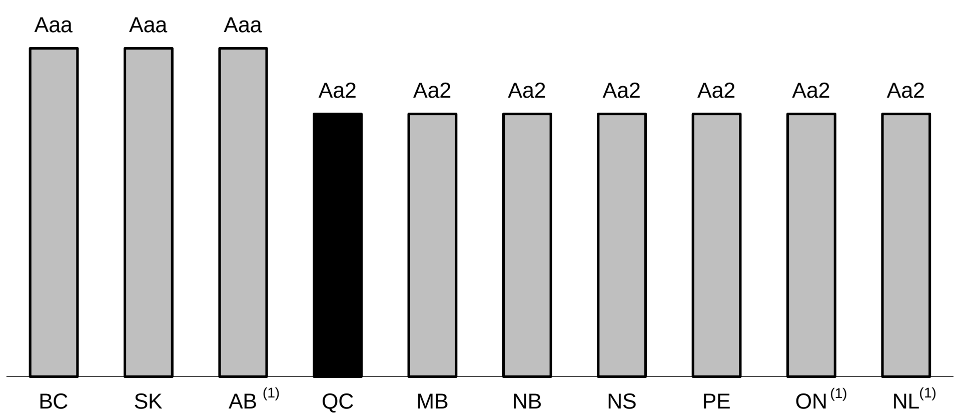


4.2 Comparison of the credit ratings of the Canadian provinces

The following charts show the credit ratings of the Canadian provinces as at March 7, 2016. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART E.21

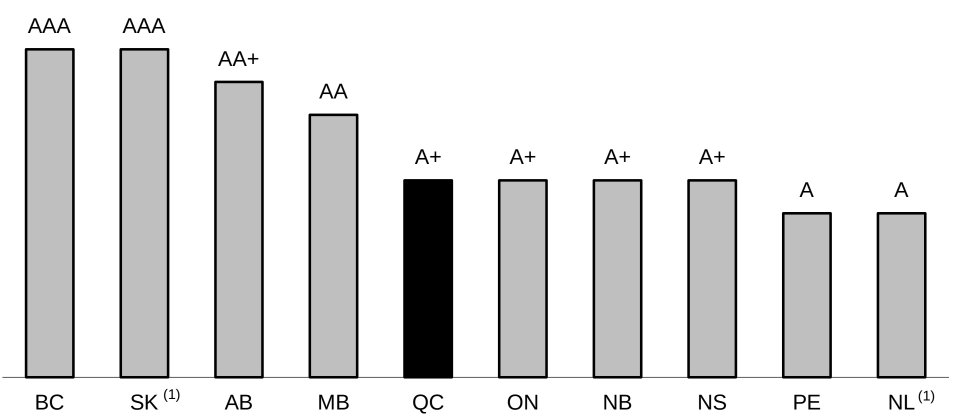
Credit rating of the Canadian provinces – Moody's



(1) Negative outlook.

CHART E.22

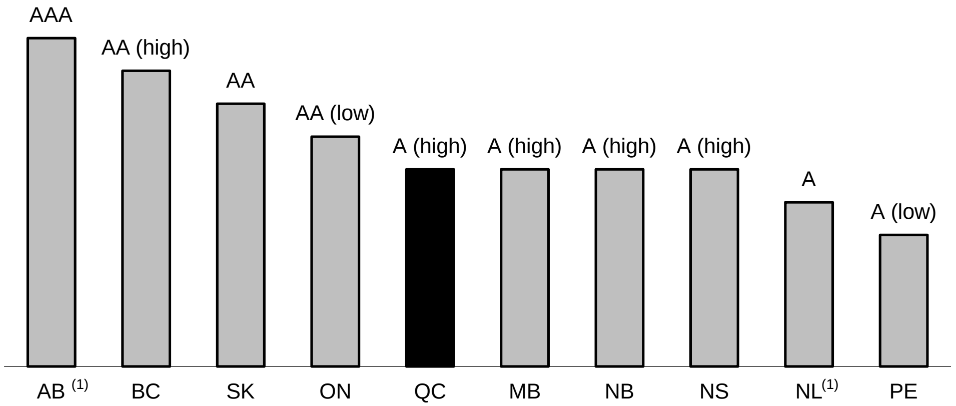
Credit rating of the Canadian provinces – Standard & Poor's



(1) Negative outlook.

CHART E.23

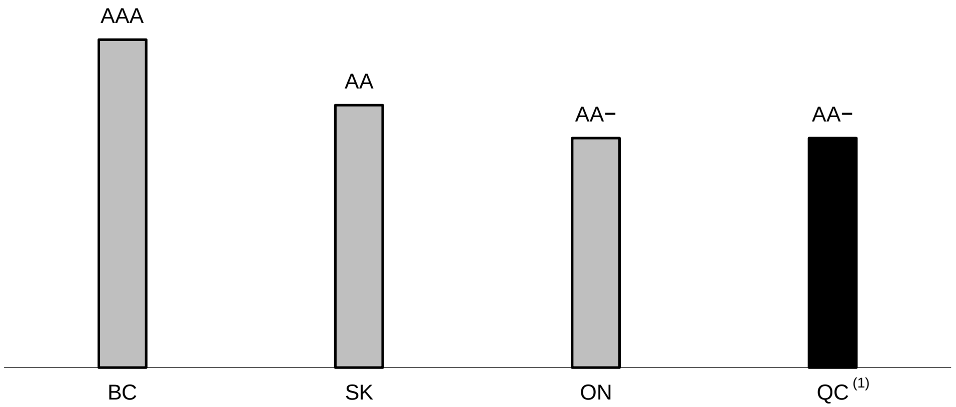
Credit rating of the Canadian provinces – DBRS



(1) Negative outlook.

CHART E.24

Credit rating of the Canadian provinces – Fitch



Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces that receive credit ratings from this agency.

(1) Negative outlook.

Section F

UPDATE ON FEDERAL TRANSFERS

INTRODUCTION

Québec welcomes the federal government's intention to invest $60 billion more in infrastructure than initially planned, in order to foster economic growth. While the federal government is gearing up to unveil the details of these new investments, Québec is proposing that a comprehensive agreement like the Gas Tax Fund Administrative Agreement be entered into so as to avoid excessive administrative delays and expedite project start-ups.

In addition, Québec is asking the federal government to rapidly identify the projects prioritized by Québec that will obtain funding under the Building Canada Plan (BCP) 2014-2024. Shovels must be in the ground by the next construction season, in order to revitalize the economy.

With respect to health, the provinces have to contend with rising spending. Population aging, coupled with a decline in the potential labour pool, continues to put strong financial pressure on several of them.

— Before 1977-1978, the federal government funded half of the provinces' health spending, whereas its share is just 22.2% in 2016-2017. Québec is therefore asking the federal government to gradually increase the Canada Health Transfer envelope so that it represents 25% of the provinces' health spending, and to take into account the proportion of persons age 65 and over in each province in allocating this increase.

The provinces must also continue to invest in social programs, such as post-secondary education.

— Québec is asking the federal government to gradually restore its share of funding to the 1994-1995 level, taking into account inflation, through the Canada Social Transfer.

Lastly, this chapter proposes a return to the basis of the equalization program, in addition to identifying the program's shortcomings.

1. A NEED TO EXPEDITE PROJECT START-UPS

To stimulate economic growth, as all governments seek to do, shovels must be in the ground as soon as the next construction season. Québec is therefore asking the federal government to more rapidly identify the projects submitted to it under the Building Canada Plan (BCP) 2014-2024.

Moreover, to avoid piecemeal negotiations, which considerably slow project implementation, it is necessary and paramount for the federal government to modernize its approach with respect to the $60 billion in new investments, by entering into a comprehensive agreement like the Gas Tax Fund Administrative Agreement.

1.1 A plan that must be acted on in the short term

Through the BCP 2014-2024, with financial assistance of $47.5 billion in new money, including $37 billion available for the provinces (the balance being comprised of the incremental Goods and Services Tax [GST] Rebate for Municipalities), Québec will receive:

— $5 billion under the Gas Tax Fund Administrative Agreement, signed on June 23, 2014;

— $177 million under the Canada-Québec agreement respecting the Small Communities Fund, signed on May 22, 2015;

— $1.6 billion under National/Regional Projects (NRP), an agreement template having been finalized in February 2016.

Through the other two programs rounding out the BCP 2014-2024, namely, the National Infrastructure Component (NIC) and the P3 Canada Fund, under which amounts will be allocated to projects on a “merit” basis, Québec expects to receive its fair share based on its demographic weight in Canada, that is, $924 million and $289 million, respectively.

Although Québec identified its priority projects under the Québec Infrastructure Plan (QIP) for which it is seeking funding through the NRP and the NIC, it is still awaiting confirmation from the federal government. Consequently, Québec would like the latter to rapidly confirm the anticipated funding under these two federal programs.

TABLE F.1

Estimated amounts for Québec under the Building Canada Plan, 2014-2015 to 2023-2024
(millions of dollars)

	Canada	Québec
Gas Tax Fund	**21 800**	**4 995**
Building Canada Fund		
Provincial-Territorial Infrastructure Component (PTIC)	**10 000**(1)	**1 770**
National/Regional Projects (NRP)	8 678	1 593
Small Communities Fund (SCF)	964	177
National Infrastructure Component (NIC “on a merit basis”)	**4 000**(1)	**924**(3)
P3 Canada Fund (“on a merit basis”)	**1 250**	**289**(4)
TOTAL	**37 050**(2)	**7 978**

(1) An amount of $357.6 million under the PTIC and another of $137.8 million under the NIC will be used by the federal government for management fees.
(2) Including the incremental GST rebates for municipalities ($10.4 billion), the new federal infrastructure investments represent $47.5 billion. The total presented in the table does not take the rebates into account since the Québec government cannot access those funds to carry out infrastructure projects.
(3) Québec is asking for its demographic share, which would represent $924 million.
(4) Québec is asking for its demographic share, which would represent $289 million.
Sources: Infrastructure Canada and Ministère des Finances du Québec.

1.2 More flexible new federal investments

As part of Budget 2015-2016, the federal government was asked to increase its infrastructure funding. In that regard, Québec welcomes the federal government’s commitment to invest another $60 billion over the next ten years, bringing its total investments to $125 billion. These new funds would be divided equally between the following three sectors: public transit, social infrastructure and green infrastructure.

Québec would like the new funds to be:

— predictable and stable over time, enabling provinces to better plan their annual infrastructure investments;

— allocated in proportion to each province’s share of the Canadian population (which represents approximately $14 billion for Québec);

— granted in support of projects prioritized by Québec under the QIP (which includes asset maintenance projects, and the addition, improvement and replacement of public infrastructure in all activity sectors).

Moreover, on the basis of its past experience, Québec is asking that the new funds be part of a comprehensive agreement like the Gas Tax Fund Administrative Agreement, in order to avoid delays caused by negotiating multiple agreements and foster the acceleration of project start-ups.

— Québec is willingly to grant the federal government all visibilty requested in recognition of its financial contribution.

Conclusion of the Gas Tax Fund Administrative Agreement 2014-2024

On June 23, 2014, the Québec government and the federal government signed the Gas Tax Fund Administrative Agreement for 2014-2024.

- This agreement will enable the Québec government, through the Société de financement des infrastructures locales du Québec (SOFIL), to inject approximately $5 billion in municipal infrastructure.
- To this amount will be added a Québec government contribution of $2.5 billion, including $1 billion derived from the revenue from the additional registration fee for vehicles having a large engine displacement. The remainder, $1.5 billion, will be provided by the Ministère des Affaires municipales et de l’Occupation du territoire and the Ministère des Transports, de la Mobilité durable et de l’Électrification des transports.
- Québec municipalities will receive a total of $7.5 billion for the 2014-2024 period.

The Gas Tax Fund Administrative Agreement is a comprehensive agreement, that is, the federal government remits the agreed amounts to SOFIL, which then allocates them to municipalities for implementation of their infrastructure projects pertaining to drinking water, waste water, local roads and public transit. These projects, while meeting municipal priorities, come under the 2016-2026 Québec Infrastructure Plan.

The agreement also stipulates that adequate control systems must be set up to ensure that the funds are used appropriately and for the purposes planned. SOFIL therefore prepares its own reports, which Québec makes available to the federal government, avoiding duplication.

Contrary to piecemeal agreements, that is, a Canada-Québec agreement for each project as is the case under most federal infrastructure programs, entering into a comprehensive agreement would simplify the process and expedite project start-ups.

The federal government's intention to automatically transfer unspent infrastructure funds to municipalities through a temporary top-up of the Gas Tax Fund will penalize provinces whose projects are carried out by their own governments, as is the case with most public transit projects.

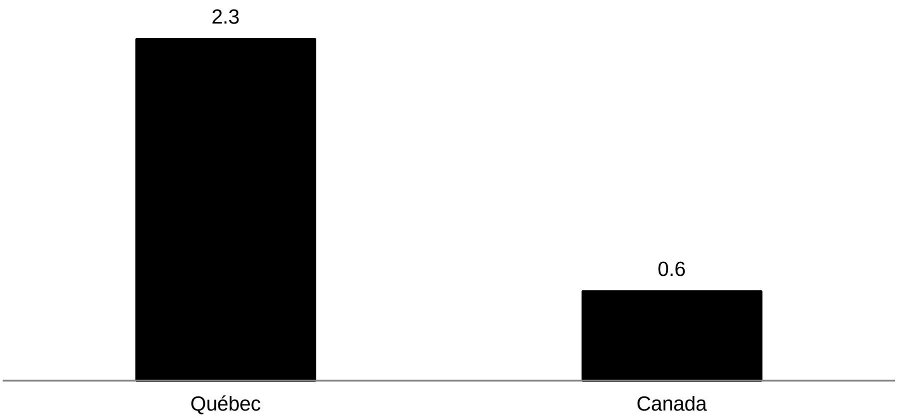
— Québec would like the current practice of carrying over unused federal amounts to stand, for both the BCP 2014-2024 and the $60 billion in new funds, because it would be more respectful of provincial infrastructure priorities.

Québec plans to spend almost four times more than the federal government on infrastructure

Federal infrastructure spending is a top-up that is in addition to Québec's planned investments under the Québec Infrastructure Plan. As part of that plan, Québec intends to spend $88.7 billion over the next ten years, which, in proportion to its economy, is nearly four times more than the federal government.

- The federal government plans to spend $125 billion on infrastructure in Canada over ten years. With a nominal GDP of $2 055 billion in 2016-2017, this spending represents roughly 0.6% of Canada's nominal GDP.
- Québec plans to spend $88.7 billion on infrastructure over ten years. With a nominal GDP of $393 billion in 2016-2017, this spending represents roughly 2.3% of the province's nominal GDP.

Infrastructure investments over ten years by Québec and Canada in proportion to nominal GDP
(per cent)



Sources: Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

2. ENSURING ADEQUATE FEDERAL FUNDING FOR HEALTH AND SOCIAL PROGRAMS

Despite tight control of health spending, the provinces are faced with expenditures in this area that remain high and that will continue to rise rapidly in coming years due to population aging. Yet the share of federal health funding is declining: Although the federal government financed 50% of the provinces' eligible health spending prior to 1977-1978, the share of federal health funding is expected to be no more than 22.2% in 2016-2017.

Moreover, the education sector and the social programs sector are as important to the population as health, especially as concerns investments in education, on which our prosperity hinges. The federal government has to restore funding of the Canada Social Transfer (CST) to its 1994-1995 level, taking into account inflation.

2.1 A new health accord in keeping with the principal of asymmetrical federalism

The federal government committed to agreeing on a new, long-term health accord with the provinces and territories. It proposed $3 billion in additional funding over the next four years for the provinces and territories to implement federal health priorities, while reaching certain targets.

Although federal health funding needs to be increased beyond what has been proposed, Québec considers the investment of $3 billion over four years to be a good starting point.

— However, Québec must retain full control over the health sector on its territory, since health is the exclusive purview of the provinces under the constitutional powers. Consequently, Québec is of the view that any increase in federal health funding must be made through the Canada Health Transfer (CHT) rather than through the introduction of targeted programs or funds, as the CHT gives the provinces complete latitude to invest in their respective health needs and priorities.

— Should the federal government bring in targeted funds, Québec expects the principles of asymmetrical federalism, established in 2004, to apply to any new health accord. Québec will then be able to take action on its own health priorities and report to the Québec public, while receiving its fair share of the planned federal funding.

The 2004 health accord

The health accord reached in 2004 for a ten-year period established the commitments of the provincial and territorial premiers in exchange for new federal funding. The commitments concerned, for example, shorter wait times, better access to health services, and adherence to the five principles of the *Canada Health Act* (universality, accessibility, public administration, comprehensiveness and portability).

Under the accord, the provinces and territories received additional funding of $41.3 billion over ten years (including $9.5 billion for Québec), representing an average annual increase of 8.9% for Canada as a whole, broken down as follows:

- $31.8 billion to institute an annual escalator of 6% for the Canada Health Transfer from 2006-2007 to 2013-2014;
- $5.5 billion to create a fund for the purpose of reducing wait times;
- $4 billion for the purchase of medical equipment, and for home care and other expenditures.

In addition, further to the first-time recognition of the principle of asymmetrical federalism, an agreement entered into with the federal government allowed Québec to apply its own plan, in particular respecting the reduction of wait times, and to report itself to Quebecers by opting out of the accountability and reporting mechanisms provided for in the accord.

2.2 A fairer division of health spending

Until the mid-1970s, half of the eligible spending of the provinces on health was covered by the federal government.

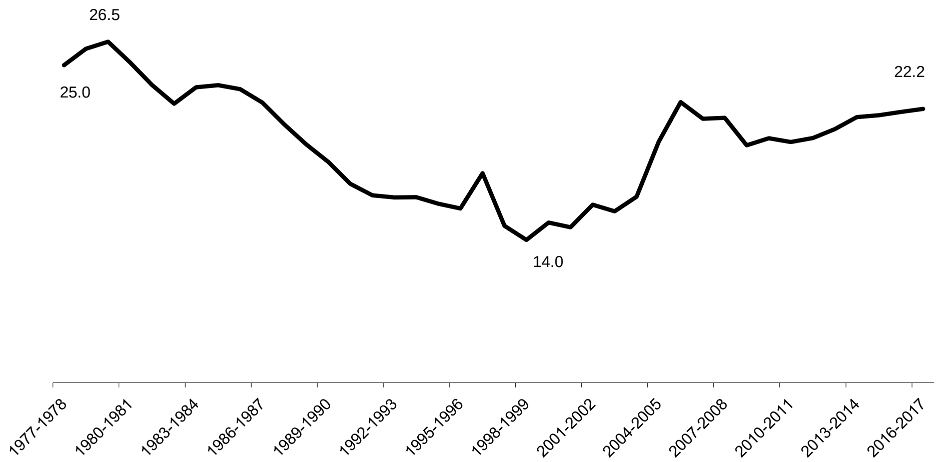
By creating Established Programs Financing in 1977-1978 (which combined the current CHT and the post-secondary component of the CST), the federal government terminated cost-sharing in these areas by introducing global, or "block," funding.

— At that time, the federal share of health funding was 25%.

— Since then, federal funding has no longer been tied directly to provincial spending, thus facilitating cuts to federal funding in these areas and guaranteeing federal expenditure stability.

CHART F.1

Share of federal funding in provincial health spending, 1977-1978 to 2016-2017
(per cent)



Sources: Canadian Institute for Health Information, Department of Finance Canada and Ministère des Finances du Québec.

As of the early 1980s, that 25% share gradually declined to a low of 14.0% in 1998-1999, largely due to a 33% reduction of the health and social transfers between 1995-1996 and 1998-1999 so that the federal government could balance its budget.

As of the 2000s, in particular because of the 2004 health accord, the federal contribution to provincial health spending rose but never reached the level at which it had been when Established Programs Financing was established.

In December 2011, the federal government announced changes to the CHT formula that would result in substantial financial losses for several provinces, against a backdrop of significant financial pressure on their health spending.

Canada Health Transfer changes announced by the federal government in December 2011
In December 2011, the federal government unilaterally announced changes to the Canada Health Transfer (CHT) that had major impacts on provincial revenues.
First, the federal government announced that, as of 2014-2015, the CHT would no longer take into account the value of tax points transferred to the provinces in 1977-1978 (equal per capita allocation), whereas the previous formula had allowed for higher cash transfers to provinces with a lower tax point value.
– That change, at zero cost to the federal government since it involves a different breakdown of the envelope between the provinces, primarily benefited Alberta, which received a CHT increase of 37.8% between 2013-2014 and 2014-2015, compared to less than 4% in the case of all the other provinces.[1] The change will result in losses for Québec evaluated at nearly $2.2 billion for the period from 2016-2017 to 2026-2027, including $177 million in 2016-2017.
Second, the federal government announced that, as of 2017-2018, the annual growth rate of the CHT envelope would decrease from 6% to that of Canada's nominal GDP, subject to a floor of 3%.
– This disengagement of the federal government in health will enable it to achieve savings of nearly $60.5 billion between 2017-2018 and 2026-2027, while Québec will sustain losses evaluated at $13.7 billion.

1 OFFICE OF THE PARLIAMENTARY BUDGET OFFICER, *2014-2015 Federal Transfers to Provinces and Territories*, June 19, 2014, p. 1, "Our Publications," PBO-DPB website, www.pbo-dpb.gc.ca/en/.
Sources: Ministère des Finances du Québec and Statistics Canada.

Whereas the provinces are making significant efforts to contain growth in their health spending,[1] the federal government will fund only 22.2% of provincial health spending in 2016-2017. Many studies show that limiting growth of the CHT to that of Canada's nominal GDP will be insufficient to cover the increase in health costs and, in the long term, will place the provinces in a highly vulnerable financial situation.

1 According to the *2015 Fiscal Sustainability Report* of the Office of the Parliamentary Budget Officer, "Health care spending has slowed. Spending growth in 2014 is estimated to have reached its lowest level in two decades." (p. 1)

— According to the *2014 Fiscal Sustainability Report* of the Office of the Parliamentary Budget Officer (OPBO),[2] it is expected that the CHT represent an average of 18.1% of provincial and territorial health spending during the first 25 years of the projection horizon (2013-2038), if the CHT changes announced in December 2011 by the federal government remain in effect.

If the federal government does nothing, the share of the CHT in provincial spending will continue to decline. Consequently, Québec is asking the federal government to contribute adequately to provincial health spending by gradually increasing the CHT envelope to a level representing 25% of the provinces' health spending, that is, to a level comparable to that of 1977-1978 when Established Programs Financing was implemented. This request received unanimous support from the provinces and territories at the 2015 summer meeting of the Council of the Federation:

> Premiers urge the federal government to commit to increase the envelope of the Canada Health Transfer so its share of health care costs represents a minimum of 25 per cent of all health care spending by provinces and territories. This increase would help support investments in innovation and transformation of health care systems, with the objective of improving outcomes from the patient's perspective.[3]

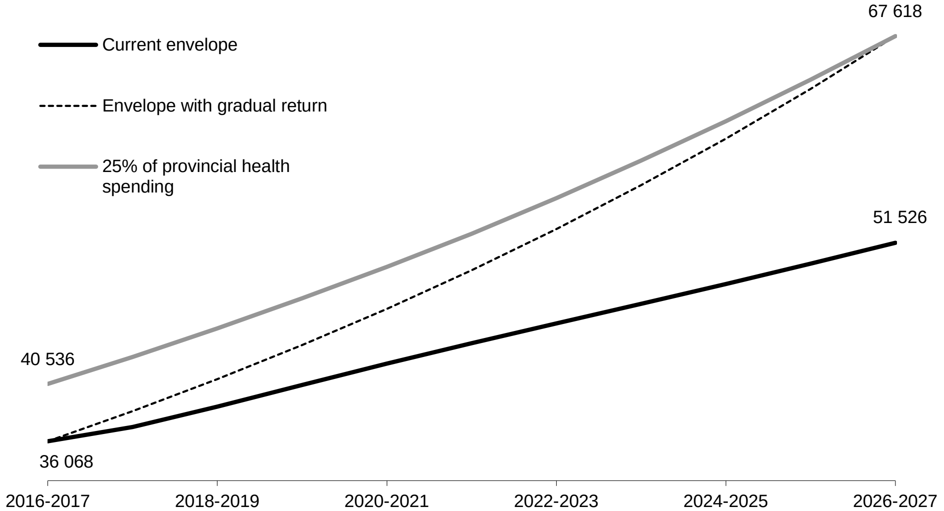
[2] Office of the Parliamentary Budget Officer, *2014 Fiscal Sustainability Report*, September 30, 2014, p. 2, "Our Publications," PBO-DPB website, www.pbo-dpb.gc.ca/en/.

[3] Council of the Federation, "Providing Services for an Aging Population" [news release], July 16, 2015, "Newsroom," COF website, www.pmprovincesterritoires.ca.

To avoid a sudden increase in the CHT envelope of nearly $4.5 billion in 2016-2017, Québec is proposing a gradual narrowing of the gap over ten years. Following this gradual return over ten years, the 2016-2017 envelope of $36 billion would reach $67.6 billion in 2026-2027, rather than $51.5 billion if the CHT envelope were to increase according to growth in nominal GDP, subject to a floor of 3%.

CHART F.2

Gradual return to a federal contribution representing 25% of provincial health spending, 2016-2017 to 2026-2027
(millions of dollars)



Sources: Conference Board of Canada, Canadian Institute for Health Information, Department of Finance Canada and Ministère des Finances du Québec.

2.3 Federal recognition of the financial pressure placed on health by population aging must take concrete form

The demographic changes now under way are already putting strong financial pressure on health care for several provinces, financial pressure that will only increase over time.

Québec is pleased that this reality was recognized by the leader of the Liberal Party of Canada, who indicated in a letter to the Premier of Québec in the context of the fall 2015 federal election: “My party is aware of the challenges that increasing health care costs and an aging population represent for provincial governements.” [translation]

The OPBO’s *2015 Fiscal Sustainability Report*[4] sets out these challenges more fully, by explaining that population aging will have a downward effect on government revenues and economic growth. At the same time, population aging will have an upward effect on expenditures under programs delivered primarily to the most elderly (health care, seniors’ benefits and retirement benefits).

Consequently, growth in provincial health spending will continue to exceed economic growth, due to population aging and the long-term decline in revenue growth.

In addition, in a study published in September 2015, the Conference Board of Canada estimates:

> [...] CHT growth will average approximately 4 per cent a year over the next decade. This will likely not be enough to keep pace with health care costs, given the aging of the population. The distributional effects are also noteworthy. Aging will affect some provinces significantly more than others, and because the CHT’s allocation formula is based on population size and does not take into account composition, it may not be able to adequately compensate those provinces with the highest health care costs.[5]

Certain studies show that it costs five[6] to six[7] times more to care for a person age 65 and over than for a person under 65 years of age.

The most recent 2013 data from the Canadian Institute for Health Information show that there is indeed a correlation between health spending and a population’s age:

— health costs per person under 65 years of age averaged $2 525;

— health costs per person 65 and over, which averaged $11 595, were 4.6 times higher than those for persons under 65 years of age.

4 Office of the Parliamentary Budget Officer, *2015 Fiscal Sustainability Report*, July 21, 2015, “Our Publications,” PBO-DPB website, www.pbo-dpb.gc.ca/en/.

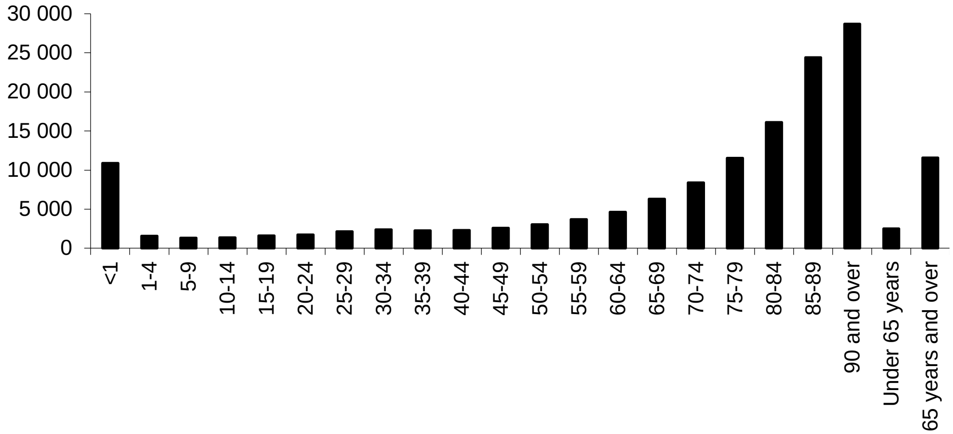
5 Conference Board of Canada, *Federal Policy Action to Support the Health Care Needs of Canada’s Aging Population*, September 2015, p. 8.

6 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, pp. 102-106.

7 OECD, *OECD Economic Surveys: Canada – Overview*, June 2012, p. 20.

CHART F.3

Average per capita health spending of the provinces and territories by age group — 2013
(dollars per capita)



Sources: Canadian Institute for Health Information, Ministère des Finances du Québec and Statistics Canada.

The equal per capita allocation of the CHT, in effect since 2014-2015, thus favours provinces and territories with younger populations, at the expense of the other provinces and territories.

In addition, provinces where population aging is more pronounced will also be the ones to witness a decline in their potential pool of workers, which will add to the financial pressure related to aging of the population.

Québec is therefore asking the federal government that the increase in the CHT envelope, which would represent 25% of health spending, take into consideration the demographic distribution of persons age 65 and over.

— To avoid penalizing certain provinces because of this change in redistribution, Québec is proposing that the population aging be taken into account only in the CHT increase flowing from a gradual return representing 25% of provincial health spending.

Thus, due to their faster projected demographic growth from 2016-2017 to 2026-2027, British Columbia and Alberta would have the highest increases—95% and 91%, respectively.

— Québec's increase for the period would be 86%, below the average Canadian increase (87%), due to an estimated decline in its share of the population among the provinces from 2016-2017 to 2026-2027.

TABLE F.2

Canada Health Transfer increase representing 25% of provincial health spending and distributed according to the demographic weight of persons age 65 and over, 2016-2017 to 2026-2027
(millions of dollars and per cent)

	2016-2017	2026-2027	Variation	
	$million	$million	$million	%
Newfoundland and Labrador	526	933	407	77
Prince Edward Island	146	275	129	88
Nova Scotia	941	1 724	783	83
New Brunswick	751	1 375	624	83
Québec	**8 290**	**15 445**	**7 155**	**86**
Ontario	13 893	25 866	11 973	86
Manitoba	1 302	2 407	1 105	85
Saskatchewan	1 145	2 117	972	85
Alberta	4 241	8 109	3 868	91
British Columbia	4 713	9 171	4 458	95
Territories	119	196	77	65
Canada	**36 068**	**67 618**	**31 550**	**87**

Note: Amounts include the value of the special Québec abatement and totals may not add due to rounding.
Sources: Canadian Institue for Health Information, Department of Finance Canada, Ministère des Finances du Québec and Statistics Canada.

For fairer cost-sharing with respect to provincial health expenditures and a better response to the financial pressure related to population aging, Québec is therefore asking the federal government to gradually increase the CHT so that it represents 25% of provincial health spending and the increase takes into account the demographic weight of persons age 65 and over.

2.4 Restoring federal funding for social programs

The Canada Social Transfer (CST) provides funding for part of the provinces' spending, such as post-secondary education and social services.

Until 2006-2007, the value of tax points transferred to the provinces in 1977-1978 was included in the calculation of the CST. Since 2007-2008, the CST has been in the form of an equal per capita allocation—like the CHT since 2014-2015—and indexed 3% annually.

In that regard, a study published by the Université de Sherbrooke's Research Chair in Taxation and Public Finance mentions the following:

> On a per capita basis, transfer payments for social programs have remained virtually unchanged in Canada, dropping from $367 per capita in 1994-1995 to $362 per capita in 2015-2016. The most significant per capita reduction was in Québec (−24%), while the biggest increase was in Alberta (28%). This is explained by the change to the method for determining transfer payments, which saw needs and the value of tax points gradually excluded from the determination of the payments, replaced by an equal per capita allocation.[8] [translation]

The scale of the reduction of transfer payments for social programs in the mid-1990s (33%) is such that 3% annual growth of the envelope is insufficient to reach the level established before the cuts, taking into account inflation. In fact, according to the same study:

> [...] the share of the CST represented 17.1% of total provincial spending on education and social services in 1994-1995, whereas it accounted for no more than 10.5% in 2015-2016. […] Compared to the CST per capita in real dollars (adjusted for inflation), the CST lost 18% of its value in 2015-2016 over 1994-1995 and is therefore a lower payment per capita than in 1994-1995.[9] [translation]

Because these areas are as important as health, especially education, on which economic prosperity hinges, it is imperative that the federal government restore its share of funding to its 1994-1995 level, taking into account inflation.

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8 RESEARCH CHAIR IN TAXATION AND PUBLIC FINANCE, *Les transferts fédéraux: évolution et perspectives pour le Québec*, Université de Sherbrooke, October 27, 2015, p. 15.

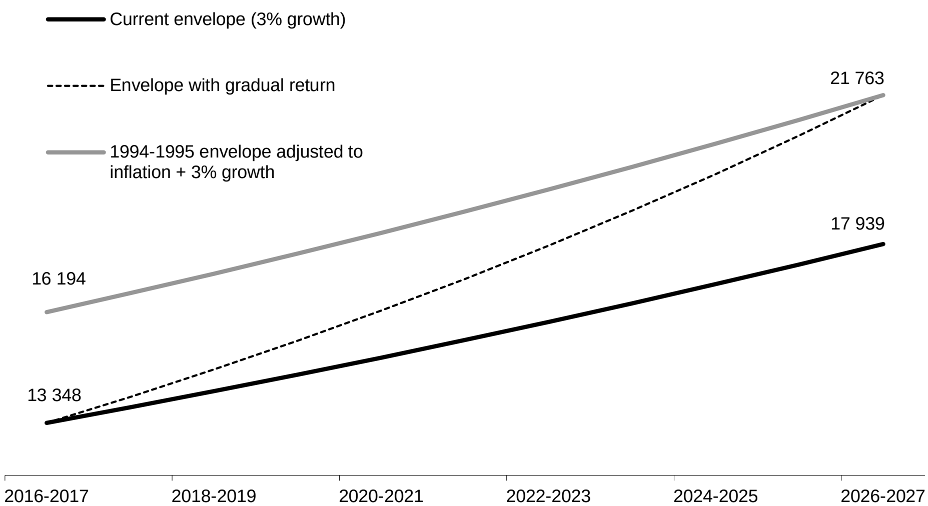
9 *Ibid.*, p. 17.

However, to avoid a sudden increase of more than $2.8 billion in the envelope in 2016-2017, which corresponds to the difference between the current envelope and the enhanced envelope, Québec is proposing a gradual narrowing of the gap over ten years, as in the case of its proposals regarding equalization and the CHT.

— Narrowing the gap over ten years in this way would correspond, at term, to an increase of approximately $3.8 billion in the envelope for Canada as a whole, including approximately $870 million for Québec over ten years and $62 million in 2017-2018.

CHART F.4

Gradual return of the Canada Social Transfer to its 1994-1995 level, taking into account inflation, 2016-2017 to 2026-2027
(millions of dollars)



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

In 2005, during its meeting in Banff, Alberta, the Council of the Federation had asked the Prime Minister of Canada to immediately restore the CST to its 1994-1995 level, given that the provinces' spending for post-secondary education and vocational training had increased over the preceding ten years.

3. AN EQUALIZATION PROGRAM THAT MUST FULLY PLAY ITS ROLE

The equalization program came into being in 1957 and is the only federal program that redistributes wealth in the country. The objective of the equalization program is in fact enshrined in subsection 36 (2) of the *Constitution Act, 1982*:

> Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

In addition to this constitutional objective, the equalization program seeks to achieve other objectives.

3.1 Reasons for an equalization program

The equalization program is not funded by non-recipient provinces. It is funded out of federal government revenues provided by all Canadian taxpayers, regardless of the province where they live.

— An equalization program is above all the reflection of a particular concept, namely, that a country's economic development must benefit all of its inhabitants, regardless of where they live. It is the opposite of "everyone for themselves."

Equalization is also one of the mechanisms required to guarantee the practice of true federalism in a federation as decentralized as Canada, where the provinces are responsible for most public services, such as health, education and social services.

— To adequately assume these responsibilities, the provinces enjoy considerable fiscal autonomy, but they must also contend with financial means that vary with the differences their ability to collect revenue.

In addition, equalization is a tool that fosters effective allocation of factors of production between the regions of a country.

— Without this mechanism, individuals and businesses could move to provinces that are better off, solely to take advantage of the public services they offer at lower levels of taxation.

❑ A calculation based on fiscal capacity

The provinces do not all have the same capacity to generate revenue. To avoid a situation where recipient provinces must impose a higher-than-average tax burden to offer services that are comparable in quantity and quality, the objective of the equalization program is to bridge the gap between their lower fiscal capacity, in per capita dollars, and the average of the ten provinces.

— Provinces with a fiscal capacity above the average fiscal capacity of the ten provinces therefore do not receive equalization payments.

More specifically, fiscal capacity is defined as the revenue a province would obtain if it applied the average tax rates in effect in the ten provinces to its tax bases (personal income tax [PIT], corporate income tax [CIT], consumption taxes, natural resources and property taxes). 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 several indicators: the basic federal tax for the PIT base, taxable corporate income for the CIT base, the market value of residences 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 the tax base.

A province's fiscal capacity thus differs from the revenue actually collected by the province, which results from the tax rates the province imposes according to its own societal choices (its "tax effort").

Reform of the 2007 equalization program

Based on the recommendations of the report by the Expert Panel on Equalization and Territorial Formula Financing,[1] the federal government introduced an adequate equalization program in March 2007.

In November 2008, the federal government subsequently changed the program, capping the equalization envelope at the growth of Canada's nominal GDP while modifying the individual cap standard (fiscal capacity of the least "wealthy" non-recipient province relative to the average fiscal capacity of the recipient provinces). Subsections 3.2 and 3.3 discuss in greater detail the consequences of the imposition of these caps.

The adequate functioning of the equalization program was therefore in effect only from March 2007 to November 2008.

1 *Achieving a National Purpose: Putting Equalization Back on Track* [Report], May 2006.

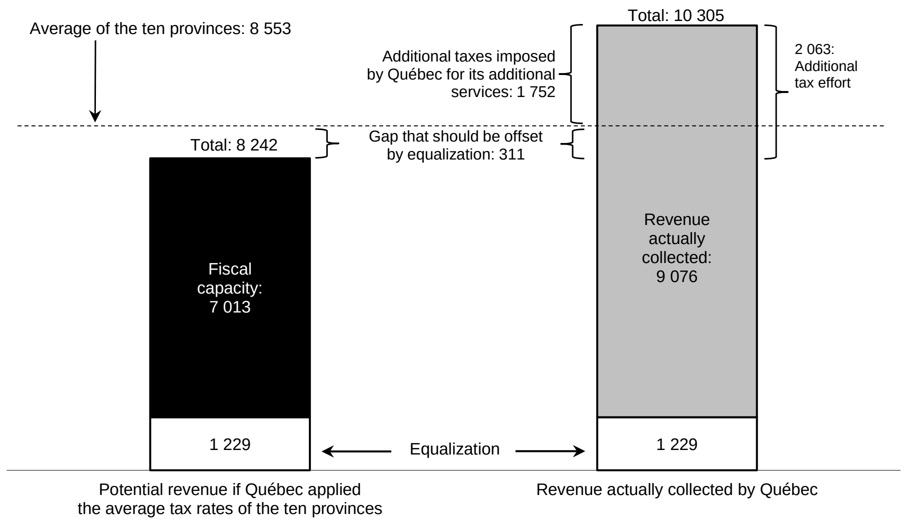
More generous public services funded by Quebecers

Québec chooses to offer more public services by raising its tax effort.

- To provide additional public services, Québec imposes an extra tax burden of $1 752 per capita ($10 305 − $8 553), representing an amount of $14.3 billion, over and above the average of the ten provinces.
- However, with the caps imposed on the equalization program since 2009-2010 and given the fact that half the revenue drawn from natural resources is excluded from the program, Québec has a shortfall of $311 per capita ($8 553 − $8 242) that it must offset by means of a higher tax burden in order to reach the average of the ten Canadian provinces in 2016-2017.

Thus, in 2016-2017, the revenue actually collected by Québec totals $9 076 per capita ($10 305 − $1 229), of which $2 063 ($311 + $1 752) represents the additional tax effort imposed by Québec.

Fiscal capacity of Québec and revenue actually collected(1) by Québec, 2016-2017
(dollars per capita)



(1) Fiscal capacity and revenue actually collected in 2016-2017 are based on the moving average of fiscal capacity in 2012-2013 (25%), 2013-2014 (25%) and 2014-2015 (50%). They include 100% of revenue derived from natural resources and protection arising from offshore agreements.
Sources: Department of Finance Canada and Ministère des Finances du Québec.

❑ Payments calculated on a per capita basis

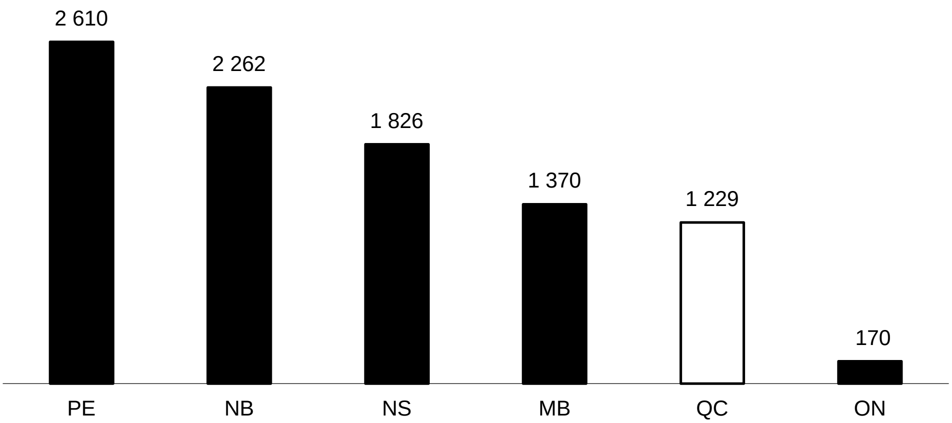
Although Québec is receiving a substantial share of the equalization envelope in 2016-2017, it is worth emphasing that the equalization program is calculated on a per capita basis. Consequently, Québec is not the province that receives the highest equalization payment: It ranks next to last among recipient provinces, with $1 229 per capita in 2016-2017.

— Since Québec is the most populous (8.2 million inhabitants) of the recipient provinces, after Ontario, it receives a substantial share of the equalization envelope.

If the other recipient provices, with the exception of Ontario, had the same population as Québec, they would receive much higher payments than Québec, varying from $11.2 billion (Manitoba) to $21.3 billion (Prince Edward Island).

CHART F.5

Equalization payments – 2016-2017
(dollars per capita)



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

Impacts of the drop in oil prices

The drop in the price of oil since the summer of 2014 has had a major impact on:

- the revenue of provinces with significant oil resources (Newfoundland and Labrador, Saskatchewan and Alberta);
- federal government revenue, albeit to a lesser extent.

A decrease in disparities in fiscal capacity resulting in a decrease in the equalization envelope

In terms of equalization, the decline in revenue stemming from the drop in oil prices had a downward effect on the fiscal capacity of oil-producing provinces and, consequently, on the average fiscal capacity of the ten provinces.

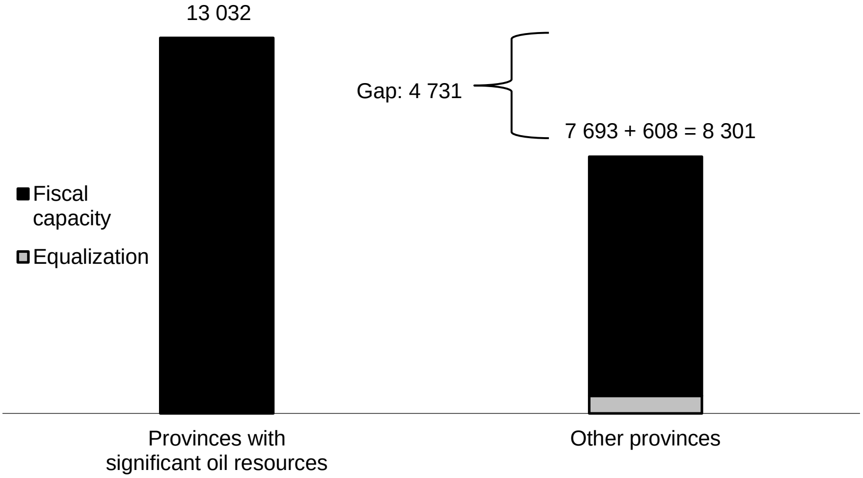
- Since that average is close to the fiscal capacity of recipient provinces, including Québec, the disparities in fiscal capacity to be offset by equalization will be reduced and the equalization payments to recipient provinces will be lower.

Moreover, the drop in oil prices will cause a decrease in Canada's nominal GDP. The equalization envelope, whose growth is linked to this indicator, will therefore decrease, resulting in reduced payments to recipient provinces.

Fiscal capacity of oil-producing provinces continues to be higher

The drop in the price of oil has a downward effect on the revenue of producing provinces. However, despite lower revenue, the provinces' fiscal capacity continues to significantly outstrip ($13 032 per capita) that of the other provinces ($8 301 per capita including equalization payments of $608 per capita), for a gap of $4 731 per capita.

Fiscal capacity of the provinces[1] – 2016-2017
(dollars per capita)



Note: "Other provinces" refers to the provinces that receive equalization and British Columbia.
(1) Fiscal capacity in 2016-2017 is based on the moving average of fiscal capacity in 2012-2013 (25%), 2013-2014 (25%) and 2014-2015 (50%). It includes 100% of revenue derived from natural resources and the protection of offshore agreements.
Sources: Department of Finance Canada and Ministère des Finances du Québec.

Impacts of the drop in oil prices (cont.)

A gradual impact

The drop in oil prices will be gradually taken into account in the fiscal capacity of producing provinces, due to the smoothing mechanism applied to the equalization program.

For example, equalization payments to provinces for 2016-2017 are based on 50% of the fiscal capacity in 2014-2015 and 25% of the fiscal capacity in 2013-2014 and 2012-2013, respectively.

- This weighting gives greater weight to fiscal capacity for the most recent year and improves the equalization program's ability to react when economic shocks occur.

Smoothing mechanism for determining equalization payments

2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
25%	25%	**50%**	→	Payment			
	25%	**25%**	**50%**	→	Payment		
		25%	**25%**	**50%**	→	Payment	
			25%	**25%**	**50%**	→	Payment

Thus, the drop in oil prices, which began in the summer of 2014 and continued throughout 2015-2016, had an adverse effect on the fiscal capacity of producing provinces, effect that will be felt gradually on the recipient provinces' equalization payments from 2016-2017 to 2019-2020.

❑ Share of the equalization program in the main federal transfer payments

In 2016-2017, of the total federal transfer payments that will be made to the provinces and territories, 51% of the payments will be allocated to health and 19% to social programs, through the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), respectively, whereas the equalization program will represent one-quarter of federal transfer payments. Consequently:

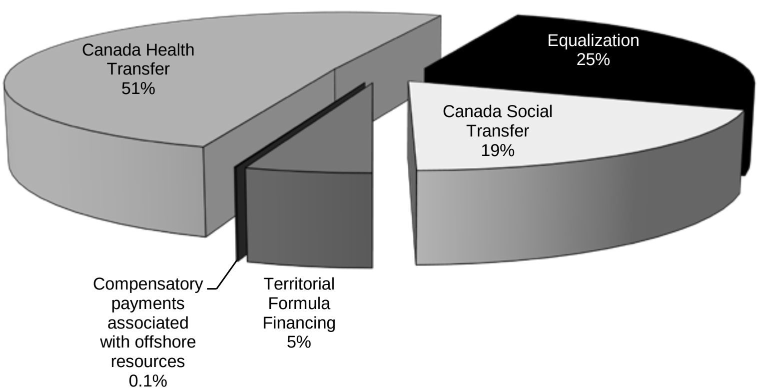
— 30% of federal transfer payments will be allocated to wealth redistribution through the equalization program (25%) and Territorial Formula Financing (5%);

— 70% of federal transfer payments will be distributed independently of each province's fiscal capacity, that is, allocated on an equal per capita basis (same amount for each Canadian).

Accordingly, the main transfer payments to the provinces are mostly made on the basis of population, not on the basis of the population's wealth.

CHART F.6

Main transfers to the provinces and territories – 2016-2017



Note: Share percentages may not add to 100% due to rounding.
Sources: Department of Finance Canada and Ministère des Finances du Québec.

❑ Equalization revenues that represent a small share of the total revenue of recipient provinces

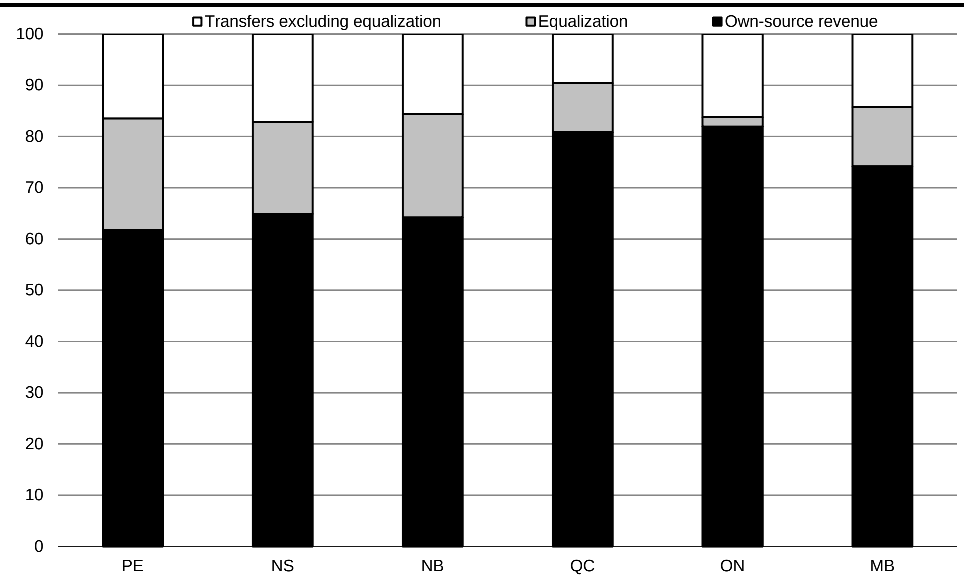
Moreover, recipient provinces do not rely primarily on their equalization payments to fund services to their population, since the share of their own-source revenue in total revenue far exceeds the equalization payments received.

— Equalization payments account for a share varying between 1.9% of total revenue for Ontario and 21.8% for Prince Edward Island.

— In Québec, equalization payments account for account for 9.6% of total revenue, the smallest share among recipient provinces, except for Ontario.

CHART F.7

Revenue sources of provinces receiving equalization – 2015-2016
(per cent)



Note: In the case of Québec, transfers excluding equalization are reduced by the value of the special Québec abatement.
Sources: Data drawn from the provinces' budgets and fiscal updates.

Removal of the redistribution mechanism from the Canada Health Transfer and the Canada Social Transfer

Prior to the federal government's changes to the Canada Social Transfer and the Canada Health Transfer in 2007 and 2014, respectivement, the value of tax points transferred to the provinces in 1977-1978 by the federal government was taken into account in the calculation of these transfers.

The mechanism for redistributing these transfer payments has since been removed and replaced by an equal per capita allocation, that is, an allocation of the same amount to each Canadian, thus favouring provinces whose tax points are higher in value.

3.2 An envelope that no longer addresses changes in disparities between the provinces

In November 2008, the federal government decided to introduce a cap into the equalization program, distancing the program from its objective of offsetting disparities in fiscal capacity to the average fiscal capacity of the ten provinces. So, even though disparities in fiscal capacity still need to be offset with respect to the ten-province average, the equalization envelope corresponds is limited to the level determined by the growth in Canada's nominal GDP (GDP cap). This is corroborated by a study of the Université de Sherbrooke's Research Chair in Taxation and Public Finance:

> In 2015-2016, equalization offset only two-thirds of the discrepancy with the average of the average fiscal capacity of the ten provinces. […] In this sense, limiting the growth of equalization to economic growth calls into question the very basis of equalization, which is to enable the provinces to provide services of comparable quality at comparable tax rates.[10] [translation]

Instead of bringing the fiscal capacity of recipient provinces up to the average of the ten provinces, as the program did prior to November 2008, the increase in the equalization payments of a province occurs at the expense of the equalization payments of the other recipient provinces, since the envelope is capped at Canada's nominal GDP. The GDP cap thus distances the program from its objective, to the detriment of recipient provinces.

Consequently, the GDP cap should be gradually removed so that the equalization program can fully achieve its objective, which is to ensure that each province has a fiscal capacity, after equalization, that corresponds to the average of the ten provinces.

10 RESEARCH CHAIR IN TAXATION AND PUBLIC FINANCE, *Les transferts fédéraux: évolution et perspectives pour le Québec*, Université de Sherbrooke, October 27, 2015, p. 22.

3.3 An unfair individual cap

In 2007, the federal government introduced an individual cap that prevented the fiscal capacity[11] of a recipient province, after equalization, from exceeding that of the least "wealthy" province not receiving equalization, as recommended in the report by the Expert Panel on Equalization and Territorial Formula Financing.[12]

— After equalization, recipient provinces therefore had the same fiscal capacity.

In November 2008, at the same time the GDP cap was introduced, the federal government changed the calculation of the 2007 individual cap as a result of which a province receiving equalization that is "wealthier" than the average of provinces receiving equalization sees its fiscal capacity after equalization lowered to the average of those provinces.

— This change to the individual cap penalizes recipient provinces that are better off in terms of natural resources, especially Québec.

— Because of this unfair cap, the fiscal capacity after equalization of recipient provinces is $8 168 per capita, except in Québec, where it is $8 052 per capita.

In the interests of fairness, a return to the 2007 individual cap is essential so that recipient provinces have the same fiscal capacity after equalization.

11 This individual cap included 100% of revenue derived from natural resources and protection arising from offshore agreements.

12 EXPERT PANEL ON EQUALIZATION AND TERRITORIAL FORMULA FINANCING, *Achieving a National Purpose: Putting Equalization Back on Track* [Report], May 2006.

3.4 Restore the program's objective

So that all recipient provinces have the same fiscal capacity after equalization, that is, $8 130 per capita, Québec is proposing a solution put forward by the Advisory Panel on Fiscal Imbalance,[13] set up by the Council of the Federation.

To be consistent with the current equalization envelope, which is $17.9 billlion in 2016-2017, equalization payments determined under the 2007 formula could be reduced by an equal amount of $132 per capita.

TABLE F.3

Québec's proposal regarding the equalization formula – 2016-2017
(dollars per capita)

	Fiscal capacity after equalization					
	Current formula	2007 formula	Fair reduction	Fiscal capacity after equalization with fair reduction	Impact of a gradual increase (1)	Total
Prince Edward Island	8 168	8 262	−132	8 130	11	8 141
Nova Scotia	8 167	8 262	−132	8 130	11	8 141
New Brunswick	8 168	8 262	−132	8 130	11	8 141
Québec	**8 052**	**8 262**	**−132**	**8 130**	**11**	**8 141**
Ontario	8 168	8 262	−132	8 130	11	8 141
Manitoba	8 168	8 262	−132	8 130	11	8 141

(1) By implementing a gradual increase of 0.014 percentage point per year over ten years (0.014 × 10 years), the proportion of the equalization envelope (0.87%) could be restored to its historical annual average of 1.01% of Canada's nominal GDP.
Sources: Department of Finance Canada and Ministère des Finances du Québec.

Subsequently, the gap could be narrowed annually over ten years to enable the equalization envelope to gradually increase to 1.01% of Canada's nominal GDP by 2026-2027, its historical average as a proportion of Canada's nominal GDP.

— Such an increase would represent an increase of $283 million in the equalization envelope in 2016-2017, that is, an additional $11 per capita for each recipient province.

[13] ADVISORY PANEL ON FISCAL IMBALANCE, *Reconciling the Irreconcilable: Addressing Fiscal Imbalance in Canada* [Report], Council of the Federation, 2006, pp. 86-87.

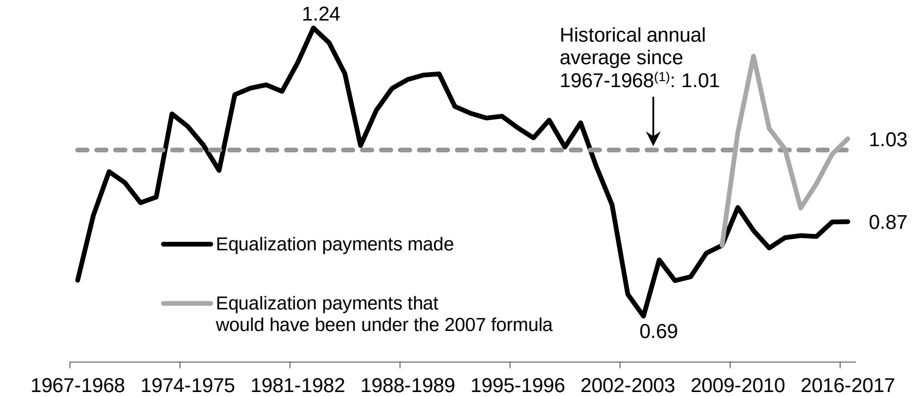
Cost of the equalization program below the historical average

To adequately measure the cost of the equalization program, its relative importance as a proportion of Canada's nominal GDP must be determined. Although the historical annual average of the equalization envelope over the last 50 years is 1.01%, it will represent only 0.87% of Canada's nominal GDP in 2016-2017.

- This 0.14-percentage-point gap represents a shortfall of $2.8 billion in 2016-2017, including $930 million for Québec.

Moreover, had the federal government maintained the 2007 formula, the cost of the equalization program would represent 1.03% of Canada's nominal GDP in 2016-2017, a level similar to the historical annual average.

Equalization program as a proportion of Canada's nominal GDP, 1967-1968 to 2016-2017
(per cent)



(1) The historical annual average since 1967-1968 is calculated by incorporating the equalization payments that would have been made according to the 2007 formula as of 2009-2010.
Sources: Department of Finance Canada, Ministère des Finances du Québec and Statistics Canada.

3.5 Fair treatment of Hydro-Québec's dividends under the equalization program

In the wake of the November 2008 changes to the equalization program, the federal government decided to exclude dividends paid by Hydro One to the Ontario government from the natural resources base, given that Hydro One does not produce electricity.

— Dividends paid by Hydro One, an Ontario government-owned corporation that transmits and distributes electricity, are thus included in the corporate income tax base. This leads to a more advantageous treatment in the calculation of Ontario's fiscal capacity.

Yet dividends paid by Hydro-Québec to the Québec government on its transmission and distribution activities (30.2% of total 2015 dividends) have continued to be included in the natural resources base, despite Québec's repeated requests.

— As a result, there is a difference in the treatment of similar income sources between the two provinces.

If Hydro-Québec's dividends stemming from its transmission and distribution activities were included in the same tax base as those of Hydro One, namely, the corporate income tax base, Québec would obtain more than $360 million per year.

Québec demands that the federal government proceed with the fair treatment of Hydro-Québec's transmission and distribution dividends in the short term, by including them in the corporate income tax base as part of the equalization program.

CONCLUSION

Québec welcomes the planned new infrastructure investments to stimulate economic growth. To foster economic growth in the short term, Québec would like the federal government to rapidly identify the projects prioritized by Québec that will obtain funding under Building Canada 2014-2024. For the $60 billion in new infrastructure investments, Québec would like a comprehensive agreement like the Gas Tax Fund Administrative Agreement to be concluded.

To alleviate the strong financial pressures on the provinces, Québec expects the federal government to act as a partner so that the provinces can adequately address the expectations of the population and ensure that public services are sustainable. Therefore, Québec is asking the federal government to:

— gradually increase the Canada Health Transfer envelope over ten years so that it reaches 25% of the provinces' health spending and takes into account the demographic breakdown of people age 65 and over;

— gradually restore over ten years the Canada Social Transfer envelope to its 1994-1995 level, taking into account the rise in the cost of living;

— gradually increase the equalization envelope over ten years to its historical level as a proportion of Canada's nominal GDP, and settle in the short term the different treatment of Hydro-Québec dividends under the equalization program.

In a context where the provinces are facing major financial challenges, the federal government must therefore be part of the solution.