August 20, 2018

HIGHLIGHTS
of the Pre-election Report

THE STATE OF QUÉBEC'S PUBLIC FINANCES

Québec

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Finances Québec

Highlights of the Pre-election Report – The State of Québec's Public Finances

Ministère des Finances

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INTRODUCTION

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

In addition, the *Auditor General Act* mandates the Auditor General of Québec to prepare a report in which it gives its opinion on the plausibility of the forecasts and assumptions presented in the pre-election report published by the Ministère des Finances.

The *Pre-election Report on the State of Québec's Public Finances – August 2018* is the first report released, in accordance with the Act.

This report was based on the financial framework presented in the March 2018 Québec Economic Plan. When required, adjustments were made to the information released in March 2018 so that the report would be based on the most recent financial information, available as at July 10, 2018. The financial framework also takes into account the budgetary impact of the economic support measures announced in August 2018.

❑ Updated state of public finances leading to five key funding

The *Pre-election Report on the State of Québec's Public Finances – August 2018* presents the current state of Québec's public finances.

Five key funding emerge from this state of public finances:

— the financial framework is **balanced**[1] since, **for 2018-2019 to 2022-2023, improvements of $950 million** have been provided for, **compared to the March 2018 Québec Economic Plan**;

— revenue growth is based on forecasts reflecting **developments in Québec's economy**;

— the change in planned expenditure **corresponds to the cost of public services that was announced**, with the funding required for the cost of service being provided;

— **debt reduction** objectives **are met and debt repayment has begun**;

— **provisions** and a reserve are provided to **manage risks and uncertainties**.

[1] The financial framework is balanced according to the *Balanced Budget Act.*

1. A BALANCED FIVE-YEAR FINANCIAL FRAMEWORK, IMPROVEMENTS OF $950 MILLION ANNUALLY FOR 2018-2019 TO 2022-2023

The Québec government's financial framework is balanced in 2018-2019 and for the next four fiscal years.

— **Revenue and expenditure** make up the government's financial framework.

— The **financial framework** presented in the *Pre-election Report on the State of Québec's Public Finances – August 2018* confirms that public finances are balanced within the meaning of the *Balanced Budget Act* and as announced in the March 2018 Québec Economic Plan: revenue and part of the funds stipulated in the stabilization reserve are sufficient to fund both the announced cost of expenditure and deposits in the Generations Fund.

— Acceleration of the economy and sound management of public finances are generating **improvements** of $950 million annually for 2018-2019 to 2022-2023 in relation to the March 2018 Québec Economic Plan.

1.1 Québec's budget: revenue and expenditure

The budget is primarily a planning and management tool that describes all the planned revenue and expenditure to cover government operations—in particular funding for public services—during the coming fiscal year.

These revenue and expenditure make up the government's financial framework.

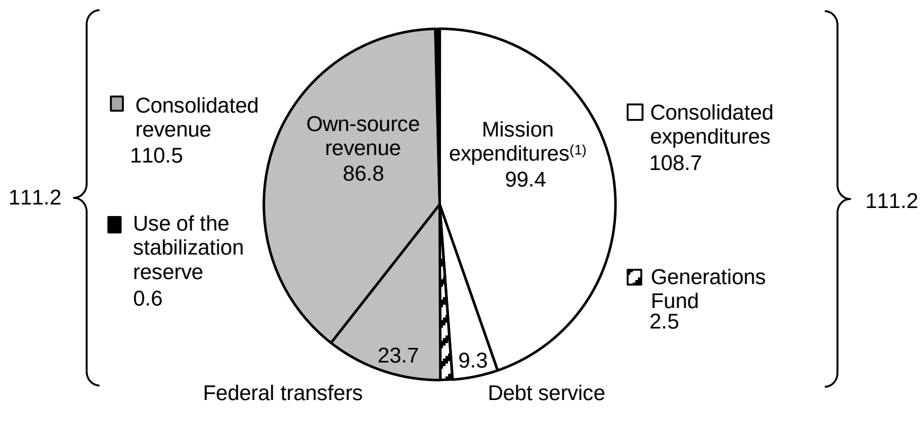
❑ A financial framework of $111.2 billion

In 2018-2019, the government's consolidated revenue stood at $110.5 billion. Adding the use of $0.6 billion from the stabilization reserve, these amounts fund:

- mission expenditures of $99.4 billion, that is, expenditures for the government's major areas of activity;
- debt service of $9.3 billion;
- deposits of $2.5 billion in the Generations Fund.

CHART 1

2018-2019 Québec Budget
(billions of dollars)



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

What is a budget?

The annual presentation of a budget is one of the government's key actions. It stems from analysis and reflection that allow the government to express its priorities in financial terms.

The budget is primarily a planning and management tool that describes and explains all the revenue and expenditure planned to coversee government operations during the fiscal year covered by the budget.

In Québec's case, the budget presents the gaps between the forecasts and the preliminary estimates of the current fiscal year, in particular due to changes in the economic situation.

Revenue and expenditure are usually revised to take such gaps into account, and measures are set up to ensure economic growth and redistribution of wealth, while at the same time maintaining a balanced budget.

What is more, a government communicates its strategic choices and policy directions through the budget.

1.2 Financial framework

The financial framework of the *Pre-election Report on the State of Québec's Public Finances – August 2018* presents revenue and expenditure through 2022-2023.

Québec's financial framework provides for ongoing balanced budgets for fiscal 2018-2019 through 2022-2023. For 2017-2018, preliminary estimates anticipate a $2.3-billion surplus.

❑ Financial framework revenue and expenditure

The financial framework provides for 2.9% average annual growth in consolidated revenue over the next five years. Revenue totals $110.5 billion in 2018-2019 and will reach $124.5 billion in 2022-2023. This change reflects anticipated growth in the Québec economy and also takes into account the tax and budget measures that the government has implemented.

The financial framework provides for 3.0% average annual growth in consolidated expenditure over the next five years. Spending stands at $108.7 billion in 2018-2019 and will amount to $120.0 billion in 2022-2023.

It also integrates the economic support measures announced in August 2018.

Over the financial framework, consolidated revenue and the use of part of the amounts provided in the stabilization reserve will fund the anticipated expenditure.

TABLE 1

Consolidated financial framework summary from 2017-2018 to 2022-2023
(billions of dollars)

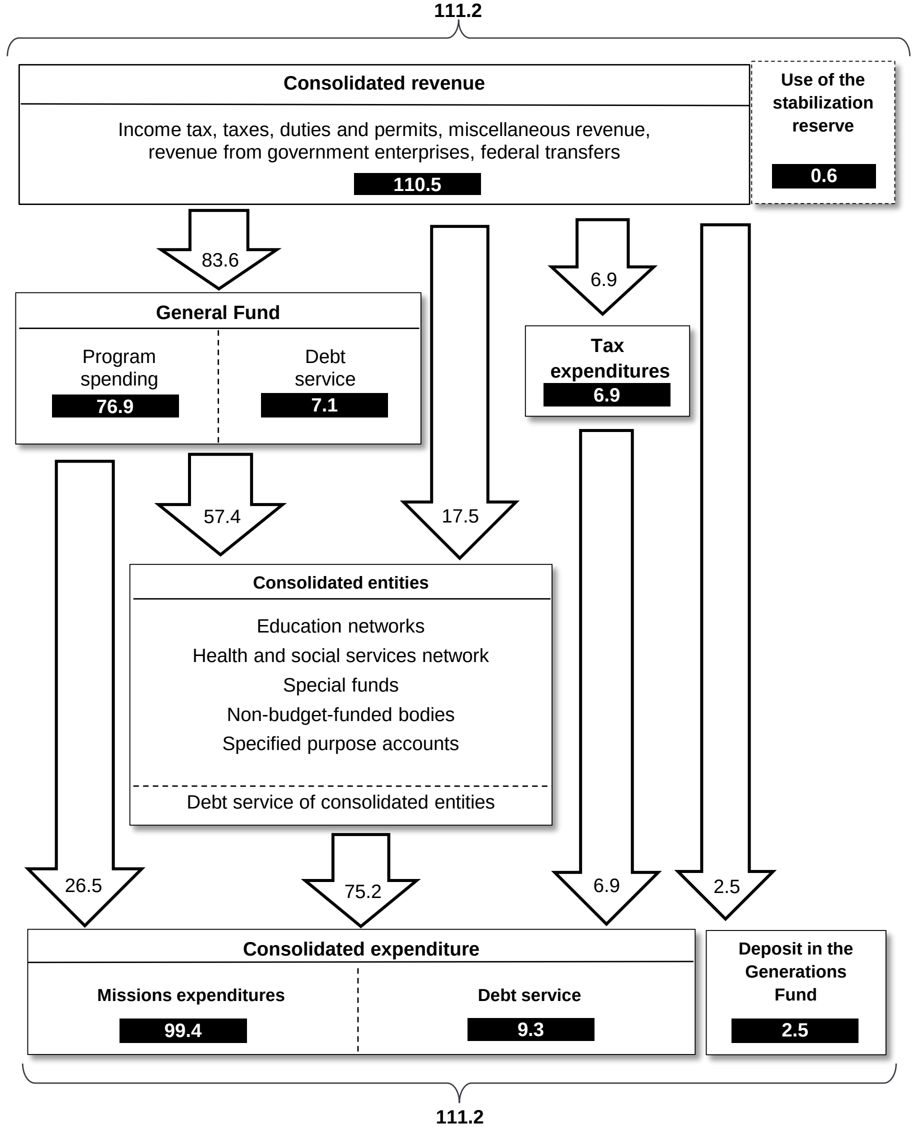
	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	*Average annual growth (%)(1)*
Consolidated revenue	108.1	110.5	113.9	117.6	121.0	124.5	
% change	*5.0*	*2.3*	*3.0*	*3.3*	*2.9*	*2.9*	*2.9*
Consolidated expenditure	–103.5	–108.7	–111.0	–114.0	–116.6	–120.0	
% change	*5.0*	*5.0*	*2.2*	*2.7*	*2.3*	*2.8*	*3.0*
Contingency reserve	—	—	–0.1	–0.1	–0.1	–0.1	
SURPLUS (DEFICIT)	**4.6**	**1.9**	**2.7**	**3.5**	**4.2**	**4.5**	
BALANCED BUDGET ACT							
Deposits of dedicated revenues in the Generations Fund	–2.3	–2.5	–2.7	–3.0	–3.3	–3.5	
Use of the stabilization reserve	—	0.6	—	—	—	—	
BUDGETARY BALANCE(2)	**2.3**	**—**	**0.0**	**0.5**	**1.0**	**1.0**	

Note: Totals may not add due to rounding.
(1) Average annual growth is calculated for 2018-2019 through 2022-2023.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve.

Revenue and expenditure: funding of public services

In 2018-2019, the government's consolidated revenue of $110.5 billion along with $0.6 billion from the stabilization reserve allow public services, or mission expenditures, and debt service to be funded. A portion of the revenue is also dedicated to the Generations Fund.

Funding of public services in Québec in 2018-2019
(billions of dollars)



Note: Totals may not add due to rounding.

Revenue and expenditure: funding of public services (continued)

Funding provided through various structures

Public services are funded through various budget structures that have been implemented to ensure that what the government collects matches the funding of public services. This financial organization is primarily based on government choices about governance and service delivery.

The departments can offer services directly to Quebecers or transfer amounts to bodies that are better able to provide such services. For example, the Ministère de l'Éducation et de l'Enseignement supérieur administers the student financial assistance program, but entrusts large amounts to the school boards which offer education services.

Spending by government departments: revenue allocated to the General Fund

Most general and income taxes go to the General Fund to fund the government's missions. To this end, $83.6 billion is deposited into the General Fund and allocated to the program expenditures of the departments and bodies, as well as to debt service.

Altogether, the departments' "direct" expenditure total $26.5 billion, while $57.4 billion is transferred to various funds and public bodies, i.e. the special funds, non-budget-funded bodies and networks that provide most public services.

Revenue earmarked for consolidated entities

Other than transfers they receive from the departments out of the General Fund, consolidated entities are funded through own-source revenue and federal transfers. This revenue stands at $17.5 billion.

Some funds have been created to provide specific services, funded exclusively through dedicated contributions. The Land Transportation Network Fund is one such fund.

Through own-source revenue, a portion of taxes is directly allocated to funding the activities of public funds and bodies.

Tax-funded expenditures

Over the years, the government has introduced measures called "tax expenditures" into the tax system for the purpose of granting tax relief to specific groups of individuals or businesses, or to certain activities. Those measures help support economic development, encourage savings or protect low-income households. Some of those tax relief measures are recorded as expenditures in the government's financial framework. Tax-funded expenditures stand at $6.9 billion.

Revenues deposited in the Generations Fund

In addition to funding consolidated expenditure, consolidated revenue, along with a portion of allocated sums in the stabilization reserve, fund the Generations Fund. Revenue of $2.5 billion is dedicated to the Generations Fund for debt reduction purposes. This revenue comes mainly from royalties, the specific tax on alcoholic beverages and investment income.

1.3 Improvements to the financial framework

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

The financial framework of the *Pre-election Report on the State of Québec's Public Finances – August 2018* was updated as at July 10, 2018. It also takes into account the budgetary impact of the economic support measures announced in August 2018. It therefore takes into account events that have occurred since the publication of the March 2018 Québec Economic Plan.

In particular, the economic growth observed in recent months[2] is engendering positive adjustments in the financial framework for 2017-2018 and subsequent years compared to the forecast in the March 2018 Québec Economic Plan.

❑ Change in the budgetary situation in 2017-2018

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

— an $889-million increase in revenue due, among other things, to the sound performance of the Québec economy, which led to higher revenue from personal and corporate income tax;

— a $565-million difference between the planned and real expenditures of government departments and bodies and special funds.

As a result of these improvements, preliminary estimates for 2017-2018 anticipate a $2.3-billion surplus.

To obtain additional information, please refer to pages B.19 and B.20 of the pre-election report.

TABLE 2

Summary adjustments to the financial framework since March 2018 – 2017-2018
(millions of dollars)

	2017-2018		
	March 2018	**Adjustments**	**August 2018**
Consolidated revenue	107 196	889	108 085
% change	*4.2*		*5.0*
Consolidated expenditure	–104 054	565	–103 489
% change	*5.6*		*5.0*
SURPLUS (DEFICIT)	**3 142**	**1 454**	**4 596**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–2 292	–1	–2 293
BUDGETARY BALANCE(1) – AUGUST 2018	**850**	**1 453**	**2 303**

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

2 See page 17 for more information on the economic situation.

❑ Adjustments to the financial framework from 2018-2019 to 2020-2021

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

Overall, the improvements to the financial framework total $950 million per year from 2018-2019 to 2020-2021. In particular, the improvements are attributable to positive adjustments in own-source revenue because of the recurrence of more favourable results than anticipated in 2017-2018 stemming from sound economic performance.

TABLE 3

Improvements in the financial framework since March 2018 from 2018-2019 to 2020-2021
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Own-source revenue	924	899	933
Carbon market	110	110	110
Federal transfers	–4	–420	–262
Other	170	659	346
Economic support measures – August 2018	–250	–298	–177
TOTAL IMPROVEMENTS	**950**	**950**	**950**

■ Economic support measures – August 2018

In order to support businesses affected by higher customs tariffs, the government recently implemented support measures that:

- allow businesses to release the cash resources necessary to maintain operations;
- improve the competitiveness of businesses by fostering investments and reducing the tax burden for small and medium-sized businesses;
- protect jobs through support for worker training.

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

For more information, refer to pages B.21 and B.22 of the pre-election report.

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

The budgetary balance within the meaning of the *Balanced Budget Act* takes deposits in the Generations Fund and stabilization reserve transactions into account.

The balance of the stabilization reserve is adjusted on the basis of either the amounts used to maintain the budgetary balance each year or the recorded surpluses.

■ Deposits in the Generations Fund

A portion of the revenue is allocated to the Generations Fund; this allocation is required to reach debt reduction objectives by 2025-2026.

Deposits in the Generations Fund will increase from $2.5 billion in 2018-2019 to $3.5 billion in 2022-2023.

■ The stabilization reserve if the improvements in the financial framework are not used

Over the last three years—from 2015-2016 to 2017-2018—the amounts in the stabilization reserve came from the $6.9 billion budgetary surpluses accumulated.

For 2018-2019 to 2022-2023, the update of the financial framework provides for improvements of $950 million annually. If the improvements are not used by the government, the amounts will gradually increase the amounts in the stabilization reserve to $8.6 billion.

TABLE 4

Change in the stabilization reserve from 2017-2018 to 2022-2023
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
STABILIZATION RESERVE – MARCH 2018	**5 402**	**3 815**	**2 879**	**2 400**	**2 400**	**2 400**
Improvements to the financial framework for 2017-2018(1)	1 453	1 453	1 453	1 453	1 453	1 453
Cumulative improvements to the financial framework for 2018-2019 ($950 million/year)	—	950	1 900	2 850	3 800	4 750
STABILIZATION RESERVE IF AUGUST 2018 IMPROVEMENTS IN FINANCIAL FRAMEWORK ARE NOT USED	**6 855**	**6 218**	**6 232**	**6 703**	**7 653**	**8 603**

(1) This amount corresponds to the improvement stemming from preliminary estimates for 2017-2018.

2. REVENUE GROWTH: FORECASTS REFLECTING THE STRONG PERFORMANCE OF THE QUÉBEC ECONOMY

To fund public services, the government must have sufficient revenue.

- As regards the **change in revenue**, Québec's financial framework anticipates that the government's revenue will increase in the coming years, reflecting the growth of Québec's economy.
  - Revenue growth also takes into account the various tax relief measures implemented by the government, such as elimination of the health contribution, lower income taxes and the reform of the school tax system.
  - Economic growth enables government revenue to increase despite the planned reductions in the tax burden.
- As for the **economic situation and assumptions used**, expected growth of the Québec economy takes many external and internal factors into account, including the anticipated slowdown of the global economy related to monetary tightening and demographic changes, as well as the expected change in the labour market.
- The **economic forecasts** used are **comparable to those of the private sector**.

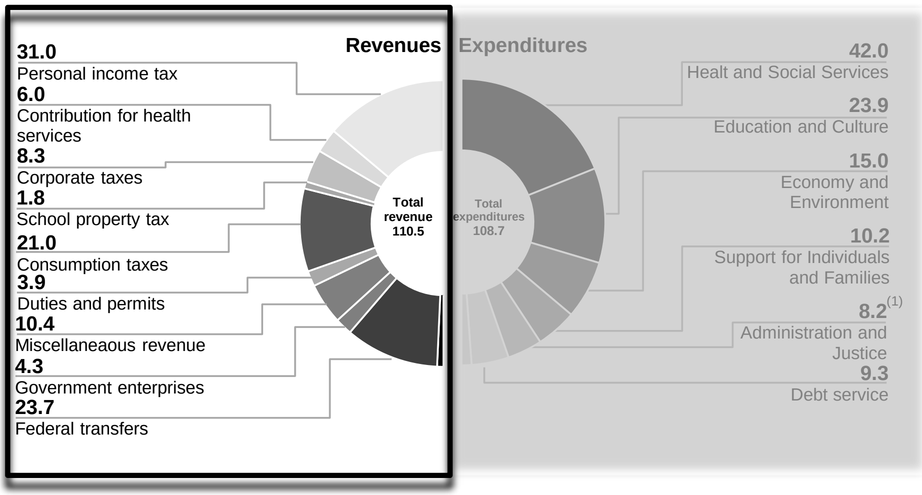
❑ Composition of Québec government revenue

For 2018-2019, Québec government revenue stands at $110.5 billion.

Government revenues comprise tax revenue (income tax and taxes), duties and miscellaneous other revenue, in addition to federal transfers and revenue from government enterprises.

CHART 2

Consolidated revenue – 2018-2019
(billions of dollars)



Note: Totals may not add due to rounding.
(1) Includes the $359 million reserve in the Contingency Fund.

2.1 Change in revenue

The government's consolidated revenue is $110.5 billion in 2018-2019. Revenue will total $113.9 billion for 2019-2020 and $117.6 billion for 2020-2021.

Revenue growth is 2.3% in 2018-2019 and will reach 3.0% in 2019-2020 and 3.3% in 2020-2021.

Consolidated revenue is nearly 79% own-source revenue ($86.8 billion in 2018-2019) and more than 21% is federal transfers ($23.7 billion in 2018-2019).

Their growth changes depending on both the economic situation and government decisions.

TABLE 5

Change in consolidated revenue
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021
Own-source revenue				
Tax revenue	66 222	68 192	70 167	72 298
% change	*3.2*	*3.0*	*2.9*	*3.0*
Duties, permits and miscellaneous revenue	14 404	14 318	14 891	15 462
% change	*5.2*	*–0.6*	*4.0*	*3.8*
Government enterprises	5 092	4 339	4 463	4 779
% change	*3.9*	*–14.8*	*2.9*	*7.1*
Own-source revenue	**85 718**	**86 849**	**89 521**	**92 539**
% change	***3.6***	***1.3***	***3.1***	***3.4***
Federal transfers	22 367	23 670	24 344	25 034
% change	*10.8*	*5.8*	*2.8*	*2.8*
TOTAL	**108 085**	**110 519**	**113 865**	**117 573**
% change	***5.0***	***2.3***	***3.0***	***3.3***

❑ Change in own-source revenue

Own-source revenue includes tax revenue (income tax and taxes), revenue from duties, permits and miscellaneous revenue, and revenue from government enterprises.

■ Tax revenue

Own-source revenue mainly comprises tax revenue.

Tax revenue is made up of personal income tax, contributions to health services, corporate taxes, school property tax and consumption taxes.

Tax revenue represents a little over 60% of the government's consolidated revenue. It stands at $68.2 billion in 2018-2019.

Forecast tax revenue growth is 3.0% in 2018-2019. Growth will be 2.9% in 2019-2020 and 3.0% in 2020-2021.

■ Duties, permits and miscellaneous revenue

Own-source revenue also includes revenue from duties and permits (such as vehicle registrations, revenue from the carbon market and drivers’ licences), and miscellaneous revenue (such as the sale of goods and services and investment income).

This revenue stands at $14.3 billion in 2018-2019. It has grown −0.6%. Growth will be 4.0% in 2019-2020 and 3.8% in 2020-2021.

■ Government enterprises

The revenue from government enterprises is also part of own-source revenue.

— Government enterprises chiefly include Hydro-Québec, Loto-Québec, the Société des alcools du Québec and Investissement Québec.

This revenue stands at $4.3 billion in 2018-2019. Its growth will go from −14.8% in 2018-2019 to 2.9% in 2019-2020 and 7.1% in 2020-2021.

❑ Change in revenues from federal transfers

Federal transfer revenues are comprised of equalization payments, health transfers, transfers for post-secondary education and other social programs as well as other types of programs.

Such revenues amount to $23.7 billion in 2018-2019. Forecast revenue growth is 5.8% in 2018-2019. Growth will reach 2.8% in 2019-2020 and 2020-2021.

2.2 Economic situation and assumptions used

Québec's economy is doing well—both in terms of economic growth and job creation—and, based on the forecasts presented in the pre-election report, the current sound economic situation will hold for the rest of the forecast period, until 2022-2023.

❑ Economic activity

Real gross domestic product (GDP)—which reflects the total value of production within Québec's territory—is the main measure of economic activity.

Real GDP growth has picked up over the past year, from 1.4% in 2016 to 3.0% in 2017.

Economic growth is forecast to continue in the coming years. Growth in real GDP will reach 2.1% in 2018 and 1.7% in 2019.[3] These growth rates are comparable to those of Québec's main trading partners.

TABLE 6

Outlook for economic growth
(real GDP, percentage change)

	2017	**2018**	**2019**
Québec	3.0	2.1	1.7
Canada	3.0	2.1	1.7
United States	2.3	2.5	2.2
World	3.6	3.7	3.6

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

3 Except for Québec's, the economic forecasts are those published in the March 2018 Québec Economic Plan. For Québec, the economic forecasts hinge on statistics available as at June 27, 2018.

■ Adjustments to the economic forecast since March 2018

Few changes have been integrated into the economic forecast scenario since the publication of the March 2018 Québec Economic Plan. Indeed, the economic environment has remained similar to that observed in early 2018.

Only the Québec economic forecast scenario has been modified. The adjustments concern only certain components of GDP and some economic indicators.

- For 2017, the economic forecasts scenario incorporates statistics from Québec's economic accounts, published as at June 27, 2018.
- Over the forecasting horizon, changes in GDP and the components have been adjusted to factor in the new data available.
  - Since the beginning of 2018, changes in the economic indicators display slightly more vigour. However, this favourable change will be tempered by the intensification of protectionist tensions that remain a source of short-term uncertainty.
  - The impact of the increasing risks related to the escalating protectionist tendencies will nevertheless be limited by the economic support measures announced in August 2018.

In this context, the overall view of the evolution of the economy remains similar to that presented in March 2018. The Ministère des Finances du Québec is maintaining its forecast real GDP growth for the entire forecasting horizon.

Nominal GDP grew by 5.1% in 2017, as against anticipated growth of 4.4% in the March 2018 Québec Economic Plan.

- This adjustment essentially reflects high growth in wages and salaries, especially because of sound labour market performance and the net operating surplus of businesses.

The vigour of nominal GDP growth should continue in early 2018. Accordingly, nominal GDP should increase by 4.1% in 2018 and by 3.3% in 2019.

- This marks a 0.6 percentage point increase in 2018 in relation to March 2018, while the 2019 forecast is unchanged.

■ Real GDP growth factors

Economic growth is based on domestic demand and the external sector, namely imports and exports.

TABLE 7

Main components of real GDP
(percentage change and contribution in percentage points)

	2017	2018	2019
Contribution of domestic demand	**3.5**	**3.1**	**1.6**
– Household consumption	3.2	2.4	1.8
– Residential investment	7.2	5.2	–1.4
– Non-residential business investment	4.8	5.8	3.0
– Government spending and investment	2.6	2.7	1.1
Contribution of external sector	**–1.2**	**–0.1**	**0.2**
– Exports	1.8	2.1	2.1
– Imports	4.0	2.1	1.5
Contribution of inventories	**0.8**	**–0.8**	**–0.2**
REAL GDP	**3.0**	**2.1**	**1.7**

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

▪ Domestic demand

Domestic demand includes household consumption, residential investment, non-residential business investment and government spending and investment.

— Household consumption continues to be one of the main drivers of the economy. Household consumption spending grew 3.2% in 2017, contributing substantially to the increase in economic activity. It will grow 2.4% in 2018 and 1.8% in 2019.

— Residential investments (which includes new construction and renovation) also increased (7.2%) in 2017, buoyed by economic growth and job creation. The favourable economic situation will continue to support the residential sector in the coming years, but investment growth will be slowed by the gradual rise in interest rates and the tightening of mortgage rules.

— As for businesses, non-residential investment grew for a second year in 2017 (4.8%). These investments should continue to grow in the coming years, due to economic growth, the high production capacity utilization rate, the support measures announced and the high degree of confidence among entrepreneurs in the economic outlook.

— Public administrations including, in particular, the Québec, federal and municipal governments, plan to keep their infrastructure investments high, thereby directly contributing to economic growth.

Furthermore, following robust growth in 2017, inventory accumulation by businesses should slow in 2018 and in 2019.

- **The external sector**

Québec has an open economy in which exports account for a large share of production.

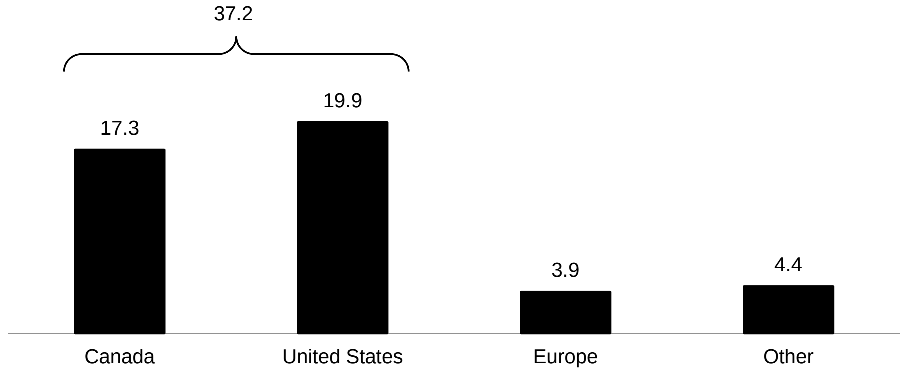
Economic forecasts are also based on external factors that have a significant impact on exports, including the changing dynamics of Québec's main economic partners, the financial markets and commodity prices.

Exports will benefit from generalized global economic growth in the coming years. Accordingly, despite rising protectionist tensions, exports should continue to grow. Export growth should reach 2.1% in 2018 and 2019, after posting a 1.8% increase in 2017.

Share of exports in Québec's GDP

Québec's economy is largely export oriented, with exports representing more than 45% of GDP in 2017. That is why Québec's economic growth depends largely on the economic positions of its main partners.

Share of exports in Québec's GDP, by destination in 2017
(as a percentage of nominal GDP)



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

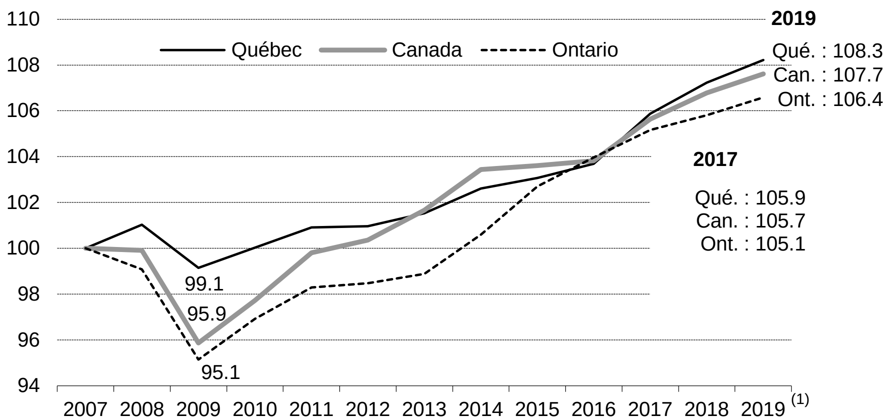
Growth in the standard of living

The faster pace of economic growth in recent years has led to an improvement in the standard of living, measured by real GDP per capita. Quebecers' standard of living increased at a rate comparable to that of other Canadians from 2007 to 2017.

– This growth is expected to continue in 2018 and 2019.

Overall, Quebecers' standard of living should increase 8.3% between 2007 and 2019, compared to an increase of 7.7% for all Canadians and 6.4% for Ontario residents.

Growth in the standard of living
(real GDP per capita, 2007 index = 100)



(1) For 2018 and 2019, the forecasts are those of the Ministère des Finances du Québec for Québec and Canada, and the Conference Board of Canada for Ontario.
Sources: Institut de la statistique du Québec, Statistics Canada, Conference Board of Canada and Ministère des Finances du Québec.

❑ Employment

Québec’s population was close to 8.4 million in 2017, with more than 4.2 million people working.

— Developments in the labour market reflect Québec's economic performance and changing demographics.

■ Positive results

Québec’s labour market was vigorous in 2017: 90 200 jobs were created in 2017 compared to 2016, and the unemployment rate decreased from 7.1% in 2016 to 6.1% in 2017. This is the lowest annual rate since Statistics Canada began its *Labour Force Survey* in 1976.

The employment rate observed in Québec was also among the highest in Canada for most age groups. In 2017, it was 84.4% among 25-to 54-year-olds in Québec, compared to 82.3% for all of Canada.

■ A trend that will continue

Forecasts indicate that the current labour market trend will continue.

— Job creation will be influenced, in particular, by demographic changes, which will result in a smaller pool of available workers. Accordingly, 59 200 jobs will be created in 2018 and 30 500 in 2019.

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

These low levels of unemployment will require Québec to use its full labour potential in order to support economic growth. That is why immigration makes a major contribution to Québec’s labour market.

Factors contributing to economic growth and consideration of demographic changes

The key factors of economic growth, measured by the increase in real GDP, are:

– demographic growth, indicated by changes in the population aged 15 to 64, which constitutes the main pool of potential workers;

– employment growth, reflected in a higher employment rate, that is, the total number of workers relative to the population aged 15 to 64;

– productivity growth, that is, the variation in output per job.

Between 1982 and 2010, the increase in GDP was based more or less equally on the three factors listed above. In recent years, though, demographics have stopped contributing to real GDP growth, despite the contribution of immigrants.

Against this backdrop, an increased employment rate and productivity growth will be the main drivers of Québec's economic growth going forward.

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

	Historical background			Forecasts			
	1982-2010	2011-2016	2017	2018	2019	2020	2021-2022
Real GDP (percentage change)	2.0	1.4	3.0	2.1	1.7	1.5	1.3
Growth factors (contribution)							
Potential labour pool(1)	0.6	0.1	−0.1	−0.1	−0.2	–0.3	−0.2
Employment rate(2)	0.6	0.7	2.3	1.5	0.9	0.8	0.7
Productivity(3)	0.8	0.6	0.8	0.7	0.9	0.9	0.8

Note: Totals may not add due to rounding.
(1) The population 15 to 64 years of age.
(2) The employment rate corresponds to the total number of workers over the population between 15 and 64 years of age.
(3) Productivity represents real GDP per job.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

Immigration: a major contribution to the labour market

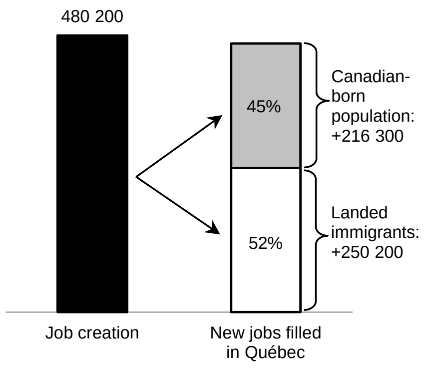
The major contribution of immigration to the labour market can be illustrated in the change in jobs held by immigrants. More specifically, 480 200 jobs were created in Québec for people aged 15 and over between 2006 and 2017.

During that period, the immigrant population aged 15 and over occupied 250 200 of those new jobs, more than 50% of the jobs created in Québec. Canadian-born workers filled 216 300 jobs over the same time period.

The labour market reflects demographic change. Indeed, Québec's demographic growth has been strengthened by the arrival of immigrants in recent years. The population aged 15 and over increased by 705 200 people between 2006 and 2017.

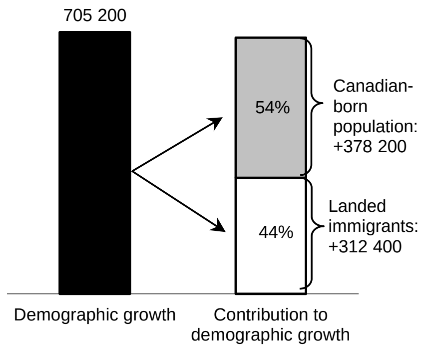
Immigration represented close to 45% of this increase (312 400 people). As the immigrant population is usually younger, its relative contribution to employment is greater than its demographic contribution.

Job creation among the Québec population aged 15 and over between 2006 and 2017
(in number of jobs and contribution as a percentage)



Note: The sum of the "Landed immigrants" and "Population born in Canada" categories is not equal to total job creation, which includes new jobs occupied by Canadian citizens born outside Canada and by non-permanent residents.
Source: Statistics Canada.

Demographic growth among the Québec population aged 15 and over, between 2006 and 2017
(in number of people and percentage contribution)



Note: The sum of the "Landed immigrants" and "Population born in Canada" categories is not equal to demographic growth, which includes Canadian citizens born outside Canada and non-permanent residents.
Source: Statistics Canada.

2.3 Economic assumptions comparable to those of the private sector

The economic forecasts for the current year and subsequent years in the March 2018 Québec Economic Plan are maintained relatively unchanged in the *Pre-election Report on the State of Québec's Public Finances – August 2018*. Essentially, certain components are adjusted but the overall perspective remains very similar.

— Québec's economic growth will reach 2.1% in 2018 and 1.7% in 2019, as forecast in the March 2018 Québec Economic Plan.

The growth prospects of the Ministère des Finances and the private sector are comparable.

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

  — The forecast is slightly higher than that of the Ministère des Finances (2.1%) in the pre-election report.

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

  — The forecast is slightly higher than that of the Ministère des Finances (1.7%) in the pre-election report.

TABLE 8

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

	2017	2018	2019
Ministère des Finances du Québec			
– March 2018 Québec Economic Plan	3.0	2.1	1.7
– 2018 pre-election report	3.0	2.1	1.7
Private sector			
– March 2018(1)	2.9	2.2	1.7
– June 2018(2)	—	2.2	1.8

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

3. CHANGE IN EXPENDITURE: FUNDING CORRESPONDING TO THE COST OF SERVICES ANNOUNCED

The financial framework includes a forecast of changes in government expenditure for the delivery of public services.

— The financial framework presents the **change in expenditure** for each of the government's chief missions until 2020-2021.

— The level of these services is based on **the costs** of renewing existing programs, plus commitments made in the last budget.

The financial framework presented in the *Pre-election Report on the State of Québec's Public Finances – August 2018* provides for expenditure growth corresponding to the cost of services announced.

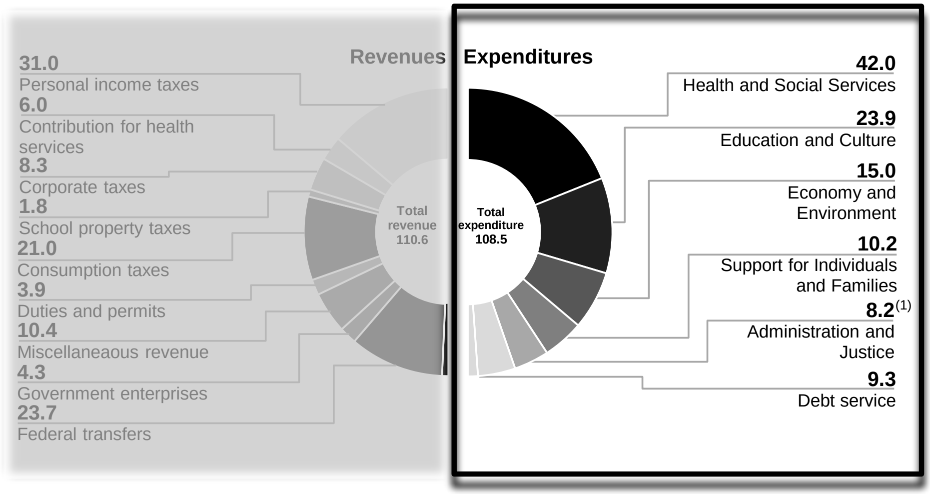
❑ Québec government expenditure

In 2018-2019, expenditure amounts to $108.7 billion.

— This expenditure includes mission expenditures, such as Health and Social Services and Education and Culture, as well as debt service.

CHART 3

Consolidated expenditure – 2018-2019
(billions of dollars)



Note: Totals may not add due to rounding.
(1) Includes the $359 million reserve in the Contingency Fund.

3.1 Change in expenditure

Consolidated expenditure totals $108.7 billion in 2018-2019. It will reach $111.0 billion and $114.0 billion, respectively, in the next two years.

Expenditure growth is forecast to be 5.0% in 2018-2019, 2.2% in 2019-2020 and 2.7% in 2020-2021.

Consolidated expenditure includes:

— mission expenditures ($99.4 billion for 2018-2019), that is, the expenditures for the government's major areas of activity;

— debt service ($9.3 billion for 2018-2019).

❑ Debt service and its impact on mission expenditures

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

Debt service represents 8.5% of total consolidated expenditure in 2018-2019.

— Those amounts are not available to fund public services.

The government's strategy when the March 2018 Québec Economic Plan was released, which provides for using the Generations Fund to repay the $2 billion in maturing loans annually, will reduce the debt service proportion in coming years and provide some leeway for funding mission expenditures.[4]

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[4] See page 36 for more information on the debt and repayments that have been made.

3.2 Government mission expenditures

Mission expenditures correspond to direct services to the population, such as health care and education.

They also include investments made to support economic growth and thus secure the funding of future services and an improved standard of living for Quebecers.

❑ Change in mission expenditures

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

TABLE 9

Change in mission expenditures
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021
Health and Social Services	40 213	42 020	43 571	45 398
% change	*3.8*	*4.5*(1)	*3.7*	*4.2*
Education and Culture	22 785	23 907	24 655	25 517
% change	*5.3*	*4.5*(1)	*3.1*	*3.5*
Economy and Environment	14 309	15 044	15 035	14 847
% change	*16.0*	*5.1*	*–0.1*	*–1.3*
Support for Individuals and Families	9 816	10 166	10 251	10 481
% change	*2.4*	*4.4*(1)	*0.8*	*2.2*
Administration and Justice	7 126	7 883	7 950	8 127
% change	*6.2*	*10.6*	*0.8*	*2.2*
Contingency Fund reserve	—	359	300	300
TOTAL	**94 249**	**99 379**	**101 762**	**104 670**
% change	***5.9***	***5.4***	***2.4***	***2.9***

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

■ Health and Social Services

The Health and Social Services mission primarily concerns the activities of the health and social services network and the programs administered by the Régie de l'assurance maladie du Québec.

This mission accounts for the biggest share of mission expenditures, i.e. 42.3% in 2018-2019. That represents a total expenditure of $42.0 billion for that year, an increase of 4.5% compared to 2017-2018. It is expected to rise an average of 3.9% for the two subsequent years.

■ Education and Culture

The Education and Culture mission primarily concerns the activities of the education networks, student financial assistance, programs in the culture sector and immigration-related programs.

This is the second largest mission, accounting for 24.1% of mission spending. In 2018-2019, that represents an expenditure of $23.9 billion, an increase of 4.5% from 2017-2018. It is expected to rise an average of 3.3% for the two subsequent years.

■ Economy and Environment

The Economy and Environment mission primarily includes programs related to economic development, employment assistance measures, international relations, the environment and infrastructure support.

In 2018-2019, the expenditure dedicated to the Economy and Environment mission totals $15.0 billion, an increase of 5.1% from 2017-2018.

■ Support for Individuals and Families

The Support for Individuals and Families mission primarily includes measures pertaining to last resort financial assistance and assistance for families and seniors, as well as certain legal aid measures.

In 2018-2019, the expenditure dedicated to the Support for Individuals and Families mission totals $10.2 billion, an increase of 4.4% from 2017-2018.

■ Administration and Justice

The Administration and Justice mission includes the activities of the legislature, central bodies and public security, as well as administrative programs.

In 2018-2019, the expenditure dedicated to the Administration and Justice mission totals $7.9 billion, an increase of 10.6% from 2017-2018.

3.3 Funding that is tied to the cost of public services

Changes in the size and structure of the population according to different age groups affect the level and composition of public spending.[5] The increase in population is thus a factor in spending growth. The cost of public services is also affected by price movements,[6] i.e. changes in inflation and wages. Both those factors are considered in calculating the cost of program renewal.[7]

The absence of a shortfall – based on the renewal costs and the goal of mission expenditures – means that the funding allocated corresponds to the cost of the services announced.

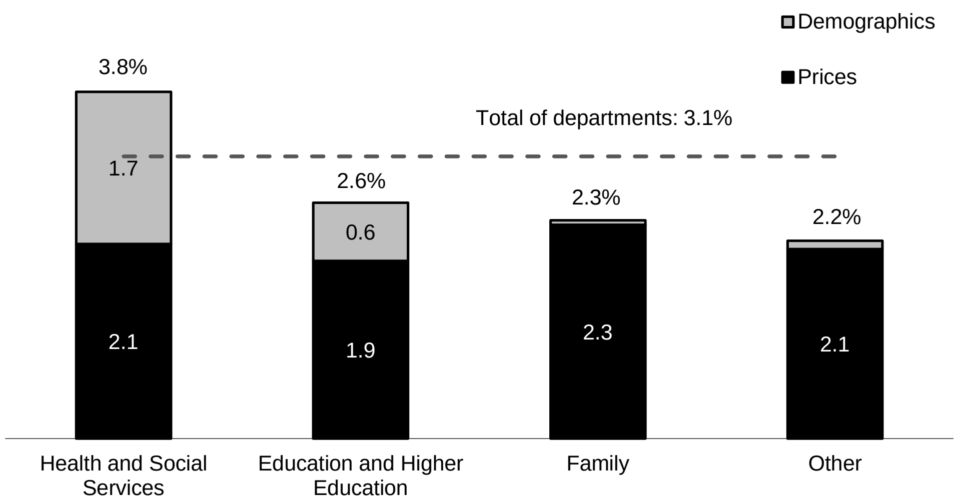
❑ Public service funding tied to the cost of services

Due to the forecast change in demographics and prices from 2019-2020 to 2029-2030, the average increase in the consolidated expenditure necessary to maintain the basket of services will be 3.1% per year.

The average annual growth needed for Health and Social Services will be 3.8%. The Education and Higher Education sector and the Support for Families sector will require average annual growth of 2.6% and 2.3% respectively.

CHART 4

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



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

[5] For further information on the effects of demographics, see page B.51 of the pre-election report.

[6] For further information on price changes, see page B.53 of the pre-election report.

[7] For further information on the costs of renewing government programs, see page 33.

❑ A spending target in line with the cost of services announced

To ensure funding that is in line with the cost of services announced, a multi-year spending target is compared with the costs of renewing government programs so as to manage the current annual shortfall, if applicable. This is a normal expenditure management process.

Government departments and public bodies are responsible for determining the measures to be implemented to ensure their spending targets are reached, under the coordination of the Secrétariat du Conseil du trésor.

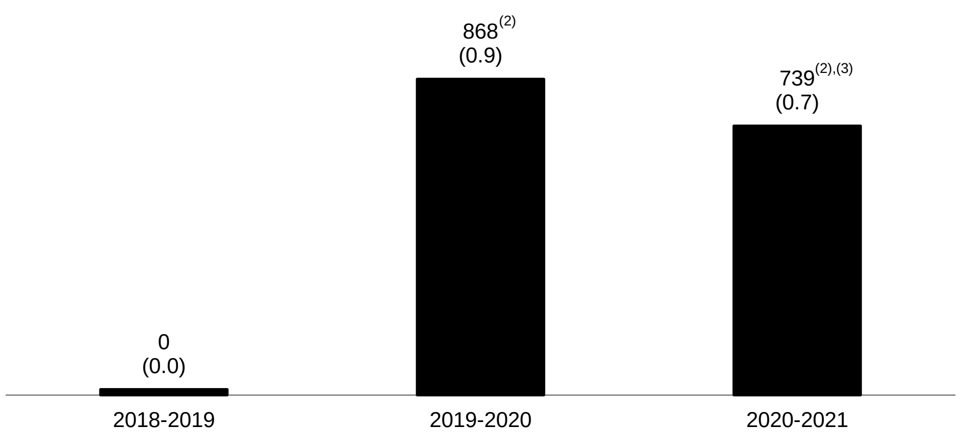
Based on the current financial information, there is no gap between the costs of renewing government programs and spending targets in 2018-2019. The shortfall is less than $900 million for 2019-2020 and 2020-2021, which is small compared with mission expenditures (0.9% and 0.7%, respectively, in 2019-2020 and 2020-2021).

— Time will help determine the best ways for funding the shortfall, either through savings, reworking expenditures or by granting additional funding, as applicable.

The *Pre-election Report on the State of Québec's Public Finances – August 2018* thus calls for a spending level that corresponds to the cost of public services announced. This means that the shortfall to be eliminated in fiscal 2019-2020 and 2020-2021 will be small and, essentially, the mission expenditures announced in the financial framework will receive the required funding.

CHART 5

Shortfall to be offset[1] for mission expenditures
(millions of dollars and per cent of mission expenditures)



(1) The shortfall to be offset corresponds to the difference between the annual target and the cost of renewing government programs.
(2) Includes a $200 million-a-year cost forecast for the actuarial valuation of pension plans.
(3) Includes a provision of $250 million for the forecast risk, which makes up for the fact that program renewal costs tend to be more uncertain in the final years of the financial framework.

4. DEBT: COMPLIANCE WITH REDUCTION AND REPAYMENT OBJECTIVES

Québec must deal with a relatively large public debt load.

- The financial framework takes both **debt repayment** and deposits of dedicated revenue to the **Generations Fund** into account.
  - For several years now, Québec has undertaken to reduce the weight of its debt in relation to its GDP, in particular through the establishment of the Generations Fund and deposits made to it.
  - The government recently undertook a new phase, which involves using a portion of the accrued amounts in the fund to repay borrowings that are maturing each year.
- The financial framework **meets the debt reduction objectives** set out in the Act to reduce the debt and establish the Generations Fund. The strategy that has been adopted allows the government to keep making deposits to the Generations Fund, provides some budget leeway to finance services, and ensures that the debt reduction targets are reached.
- The financial framework maintains these efforts. **The debt is under control but still high**.

4.1 Debt repayment and the Generations Fund

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

In 2019-2020 and 2020-2021, the deposits will total $2.7 billion and $3.0 billion, respectively.

❑ Repayment of maturing loans

Faster growth by the assets in the Generations Fund and the strong financial framework give Québec the opportunity to move into another phase by using a portion of the accrued amounts to start paying off its debt.

In this context, the government plans to use $10 billion from the Generations Fund—$2 billion a year from 2018-2019 to 2022-2023—to repay financial market borrowings that are maturing.

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

— The financial framework plans to use that budget leeway to fund public services.

❑ Balance of the Generations Fund

Taking into account the deposits made in the Generations Fund since its creation and those slated for the coming years, plus the use of some of the amounts to repay maturing loans, the book value of the Generations Fund will continue to increase, reaching $17.8 billion as at March 31, 2023.

4.2 Compliance with the debt reduction objectives set out in the Act

Two primary debt concepts are used to measure a government's indebtedness.

— Gross debt is the sum of debt issued on financial markets and the net liability of pension plans and other future benefits of public and parapublic sector employees, minus the balance in the Generations Fund and pre-financing.

— The debt representing accumulated deficits corresponds to the difference between the Québec government's liabilities and its financial and non-financial assets as a whole.

  — The debt representing accumulated deficits is calculated by subtracting the financial assets net of other liabilities and non-financial assets from the gross debt. In accordance with the *Act to reduce the debt and establish the Generations Fund*, the debt is increased by the stabilization reserve.

The government has set a reduction target for the proportion of both of those in the economy.

❑ Debt level and proportion in the economy

As at March 31, 2018 the gross debt stood at $201.1 billion. This corresponds to 48.5% of GDP, as a proportion of the economy.

The debt representing accumulated deficits stood at $115.1 billion, or 27.7% of GDP.

The debt-to-GDP ratio is expected to decline in the coming years for both debt concepts.

TABLE 10

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

	2017	2018	2019	2020	2021	2022	2023
Gross debt(1)	**203.5**	**201.1**	**205.0**	**205.5**	**207.5**	**207.2**	**206.8**
As a % of GDP	*51.5*	*48.5*	*47.5*	*46.1*	*45.1*	*43.7*	*42.4*
Debt representing accumulated deficits	**117.4**	**115.1**	**112.6**	**109.9**	**106.9**	**103.7**	**100.2**
As a % of GDP	*29.7*	*27.7*	*26.1*	*24.6*	*23.2*	*21.9*	*20.5*

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

❑ Debt reduction targets

Debt reduction objectives were included in the *Act to reduce the debt and establish the Generations Fund*.

The Act stipulates that, for fiscal 2025-2026:

— gross debt may not exceed 45% of GDP;

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

■ Compliance with the established target

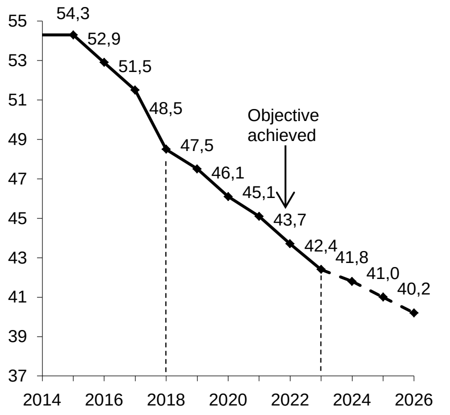
As a proportion of the economy, gross debt will be 43.7% of GDP as at March 31, 2022. The Act's gross debt reduction target will thus have been met.

As a proportion of the economy, the debt representing accumulated deficits will be 16.6% of GDP as at March 31, 2026. The goal of reducing the debt representing accumulated deficits will be reached in 2025-2026, as provided in the Act.

CHART 6

Gross debt as at March 31

(as a percentage of GDP)

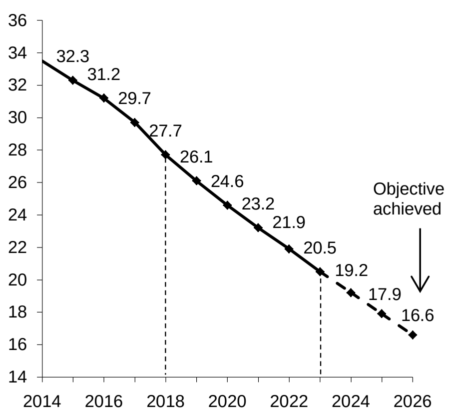


Note: These are projections as of 2024.

CHART 7

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



Note: These are projections as of 2024.

Infrastructure investment

The government is investing large amounts in infrastructure that benefits the people of Québec.

— Investments under the 2018-2028 Québec Infrastructure Plan (QIP) will total $100.4 billion, an increase of $9.3 billion from the figure announced in the 2017-2027 Québec Infrastructure Plan.

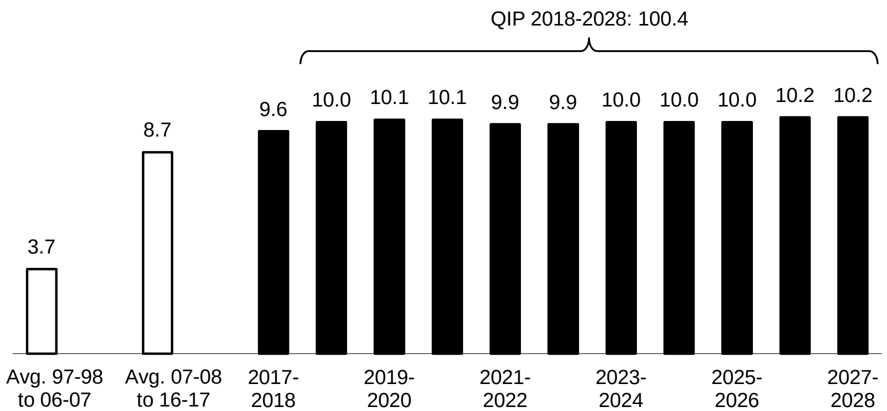
— Infrastructure investments have been made possible by the efforts to reduce the debt burden and, in particular, the deposits made to the Generations Fund each year.

These investments improve quality of life for Quebecers by responding to infrastructure needs, particularly in the education, health and social services, roads and public transit sectors.

Annual investments of $10 billion are planned over the next 10 years.

— These investments will make it possible, in particular, to maintain the stock of public capital in the economy at 26% of real GDP.

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



4.3 Debt under control, but still high

Québec is continuing the debt reduction efforts it has made in recent years because it still has a high debt load.

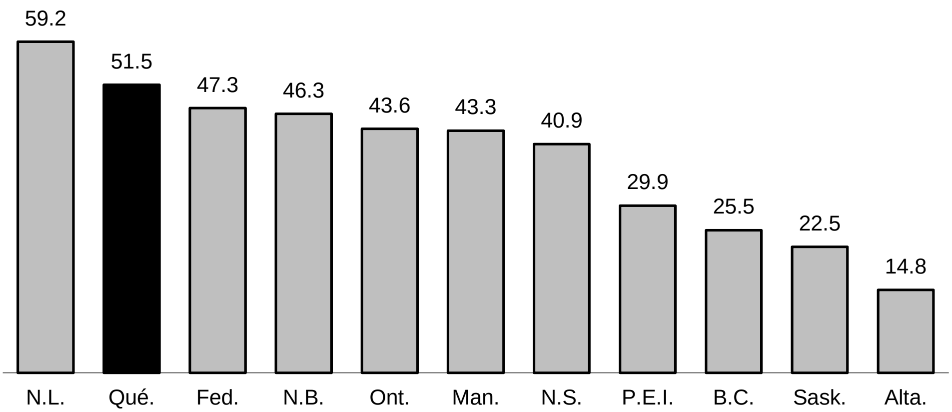
❑ The proportion of the debt in the economy

Despite the improvement in recent years, Québec continues to have one of the highest debt loads among Canadian provinces.

— On a gross debt and percentage of GDP basis, Québec is the second most heavily indebted province after Newfoundland and Labrador.

CHART 8

Gross debt as at March 31, 2017
(as a percentage of GDP)



Sources: Public accounts and Statistics Canada.

❑ Impact of the Generations Fund on the debt

Without the deposits in the Generations Fund, the anticipated gross debt as at March 31, 2023 would be $28.8 billion higher.

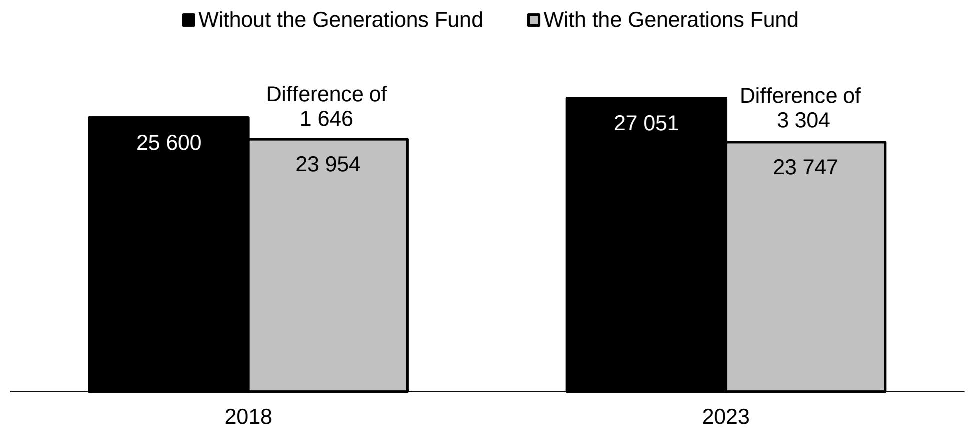
This additional debt would have amounted to $3 304 per capita.

— As at March 31, 2023, gross debt per capita will be $23 747.

— Without the Generations Fund, it would have reached $27 051 per capita.

CHART 9

Gross debt as at March 31
(in dollars per capita)



5. MARGINS FOR PRUDENCE FACTORS TO MANAGE RISK AND UNCERTAINTY

The Québec government's financial framework is built on certain assumptions. By definition, uncertainties come with those assumptions.

The forecast fiscal balance may be jeopardized by external shocks, such as a deterioration of economic conditions that has a major impact on revenue or expenditure, or any other shock.

- To deal with such risks and uncertainties, the government provides for reserves from its financial framework and a **stabilization reserve**.
  - Prudence factors are an integral part of good organizational practice; they increase the probability of hitting budget targets. They give the financial framework the required flexibility for the government to adapt should any of those risks materialize, but without compromising public finances.
- The Ministère des Finances targets **the main risks** that could affect the financial framework and does **sensitivity analyses** regarding those risks.

5.1 Provisions in the financial framework and stabilization reserve

The financial framework includes prudence factors, i.e. provisions and a stabilization reserve, to mitigate the risks from negative external shocks or the uncertainties surrounding the determination of budgetary forecasts.

❑ Several reserves built into the financial framework

The government resorts to several reserves to prepare the financial framework. Such reserves are integrated into the financial framework in order to offset certain risks.

Overall, the reserves total more than $500 million per year for the next five years.

— If the risks do not materialize, the reserves could be used, for example, to fund a portion of the shortfall in expenditure.

TABLE 11

Margins for prudence
(millions of dollars)

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

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

■ Contingency reserve

The contingency reserve is designed to mitigate various risks arising out of economic conditions or other events that affect the government's financial position. In the financial framework, the contingency reserve is $100 million per year from 2019-2020 to 2022-2023.

■ Contingency Fund

The Contingency Fund is intended to cover unforeseen expenditures that may arise in government programs, planned expenditures not broken down in the departmental portfolios, and certain measures announced in the Budget Speech.

In the financial framework, the amount corresponding to a reserve in the Contingency Fund and included in the expenditure budget is $359 million in 2018-2019 and $300 million as of 2019-2020.

■ Debt service reserve

The purpose of the debt service reserve is to cover various contingencies, such as a larger than anticipated increase in interest rates and sudden fluctuations on financial markets.

In the financial framework, the debt service reserve is $50 million in 2018-2019 and will be $150 million per year as of 2019-2020.

❑ Stabilization reserve if the improvements in the financial framework are not used

The *Balanced Budget Act* provides that any surplus be allocated to the stabilization reserve so as to facilitate the government's multi-year budget planning.

— The balance of the stabilization reserve is adjusted on the basis of recorded surpluses allocated to the reserve or amounts used from the reserve for each fiscal year.

Thus, if the improvements in the financial framework are not used, the stabilization reserve will total roughly 6.9 billion as at March 31, 2018 and $8.6 billion as at March 31, 2023.[8]

[8] For further information on the stabilization reserve, see page B.28 of the pre-election report.

5.2 Main risks that could affect the financial framework and sensitivity analyses

The Ministère des Finances targets the main risks that could arise and have an impact on public finances.

To quantify the impact that such risks would have on public finances, the Ministère des Finances assesses the sensitivity of government revenue and expenditure to changes in the various assumptions that underpin the financial framework. Those risks are published in the pre-election report together with the results of the sensitivity analyses.[9]

The risks and uncertainties that are targeted may be external or internal, and may affect either revenue or expenditure.

❑ Risks and uncertainties that could affect revenue

The revenue forecast is based on several different assumptions, data and forecast models that take into account the economic outlooks drawn up by the Ministère des Finances.

For example, a 1-percentage-point change in Québec's nominal GDP growth has a $700-million impact on own-source revenue.

Since the Québec economy is very open to outside markets, Québec's economic variables are influenced by many external factors.

— Québec's economy could be affected by a widespread global economic slowdown, an increase in trade restrictions worldwide, faster than anticipated monetary policy tightening around the world, oil or energy price movements that diverge from the forecasts, or a sharper downturn in Canada's housing sector.

For example:

— a 1% change in U.S. real GDP will result on average in a 0.5% change in Québec's real GDP;

— a 1.0US¢/kWh change in energy prices in external markets will have an almost $150-million impact on Hydro-Québec's net earnings in 2018.

Other internal risks and events could result in different forecasts. Completion of the accounting for 2017-2018 financial data and in-year revenue monitoring for fiscal 2018-2019 are elements of risk and uncertainty that can produce results different from those forecast and affect revenue levels in 2018-2019 and subsequent years.

9 For more information, see Section B of the pre-election report.

❑ Risks and uncertainties that could affect expenditures

■ Clienteles

A change in target clienteles compared with the forecast can have an impact on portfolio spending.

For example:

— a change in the number of people taking medication could affect spending in the Santé et Services sociaux portfolio;

— a change in staffing at elementary and secondary schools, CEGEPs or universities could increase the expenditure of the Éducation et Enseignement supérieur portfolio;

— a change in the number of recipients of last resort financial assistance due to an economic slowdown could pose a risk and affect spending for the Ministère du Travail, de l'Emploi et de la Solidarité sociale.

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

■ Prices

The uncertainty surrounding spending also stems from the cost of goods and public services.

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

For example, a 1% variation in prices would lead to a variation of $280 million, or 0.3 percentage point, in total spending.

■ Interest rate

The interest rate affects the cost of borrowing.

The main risk with respect to the debt service forecast is a larger than anticipated increase in interest rates. An increase of 1 percentage point in interest rates would increase the debt service by $250 million.

Impact of an economic shock on own-source revenue

Impact of an average recession

Past experience shows that the government is at risk from events that could impact its financial framework, such as an economic downturn.

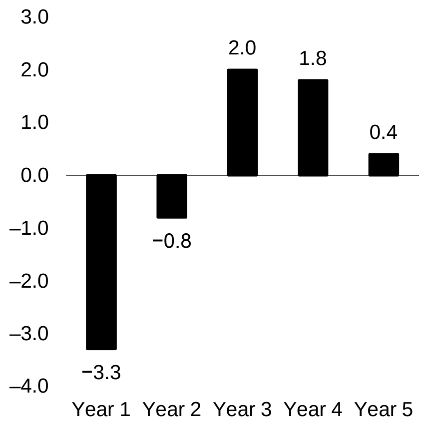
The analysis of historical data in Québec indicates that an average recession could lead to a nominal GDP adjustment of −3.3 percentage points during the first year of recession and −0.8 percentage point the following year compared to the reference scenario. Given the economic recovery that generally follows a downturn, nominal GDP would be upgraded as of the third year, which corresponds to 2.0 percentage points, 1.8 percentage point and 0.4 percentage point, respectively.

The impact of such an economic downturn on the government's own-source revenue could result in a loss of revenue amounting to $8.5 billion over a five-year period before returning to the pre-recession level.[1] Own-source revenue generally grows at a rate similar to that of the economy since there is a direct link between tax bases and nominal GDP. According to the sensitivity analysis drawn up by the Ministère des Finances, a variation of 1 percentage point in Québec's nominal GDP has an impact of approximately $700 million on own-source revenue. Furthermore, during periods of economic downturn, a sharper change in own-source revenue than in nominal GDP is generally observed.

In addition to flexibility in the budgetary process, the government also has at its disposal a series of ways to manage unforeseen factors that could affect the state of Québec's public finances. The s incorporated into the financial framework, to which are added the possible use of the stabilization reserve as a management instrument, would be sufficient to cover, over a five-year period, the revenue lost from an economic downturn.

Nominal GDP adjustment

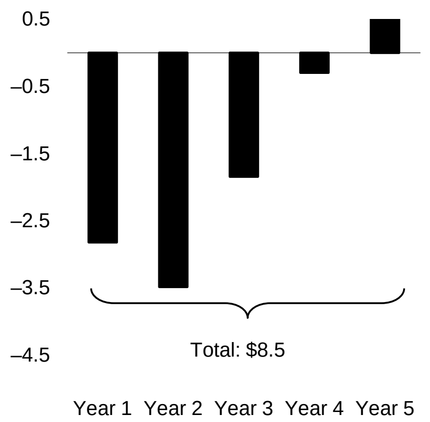
(percentage points)



Source: Ministère des Finances du Québec.

Adjustment to consolidated revenue(1)

(billions of dollars)



(1) Excluding government enterprises.
Source: Ministère des Finances du Québec.

1 The illustrationis based on an estimate made by the Ministère des Finances du Québec in the fall of 2016. The estimated impact does not take into account the increase in expenditure linked to an economic downturn, such as fiscal stimulus measures.

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

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