FALL 2011

Update

ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

Finances Québec

This document is printed on completely recycled paper, made in Québec,
contaning 100% post-consumer fibre and produced without elemental chlorine.

Update on Québec's Economic and Financial Situation
Fall 2011

Legal deposit - Bibliothèque et Archives nationales du Québec
October 25, 2011
ISBN 978-2-550-63132-3 (Print)
ISBN 978-2-550-63133-0 (PDF)

TABLE OF CONTENTS

HIGHLIGHTS

The government is making public the fall 2011 update on Québec's economic and financial situation and tabling the 2010-2011 Public Accounts.

Economic activity displayed higher-than-anticipated growth in the first quarter of 2011, which led to a reduction in the budget deficit forecast for 2010-2011.

Moreover, the rapid deterioration in worldwide economic growth since the second quarter of 2011, in particular in Europe and the United States, has led to a downward adjustment of Québec's economic growth prospects for 2011 and 2012. Nonetheless, the government still anticipates that it will attain the deficit reduction targets and stay on course to balance the budget in 2013-2014.

In relation to the 2011-2012 Budget tabled in March 2011, the final results for 2010-2011 reveal that the budget deficit stands at $3.2 billion, a $1.1-billion improvement over the $4.2 billion forecast. Accordingly, the deficit is being adjusted downward by more than $1 billion for the second year in a row.

For 2011-2012 and subsequent years, the government intends to abide by the declining deficit targets set last March:

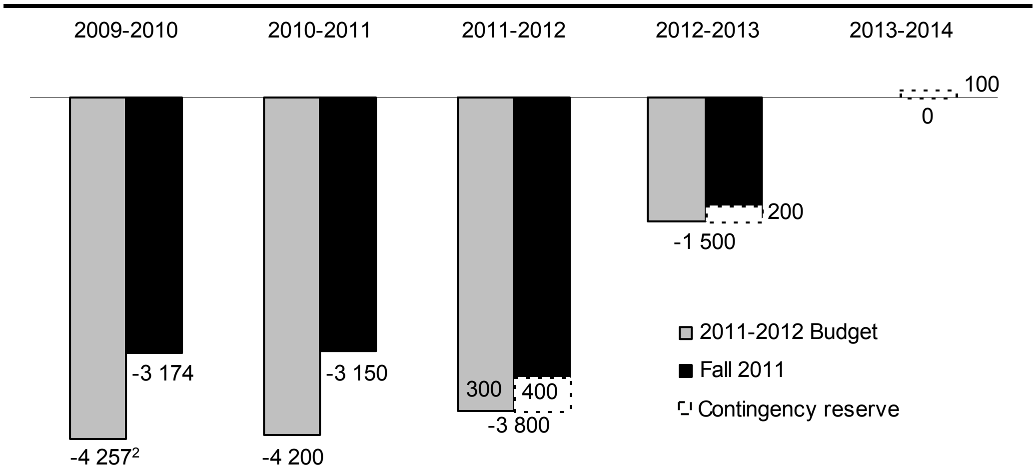
— $3.8 billion in 2011-2012;

— $1.5 billion in 2012-2013.

Fiscal balance will be achieved in 2013-2014.

CHART 1

Anticipated budgetary balances – Fall 2011[1]
(millions of dollars)



1 Budgetary balance within the meaning of the Balanced Budget Act.
2 The budgetary balance of -$4 257 million in 2009-2010 is that presented in the 2010-2011 Budget.

❑ Timely budgetary decisions

The government is now in the second year of the plan to restore fiscal balance and is staying the course to balance the budget in 2013-2014.

The measures adopted since the 2009 recession have made it possible to position Québec both from an economic and a budgetary standpoint.

— The rapid implementation of the plan to support employment and prepare for economic recovery has borne fruit, enabling Québec to be among the first to regain and largely surpass its pre-recession employment level.

— The implementation of the plan to restore fiscal balance established a budgetary framework to follow to balance revenue and expenditure while ensuring the long-term funding of public services, especially in the realms of health and education and the renewal of infrastructure.

— Moreover, the five rating agencies have recognized this budgetary restraint and again confirmed Québec's credit rating in the wake of the 2011-2012 Budget, thereby acknowledging the credibility of the plan to restore fiscal balance and the government's determination to reduce the debt burden.

The difficulties that a number of advanced economies are experiencing, which are engendering economic uncertainty on the international scene are, more than ever, encouraging the government to maintain sound management of public finances and closely monitor the economic situation in order to contend with any contingency.

— In addition, as a precaution, the financial framework incorporates a contingency reserve of $400 million in 2011-2012, $200 million in 2012-2013, and $100 million in 2013-2014.

❑ Compliance with budget deficit targets

The update indicates that the government has reduced the deficits anticipated over five years and diminished the threat to the financial framework.

The accumulated deficits for the period 2009-2010 to 2013-2014 stand at $11.6 billion.

- This marks a $1.1-billion improvement over the deficits anticipated in the March 2011 Budget.
- Moreover, the anticipated deficits for 2011-2012 to 2013-2014 incorporate contingency reserves totalling $700 million to deal with unforeseen events.

Accordingly, before adding contingency reserves in the financial framework, the reduction in deficits for the period from 2009-2010 to 2013-2014 would total $1 750 billion.

Legislation stipulates that the government must comply each year with deficit reduction targets starting in 2011-2012 and maintain fiscal balance once it achieves such balance in 2013-2014. The government intends to continue to comply with the established deficit-reduction objectives.

TABLE 1

Reduction in anticipated deficits
(millions of dollars)

Total deficits from 2009-2010 to 2013-2014	
– March 2011 Budget	– 12 674
– Fall 2011	– 11 624
Reduction in anticipated deficits	**1 050**
Plus: Contingency reserve – Fall 2011	700
Reduction in anticipated deficits before adding contingency reserves	**1 750**

❑ Smaller deficits than those of our main partners

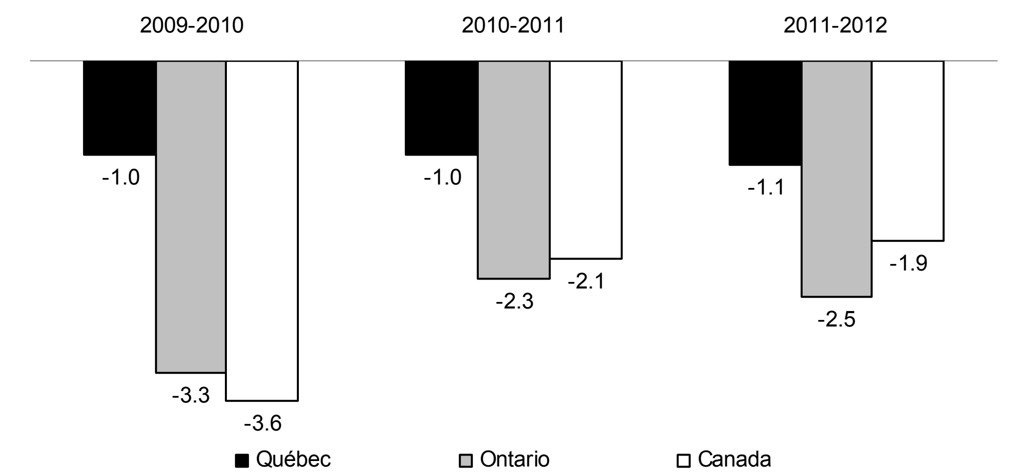
Québec's deficit stands at 1.0% of gross domestic product (GDP) for 2010-2011, which compares favourably with the shortfalls recorded by our neighbours. Ontario, for example, recorded a $14.0-billion deficit for the same period, equivalent to 2.3% of its GDP. The federal government had a $33.4-billion deficit, i.e. 2.1% of Canada's GDP.

For 2011-2012, the anticipated deficit of $3.8 billion represents 1.1% of Québec's GDP. By way of comparison, Ontario's deficit stands at $16.0 billion, equivalent to 2.5% of GDP, and the federal government's deficit stands at $32.3 billion, or 1.9% of Canada's GDP.

Moreover, Québec expects to balance its budget in 2013-2014, one year sooner than the federal government (2014-2015) and four years before Ontario (2017-2018).

CHART 2

Budgetary balances from 2009-2010 to 2011-2012
(as a percentage of GDP)



Sources: Ministère des Finances du Québec, Ontario Ministry of Finance and federal Department of Finance.

❑ Although moderate, economic growth continues

Since the last recession, Québec has experienced a more robust and quicker economic growth than its partners.

- Accordingly, output has more quickly surpassed its pre-recession level. In Québec, real GDP in the second quarter of 2011 was 4.3% higher than in the fourth quarter of 2007. Over the same period, real GDP was only 2.0% higher in Canada and remained lower by 0.2% in Ontario (first quarter of 2011) and by 0.4% in the United States.
- Since July 2009, Québec has created 141 300 jobs, twice as many as were lost during the recession. The unemployment rate fell from 8.5% in 2009 to an average of 7.6 % from January to September 2011. It stood on average at 7.8% in Ontario, 7.5% in Canada, and 9.0% in the United States over the same period.

Québec's economic position continued to improve in early 2011 and benefited, in particular, from business investment and increasing employment. However, the global slowdown in the second quarter has moderated growth in Québec's real GDP. More specifically, in 2011:

- domestic demand was firm, fostered, in particular, by growth in household income and the sound financial situation of businesses. Business investment increased markedly, especially in the natural resource sector;
- however, international exports remained virtually unchanged given the economic difficulties in the United States.

After rising 2.9% in 2010, Québec's real GDP should grow by 1.6% in 2011, a 0.4 percentage point downward adjustment in relation to the 2011-2012 Budget forecast. In 2012, real GDP should increase by 1.6%, compared with an anticipated growth of 2.2 % in the 2011-2012 Budget. In 2013, growth should accelerate to 2.0%.

TABLE 2

Economic growth
(real GDP, percentage change)

	2009	2010	2011	2012	2013
Québec	**– 0.7**	**2.9**	**1.6**	**1.6**	**2.0**
Canada	– 2.8	3.2	2.1	2.1	2.4
United States	– 3.5	3.0	1.6	1.9	2.5

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

An uncertain economic environment in the short term

Growth prospects are currently subject to several uncertainties surrounding the global economic setting.

- The budgetary problems in the euro area could affect the global economy through a reduction in economic activity in the region and the spreading of the difficulties of the European financial system.
- Economic recovery in the United States is fragile and vulnerable to adverse shocks that could further slow it down. Growth in domestic demand is hampered by high unemployment, problems in the real estate sector and the necessary adjustments in the fiscal position at different levels of government.

In this context, the contribution of emerging economies to global growth might be insufficient to offset the weakness of advanced economies.

Given the sound performance of its economy since the last recession, Québec is well positioned and is benefiting from undeniable advantages to face such risks, notably due to robust domestic demand.

Slower growth among our trading partners might nonetheless test the Québec economy and further curtail short-term growth. The government will continue to closely monitor the economic situation in the coming months.

❑ A $1.1-billion reduction in the deficit for 2010-2011 compared with the deficit forecast last March

The real results for 2010-2011 show a $1 050-million improvement in the budgetary balance in relation to the $4.2 billion anticipated in the March 2011 Budget, thus reducing the deficit to $3.2 billion.

The improvement is primarily attributable to:

— higher-than-anticipated revenue, especially from mining royalties;

— the better-than-anticipated results of public bodies whose results are consolidated with those of the government;

— the elimination of the $300-million contingency reserve, since the government did not have recourse to it.

These items largely offset the $346-million upward adjustment in program spending. The revision stems from a $385-million increase in amortization related to the capital assets of health and social services and education establishments. Overall, when this increase is excluded, spending by all government departments was $39 million lower than forecast in the March 2011 Budget.

TABLE 3

Adjustments of the budgetary balance for 2010-2011
(millions of dollars)

	2011-2012 Budget	Adjustments	Real results
BUDGETARY TRANSACTIONS			
Own-source revenue	42 212	175	42 387
Government enterprises	4 713	125	4 838
Federal transfers	15 451	– 26	15 425
Total budgetary revenue	**62 376**	**274**	**62 650**
Program spending	– 59 819	– 346	– 60 165
Debt service	– 6 934	– 50	– 6 984
Total budgetary expenditure	**– 66 753**	**– 396**	**– 67 149**
Consolidated entities			
– Non-budget-funded bodies and special funds	529	660	1 189
– Health and social services and education networks	– 52	212	160
– Generations Fund	732	28	760
Contingency reserve	**– 300**	**300**	**0**
SURPLUS (DEFICIT)	**– 3 468**	**1 078**	**– 2 390**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	– 732	– 28	– 760
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 200**	**1 050**	**– 3 150**
As a % of GDP	*1.3*		*1.0*

❑ Maintenance of budgetary targets starting in 2011-2012

In 2011-2012 and in subsequent years, the government anticipates meeting the declining deficit targets established last March and staying the course to achieve a balanced budget in 2013-2014.

Overall, the negative revisions to the financial framework stemming from revised economic prospects are fully offset by additional funds from mining duties, the downward adjustment of debt service and the impact of the agreement in principle on the harmonization of the Québec sales tax (QST) with the goods and services tax (GST) concluded on September 29, 2011 between the Québec government and the federal government.

Bearing in mind the economic slowdown, the additional revenue is enabling the government to defer until 2014-2015 the identification of new measures to maintain budgetary balance.

TABLE 4

Adjustments since the 2011-2012 Budget
(millions of dollars)

	2011-2012	2012-2013	2013-2014
BUDGETARY BALANCE IN THE 2011-2012 BUDGET	**– 3 800**	**– 1 500**	**—**
Adjustments related to the economic outlook			
Economic downturn	– 125	– 350	– 375
Federal transfers, including equalization	—	– 180	– 264
Wage adjustments related to GDP	—	– 142	– 142
Debt service	71	125	140
	– 54	**– 547**	**– 641**
Other adjustments			
Mineral duties	48	48	48
Harmonization of the QST and the GST			
– Compensation for the harmonization	—	733	1 467
– Impact on financial institutions	—	55	245
Other adjustments to federal transfers	108	—	—
Other items	– 2	11	6
	154	**847**	**1 766**
Subtotal	**100**	**300**	**1 125**
Measures to be identified	—	– 300	– 1 025
Increase in contingency allowances	– 100	—	– 100
Total adjustments	**0**	**0**	**0**
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 800**	**– 1 500**	**0**
As a % of GDP	***1.1***	***0.4***	***0.0***

A $3.8-billion deficit in 2011-2012

In 2011-2012, three main factors are allowing the government to offset the $125-million shortfall attributable to the downward adjustment of economic growth forecast in 2011:

- an additional $48-million increase expected from mining duties revenue;
- a $71-million downward adjustment in debt service;
- a $108-million upward adjustment in federal transfers.

Furthermore, as a precaution and in light of current economic uncertainty, these improvements in the financial framework allow for a $100-million increase in the contingency reserve and leave the deficit unchanged at $3.8 billion.

Maintenance of a gradual return to fiscal balance in 2013-2014

Since the March 2011 Budget, the main changes in the financial framework for 2012-2013 and 2013-2014 stem from:

- economic adjustments that have adversely affected the financial framework, including:
  - downward adjustments of $350 million and $375 million, respectively, in tax revenues in 2012-2013 and 2013-2014, as a result of lower-than-anticipated economic growth in 2011 and 2012;
  - downward adjustments of $180 million in 2012-2013 and $264 million in 2013-2014 in federal transfer revenue, mainly attributable to equalization payments. The negative revision in equalization stems, in particular, from better performance by the Québec economy in relation to the other provinces in 2010 compared to what was forecast in the 2011-2012 Budget;
  - a recurrent $142-million increase in program spending starting in 2012-2013. The revision comes from the financial reserve that the government must set up in respect of the anticipated enhancement of the pay parameters of public service employees linked to better economic performance in 2010. The reserve will be reviewed in light of economic data for 2010 and 2011, which will be published in the fall of 2012;

- the following improvements, which entirely offset the impact of the economic adjustments:
  - the $125-million reduction in 2012-2013 and $140-million reduction in 2013-2014 in debt service, mainly because of the downward adjustment of interest rates;
  - additional revenue of $48 million from mining duties stemming, in particular, from the revision of the royalty regime announced in the 2010-2011 Budget;
  - the harmonization of the QST with the GST, which has engendered:
    - $733 million in federal government compensation in 2012-2013 and $1 467 million in 2013-2014 following the agreement in principle concluded on September 29, 2011;
    - $55 million and $245 million in 2012-2013 and 2013-2014, respectively, attributable to the termination of the reimbursement of the QST on purchases made by financial institutions and the abolition of the compensatory tax for financial institutions.

Lastly, a $100-million contingency reserve has been added to the 2013-2014 financial framework.

■ The federal compensation is being allocated to achieve a balanced budget

On September 29, 2011, the Québec government and the Government of Canada concluded an agreement in principle that stipulates that Ottawa will pay Québec $2.2 billion in compensation in respect of the harmonization of the QST with the GST.

The compensation will be paid in two instalments: $733 million in January 2013, when most of the measures stipulated under the agreement are implemented, and $1 467 million one year later, provided that Québec has, at that time, continued to fulfil all of its commitments.

The $2.2 billion in compensation will help to reduce the deficit in 2012-2013 and to achieve a balanced budget in 2013-2014.

❑ Spending control

Several measures that will reduce growth in spending by 2013-2014 were announced in the March 2010 Budget. In November 2010, the government announced a more detailed plan of the measures necessary to reduce expenditure by $5.2 billion in 2013-2014. In 2010-2011, this effort will stand at $1.4 billion.

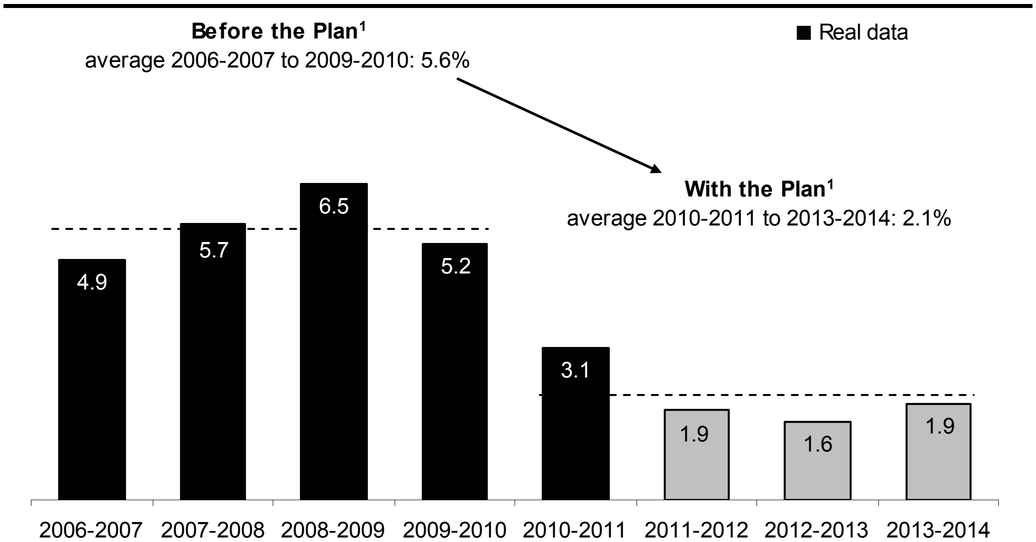
■ Program spending

The real results for 2010-2011 confirm that the government has implemented the requisite measures to curb growth in spending.

The 3.1% growth in program spending in 2010-2011 presented in the Public Accounts slowed significantly in relation to the average of 5.6% observed between 2006-2007 and 2009-2010.

CHART 3

Change in program spending growth
(per cent)



1 Plan to restore fiscal balance.

- **Program spending including new funds for health and transportation infrastructure**

Since 2010-2011, the government has established certain funds in order to earmark revenue for priority sectors, in particular the Fund to Finance Health and Social Services Institutions (FINESSS) and the Land Transportation Network Fund (FORT).

Moreover, by adding spending under the funds to program spending,[1] growth has slowed in relation to the average of 5.7% observed on this basis between 2006-2007 and 2009-2010 to reach:

— 3.9% in 2010-2011;

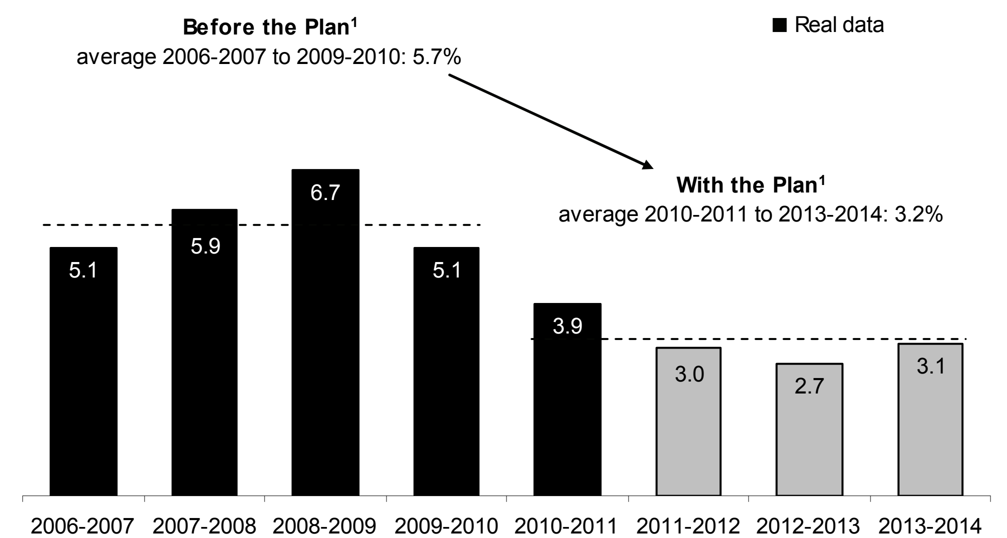
— 3.0% in 2011-2012;

— 2.7% in 2012-2013;

— 3.1% in 2013-2014.

CHART 4

Change in program spending growth including FORT and FINESSS
(per cent)



1 Plan to restore fiscal balance.

1 See page 84 in section 2 for more details on expenditure that includes FORT and FINESSS.

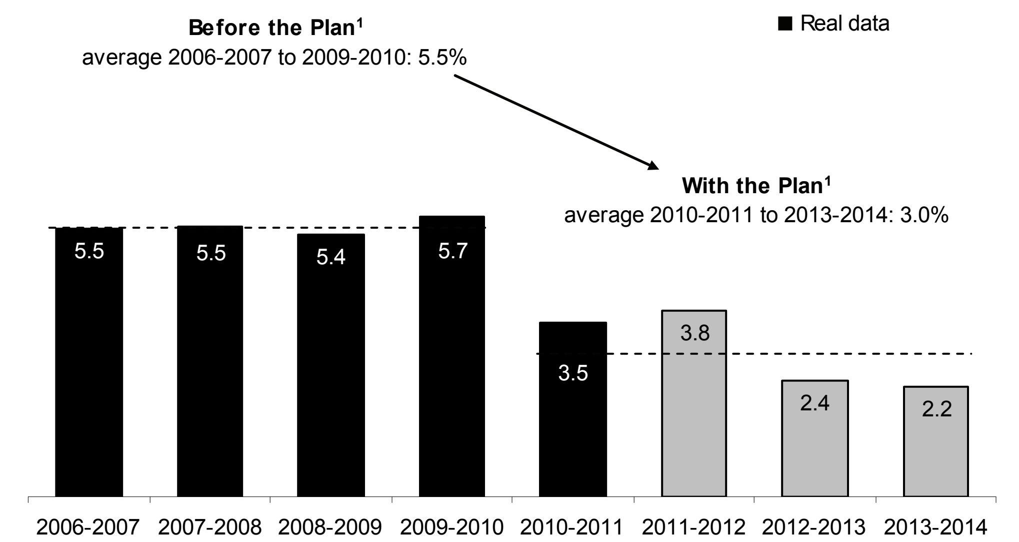
■ Change in consolidated expenditure excluding debt service

When account is taken of consolidated expenditure excluding debt service, i.e. overall spending by the government and its bodies, the results for 2010-2011 also reveal a significant downturn, i.e. growth of 3.5% as against 5.5% for the period 2006-2007 to 2009-2010.

Subsequently, spending growth will stand at 3.8% in 2011-2012, 2.4% in 2012-2013 and 2.2% in 2013-2014. For the period from 2010-2011 to 2013-2014 overall, average annual growth will reach 3.0%.

CHART 5

Change in consolidated expenditure growth excluding debt service
(per cent)



1 Plan to restore fiscal balance.

Regardless of the spending universe considered, the government has succeeded in slowing growth in such spending to contribute to the attainment of a balanced budget.

❑ Consolidated government expenditure

The following table indicates the amount and change in the components of consolidated expenditure, i.e. all public spending included in the government's reporting entity.

— In addition to program spending, consolidated expenditure includes, in particular, expenditure of the special funds, non-budget-funded bodies, establishments in the health and social services and the education networks as well as expenditure for debt service.

— As shown in the chart on the preceding page, growth in consolidated expenditure excluding debt service will average 3.0% from 2010-2011 to 2013-2014.

TABLE 5

Change in consolidated expenditure[1] – Fall 2011
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Program spending	**60 165**	**61 284**	**62 255**	**63 467**
% change	*3.1*	*1.9*	*1.6*	*1.9*
Special funds	**8 829**	**9 723**	**10 614**	**11 467**
% change	*2.2*	*10.1*	*9.2*	*8.0*
Non-budget-funded bodies	**15 818**	**16 464**	**17 263**	**17 631**
% change	*– 1.2*	*4.1*	*4.9*	*2.1*
Health and social services and education networks	**33 602**	**35 051**	**36 620**	**38 226**
% change	*4.8*	*4.3*	*4.5*	*4.4*
Specified purpose accounts	**1 758**	**1 697**	**1 397**	**1 177**
% change	*52.6*	*– 3.5*	*– 17.7*	*– 15.7*
Elimination of inter-entity operations	– 49 017	– 50 365	– 52 551	– 54 673
Consolidated expenditure excluding debt service	**71 155**	**73 854**	**75 598**	**77 295**
% change	*3.5*	*3.8*	*2.4*	*2.2*
Debt service				
Consolidated Revenue Fund	6 984	7 723	8 521	9 194
% change	*14.2*	*10.6*	*10.3*	*7.9*
Consolidated entities	1 951	2 132	2 333	2 560
% change	*13.0*	*9.3*	*9.4*	*9.7*
Consolidated debt service	**8 935**	**9 855**	**10 854**	**11 754**
% change	*13.9*	*10.3*	*10.1*	*8.3*
Consolidated expenditure	**80 090**	**83 709**	**86 452**	**89 049**
% change	***4.6***	***4.5***	***3.3***	***3.0***

1 Consolidated expenditure is presented by means of the same definition as that of the Public Accounts. The differences in relation to the consolidated expenditure of the government departments and organizations presented in the last Budget stem from the inclusion of expenditure of specified purpose accounts and the addition of the debt service of consolidated entities to that of the Consolidated Revenue Fund.

❑ Plan to restore fiscal balance - Follow-up on the effort made in 2010-2011

For the first year of implementation of the plan to restore fiscal balance, the budgetary effort totalled $2.8 billion in 2010-2011 and was shared by the government and the taxpayers. Through its expenditure control and efforts to combat tax evasion, the government will have achieved 65% of the effort, compared with 35% for taxpayers.

TABLE 6

Breakdown of the effort identified to achieve a balanced budget[1] – 2010-2011
(millions of dollars)

	Government				Taxpayers			
	Tax evasion	Public bodies	Government departments	Sub-total	Individuals[2]	Businesses and other	Subtotal	Total
Total effort	338	110	1 377	**1 825**	643	333	**976**	**2 801**
– Breakdown of the effort (%)	12.1	3.9	49.2	**65.2**	22.9	11.9	**34.8**	**100.0**

1 See the section devoted to the plan to restore fiscal balance for more details.
2 Including the health contribution.

❑ 2010-2011 results of the fight against tax evasion

The government has pursued its efforts to combat tax evasion. The efforts are part of the initiatives taken under the plan to restore fiscal balance and are contributing to ensuring that each individual pays his fair share of funding public services.

— In 2010-2011, Revenu Québec will recover $338 million, $18 million more than the target set for it.

INTRODUCTION

The government is tabling today the *Update on Québec's Economic and Financial Situation*, which presents the changes since the 2011-2012 Budget was tabled in March 2011 in:

- the economic outlook;
- the government's financial situation;
- follow-up on the plan to restore fiscal balance;
- follow-up on efforts to combat tax evasion.

The economic and financial forecasts presented in this document hinge on the latest data available that indicate that economic growth is continuing, despite lower growth prospects for 2011 and 2012. The government is closely monitoring the changing economic situation in order to deal with all contingencies.

It still intends to take the necessary steps to achieve a balanced budget in 2013-2014, in keeping with the *Balanced Budget Act*.

The tabling of this document reflects the government's commitment to make available to Quebecers information on the economic situation and public finances.[2]

2 The budgetary data for 2010-2011 indicated throughout the document are real, while those for 2011-2012 and 2012-2013 are forecasts and those for subsequent years are projections.

PART ONE:
QUÉBEC'S ECONOMIC OUTLOOK

1. QUÉBEC'S ECONOMIC OUTLOOK

This section presents the updated economic forecasts that underpin the government's financial framework.

❑ Québec has better withstood the recession than its main trading partners

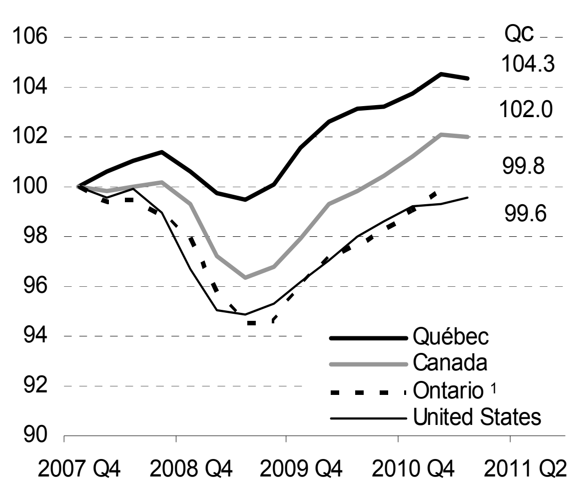
Québec's economic position compares favourably with that of its main trading partners. The vigour and pace of economic growth in Québec have exceeded those recorded by its partners since the last recession.

— Output has surpassed more quickly its pre-recession level. In relation to the fourth quarter of 2007, real GDP is 4.3% higher in Québec and 2.0% higher in Canada, but 0.2% lower in Ontario (first quarter of 2011) and 0.4% lower in the United States.

— Since the trough in employment in Canada in July 2009, 141 300 jobs have been created in Québec, twice as many as were lost during the recession. Since the fourth quarter of 2007, employment has risen by 2.7% in Québec, compared with 2.5% in Canada and 2.1% in Ontario. Employment is still 4.8% lower in the United States.

CHART 6

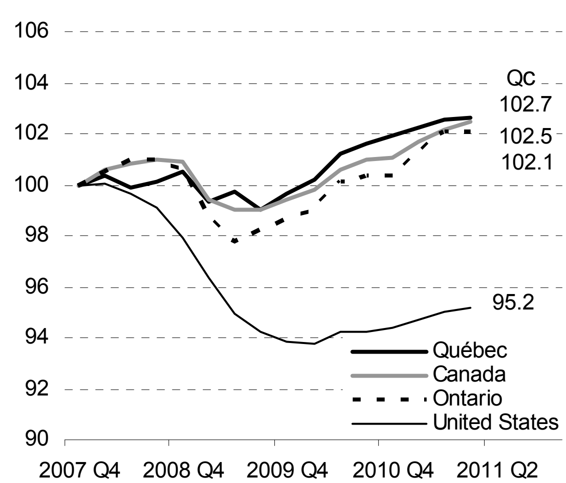
Evolution of real GDP
(index, 4th quarter of 2007 = 100)



1 Latest data available, first quarter of 2011.
Sources: Statistics Canada, Institut de la statistique du Québec, Ontario Ministry of Finance and IHS Global Insight.

CHART 7

Evolution of employment
(index, 4th quarter of 2007 = 100)



Sources: Statistics Canada and IHS Global Insight.

❑ Growth should continue in 2011 and 2012[3]

Despite a number of events that weighed heavily on the output of advanced economies and affected trade in 2011, growth in Québec should continue, but at a more moderate pace than anticipated in the 2011-2012 Budget.

Like its trading partners, Québec recorded moderate economic growth in 2011. After having risen by 2.9% in 2010, real GDP should increase by 1.6% in 2011, while a growth of 2.0% was anticipated at the time of the 2011-2012 Budget.

— Domestic demand has remained robust. The vigour of business investment, especially in the mining sector, has sustained economic activity and employment. Businesses have taken the lead from governments with respect to job creation and investment.

— The labour market continues to improve. Québec's unemployment rate is among the lowest in Canada and compares favourably with rates in the other advanced economies.

In 2012, real GDP should increase by 1.6%, while a growth of 2.2% was anticipated at the time of the 2011-2012 Budget. In 2013, growth should accelerate and reach 2.0%.

— The worldwide economic setting, although less favourable than anticipated when the Budget was tabled, should improve in the medium term and allow for higher growth.

— The labour market will continue to support economic activity. In 2012, 35 400 jobs should be created, compared with 54 100 jobs in 2011. The unemployment rate should stand at 7.6% on average in 2011, and remain at that level in 2012. By way of comparison, the unemployment rate for the first nine months of 2011 stood at 7.8% in Ontario, 7.5% in Canada and 9.0% in the United States.

TABLE 7

Economic growth in Québec
(real GDP, percentage change)

	2010	2011	2012	2013
Fall 2011 Update	**2.9**	**1.6**	**1.6**	**2.0**
2011-2012 Budget	3.0	2.0	2.2	2.3
Revision	– 0.1	– 0.4	– 0.6	– 0.3

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

3 In this section, unless otherwise indicated, data from 2011 and beyond are estimates from the Ministère des Finances du Québec.

1.2 The international economic setting

Worldwide economic growth expectations for 2011 are slightly below what was anticipated in the 2011-2012 Budget. Emerging economies have sustained global economic activity, while growth in advanced economies has been adjusted downward in relation to the Budget, despite strong growth in the first quarter of 2011.

While the conditions for a sustained recovery were in place, a series of shocks, including soaring oil prices, the impact of the earthquake in Japan, the aggravation of the sovereign debt crisis in the euro area and uncertainty surrounding the raising of the debt ceiling in the United States, affected growth starting in the spring of 2011.

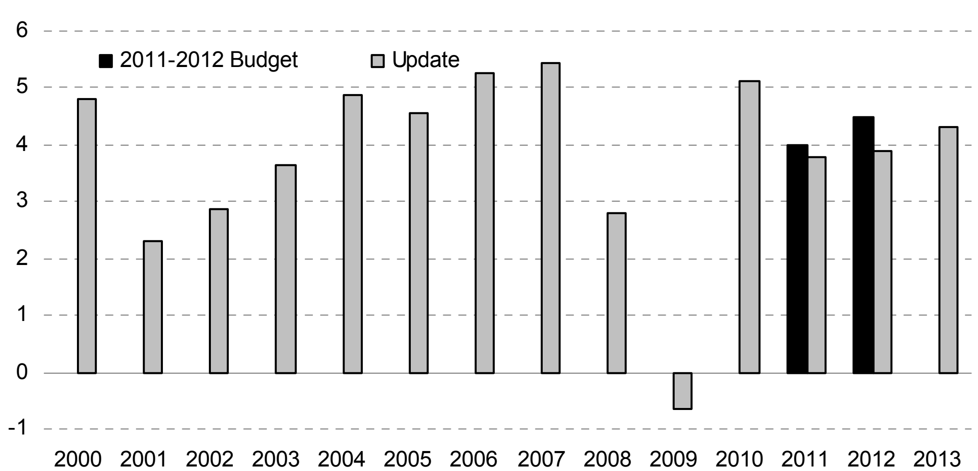
As the negative impact of certain of these factors dissipates, economic growth should gradually improve advanced economies, while it will remain sustained in emerging economies. The rebalancing of public finances, which is necessary in a number of advanced economies, will nonetheless limit their growth.

1.2.1 Prospects for 2011 and 2012

After reaching 5.1% in 2010, global economic growth should stand at 3.8% in 2011 and 3.9% in 2012. In relation to the 2011-2012 Budget, growth prospects have been adjusted downward by 0.2 and 0.6 percentage points for 2011 and 2012, respectively. In 2013, growth should firm up to 4.3%.

CHART 8

Global economic growth
(real GDP[1], percentage change)



1 Data based on purchasing power parity (April 2011).
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

1.2.2 Growth sustained by emerging countries

Since early 2011, the global economy suffered a series of shocks whose impact has been felt, above all, in advanced economies. Emerging economies, which account for 44.4% of global GDP, continued to grow at sustained rates.

- Growth in advanced economies should fall from 3.1% in 2010 to 1.6% in 2011, then rise to 2.0% in 2012 with the mitigation of the impacts of the adverse shocks that occurred in 2011.
- Growth in emerging economies, while remaining brisk, should slow slightly and decline from 7.4% in 2010 to 6.5% in 2011 and 6.0% in 2012, in particular due to the restrictive monetary measures adopted in certain countries to limit inflationary pressures.

TABLE 8

Global economic growth
(real GDP, percentage change)

	Weight[1]	**2010**	**2011**	**2012**
World[1]	100.0	5.1	3.8	3.9
- 2011-2012 Budget		*4.8*	*4.0*	*4.5*
Advanced economies[1]	50.9	3.1	1.6	2.0
- 2011-2012 Budget		*2.9*	*2.2*	*2.5*
Canada	1.8	3.2	2.1	2.1
- 2011-2012 Budget		*3.1*	*2.4*	*2.8*
United States	19.4	3.0	1.6	1.9
- 2011-2012 Budget		*2.8*	*2.9*	*3.0*
Euro area	14.1	1.8	1.6	1.0
- 2011-2012 Budget		*1.7*	*1.3*	*1.6*
United Kingdom	2.9	1.8	1.1	1.5
- 2011-2012 Budget		*1.3*	*1.5*	*2.0*
Japan	5.7	4.0	– 0.4	2.7
- 2011-2012 Budget		*3.9*	*1.1*	*1.5*
Emerging economies[1]	44.4	7.4	6.5	6.0
- 2011-2012 Budget		*7.2*	*6.2*	*6.6*
China	14.3	10.4	9.1	8.3
- 2011-2012 Budget		*10.3*	*9.0*	*8.7*
India	5.6	8.8	7.6	7.8
- 2011-2012 Budget		*8.6*	*8.0*	*8.3*

1 Data based on purchasing power parity (April 2011).
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

❑ Several shocks in 2011 have weakened advanced economies

The world economy began the year strongly but was subject to a series of shocks whose cumulative impact has appreciably slowed growth:

— the marked increase in the price of oil stemming from popular uprisings in the Middle East and North Africa decreased household purchasing power;

— the March 2011 earthquake in Japan caused shortages on several worldwide supply chains and thus affected the manufacturing sectors of many countries;

— the aggravation of the euro area sovereign debt crisis and the negotiations aimed at raising the debt ceiling in the United States undermined consumer and business confidence and exacerbated tensions on financial markets;

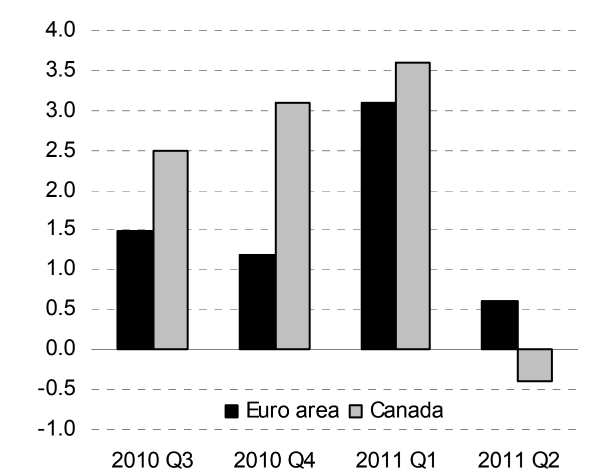
— under pressure from the financial markets, several euro area countries with significant economic weight, including Italy, Spain and France, adopted additional austerity measures.

These shocks affected advanced economies at a time when their economic situation was still vulnerable. Indeed, the severity of the 2008-2009 recession caused substantial job losses that most advanced economies have not yet recovered.

CHART 9

Quarterly economic growth

(real GDP, annualized growth rate)

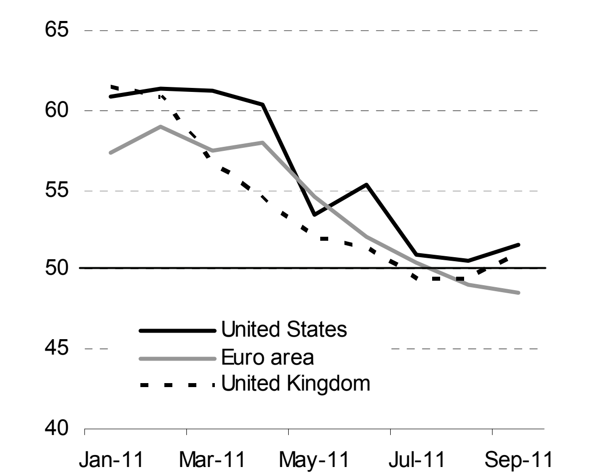


Sources: IHS Global Insight, Eurostat and Statistics Canada.

CHART 10

Purchasing Managers Index (PMI) for the manufacturing sector

(diffusion indices, monthly data)



Note: The PMI indicates expansion if it exceeds 50 and contraction if it falls below 50.
Source: Bloomberg.

❑ An improvement in growth of advanced economies, but at a slower pace than previously anticipated

The softening of the impact of these shocks and the maintenance of expansionary monetary policies will lead to a gradual improvement in growth in advanced economies, which should expand by 1.6% in 2011 and 2.0% in 2012.

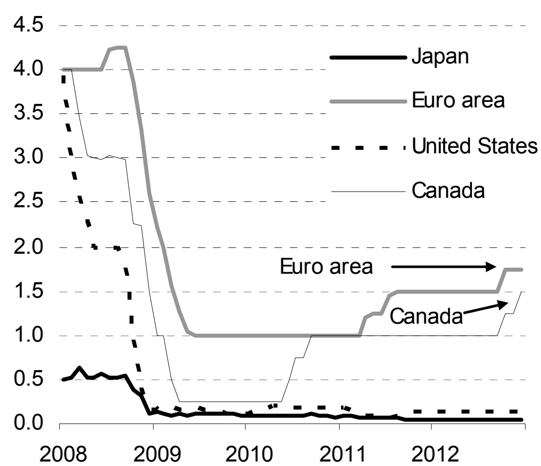
- The expansionary monetary policy of central banks should continue to support activity in advanced economies over the next two years, which will enable, in particular, businesses to obtain financing under advantageous conditions.
- The gradual reduction in financial tensions stemming from the euro area sovereign debt crisis should bolster the confidence of economic agents, while moderating energy prices will increase household purchasing power.
- Growth in the Japanese economy will strengthen in 2012 as a result of efforts to rebuild the area devastated by the consequences of the March 2011 earthquake.

Growth in advanced economies will nonetheless be restrained by the simultaneous implementation in several countries of budgetary consolidation measures aimed at reducing their significant deficits, and by the need to continue the restoration of households' balance sheets in the United States.

CHART 11

Evolution of key interest rates

(percent)



Sources: IHS Global Insight, Eurostat and Statistics Canada.

CHART 12

Growth in advanced economies

(real GDP, percentage change, data based on purchasing power parity)

Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

Intensification of the euro area sovereign debt crisis

The sovereign debt crisis continued to worsen in the euro area in 2011. Risk aversion grew in light of the financial difficulties faced by certain European governments. This considerably exacerbated financial tensions, thereby curtailing economic growth in the euro area in the coming quarters. The current scenario rests on the assumption that European authorities will implement the measures necessary to ensure financial stability in the euro area and support the European banking sector, which should gradually mitigate financial tensions in 2012.

The risk of Greece's insolvency has increased

The Greek government's substantial financial requirements are now covered by assistance granted by the European Union and the International Monetary Fund (IMF). The assistance is conditional to the attainment of specific budgetary targets that the Greek government is finding difficult to meet.

- The Greek government faces an unsustainable trend in its debt, which should reach 165.6% of GDP in 2011 according to the IMF. As a consequence, the distrust of investors for Greek debt has strongly increased, thereby raising the yield on two-year Greek bonds above 70% in September 2011, a historic high.

At the same time, the bonds of the Portuguese and Irish governments, which benefit, as does Greece, from European Union and IMF support, are also under pressure.

Confidence in Spanish and Italian governments bonds has also been shaken

Even if they are in a better position than the Greek, Irish and Portuguese governments, the Spanish and Italian governments are also financially frail.

- Italy's public debt stood at 119% of GDP in 2010. In Spain, public finances have markedly deteriorated. The budget balance went from a surplus of 1.9% of GDP in 2007 to a deficit of 9.2% of GDP in 2010.

Against the current backdrop of strong risk aversion, the financial position of the Spanish and Italian governments is worrying investors, which recently led to an increase in financing costs for these governments.

Fears concerning the solidity of European banks are growing

Investors' fears concerning the solvency of Greece, Portugal, Ireland, Spain and Italy are destabilizing European banks. According to the Bank for International Settlements, the exposure of European banks to these countries is estimated to US$2 200 billion.

- The increase in the yields of government securities targeted by financial markets has led to a reduction in the price of these securities, which has engendered significant book losses for European banks. Default by one of the countries at risk would considerably increase these losses.

Financial tensions are slowing down the European economy

In addition to reducing the confidence of economic agents, financial tensions are leading governments to adopt additional budgetary consolidation measures, which is further curbing domestic demand.

- Moreover, because of the simultaneous adoption of austerity measures in several advanced economies, external demand in the euro area is also slowing.

Support measures by European authorities for financially fragile governments

Given the seriousness of the issues posed by the sovereign debt crisis, the European Union, the IMF and the European Central Bank have announced several measures to support governments and banks.

- The European authorities have agreed to grant €159 billion in additional assistance to Greece and to broaden the powers of the European Financial Stability Facility, allowing it to finance not only loans to governments at risk of insolvency, but also the recapitalization of banks and the purchase of European governments bonds.

❑ Global growth sustained by emerging economies

Emerging economies should remain the mainspring of worldwide economic activity in 2012, and advanced economies will benefit from demand from these countries. Growth in emerging economies should reach 6.5% in 2011 and 6.0% in 2012.

— The growing support provided by emerging economies to worldwide economic activity is an underlying trend. Their weight in the global economy has grown steadily over more than a decade, from 34% in 2000 to 44% in 2011.

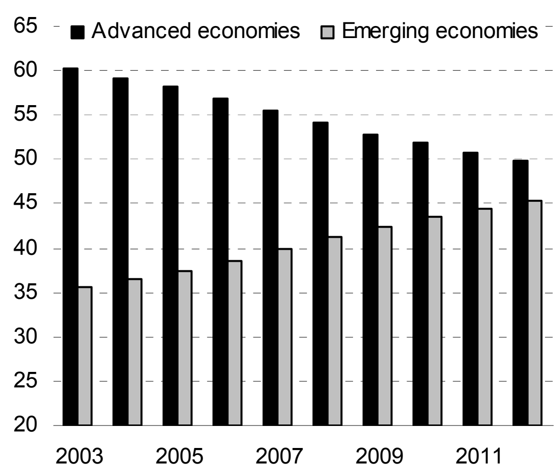
Emerging economies are also becoming less vulnerable to weakening demand from advanced economies. They are engaging in broader trade among themselves and their domestic demand is strengthening.

The vigorous development of China's domestic market explains a significant part of this synergy between emerging economies.

— Chinese domestic demand has grown at an annual rate of over 8% since 2005, which is generating demand for products manufactured abroad and bolstering commercial links between emerging economies.

CHART 13

Share of emerging and advanced economies in global GDP
(percent of nominal GDP, data based on purchasing power parity)

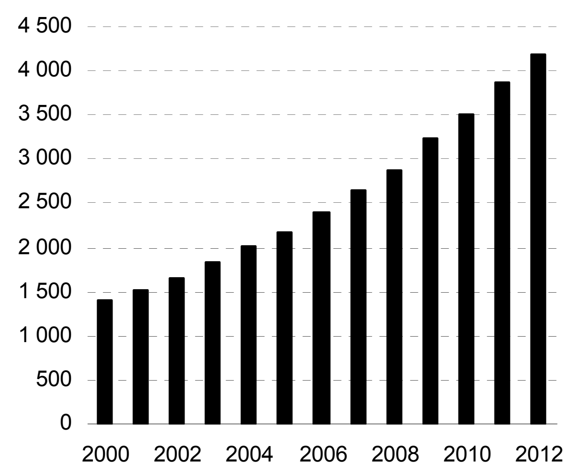


Sources: IHS Global Insight, International Monetary Fund (April 2011) and Ministère des Finances du Québec.

CHART 14

Evolution of China's domestic demand

(real gross domestic demand, in billions of US dollars)



Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ Economic outlook by country

In **Canada**, growth in real GDP should reach 2.1% in 2011. Vigour in domestic demand in the first half of 2011, driven especially by a substantial upswing in business investment, will support the Canadian economy. In 2012, growth in real GDP should remain at 2.1%. While weaker than forecasted in the Budget, the external sector should nonetheless contribute positively to growth and thus partly offset the anticipated downturn in domestic demand.

In the **United States**, economic growth will strengthen slowly, to average 1.6% in 2011 and 1.9% in 2012. Economic activity should be sustained in particular by demand from emerging economies, which will foster growth in investments and, more gradually, in employment. Growth in consumption should be modest since American households will continue to rebalance their finances.

In the **euro area**, real GDP should rise by 1.6% in 2011. Most of the growth will stem from vigour in economic activity in the first quarter of the year, especially in Germany and France. In 2012, economic growth in the euro area should slow to 1.0% because of austerity measures which, combined with high unemployment, should weigh on consumer spending.

In the **United Kingdom**, economic activity is limited by the implementation of several budgetary austerity measures, including significant layoffs in the public sector. Furthermore, inflation is high and households are heavily indebted. Accordingly, growth will stand at 1.1% in 2011, and rise to 1.5% in 2012, stimulated by spending generated by the Olympic Games.

In **Japan**, the economy was affected in the first half of 2011 by the consequences of the earthquake, including the accident that occurred in the nuclear power plant of Fukushima. Since then, businesses have resumed production. However, the strength of the yen is curbing recovery in exports. Real GDP should decline by 0.4% in 2011, but growth should revive to 2.7% in 2012 because of the government's reconstruction efforts in devastated areas.

China should record a real GDP growth of 9.1% in 2011 and 8.3% in 2012. The slight decrease in growth in 2012 is due to restrictive monetary measures and lower growth in exports to the euro area and the United States, following the economic slowdown in these regions. The Chinese economy should nonetheless continue to play a key role among emerging economies.

1.2.3 Risks related to the economic forecast

The events that occurred in 2011 mitigated economic growth, above all in advanced economies, although certain fundamentals of the global economy remained positive.

The current economic scenario assumes a gradual upturn in growth in advanced economies and the persistence of sustained growth in emerging economies. It nonetheless hinges on several assumptions, some of which are subject to significant negative risks.

❑ An accentuation of the sovereign debt crisis in Europe, whose effects could spread to the real economy

The ability of European authorities to adopt measures that ensure financial stability in the euro area is limited by the complexity of decision-making mechanisms in this economic and monetary union.

— The parliaments of each of the member states in the euro area must approve any amendment to the European Financial Stability Facility, the main source of support offered by governments in the euro area.

Were the financial position of other European countries to worsen or pressure on markets for government securities to increase, the difficulty for European authorities to act promptly might exacerbate tensions on financial markets and mitigate economic growth.

— A drop in the value of bonds in several of these countries could expose the European banking sector to substantial losses, resulting in credit restrictions.

The difficulties facing the European financial system could ultimately spread to the financial system and the global economy.

— European businesses, whose financing relies extensively on borrowing from banks, would suffer the impact of a credit squeeze, which would result in a reduction in hiring and investment and a decrease in euro area countries' demand for foreign products. These impacts could ultimately spread to the world economy.

— Moreover, the difficulties facing the European financial system could spread to other advanced economies because of the significant exposure of several major foreign banks to European banks.

❑ An extended pause in economic growth in the United States

Since early 2011, economic growth in the United States has been weaker than anticipated, which makes the US economy vulnerable to shocks that could further dampen recovery, such as:

— the implementation by American governments of more extensive budgetary consolidation measures than anticipated;

— prolonged stagnation in the labour market, which would undermine consumer spending, the latter accounting for roughly 70% of the US GDP;

— further deterioration in worldwide economic conditions, which would slow American exports and business investment, which are now two leading contributors to growth in the US economy.

❑ Slower than anticipated growth in emerging economies

Sluggish demand from advanced economies will mitigate growth in emerging economies through exports and investment, especially in Asian economies, which rely largely on trade. Emerging economies could record a more substantial than anticipated moderation in their growth, because of:

— ongoing volatility on financial markets, which could affect their real economy. Emerging economies are increasingly integrated into global markets and have also experienced growing tensions on financial and exchange markets;

— a marked slowdown in foreign capital inflows, if global growth prospects were to worsen further or if the banking system of advanced economies faced major difficulties pertaining, in particular, to European banks.

In addition, China's financial position is subject to specific issues. The economic support plan that the Chinese government adopted in 2008 led to a rapid increase in credit. The Chinese banking sector could be weakened by its exposure to the real estate sector and the debt of local governments.

1.3 The situation of Québec's main economic partners

Québec's economy is open to the world. While Québec has diversified trade in recent years, Canada and the United States are its main trading partners and their economic situation significantly affects the evolution of the Québec economy. The following sections focus on the economic outlook in the United States and Canada.

1.3.1 The situation in the United States

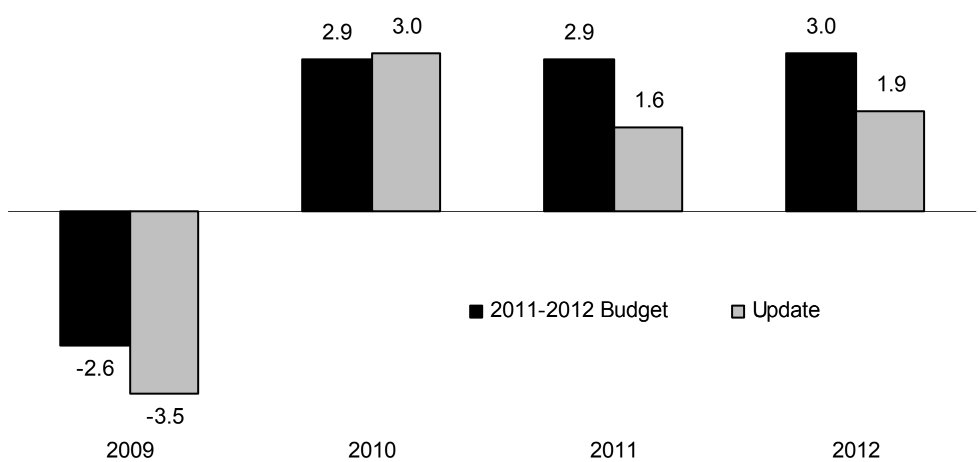
❑ Modest growth in the coming quarters

After reaching 3.0% in 2010, real GDP should grow by 1.6% in 2011 and 1.9% in 2012. This marks a downward adjustment of 1.3 percentage point and 1.1 percentage point respectively from the forecasts in the 2011-2012 Budget.

Growth in the US should continue at a modest pace until the end of 2011, then gradually revive as the impact of temporary factors that have curtailed growth in the American economy since the beginning of the year abate.

CHART 15

Economic growth in the United States
(real GDP, percentage change)



Sources: IHS Global Insight and Ministère des Finances du Québec.

In 2012, economic growth in the US should be sustained by demand from emerging economies for American products. This will foster business investment, a gradual upturn in employment and the continuation of income growth, thereby allowing for a gradual acceleration in household spending.

Economic activity in the US will nonetheless be limited by modest growth in consumption, at a time when the financial position of households remains precarious and the unemployment rate is high, as well as by the stagnation in the real estate sector and the fiscal consolidation by governments.

■ An economy weakened by the last recession

On July 21, 2011, the Bureau of Economic Analysis published the annual historic revision of US national accounts. The revisions reveal that the US economy is much more fragile than initially estimated.

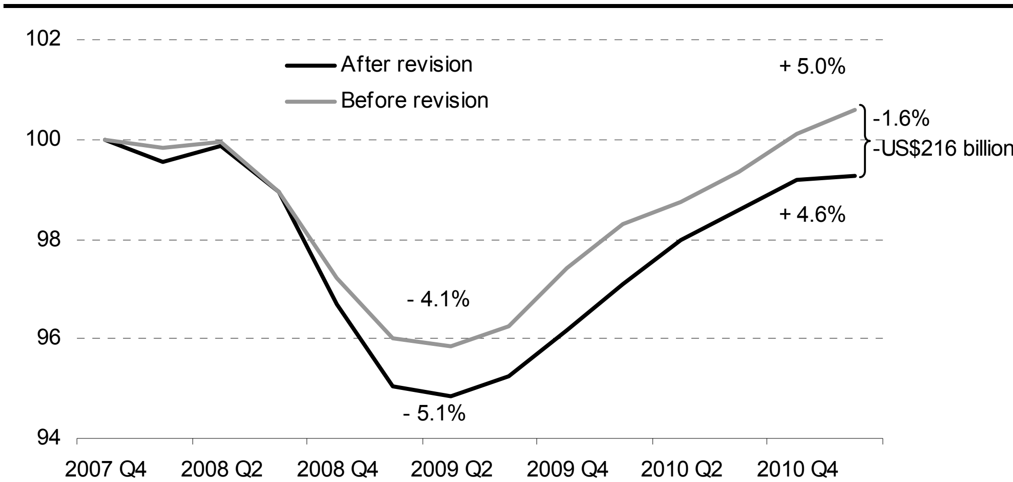
— The new data show that the downturn in economic activity during the last recession was greater and that the recovery was weak in 2010.

— Following this revision, real GDP is 1.6% lower, a US$216 billion difference with previous estimates.

These statistical revisions explain to a large extent the lower growth anticipated in 2011. Furthermore, temporary factors such as the marked increase in oil prices, which reduced the purchasing power of American households, and the bargaining that led to the raising of the debt ceiling, increased the weakness of the US economy in 2011.

CHART 16

A substantial revision of economic activity
(real GDP, index, 4th quarter of 2007 = 100)



Sources: Bureau of Economic Analysis and Ministère des Finances du Québec.

■ **Robust demand for American products**

Since the last recession, the American trade deficit has gradually declined, as growth in exports has exceeded that in imports. Indeed, after reaching a peak of 5.7% of GDP in real terms in 2005, the trade deficit stood at 3.2% of GDP in 2010.

- The continuation of this trend in the coming years should help to support economic activity.

Accordingly, the trade deficit should fall to 3.1% of GDP in 2011 and continue to decline in 2012, to 2.7% of GDP. This improvement in the trade balance will be fostered by sustained demand from emerging economies and the depreciation of the US dollar in relation to certain Asian currencies.

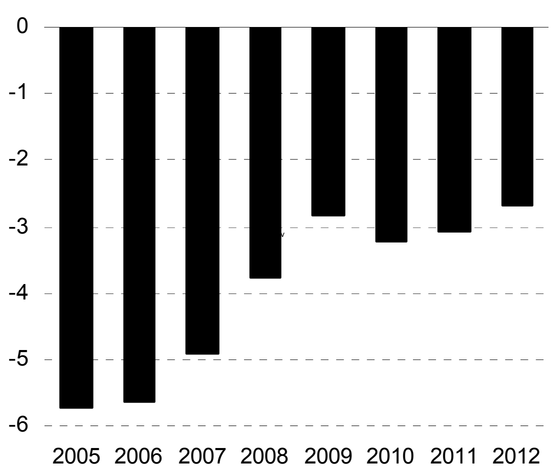
- Growth in emerging economies and the relative weakness of the US dollar will increase demand for American products.

- Furthermore, slow growth in US domestic demand should curtail growth in American imports in the coming years.

The external sector should thus be a driver of growth in the United States in the coming years. Real exports should rise by 7.3% in 2011 and 7.1% in 2012, while real imports will increase by 5.2% in 2011 and 3.7% in 2012.

CHART 17

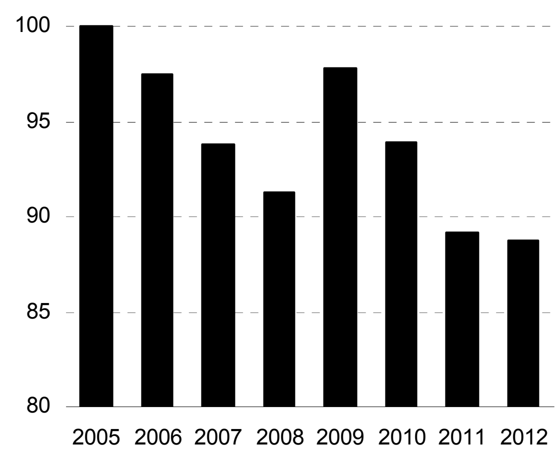
Trade deficit
(as a percent of GDP, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART 18

US dollar exchange rate
(index[1], 2005 = 100)



1 Index weighted by trade with the main trading partners, including several emerging economies.
Sources: IHS Global Insight and Ministère des Finances du Québec.

❑ An increase in investment and a gradual improvement in employment

Since the end of the recession, American businesses have considerably increased investment, which has enabled them to increase output to satisfy growing demand. However, this demand has not been sufficient to generate a robust increase in employment, which has experienced anaemic growth.

The growth in business investment observed since the beginning of the year should continue. The sound financial position of businesses, favourable financing costs and broader outlets for American products will support solid growth in investment in the coming years. It should reach 7.6% in 2011 and 5.3% in 2012.

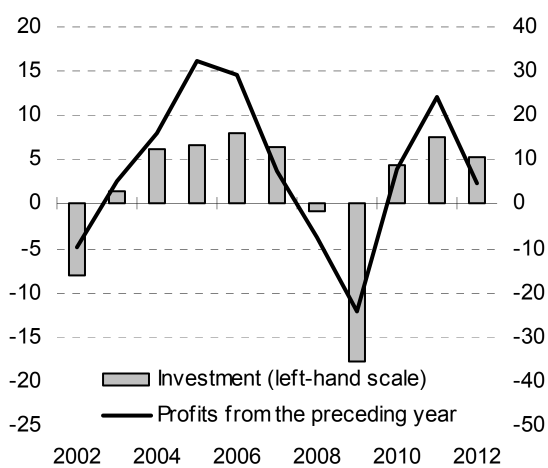
Furthermore, the ability of American businesses to increase output by enhancing their production processes should be more limited henceforth, which will lead to a gradual increase in hiring.

— Moreover, if fully adopted by the Congress, the American Jobs Act could help to create roughly 1.9 million jobs.

The labour market added 59 000 jobs a month, on average in 2010, and should record an average monthly creation of 122 000 jobs in 2011 and 182 000 jobs in 2012. However, this will be insufficient to substantially reduce the unemployment rate, which reached 9.6% in 2010 and should stand at 9.1% in 2011 and 9.0% in 2012.

CHART 19

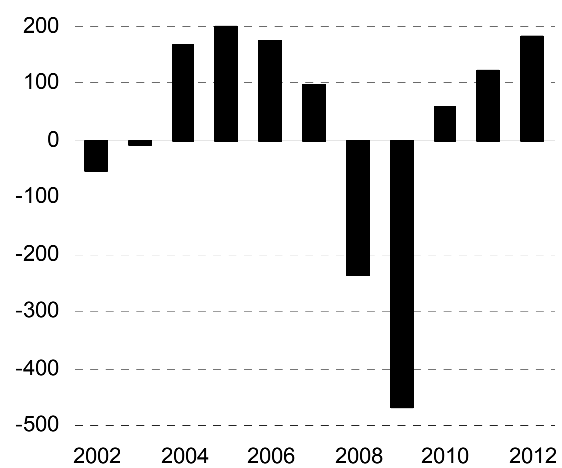
Profits and investment
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART 20

Job creation
(average monthly change, in thousands)



Sources: IHS Global Insight and Ministère des Finances du Québec.

The American Jobs Act

On September 8, 2011, US President Barack Obama outlined to Congress the *American Jobs Act*. This US$447 billion jobs plan (equivalent to 3% of GDP) includes the main measures outlined below.

The expansion and extension of the reduction in social security contributions collected on wages, which would result in US$175 billion in tax reductions

– In December 2010, the social security contribution rate paid by wage earners was lowered by 2 percentage points, from 6.2% to 4.2%. This measure will expire in December 2011.

– The new plan includes a 50% reduction in the contribution rate of wage earners to social security, which would stand at 3.1% in 2012.

The adoption of new tax reductions for small businesses, worth US$70 billion

– Employers and wage earners contribute equally to social security contributions. The plan calls for a 50% reduction in employers' contribution, which would fall from 6.2% to 3.1% of the salaries paid.

– Moreover, employers would not have to contribute to social security on the additional salary expenditures stemming from the hiring of new employees or from salary increases.

Funding for infrastructure investments and the maintenance of teachers' positions will engender US$140 billion in spending

– The new spending would be largely allocated to the renovation of transportation infrastructure and schools.

– In addition, the plan would help US states rehire teachers who were laid off in order to absorb their deficits and maintain the jobs of the remaining teachers.

Support for the unemployed, worth US$62 billion

– Most of the support will cover the renewal of the maximum period for receiving unemployment insurance benefits.

– Prior to the recession, unemployment insurance benefits were payable for a maximum of 26 weeks. This period was then extended to 99 weeks. The extension of the eligibility period expires in December 2011. The plan proposes to renew it until December 2012.

IMPACT OF THE JOBS PLAN

Of the US$447 billion, at least 70% would be injected into the economy in 2012. A portion of the measures implies the extension of the support offered in 2011. However most of the funding under the jobs plan (over 60%) consists in measures aimed at injecting new funds into the economy.

Under the plan, the government hopes to boost consumption and thus shore up the confidence of businesses in the solidity of domestic demand.

– Congress will debate the jobs plan in the fall. It will probably spark lively debates.

– If it is adopted in its entirety, the plan proposed by the US administration could lead to a notable acceleration in job creation in 2012.

JOBS PLAN – THE MEASURES PROPOSED
(billions of US dollars)

Expansion and extension of the tax reduction on wages	175
Tax reduction for small businesses	70
Renovation of infrastructure and retention of teachers	140
Support for the unemployed	62
Total	**447**

Source: Office of Management and Budget.

■ The financial situation of households is curtailing consumption

The financial situation of households deteriorated markedly during the recent recession, which curtailed consumer spending.

Since then, there has been a modest rebound in consumption. In addition to experiencing a considerable drop in their wealth during the recession, households had to contend with the sluggish recovery in the labour market, which kept the unemployment rate high and reduced wage growth. These factors have limited growth in personal consumption spending, which remains below the levels observed in 2006.

The following factors will nonetheless sustain such spending in 2011 and 2012:

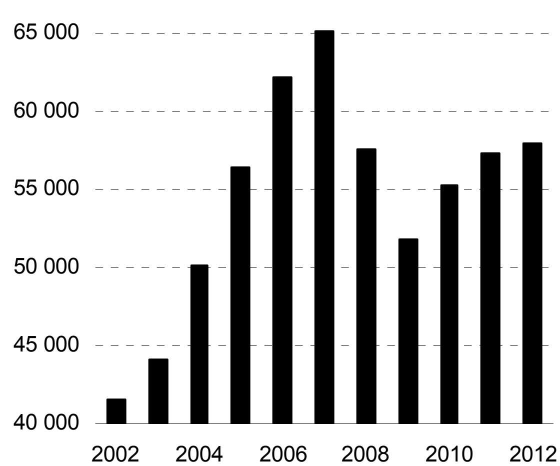
— the gradual improvement in conditions on the labour market, which should spur a growth in real personal income of 2.8% in 2011 and 2.5% in 2012;

— growth in the wealth of households and the gradual reduction in coming quarters of uncertainty about the economic environment, which will foster the gradual restoration of consumer confidence.

Accordingly, household spending should experience a modest growth of 2.1% in each of the years 2011 and 2012, after having registered an increase of 2.0% in 2010. In the medium term, when the debt load of households has sufficiently declined, consumption growth should accelerate.

CHART 21

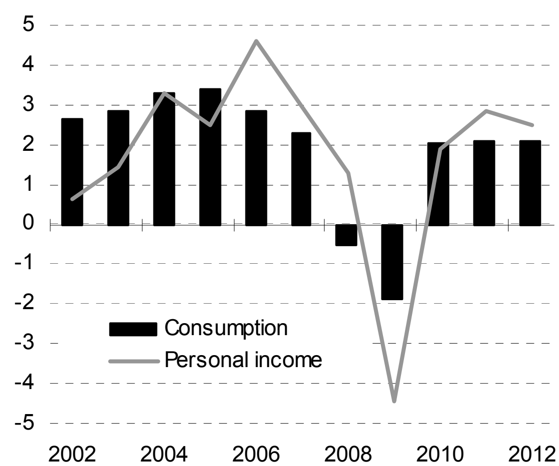
Net household wealth
(billions of US dollars)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART 22

Personal consumption and income
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

■ Fiscal consolidation by governments and the persistence of problems in the real estate sector will dampen growth

In the coming years, the continuation of fiscal consolidation by the state and local governments, as well as the need to reduce the federal government's deficit (8.8% of GDP in 2011) should limit the government's contribution to economic activity.

— Government spending rose by 0.7% in 2010 and should decline by 2.4% in 2011 and 2.5% in 2012, which will cut 0.5 percentage point from economic growth for each of these years.

In addition, recovery in the real estate sector has failed to materialize. The significant number of homes being repossessed and the lacklustre demand for properties are causing prolonged stagnation of construction starts.

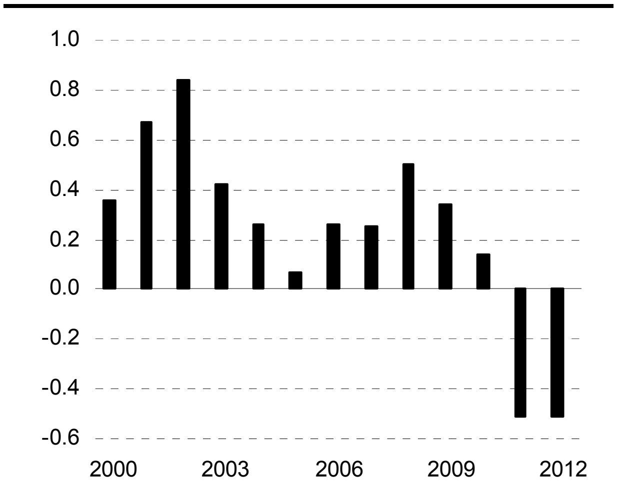
— Construction starts should hover around 610 000 units per year in 2011 and 2012, one-third the pre-recession level, and then accelerate starting in 2013.

All things considered, the residential sector should experience two more difficult years before it begins to recover in the wake of the reduction in the surplus of homes for sale, which now stands at 3.6 million units, and the acceleration of job creation. In 2011, residential investments should decline by 1.1%, the sixth consecutive year of contraction, then increase by 5.6% in 2012.

CHART 23

Contribution of government spending to economic growth

(percentage points of real GDP)

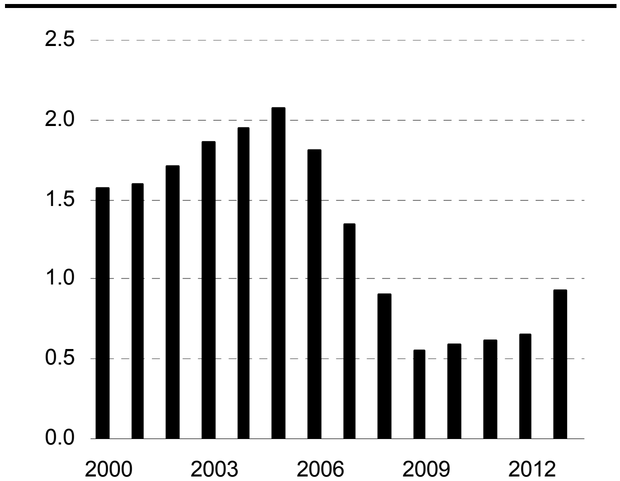


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART 24

Construction starts

(millions of units)



Sources: IHS Global Insight, Datastream and Ministère des Finances du Québec.

1.3.2 The situation in Canada

Growth in Canada's real GDP should slow from 3.2% in 2010 to 2.1% in 2011, a 0.3 percentage point downward adjustment in relation to the 2011-2012 Budget forecasts.

— The contribution of the external sector should be negative in 2011. However, growth in household income and the sound financial position of businesses will support domestic demand.

In Canada, as in most advanced economies, after a vigorous first quarter (+ 0.9% compared to the preceding quarter), economic activity slowed appreciably in the second quarter of 2011 (– 0.1%).

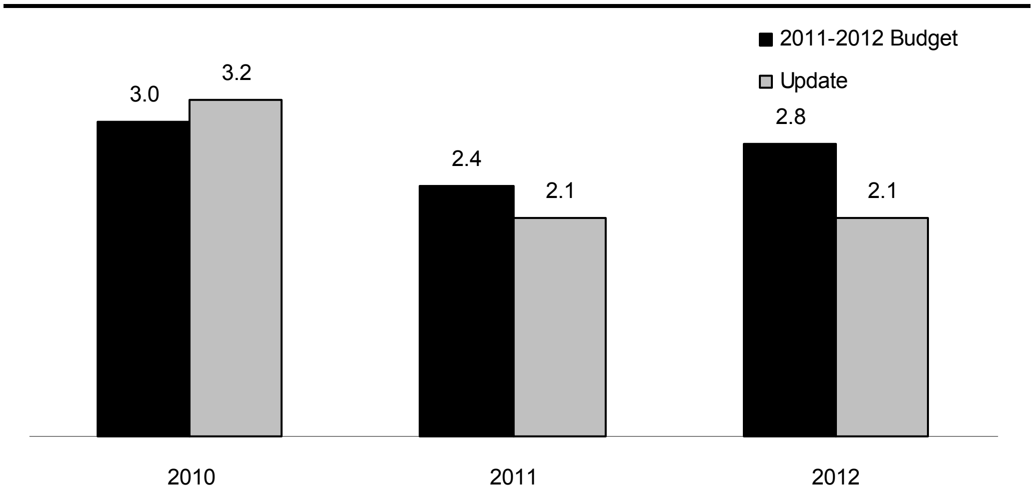
— Canada thus absorbed the impact of the economic downturn in Japan following the March 2011 earthquake, the slow recovery in the United States, and the financial turbulence in the euro area.

In the second half of 2011, the effects of these temporary shocks should dissipate and thus promote a return to economic growth. In 2012, growth should continue to lean on domestic demand. Businesses will continue to contribute to growth through investment, but their contribution will be limited because of their caution given the worldwide economic uncertainty and the slower growth in their exports.

— In 2012, growth in real GDP should reach 2.1%, a downward adjustment of 0.7 percentage point compared to the 2011-2012 Budget.

CHART 25

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Employment and personal consumption

The labour market should continue to support consumption in 2011 and 2012, but less vigorously than in 2010.

— Employment should increase by 1.6% in 2011 and 1.2% in 2012.

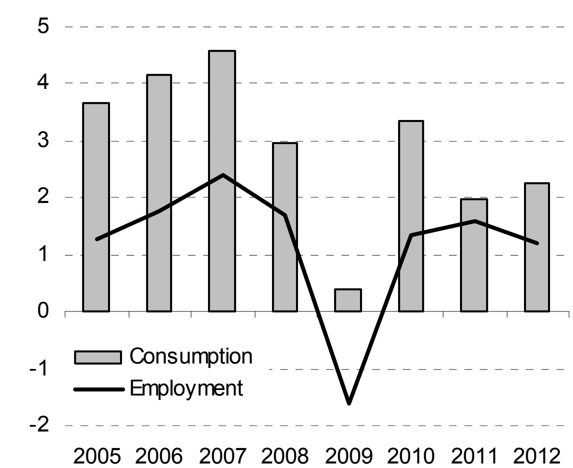
The personal consumption of Canadian households will rise in real terms by 2.0% in 2011 and 2.3% in 2012, following a 3.3% upturn in 2010.

— The slowdown in consumer spending in early 2011 stems, by and large, from temporary factors such as higher fuel prices in late 2010 and the unavailability of certain automobile models on the Canadian market in the wake of the earthquake in Japan.

— The Canadian Consumer Confidence Index nonetheless stands below pre-recession levels, at 75 points in September 2011.

CHART 26

Employment and real consumer spending in Canada
(percentage change)

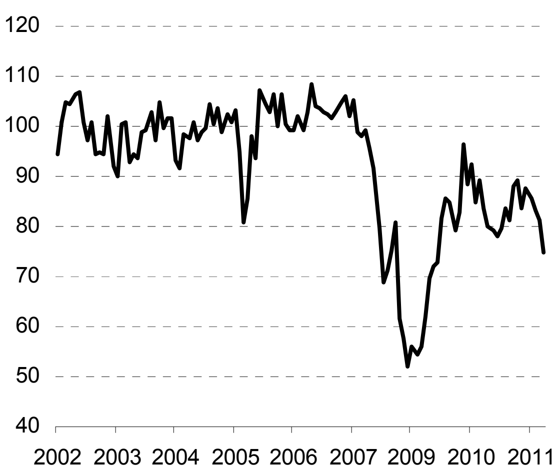


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART 27

Canadian consumer confidence

(index, 2002 = 100)



Source: Conference Board of Canada.

❑ Non-residential business investment

Non-residential business investment picked up by 7.3% in 2010 and should continue to grow by 12.0% in 2011, before slowing to 3.8% in 2012.

— Non-residential investment by Canadian businesses continued to grow at a sustained pace in the first half of 2011, in particular because of low interest rates and the strength of the Canadian dollar, which encouraged machinery and equipment imports.

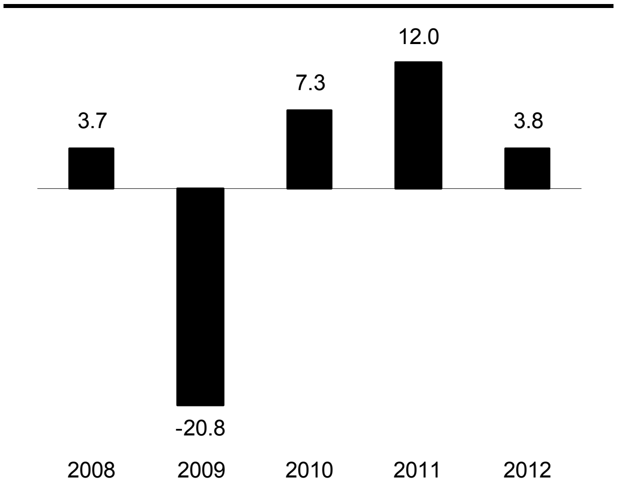
Moreover, robust growth in investment in 2011 should be supported by the energy sector, where investment continues to grow this year.

On the other hand, business investment should slow in 2012 because of low industrial capacity utilization.

— The industrial capacity utilization rate has risen since the end of the recession but remained fairly low, at 79% in the first half of 2011, compared with an average of 84% between 2003 and 2006.

CHART 28

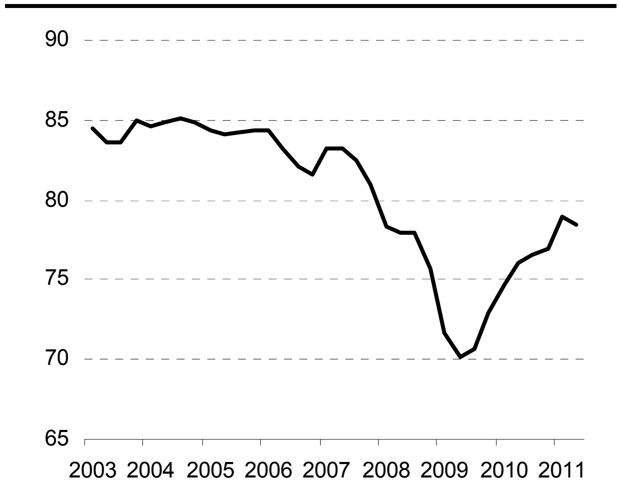
Canadian non-residential business investment
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART 29

Industrial capacity utilization rate in Canada
(percent)



Source: Statistics Canada.

❑ Exports

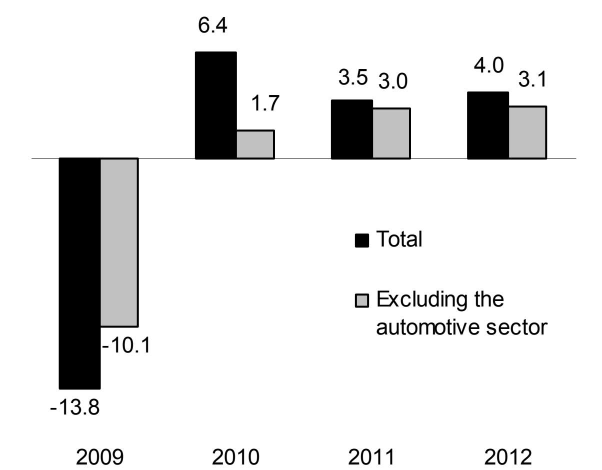
Canadian exports, which surged by 6.4% in 2010, should only grow by 3.5% in 2011, mainly because of the anticipated slowdown in the automotive sector and sluggish growth in exports to the United States.

— Energy exports contributed to growth in exports in 2011. They benefited from the extension of the Keystone pipeline that carries crude oil from Alberta to Cushing, Oklahoma.

After the sharp recovery in 2010, exports in the automotive sector will experience a more moderate growth in 2011, similar to that of automobile sales in the United States. Excluding the automobile sector, Canadian exports should increase by 3.0% in 2011. In 2012, total exports should rise by 4.0%, while exports excluding the automotive sector will grow by 3.1%.

CHART 30

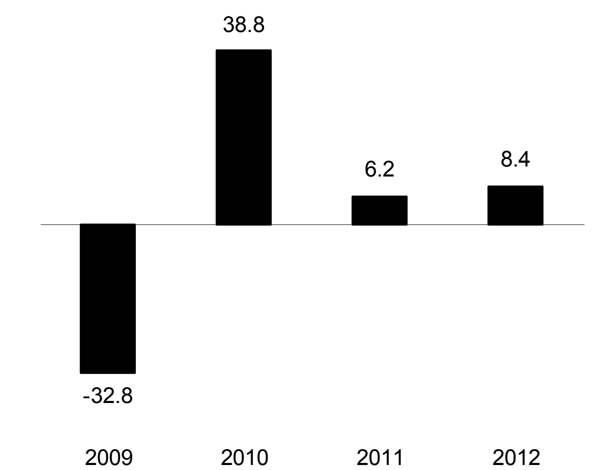
Canadian exports
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART 31

Automobile exports from Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ The Bank of Canada will remain accommodative

Against a backdrop of widespread uncertainty, the Bank of Canada should keep the overnight target rate at its current level of 1.0% for several months. Indeed, the Bank indicated in its September 2011 statement that the need to reduce monetary easing has diminished.

This perspective stems from several factors, such as the announcement by the US Federal Reserve System that it will maintain its target rate at an exceptionally low level at least until mid-2013, negative growth in Canada in the second quarter of 2011, a reduction in world growth prospects, and greater volatility and tensions on financial markets.

The Bank of Canada should therefore tighten its monetary policy only very gradually, starting in late 2012. It is anticipated that the target rate will stand at 1.5% in late 2012, still an expansionary level, and average 1.1% in 2012. The rates on 3-month Treasury Bills will also rise gradually, to average 1.1% in 2012.

On the bond market, uncertainty with respect to growth in advanced economies and the euro area sovereign debt crisis has led to a sharp drop in rates. For 2011, overall, the rate on 10-year federal bonds should reach 2.9%, compared with an average of 3.2% in 2010.

Bond yields should increase gradually in 2012 in response to the gradual reduction in tensions on financial markets and to the continuation of economic recovery. The yield on 10-year federal government bonds should also rise gradually, to average 3.0% in 2012.

TABLE 9

Canadian financial markets
(average annual rates, in percent)

	2010	**2011**	**2012**
Target for the overnight rate	0.6	1.0	1.1
- *2011-2012 Budget*	*0.6*	*1.3*	*2.6*
Treasury Bills – 3-month	0.6	0.9	1.1
- *2011-2012 Budget*	*0.6*	*1.4*	*2.7*
Bonds – 10-year	3.2	2.9	3.0
- *2011-2012 Budget*	*3.2*	*3.6*	*4.6*

Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Reduced demand for oil stemming from a more moderate growth

The price of a barrel of Brent crude oil rose markedly in early 2011 and peaked in April at US$123, its highest level since July 2008, when it had briefly passed the US$146 mark.

This increase was spurred by popular uprisings in the Middle East and North Africa in early 2011, including the conflict in Libya, high growth in emerging economies, and what seemed to be the prospects of a vigorous recovery in several advanced economies.

The upward trend reversed in the second quarter of the year, hampered by lower worldwide growth prospects stemming from a disappointing performance of the US economy and tensions related to the European sovereign debt crisis.

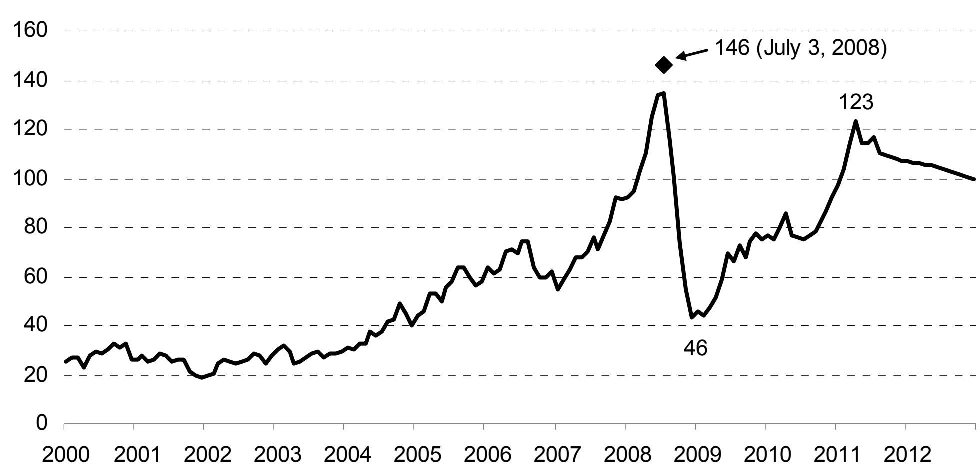
— Global demand for oil should continue to rise, but at a more moderate pace in the second half of 2011 and in early 2012.

Oil supplies should rise slightly with the increase in overall production in OPEC member countries and in other countries such as China and Canada, as well as the gradual restoration of Libyan oil exports.

— The price of a barrel of Brent crude oil should average US$111 in 2011 and US$104 in 2012.

CHART 32

Price of Brent crude oil
(US dollars per barrel, monthly average)



Sources: Bloomberg and Ministère des Finances du Québec.

❑ The Canadian dollar

From early 2011 until late August, the Canadian dollar continued its upward trend begun in 2010 and appreciated to US$1.02, a 7.8% increase from the same period last year. It thus enjoyed its longest period above parity in its recent history. The appreciation stems in particular from:

— robust demand from emerging economies for Canadian commodities;

— higher interest rates in Canada than in the United States, a reflection of Canada's more restrictive monetary policy.

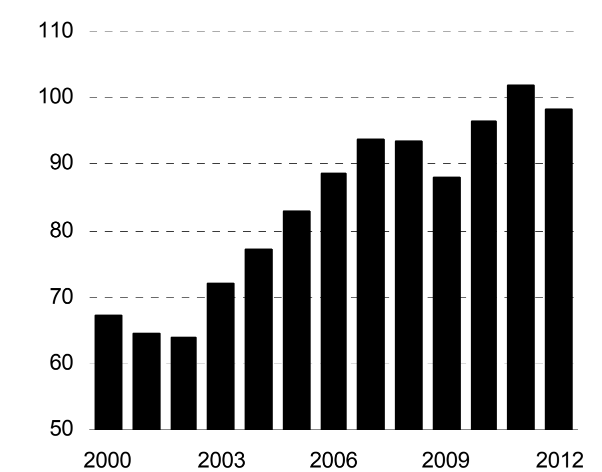
However, the loonie recently entered a period of depreciation in response to worldwide economic and financial uncertainty. Indeed, a downturn in the price of commodities, especially non-energy commodities, whose price should fall by 11.4% in 2012 in relation to the high levels recorded in 2011, will weigh on the value of the Canadian dollar in the coming years.

The Canadian dollar should stand, on average, to 101.8 US cents in 2011. It should slightly depreciate in 2012, to nearly 98.3 US cents.

— Tensions on financial markets and uncertainty related to worldwide economic growth should, however, continue to cause wide fluctuations in the Canadian dollar exchange rate.

CHART 33

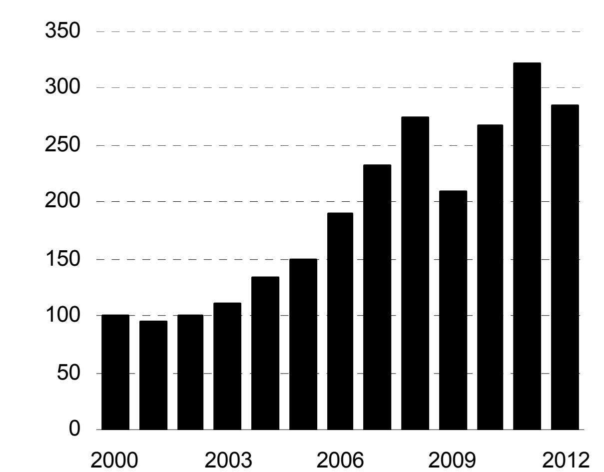
Canadian dollar exchange rate
(in US cents)



Sources: Bank of Canada and Ministère des Finances du Québec.

CHART 34

Price of non-energy commodities
(index, 2000 = 100)



Source: World Bank.

1.4 The economic situation in Québec

After growing strongly by 2.9% in 2010, Québec's real GDP should gain 1.6% in 2011, a downward adjustment of 0.4 percentage point compared to the 2011-2012 Budget forecast. In 2012, real GDP growth should also reach 1.6%, a downward adjustment of 0.6 percentage point compared to the Budget forecast.

In 2011, growth in economic activity in Québec is sustained by:

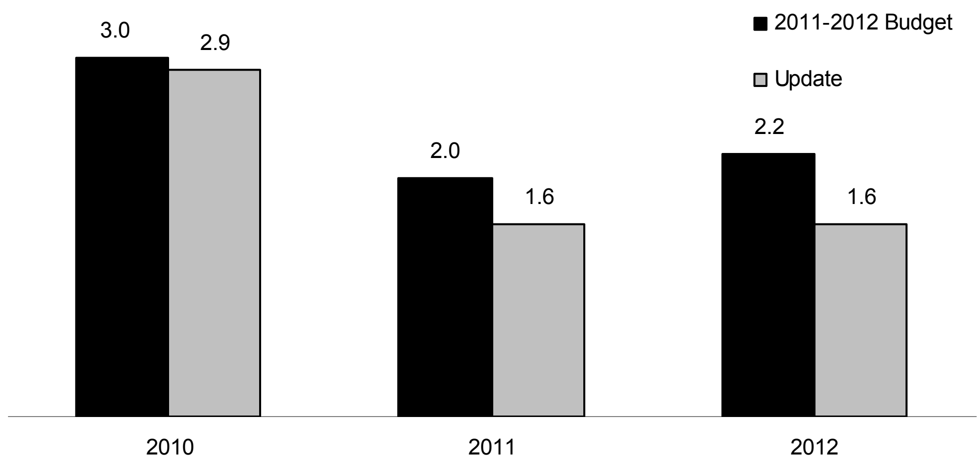
— the good performance of domestic demand, fostered in particular by growth in personal income and low interest rates;

— rising business investment, in particular in the natural resources sector.

However, weak American demand for Québec products continues to slow the recovery in Québec's exports.

CHART 35

Economic growth in Québec
(real GDP, percentage change)



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

1.4.1 Components of real GDP

In 2011, domestic demand will remain robust while growth in external trade will continue to be affected by a tardy recovery in exports. In 2012, growth in domestic demand is expected to slow, easing from 2.2% in 2011 to 1.3%, but external trade will make a positive contribution to economic activity.

- Growth in consumer spending will slow from 1.7% in 2011 to 1.6% in 2012. It will be affected by a more modest job creation and by the rise in the Québec sales tax on January 1, 2012.
- Residential construction will continue to soften, dropping 6.1% in 2012, but will remain at high levels compared to the historical average.
- Non-residential investment is expected to continue growing by 6.7% in 2012, owing to the good financial health of businesses.
- After stalling in 2011, exports are expected to make a positive contribution to real GDP growth, gaining 2.9% in 2012, stimulated by strength in certain sectors such as aerospace and primary processing of metals. The slowdown in growth of imports to 1.5% will bolster the positive contribution of the external sector.

TABLE 10

Real GDP and its major components
(percentage change)

	2010	2011	2012
Domestic demand	4.1	2.2	1.3
– Consumption of goods and services	3.7	1.7	1.6
– Residential construction	13.2	– 2.1	– 6.1
– Non-residential business investment	6.5	11.3	6.7
External trade			
– Total exports	0.9	0.2	2.9
– Total imports	6.3	2.9	1.5
Real GDP	**2.9**	**1.6**	**1.6**

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

1.4.2 The labour market

Québec's labour market has performed particularly well since 2009 compared with the employment situation in many advanced economies. Employment quickly exceeded its pre-recession level, while the unemployment rate continued to decline.

- In Québec, after a loss of 62 700 jobs between October 2008 and July 2009, 141 300 jobs were created between July 2009 and September 2011. Accordingly, more than double (225.4%) the number of jobs lost during the recession have been recovered. In Canada, 152.5% of jobs lost have been recovered, compared to only 20.3% in the United States.

❑ Job creation continues in 2011 and 2012

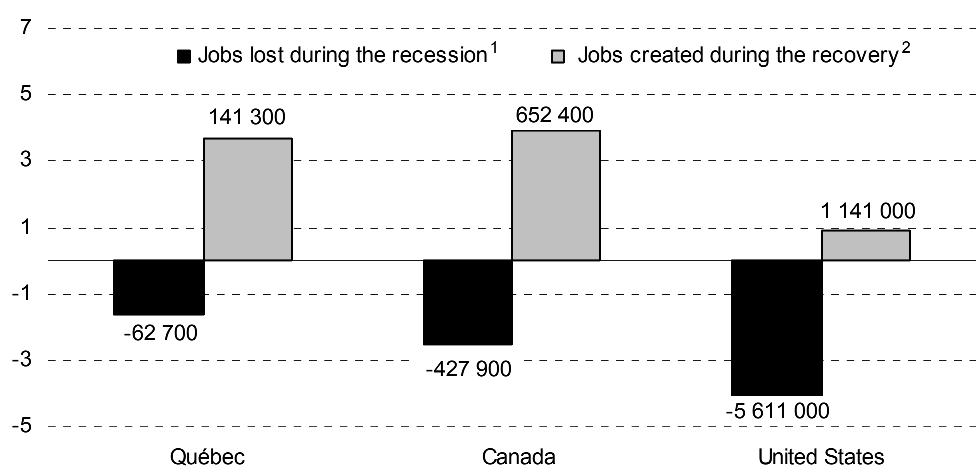
Following the vigorous rebound in the labour market in 2010, job creation continued at a moderate pace in 2011.

- Since the beginning of 2011, the private sector has generated 75.8% of the jobs created.
- Full-time jobs account for 86.2% of jobs created during the first nine months of 2011.

Following the 66 700 jobs created in 2010, 54 100 jobs are expected to be created in 2011 and 35 400 in 2012.

CHART 36

Change in employment
(percentage change, jobs in units)



1 Between October 2008 and July 2009, the peak and the trough of employment in Canada.
2 Between July 2009 and September 2011.
Sources: Statistics Canada and IHS Global Insight.

❑ The unemployment rate continues to decline

The rapid improvement of Québec's labour market has resulted in a significant reduction in the unemployment rate. After dropping from 8.5% in 2009 to 8.0% in 2010, the unemployment rate is expected to average 7.6% in 2011. It stood at 9.2% in 2003.

— Accordingly, the unemployment rate in Québec has reached that in Canada for the first time in 33 years.

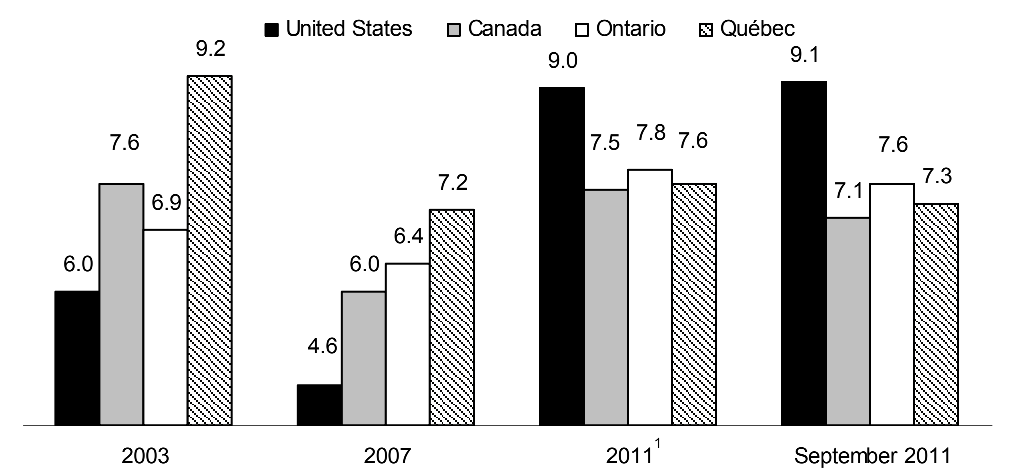
— On average, during the first nine months of 2011, the unemployment rate was 7.6% in Québec, compared with 7.8% in Ontario, 7.5% in Canada and 9.0% in the United States.

— At 7.3% in September 2011, Québec's unemployment rate is equivalent to its pre-recession level, i.e. 7.2% in 2007.

However, given the slowdown in job creation, the unemployment rate is expected to stabilize in 2012.

CHART 37

Unemployment rate
(percent)



1 Cumulative from January to September 2011.
Sources: Statistics Canada and IHS Global Insight.

Québec's labour market in 2011

The situation in Québec's labour market continued to improve in 2011. Accordingly, the rebound in employment that started in 2010 continues, sustained in particular by the private sector and full-time jobs.

The private sector is taking the lead from the public sector

- In 2010, the public sector, which accounted for 21.3% of all jobs, generated 48.6% of new jobs.
- Since the beginning of 2011, while public employment continues to rise, the private sector is chiefly responsible for the good performance of employment, with 75.8% of jobs created.

Full-time employment has grown faster than part-time employment

- In 2010, part-time employment accounted for 56.2% of job creation.
- Since the start of 2011, 86.2% of jobs created were full-time positions, which is indicative of the level of business confidence in the economic recovery.

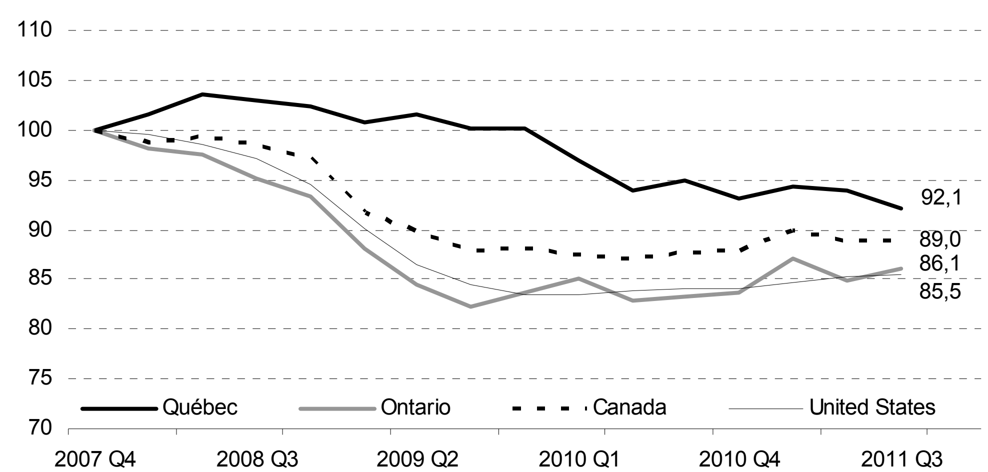
However, the manufacturing sector continues to experience difficulties

After declining by 6.1% in 2010, manufacturing employment shrank by 1.9% during the first nine months of 2011 compared to the same period in 2010. This weakness is attributable to marked declines in employment in the following industries:

- aerospace products and parts (– 7.1% during the first seven months of 2011 compared to the same period in 2010), in line with the recovery lag generally observed in this sector;
- wood products (– 5.8%), given the persistent difficulties in the US housing market;
- chemical products (– 4.6%), in particular because of the shutdown of an oil refinery.

However, the employment situation in the manufacturing sector compares favourably with that of our major trading partners. Since the fourth quarter of 2007, manufacturing employment has declined by 7.9% in Québec, compared with 11.0% in Canada, 13.9% in Ontario and 14.5% in the United States.

Evolution of employment in the manufacturing sector since the 4th quarter of 2007
(index, 4th quarter of 2007 = 100)



Sources: Statistics Canada, IHS Global Insight and Ministère des Finances du Québec.

1.4.3 Household spending

As forecast in the 2011-2012 Budget, real consumer spending by households is expected to decelerate, gaining 1.7% in 2011 and 1.6% in 2012, following a 3.7% growth in 2010. The slowdown in households' real consumer spending is attributable in part to:

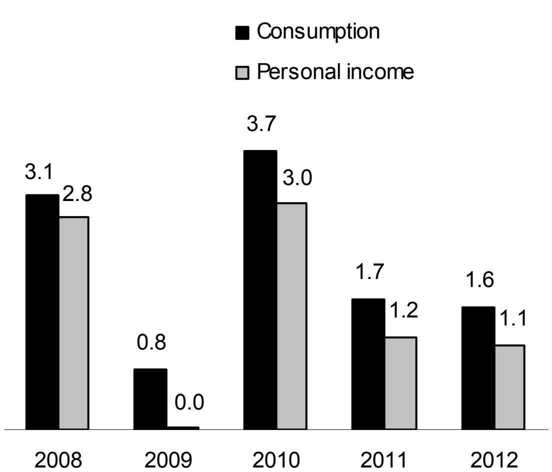
- weaker job creation than in 2010. Employment is expected to gain 1.4% in 2011 and 0.9% in 2012, compared to 1.7% in 2010;
- moderating growth in income. After rising 3.0% in 2010, real personal income is expected to grow by 1.2% in 2011 and 1.1% in 2012;
- the high price of fuel in early 2011;
- the rise in the Québec sales tax on January 1, 2011 and January 1, 2012.

While not as robust as in 2010, growth in employment and income will continue to foster an increase in real consumer spending over the coming quarters.

- Moreover, a number of temporary factors, such as the unavailability of certain vehicle models following the earthquake that hit Japan last March, should abate over the coming months.

CHART 38

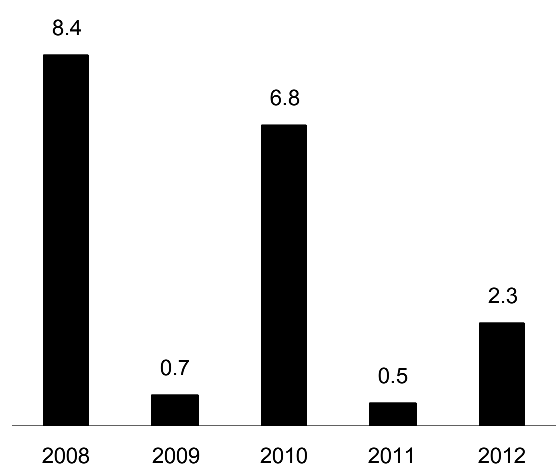
Consumption and personal income of Québec households
(percentage change, in real terms)



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

CHART 39

Consumption of durable goods in Québec
(percentage change, in real terms)



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

Evolution of personal income in the United States, Canada and Québec

The financial situation of households is an important indicator of the better economic situation in Canada and in Québec compared to the United States.

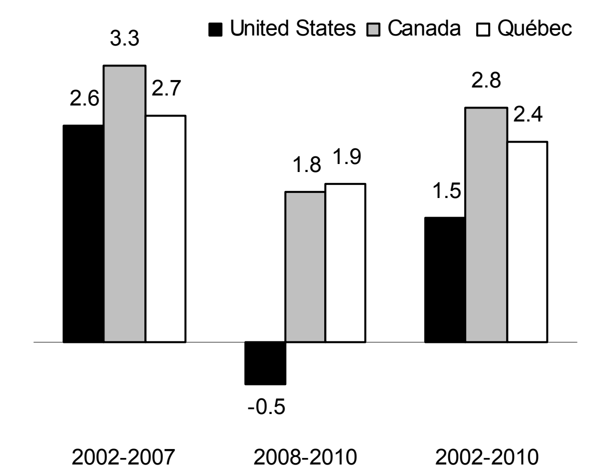
Since 2002, households in Canada and in Québec have supported the economy better than those in the United States. This is in part attributable to more stable growth in personal income on this side of the border.

Growth in personal income was stronger and more resilient in Canada and in Québec

Between 2002 and 2010, average growth in real personal income was relatively high in Canada and in Québec. Over the same period, average growth in personal income was lower in the United States, in particular because of the 2008 economic recession, which hit hard our neighbours to the South. More specifically:

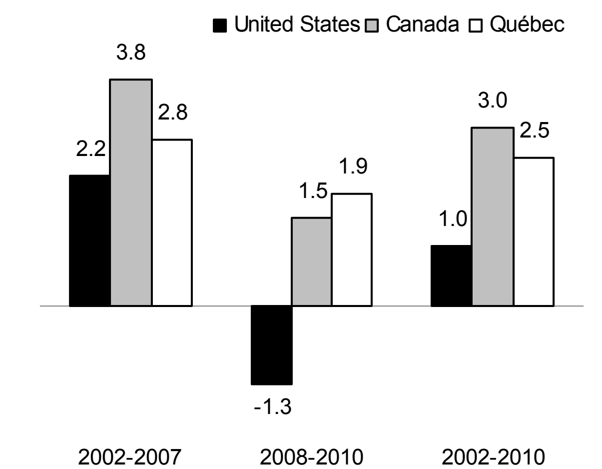
- between 2002 and 2007, personal income grew significantly in the United States, Canada and Québec. Average annual growth was 2.6%, 3.3% and 2.7%, respectively;
- the recession in 2008 and 2009 caused growth in personal income to slow substantially in the United States. Between 2008 and 2010, personal income fell by an average of 0.5% annually;
- the effects of the last global economic recession on personal income were also felt in Canada and in Québec, but to a much lesser extent, such that between 2008 and 2010, personal income continued to grow by an average of 1.8% in Canada and 1.9% in Québec.

Personal income
(average annual percentage change, in real terms)



Note: Personal income is converted into real dollars using the chained deflator for personal spending on goods and services.
Sources: Bureau of Economic Analysis, Statistics Canada and Institut de la statistique du Québec.

Employee compensation
(average annual percentage change, in real terms)



Note: Employee compensation is converted into real dollars using the chained deflator for personal spending on goods and services.
Sources: Bureau of Economic Analysis, Statistics Canada and Institut de la statistique du Québec.

Labour remuneration sustained the rise in personal income in Canada and Québec

Employee compensation is the largest component of personal income. It accounts on average for two thirds of personal income.

Between 2002 and 2010, the average annual growth in earned income in real terms was relatively similar to that of real personal income. In Canada and in Québec, from 2002 to 2010, growth in employee compensation exceeded that of personal income, with average annual rates of 3.0% and 2.5% respectively. By way of contrast, in the United States during the same period, employee compensation rose by 1.0%, an average rate lower than that of real personal income.

- From 2002 to 2007, employee compensation in Canada grew strongly, averaging 3.8% per year. At the same time, in Québec and in the United States, the pace of growth was somewhat slower, reaching 2.8% and 2.2% respectively.

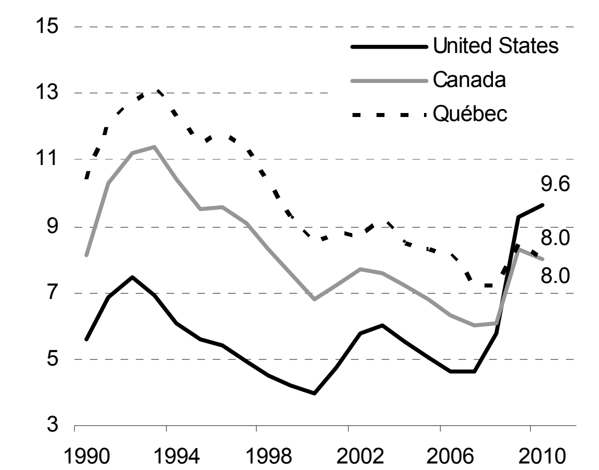
– Despite the global economic slowdown, average annual growth in earned income continued at a sustained pace in Québec between 2008 and 2010. It reached 1.9%, exceeding the Canadian average of 1.5%.

– However, in the United States, labour remuneration fell by an average of 1.3% per year during this period, a sharper drop than that of personal income, in particular because of the difficulties on the labour market. American households were thus dependent on their governments to support their income. In 2010, labour compensation had yet to return to its pre-recession level.

Québec's labour market has narrowed the gap with Canada

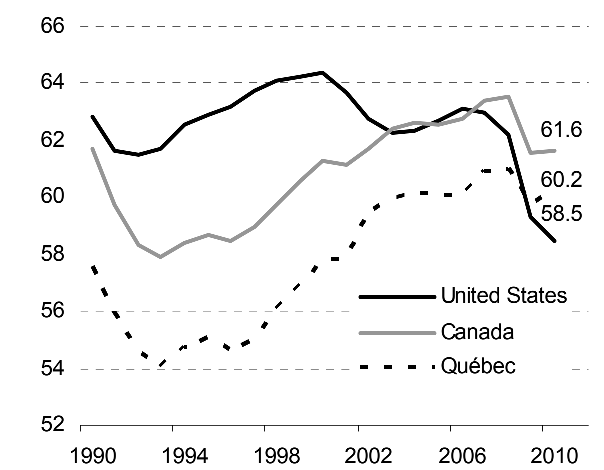
Despite the extent of the 2008 and 2009 global recession, the situation on Québec's labour market improved substantially compared to its trading partners.

Evolution of the unemployment rate
(percent)



Sources: Bureau of Labor Statistics and Statistics Canada.

Evolution of the employment rate
(percent)



Sources: Bureau of Labor Statistics and Statistics Canada.

In Québec, over a twenty-year period, the gradual decline in the unemployment rate occurred at the same time as the improvement in labour market participation.

– Québec's unemployment rate fell from 10.4% in 1990 to 8.0% twenty years later, while the employment rate rose from 57.5% to 60.2% over the same period, an increase of 2.7 percentage points.

– Over the same period, the unemployment rate fell by only 0.1 percentage point in Canada, reaching 8.0% in 2010, while it rose by 4.0 percentage points in the United States, to 9.6% in 2010. The employment rate, which stood at 61.7% in 1990 in Canada, fell by 0.1 percentage point to 61.6% twenty years later, while in the United States the employment rate dropped by 4.3 percentage points to 58.5% in 2010.

Accordingly, Québec substantially reduced the labour market gap with Canada and eliminated it with the United States. This catch-up has enabled personal income to grow at a sustained rate in recent years and improved the resilience of Québec's economy and its ability to adapt to the global economic slowdown.

❑ Residential investment

Residential investment should fall, in real terms, by 2.1% in 2011 and 6.1% in 2012. However, its level will remain high compared to historical averages.

■ Housing starts

The number of housing starts should drop by 12.2%, to 45 100 units in 2011, and by 9.0%, to 41 000 units in 2012, levels that are compatible with household formation in Québec. However, this level remains well above the number of housing starts recorded in the late 1990s.

— Tighter rules for mortgage insurance helped to slow growth in housing demand in 2011.

■ Renovation expenditures

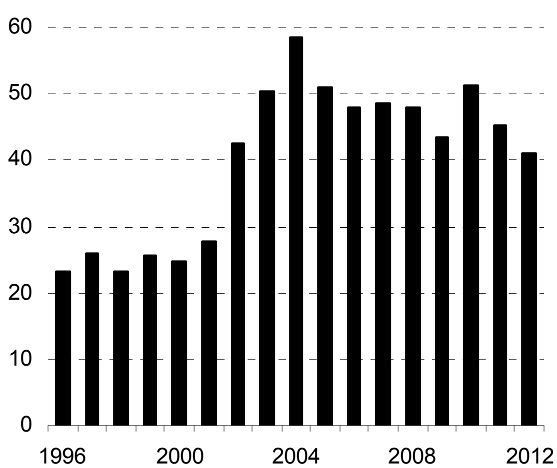
After jumping 10.4% in 2010, investment in renovation is expected to decelerate to 4.0% in 2011 and then decline by 2.6% in 2012.

— As a result of renovation projects being brought forward in 2009 and 2010 and the end of home renovation tax credits granted by governments, growth in renovation spending is expected to slow in 2011 and 2012.

— In addition, the observed slowdown in activity on the resale market since 2010 will gradually limit investment in renovation.

CHART 40

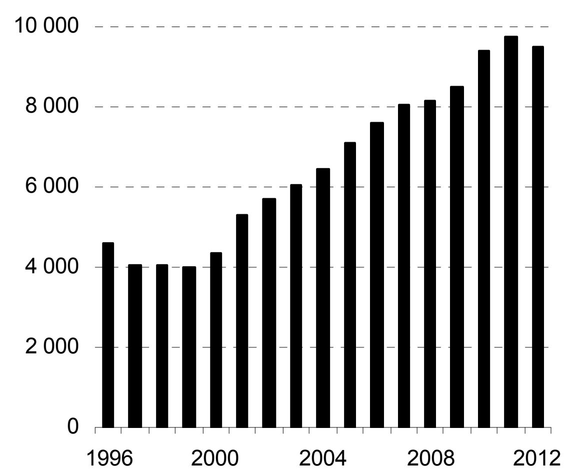
Housing starts in Québec
(thousands of units)



Sources: Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

CHART 41

Renovation expenditures in Québec
(millions of 2002 dollars)



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

1.4.4 Non-residential investment

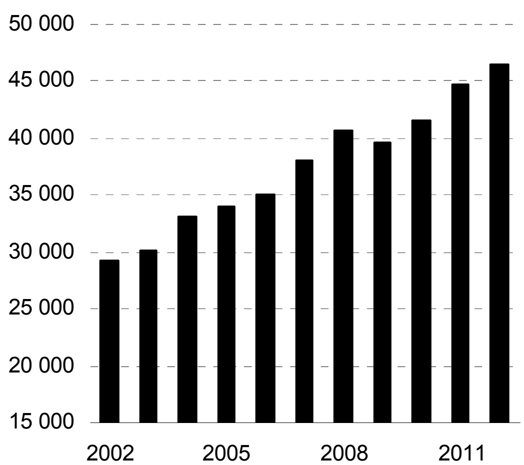
After gaining 5.1% in 2010, the value of non-residential investment in Québec is expected to rise by 7.4% in 2011, supported by the strength of business investment, particularly in the natural resources sector.

— According to Statistics Canada's survey of private and public investment, Québec's mining sector should boost its investment by 16.1% in 2011, to more than $2.5 billion.

In 2012, non-residential investment is expected to rise by 4.0%, reaching $46.4 billion.

CHART 42

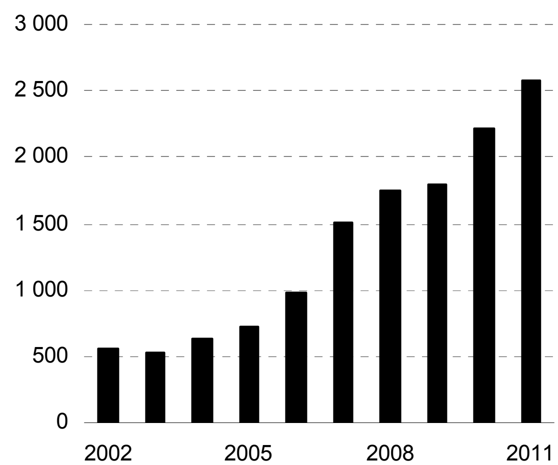
Investment by governments and businesses[1]
(millions of dollars, in nominal terms)



1 Includes private and government enterprises.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART 43

Business investment in the mining sector
(millions of dollars, in nominal terms)



Source: Statistics Canada.

❑ Business investment

Business investment has recovered substantially since 2009. After a gain of 3.2% in 2010, the value of business investment is expected to surge by 8.1% in 2011. In 2012, this increase should amount to 8.0%, bringing the value of such investment to $31.0 billion.

— Taking advantage of continuing low interest rates, the strength of the Canadian dollar and sound finances, Québec businesses will continue to modernize their machinery and equipment.

— Accordingly, following a gain of 1.1% in 2010, investment in machinery and equipment is expected to rise by 9.9% in 2011 and 6.7% in 2012.

— In addition, Hydro-Québec should maintain its capital spending at a level higher than $4 billion in 2011, which is equivalent to the investment effort in 2010.

❑ Investment by governments

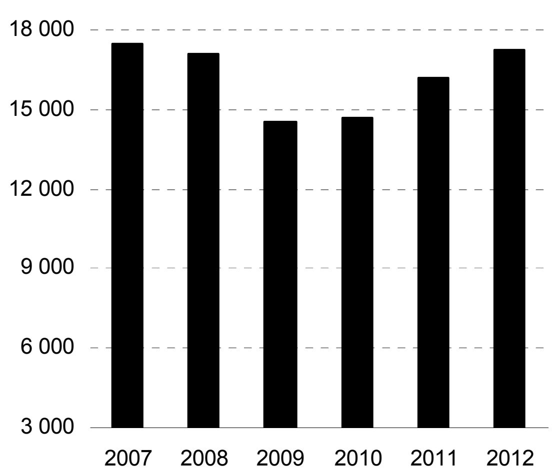
Following an increase of 8.7% in 2010, the value of investment by government departments and institutions should gain 6.1% in 2011, then decline by 3.2% in 2012. This decrease follows an exceptional growth during the recession years, when government support was necessary to sustain the economy.

— This investment should account for 4.8% of GDP in 2011, compared to 3.3% of GDP in 2007.

— The value of this investment should continue to exceed $15 billion per year in 2011 and 2012, helping to renew and modernize the stock of public capital in Québec.

CHART 44

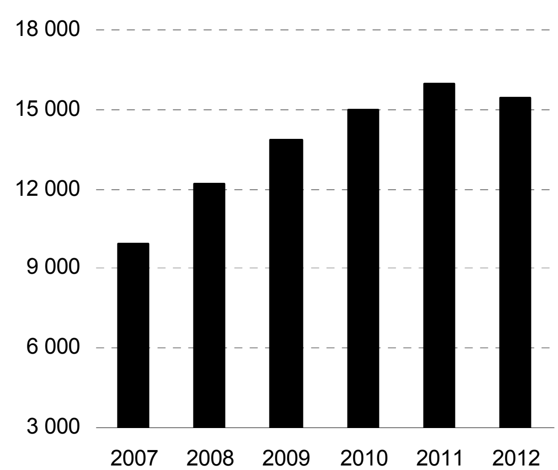
Investment by businesses in machinery and equipment
(millions of dollars, in nominal terms)



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

CHART 45

Investment by governments
(millions of dollars, in nominal terms)



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

1.4.5 External trade

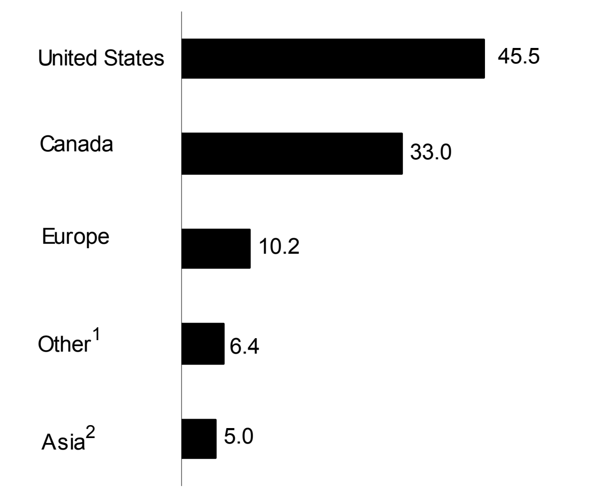
Québec is an open economy that depends largely on the economic situation of its trading partners. Québec's total exports represent more than 45% of GDP. However, Québec has not fully benefited from a recovery in foreign demand for its products in 2011.

- In particular, the aerospace sector, which accounts for a large share of Québec's exports, has been slow to recover as a result of a lag in this sector's production compared to the business cycle.
- Moreover, the rest of Canada and the United States benefited more from the strong recovery in the automotive sector's exports, which had fallen during the recession.

Starting in 2012, Québec's main export-oriented sectors should benefit from the rising demand of Québec's main trading partners.

CHART 46

Share of Québec's exports by destination – 2010
(as a percentage of total exports of goods, in nominal terms)

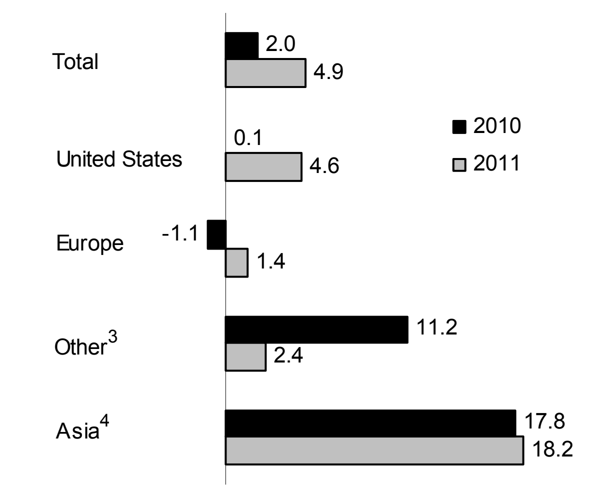


1 Including Mexico, Brazil, Australia, the United Arab Emirates and Saudi Arabia.
2 Excluding the Middle East.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART 47

Québec's exports of goods by destination[1] –2010 and 2011[2]

(percentage change, in nominal terms)



1 On a customs basis.
2 Aggregate of months available.
3 Including Mexico, Brazil, Australia, the United Arab Emirates and Saudi Arabia.
4 Excluding the Middle East.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

❑ Modest export growth in 2011

Québec's international exports of goods are expected to decline by 0.8% in 2011. The earthquake in Japan, the turbulence in the euro area and the difficulties of the US economy slowed growth in Québec's international trade, like in the rest of the world.

However, these factors should be short-lived. Total exports, which include the inter-provincial and international components, should rise 0.2% in 2011 and 2.9% in 2012, benefiting in particular from a recovering American demand for imported products.

— In addition, the expected gradual decline in the Canadian dollar should favour the recovery in exports.

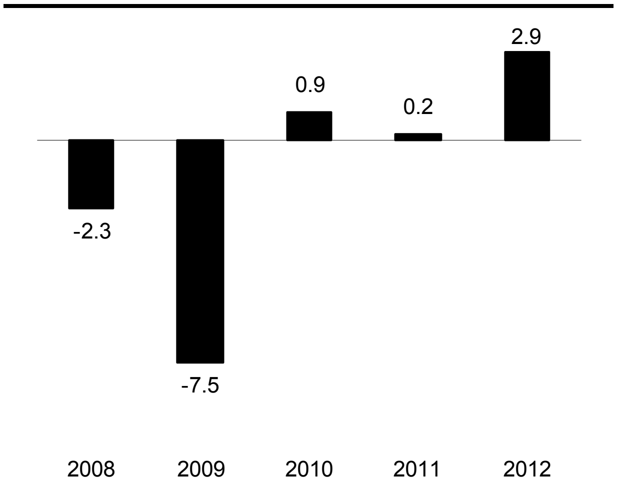
Aerospace exports, which rank first among Québec's international exports, have gained 1.0% so far in 2011.

— However, unfilled orders in the aerospace sector have risen by 11.7% since the beginning of the year in Canada. A rise in foreign demand for this sector's products is accordingly expected in 2012.

The expected improvement will nonetheless not be enough to offset the decline in exports in 2008 and 2009. Total exports in volume should reach $141 billion in 2012, almost $9 billion less than the level achieved in 2007.

CHART 48

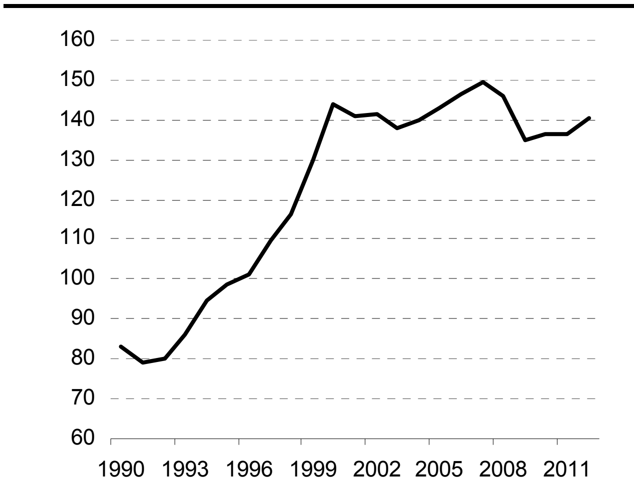
Québec's total exports
(real percentage change)



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

CHART 49

Québec's total exports
(billions of dollars, in real terms)



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

International exports

After suffering a larger decline than the economy as a whole during the last recession, activity in sectors of the American economy relevant for Québec's exports remains below its pre-recession level.

- In the second quarter of 2011, the index of US economic activity weighted by Québec's exports (IEAQ) was more than 13% below its pre-recession level.

Growth in certain sectors of activity in the United States that are particularly important for Québec was limited by a series of shocks in early 2011.

- However, their impact should abate gradually, promoting faster growth in Québec's export sectors to the United States in the second half of 2011.
- American demand related to Québec's exports should thus continue to recover gradually and rise by 5.3% in 2011 and by 3.1% in 2012.

In addition, the continued growth in investment by American businesses as well as demand for transportation products should support Québec exports over the coming years.

TABLE 11

Index of US economic activity weighted by Québec's exports[1]
(percentage change)

	Sector weights in the index	2008	2009	2010	2011	2012
Machinery and equipment	23.9	– 3.7	– 11.2	5.3	3.6	2.2
Consumer goods	20.5	– 1.8	– 3.4	3.3	2.2	1.4
Intermediate products[2]	19.6	– 8.7	– 23.8	16.7	7.2	5.8
Transportation[3]	19.1	– 7.3	– 21.6	– 12.4	15.6	5.3
Pulp and paper	10.2	– 6.2	– 15.0	– 4.8	– 2.5	– 1.8
Building materials	6.7	– 32.9	– 38.4	5.6	4.4	7.9
Total	**100.0**	**– 6.7**	**– 15.3**	**3.1**	**5.3**	**3.1**

1 More detailed information on the composition of the Québec trade-weighted index of US economic activity is available on page 30 of the *Update on Québec's Economic and Financial Situation*, published in the fall of 2009.
2 Corresponds mainly to investment in hardware and software.
3 Excluding light vehicles.
Sources: Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances du Québec.

Québec's international exports

The effects of the recession

In Québec, as in other advanced economies, exports fell significantly because of the last recession. In 2009, international exports of goods dropped by 14.0% in Québec and by 16.0% in Canada.

- In Québec, exports of all major sectors were affected by the recession, especially those of building materials (– 24.7%), machinery and equipment (– 23.9%) and pulp and paper (– 21.1%). Aerospace exports, which ranked first among Québec's international exports with 18.9% of the total in 2009, also registered a decline (– 5.6%).
- In Canada, the automobile and parts sector suffered the largest decline in exports (– 32.5%).

Exports' evolution since 2010

Since the beginning of 2010, Québec has not benefited from the recovery in world trade as much as anticipated. Québec's international exports gained 0.7% during the first seven months of 2011 compared to the same period in 2010, after a decline of 0.5% in 2010. In Canada, growth amounted to 3.8% and 7.8% respectively.

- Exports of the aerospace sector, which lag the business cycle because of production delays, dropped by 11.8% in 2010 but recovered by 1.0% in 2011.
- Canada's exports were sustained by the automobile and parts sector, whose exports rose by 40.4% in 2010 and by 2.9% in 2011.

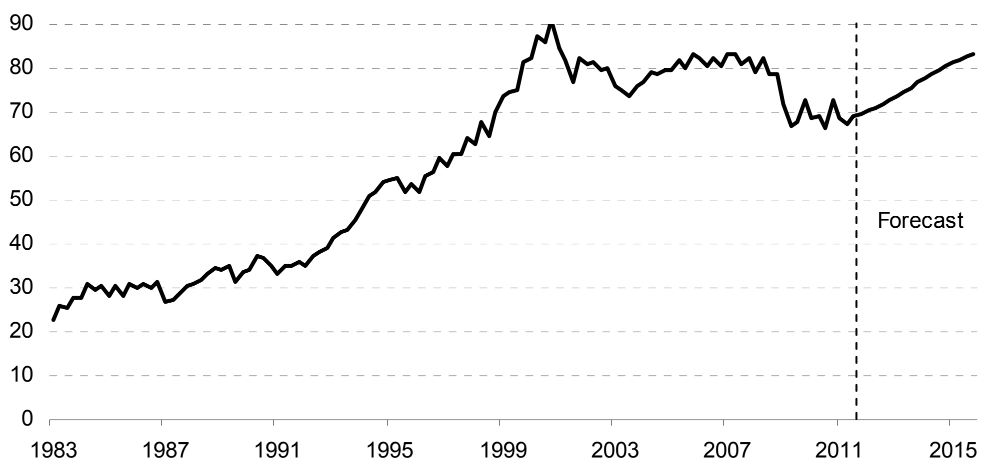
An encouraging outlook

Despite a more competitive international environment, Québec has upheld its volume of exports by focusing more on higher-demand sectors, such as metals and minerals. High-technology products should also gain more weight in exports.

- Québec's international exports of goods averaged $80 billion per year between 2002 and 2008, despite increased competition from emerging economies.

With the recovery in American demand, the depreciation of the Canadian dollar and strong growth in Québec's exports to Asia, the situation should improve over the coming quarters. International exports of goods should thus return to their pre-recession level by 2015.

Québec's international exports of goods
(billions of dollars, in real terms)



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

❑ Imports

Québec imports mainly consumer goods and services, machinery and equipment and, increasingly, inputs used to manufacture final products.

Stimulated by a robust domestic demand as well as by a strong Canadian dollar, Québec's international imports of goods rose by 6.9% during the first seven months of 2011.

— Imports of aircraft and parts jumped 16.7%, following declines of 3.9% in 2010 and 29.3% in 2009, while those of machinery and equipment rose 11.5%.

The expected slowdown in growth of domestic demand to 2.2% for 2011, together with the modest recovery in exports, will slow the rise in total imports, which are forecast to grow by 2.9% in 2011. In 2012, slowing domestic demand is expected to continue weighing on growth in imports, which will gain 1.5%.

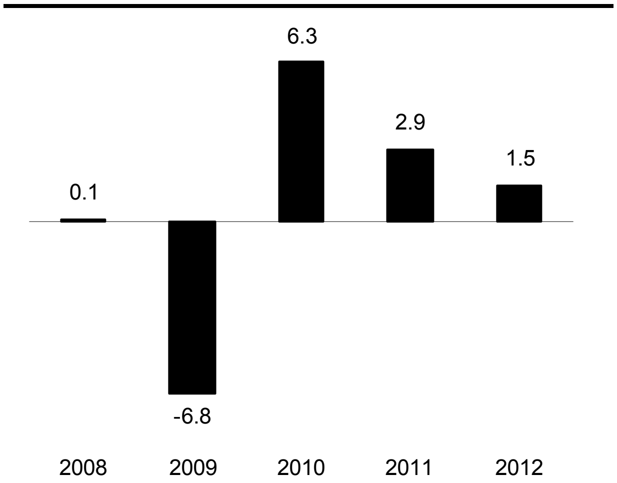
❑ Net exports

Net exports are expected to subtract 1.6 percentage points from economic growth in 2011. Nonetheless, the contribution of the external sector should turn positive and add 0.5 percentage point to economic growth in 2012.

CHART 50

Québec's total imports

(percentage change, in real terms)

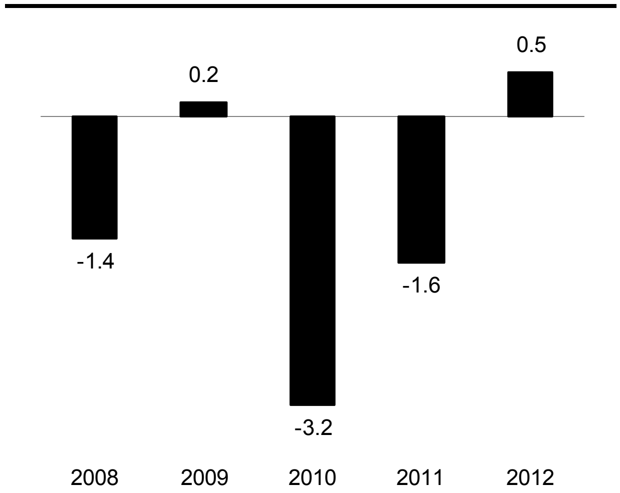


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART 51

Contribution of net exports to Québec's economic growth

(percentage points of real GDP)



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

1.4.6 Nominal GDP

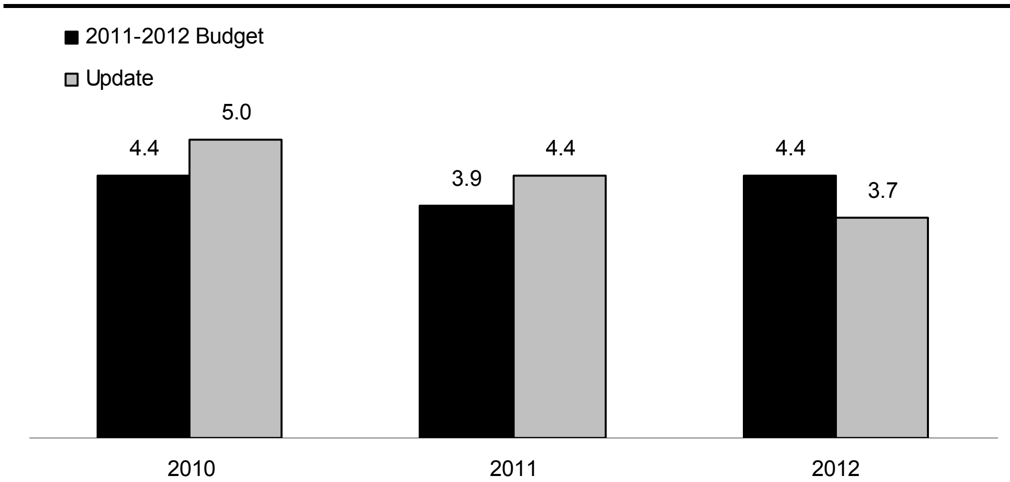
Following a 5.0% growth in 2010, nominal GDP, which measures the value of output taking the effect of prices into account, is expected to rise by 4.4% in 2011 and by 3.7% in 2012.

The rise in nominal GDP will lead to growth in the government tax base.

- Households' personal income will rise by 3.0% in 2011 and 3.1% in 2012.
- Nominal consumption will increase by 3.6% in 2011 and 2012.
- Corporate profits will grow by 8.3% in 2011 and 2.6% in 2012.

CHART 52

Nominal GDP growth in Québec
(percentage change)



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

TABLE 12

Québec's economic outlook

(percentage change, unless otherwise indicated)

	2010	2011	2012
Production			
Real gross domestic product	2.9	1.6	1.6
– *2011-2012 Budget*	*3.0*	*2.0*	*2.2*
Nominal gross domestic product	5.0	4.4	3.7
– *2011-2012 Budget*	*4.4*	*3.9*	*4.4*
Components of GDP (in real terms)			
Consumption	3.7	1.7	1.6
– *2011-2012 Budget*	*3.7*	*2.2*	*1.6*
Residential investment	13.2	– 2.1	– 6.1
– *2011-2012 Budget*	*13.3*	*– 5.2*	*– 3.7*
Business non-residential investment	6.5	11.3	6.7
– *2011-2012 Budget*	*8.1*	*10.4*	*6.1*
Exports	0.9	0.2	2.9
– *2011-2012 Budget*	*– 0.3*	*3.4*	*4.4*
Imports	6.3	2.9	1.5
– *2011-2012 Budget*	*7.0*	*2.9*	*2.2*
Labour market			
Job creation (thousands)	66.7	54.1	35.4
– *2011-2012 Budget*	*66.7*	*55.4*	*40.5*
Unemployment rate (percentage rate)	8.0	7.6	7.6
– *2011-2012 Budget*	*8.0*	*7.7*	*7.5*
Other economic indicators			
Nominal consumption	4.7	3.6	3.6
– *2011-2012 Budget*	*4.7*	*4.6*	*4.1*
Housing starts (thousands)	51.4	45.1	41.0
– *2011-2012 Budget*	*51.4*	*45.1*	*41.0*
Corporate profits	17.1	8.3	2.6
– *2011-2012 Budget*	*10.5*	*6.5*	*8.3*
Personal income	4.0	3.0	3.1
– *2011-2012 Budget*	*3.4*	*3.6*	*3.3*
Consumer prices	1.2	2.9	2.4
– *2011-2012 Budget*	*1.2*	*2.7*	*2.7*

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

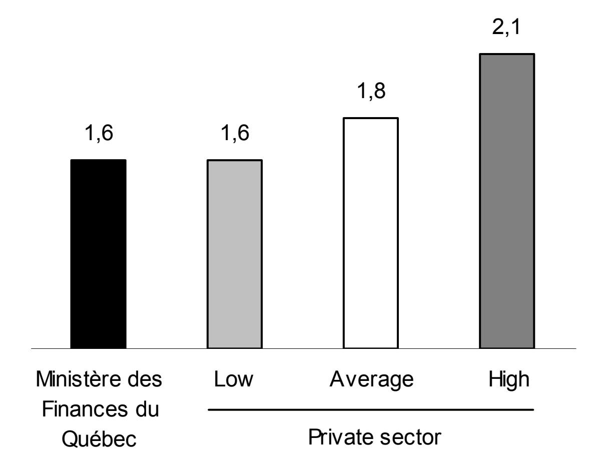
1.4.7 Comparison with private sector forecasts

The economic growth forecast of the Ministère des Finances du Québec for 2011 and 2012 is below the average of private sector forecasts.

- The 1.6% growth in real GDP forecast by the Ministère des Finances du Québec for 2011 and 2012 is slightly below the average of 1.8% and 1.7% forecast by the private sector respectively for 2011 and 2012.
- The size of the gap among the various private sector forecasts for 2012, which range from 1.3% to 2.1%, reflects the high degree of uncertainty regarding the economy's expected performance.

CHART 53

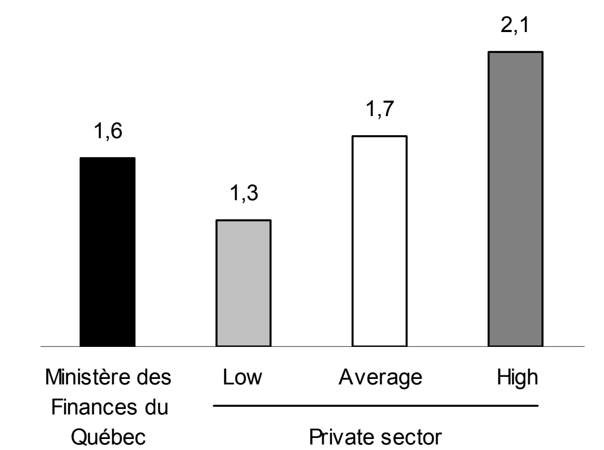
Economic growth in 2011 in Québec
(real GDP, percentage change)



Source: Survey done by the Ministère des Finances du Québec, consisting of the most recent forecasts from ten private sector institutions, as of October 11, 2011.

CHART 54

Economic growth in 2012 in Québec
(real GDP, percentage change)



Source: Survey done by the Ministère des Finances du Québec, consisting of the most recent forecasts from ten private sector institutions, as of October 11, 2011.

❑ Five-year economic outlook

For the period from 2011 to 2015, the forecast of the Ministère des Finances du Québec is comparable with that of the private sector regarding real GDP growth as well as the level of prices and nominal GDP growth.

— Regarding real GDP, the projected average growth is 1.9% from 2011 to 2015, compared with the private sector forecast, which stands at 2.0%.

— For prices, the expected increase is 2.1%, matching the forecast by the private sector.

— Regarding nominal GDP, the expected average growth is 4.0% from 2011 to 2015, compared with the private sector forecast of 4.1%.

TABLE 13

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

	2011	2012	2013	2014	2015	Average 2011-2015
Real GDP						
Ministère des Finances du Québec	1.6	1.6	2.0	2.2	1.9	1.9
Private sector average	1.8	1.7	2.2	2.1	2.0	2.0
Price increase						
Ministère des Finances du Québec	2.8	2.0	2.0	2.0	1.8	2.1
Private sector average	3.0	2.2	1.9	1.9	1.8	2.1
Nominal GDP						
Ministère des Finances du Québec	4.4	3.7	4.1	4.2	3.7	4.0
Private sector average	4.8	3.9	4.1	4.0	3.8	4.1

Source: Survey done by the Ministère des Finances du Québec, consisting of the most recent forecasts from ten private sector institutions, as of October 11, 2011.

PART TWO:
THE GOVERNMENT'S FINANCIAL POSITION

2. THE GOVERNMENT'S FINANCIAL POSITION

2.1 Gradual reduction in deficits

The 2010-2011 Public Accounts show a budget deficit of $3.2 billion in 2010-2011, an improvement of $1.1 billion compared to preliminary results published in the budget last March.

For 2011-2012, budgetary revenue amounts to $65.4 billion while budgetary expenditure stands at $69.0 billion. Taking the results of consolidated entities and the $400-million contingency reserve into account, the budgetary deficit stands at $3.8 billion or 1.1% of GDP.

While allowing for the uncertain international economic situation and its impacts of Québec's economic outlook, the government is maintaining the decreasing deficit targets set in the last budget of $3.8 billion in 2011-2012 and $1.5 billion in 2012-2013. A balanced budget is still forecast for 2013-2014.

The government expects that all of the measures taken over the past two years and more will help to gradually reduce the continuing gap between revenue and spending and return to fiscal balance by 2013-2014.

TABLE 14

Summary of adjusted budgetary transactions – Fall 2011
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
BUDGETARY TRANSACTIONS				
Budgetary revenue	62 650	65 404	69 354	73 164
Budgetary expenditure	– 67 149	– 69 007	– 70 776	– 72 661
Consolidated entities				
– Non-budget-funded bodies and special funds	1 189	150	70	– 439
– Health and social services and education networks	160	53	52	36
– Generations Fund	760	929	1 047	1 108
Contingency reserve	—	– 400	– 200	– 100
SURPLUS (DEFICIT)	**– 2 390**	**– 2 871**	**– 453**	**1 108**
BALANCED BUDGET ACT				
Payments of revenue dedicated to the Generations Fund	– 760	– 929	– 1 047	– 1 108
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 150**	**– 3 800**	**– 1 500**	**0**
As a % of GDP	**1.0**	***1.1***	***0.4***	***0.0***

2.2 An improvement in the deficit of $1 050 million in 2010-2011

For 2010-2011, the budgetary balance within the meaning of the Balanced Budget Act shows a deficit of $3 150 million, an improvement of $1 050 million compared to the preliminary results published in the last budget.

— The results published in the 2010-2011 Public Accounts, before taking the payments to the Generations Fund into account, indicate a deficit of $2 390 million.

Budgetary revenue was higher by $274 million compared with the last budget's forecasts.

— Own-source revenue, excluding government enterprises, is adjusted upward by $175 million. This adjustment is attributable in particular to higher revenue from mining resources.

— Revenue from government enterprises also rose by $125 million, chiefly because of better than expected results of the Société générale de financement du Québec and Hydro-Québec.

Moreover, program spending has been adjusted upward by $346 million. This increase is attributable to an increase of $385 million in amortization relating to the fixed assets of health and social services and education institutions. Overall, excluding this adjustment, spending by all government departments was $39 million lower than forecast in the budget last March.

The results of consolidated entities are adjusted higher compared with the March 2011 budget forecasts. This difference is attributable, among other things, to:

— an improvement of $660 million in the net results of close to 100 entities including non-budget-funded bodies and special funds, in particular:

  — $157 million for the Land Transportation Network Fund (FORT);

  — $60 million for the Green Fund;

  — $20 million for the results of the Société de financement des infrastructures locales du Québec;

  — $24 million for the results of the Société immobilière du Québec ($17 million) and those of the Autorité des marchés financiers ($7 million);

— an improvement of $212 million in relation to the health and social services and the education networks, i.e.:

  — $96 million from health and social services institutions and agencies;

  — $116 million from organizations of the education network attributable to improved net results of school boards whose own-source revenue was greater than expected;

— a $28-million improvement in dedicated revenues of the Generations Fund.

Lastly, the $1.1-billion downward adjustment to the budgetary balance reflects the elimination of the $300-million contingency reserve.

TABLE 15

Adjustments to the budgetary balance for 2010-2011
(millions of dollars)

	2011-2012 Budget	Adjustments	Real results[1]
BUDGETARY TRANSACTIONS			
Own-source revenue	42 212	175	42 387
Government enterprises	4 713	125	4 838
Federal transfers	15 451	– 26	15 425
Total budgetary revenue	**62 376**	**274**	**62 650**
Program spending	– 59 819	– 346	– 60 165
Debt service	– 6 934	– 50	– 6 984
Total budgetary expenditure	**– 66 753**	**– 396**	**– 67 149**
Consolidated entities			
– Non-budget-funded bodies and special funds	529	660	1 189
– Health and social services and education networks	– 52	212	160
– Generations Fund	732	28	760
Contingency reserve	– 300	300	0
SURPLUS (DEFICIT)	**– 3 468**	**1 078**	**– 2 390**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	– 732	– 28	– 760
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 200**	**1 050**	**– 3 150**
As a % of GDP	***1.3***	**—**	***1.0***

1 For purposes of comparison with the presentation of the 2011-2012 Budget, the real data for 2010-2011 incorporate a restatement of $1 557 million in budgetary revenue and expenditure to reflect the implementation of the Agence du revenu du Québec.

2.3 Summary of adjustments from 2011-2012 to 2013-2014

The government is maintaining, as of 2011-2012, the budgetary balances announced last March.

— The negative adjustments to the financial framework arising from the adjustments to the economic outlook are completely offset by additional revenue from mining duties, the downward adjustment to forecast debt service and the impact of the agreement on the harmonization of the QST with the GST.

— Taking into account the economic slowdown, this additional revenue enables the government to defer the identification of new measures to keep the budget balanced to 2014-2015.

TABLE 16

Adjustments since the 2011-2012 budget
(millions of dollars)

	2011-2012	2012-2013	2013-2014
BUDGETARY BALANCE IN THE 2011-2012 BUDGET	**– 3 800**	**– 1 500**	—
Adjustments relating to the economic outlook			
Economic slowdown	– 125	– 350	– 375
Federal transfers, including equalization	—	– 180	– 264
Pay adjustments relating to GDP	—	– 142	– 142
Debt service	71	125	140
	– 54	**– 547**	**– 641**
Other adjustments			
Mining Duties	48	48	48
Harmonization of the QST with the GST			
– Compensation for harmonization	—	733	1 467
– Impact on financial institutions	—	55	245
Other adjustments to federal transfers	108	—	—
Other items	– 2	11	6
	154	**847**	**1 766**
Subtotal	**100**	**300**	**1 125**
Measures to be identified	—	– 300	– 1 025
Increase in contingency reserves	– 100	—	– 100
Total adjustments	**0**	**0**	**0**
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 800**	**– 1 500**	**0**
As a % of GDP	***1.1***	***0.4***	***0.0***

Deficit of $3.8 billion in 2011-2012

For 2011-2012, three main factors enable the government to offset the $125-million shortfall attributable to the downward adjustment to the economic growth forecast in 2011. These items are:

- an additional increase of $48 million expected from mining duties;
- a downward adjustment of $71 million in debt service;
- an improvement of $108 million in federal transfers.

In addition, as a measure of prudence and because of the current uncertain economic situation, these improvements to the financial framework enable the contingency reserve to be raised by $100 million and to leave the deficit unchanged at $3.8 billion.

Gradual return to fiscal balance by 2013-2014 maintained

Since the budget last March, the main changes in the financial framework for 2012-2013 and 2013-2014 are attributable to:

- economic adjustments that result in negative impacts on the financial framework, including:
  - downward adjustments of $350 million and $375 million respectively to tax revenues in 2012-2013 and 2013-2014, stemming from economic growth below expectation in 2011 and 2012;
  - downward adjustments of $180 million in 2012-2013 and $264 million in 2013-2014 to federal transfer revenues, attributable mainly to equalization payments. This negative adjustment to equalization stems in particular from the Québec economy's better performance, relative to the other provinces in 2010, compared with what had been forecast in the 2011-2012 Budget;
  - a recurring increase of $142 million in program spending as of 2012-2013. This adjustment stems from the financial allowance the government must include for the expected improvement to pay parameters of public service employees relating to better economic performance in 2010. However, this allowance will be reviewed on the basis of the economic data for 2010 and 2011, which will be published in the fall of 2012;

— other adjustments to the financial framework that stem from:

  — the reduction of $125 million in 2012-2013 and $140 million in 2013-2014 in debt service mainly because of the downward adjustment to interest rates;

  — additional revenue of $48 million from mining royalties arising in particular from the revision of the royalty regime announced in the 2010-2011 Budget;

  — harmonization of the QST with the GST providing:

    – compensation from the federal government of $733 million in 2012-2013 and $1 467 million in 2013-2014 following the agreement entered into last September 29;

    – $55 million and $245 million in 2012-2013 and 2013-2014 respectively, attributable to the end of QST rebates on purchases made by financial institutions and the elimination of the compensatory tax on financial institutions.

Lastly, as a measure of prudence, a $100-million contingency reserve is added to the financial framework in 2013-2014.

■ Contingency reserves

In the 2011-2012 Budget, to guard against any contingency arising in particular from the uncertain economic situation, the government's financial framework included a contingency reserve of $300 million in 2011-2012 as well as a reserve of $200 million in 2012-2013.

In the fall update, in view of the deterioration in the economic outlook, the government is raising the reserve to $400 million in 2011-2012, maintaining the $200-million reserve in 2012-2013 and adding a reserve of $100 million in 2013-2014.

TABLE 17

Contingency reserves incorporated into the financial framework
(millions of dollars)

	2011-2012	2012-2013	2013-2014	Total
2011-2012 Budget	– 300	– 200	—	– 500
Adjustments	– 100	—	– 100	– 200
FALL 2011	**– 400**	**– 200**	**– 100**	**– 700**

2.4 Detailed adjustments in 2011-2012 and 2012-2013

The following section shows the detailed adjustments for budgetary revenue and budgetary expenditure in 2011-2012 and 2012-2013.

TABLE 18

Summary of adjustments to the budgetary balance since the 2011-2012 Budget
(millions of dollars)

	2011-2012			2012-2013		
	2011-12 Budget	**Adjustments**	**Fall 2011**	**2011-12 Budget**	**Adjustments**	**Fall 2011**
BUDGETARY TRANSACTIONS						
Own-source revenue						
– Personal income tax and Health Services Fund	24 833	25	24 858	25 754	—	25 754
– Consumption taxes	14 897	– 237	14 660	16 754	– 144	16 610
including the impact of harmonization of the QST with the GST[1]		—			*115*	
– Corporate taxes	3 885	85	3 970	4 356	– 190	4 166
including the impact of harmonization of the QST with the GST[1]		—			*– 60*	
– Other	1 931	48	1 979	2 089	48	2 137
Own-source revenue	**45 546**	**– 79**	**45 467**	**48 953**	**– 286**	**48 667**
Government enterprises	4 790	—	4 790	4 930	—	4 930
Federal transfers	15 039	108	15 147	15 204	553	15 757
Total budgetary revenue	**65 375**	**29**	**65 404**	**69 087**	**267**	**69 354**
Program spending	– 61 284	—	– 61 284	– 62 113	– 142	– 62 255
Debt service	– 7 794	71	– 7 723	– 8 646	125	– 8 521
Total budgetary expenditure	**– 69 078**	**71**	**– 69 007**	**– 70 759**	**– 17**	**– 70 776**
Net results of consolidated entities	**1 143**	**– 11**	**1 132**	**1 119**	**50**	**1 169**
Contingency reserve	– 300	– 100	– 400	– 200	—	– 200
Measures to be identified	—	—	—	300	– 300	—
SURPLUS (DEFICIT)	**– 2 860**	**– 11**	**– 2 871**	**– 453**	**—**	**– 453**
BALANCED BUDGET ACT						
Payments to the Generations Fund	– 940	11	– 929	– 1 047	—	– 1 047
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 800**	**—**	**– 3 800**	**– 1 500**	**—**	**– 1 500**

Note: In the case of adjustments, a negative sign means a decline in revenue or a rise in expenditure.

1 Because of the harmonization of the QST with the GST, QST revenue is raised by $115 million to reflect the elimination of ITRs on the supply of financial services. On the other hand, corporate taxes are reduced by $60 million because of the elimination of the compensatory tax on financial institutions.

2.4.1 Adjustments to budgetary revenue

Budgetary revenue is adjusted upward by $29 million in 2011-2012 and by $267 million in 2012-2013.

❑ Own-source revenue

■ 2011-2012

In 2011-2012, own-source revenue is reduced by $79 million compared to the budget last March. The negative adjustment of $237 million to the Québec sales tax arising from lower growth in consumption is partially offset by:

— additional revenue of $85 million from corporate taxes chiefly because of higher business profits in 2010 and since the beginning of 2011;

— a $25-million rise in revenue from personal income tax reduction and contributions to the Health Services Fund. This improvement essentially reflects the fact that job creation has matched the level forecast in the last budget;

— a $48-million in improvement for mining royalties because of the reform of the mining duties regime and the rise in the price of natural resources.

■ 2012-2013

For 2012-2013, own-source revenue is revised downward by $286 million chiefly because of the following factors:

— a $144-million reduction in revenue stemming from consumption taxes resulting, on the one hand, from the $259-million decline in QST revenue caused by the expected decrease in consumption and, on the other, the $115-million rise in revenue stemming from the elimination of QST rebates allowed to financial institutions on their purchases;[4]

— the $190-million reduction in revenue from corporate taxes, including $130 million attributable in particular to downward adjustments to corporate profits in 2012 and $60 million from the elimination of the compensatory tax on financial institutions;[4]

— the weaker growth in employment expected in 2012 will offset the gains in 2011 in personal income tax and the Health Services Fund, such that no adjustment is expected for these revenue sources in 2012-2013.

Moreover, these adjustments are offset in part by a recurring positive adjustment of $48 million in revenue from mining duties.

---

4 Impact stemming from the agreement on harmonization of the QST with the GST.

Mining Duties

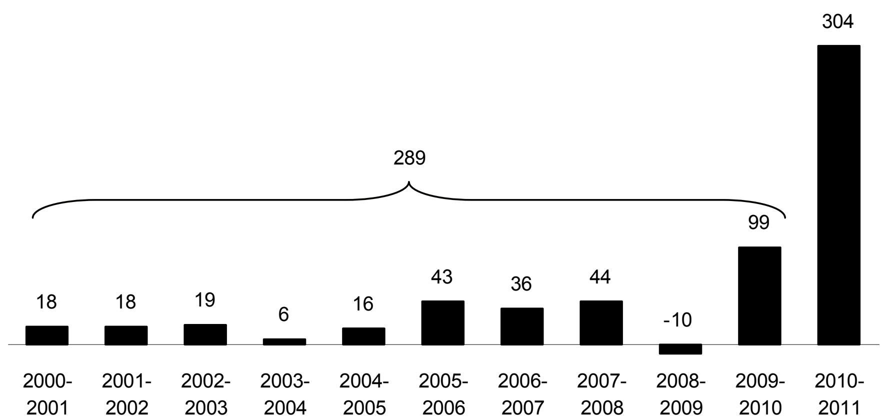
Mining duties: $304 million in 2010-2011

The government collected mining duties amounting to $304 million in 2010-2011. This amount is more than double the $133 million forecast in the 2011-2012 Budget. The difference is attributable to the payment, by mining companies, of additional amounts during the last two months of fiscal year 2010-2011.

The additional revenue is attributable to a number of factors: apart from the changes to the royalty regime, including a rise in the royalty rate from 12% to 14% for part of fiscal year 2010-2011 and the application of the mine-by-mine taxation principle, it also stems from an increase in the volume of material extracted and higher prices for that material.

For fiscal year 2010-2011 alone, mining duties were higher than all of the mining duties collected during the preceding ten years.

Change in mining duties in Québec
(millions of dollars)

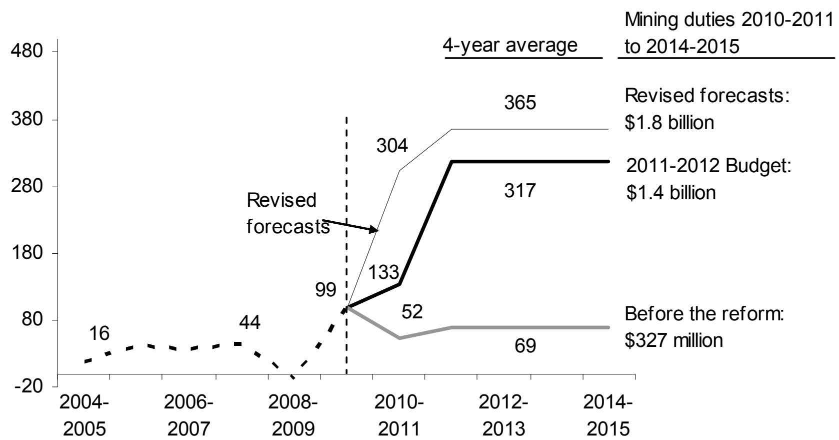


Sources: Public accounts of Québec and Ministère des Finances du Québec.

Mining Duties (continued)

It is now expected that in each of the next four years, royalties will average $365 million. Accordingly, over the five years from 2010-2011 to 2014-2015, revenue from mining duties should reach $1.8 billion, i.e. $400 million more than estimated in the last budget ($1.4 billion) and $1.5 billion more, thus five times more than what had been forecast, if the mining duties regime had not been thoroughly reformed in March 2010 ($327 million).

Change in and forecast mining duties in Québec
(millions of dollars)



Sources: Public accounts of Québec and Ministère des Finances du Québec.

❑ Federal transfers

Federal transfer revenue is adjusted upward by $108 million in 2011-2012 and $553 million in 2012-2013.

In 2011-2012, the adjustments stem essentially from the expected renewal of the Canada-Québec Agreement Regarding the Participation of Handicapped Persons in the Labour Market and adjustments to health transfers for prior years. These adjustments for prior years are due chiefly to a reduction in the value of the special Québec abatement, which is subtracted from these transfers.

In 2012-2013, the adjustments are attributable mainly to the payment of the first instalment of $733 million in federal compensation for sales tax harmonization and the downward adjustment of $180 million in other federal transfers, in particular equalization. This negative adjustment to equalization stems in particular from the Québec economy's better performance, relative to the other provinces in 2010, compared with what had been forecast in the 2011-2012 Budget.

TABLE 19

Summary of adjustments to federal transfers since the March 2011 budget
(millions of dollars)

	2011-2012	2012-2013
Compensation for harmonization	—	733
Other federal transfers	108	– 180
TOTAL ADJUSTMENTS	**108**	**553**

■ Details of the adjustments relating to the agreement on the harmonization of the QST with the GST and impact on the financial framework

On September 29, 2011, the federal government and the Québec government entered into an agreement under which Québec will obtain financial compensation of $2.2 billion from the federal government for harmonizing the QST with the GST.

Québec was the first province to recognize the benefits of a value-added tax and joined the federal government in harmonizing its sales tax with the GST on July 1, 1992. This reform of the tax system helped improve the competitiveness of the business tax system, promote job creation and increase the standard of living of Quebecers.

The compensation will be paid in two instalments: $733 million in January 2013, when most of the measures stipulated in the agreement are implemented, and $1 467 million one year later, provided that, at that time, Québec has continued to act on all of its commitments.

The $2.2 billion in compensation will contribute to reducing the deficit in 2012-2013 and to balance the budget in 2013-2014.

The changes that Québec will make to the QST are technical in nature and will have no impact on the tax burden of Québec consumers.

— As of January 1, 2013, the QST will be calculated on the selling price without GST.

— All the existing exemptions will be maintained (books, diapers for infants, etc.).

Moreover, as is the case in Ontario, financial institutions will no longer be entitled to reimbursement of the tax on their purchases.

For other sectors of the economy, the agreement provides that Québec will gradually allow large businesses to obtain a refund of the QST on goods and services to which restrictions currently apply. The rebate of the QST paid on business inputs is a basic principle of value-added taxes.

TABLE 20

Financial impact of QST harmonization on the financial framework

(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	Total
Compensation paid by the federal government	**733**	**1 467**	—	—	**2 200**
Impact on households					
Adjustment of the QST rate to 9.975% and non-taxation of the GST	—	—	—	—	—
Impact on businesses					
Gradual refund over three years of the QST on purchases of large businesses[1]	—	—	—	—	—
Impact on financial institutions[2]	55	245	255	270	825
Subtotal	**55**	**245**	**255**	**270**	**825**
TOTAL	**788**	**1 712**	**255**	**270**	**3 025**

1 As of January 1, 2018.
2 Elimination of input tax rebates to financial institutions and elimination of the compensatory tax on financial institutions.

2.4.2 Adjustments to budgetary expenditure

Budgetary expenditure, which includes program spending and debt service, is adjusted downward by $71 million in 2011-2012 and upward by $17 million in 2012-2013.

❑ Program spending

■ 2011-2012

In the last budget, the program spending objective was set at $61 284 million for 2011-2012, an increase of 2.4% compared to the preliminary results for 2010-2011.

The government continues to control of its spending well and is making no change to the level of spending in 2011-2012.

— Program spending growth, taking the actual level of spending for 2010-2011, now stands at 1.9%.

TABLE 21

Program spending – Fall 2011
(millions of dollars)

	2011-2012	2012-2013	2013-2014
PROGRAM SPENDING OBJECTIVE - 2011-2012 BUDGET	**– 61 284**	**– 62 113**	**– 63 325**
% change	*2.4*	*1.4*	*2.0*
Allowance for the expected pay increase of government employees following the upward adjustment to GDP	—	– 142	– 142
Total adjustments	**—**	**– 142**	**– 142**
PROGRAM SPENDING OBJECTIVE – FALL 2011	**– 61 284**	**– 62 255**	**– 63 467**
% change	*1.9*	*1.6*	*1.9*

2012-2013

For 2012-2013, the program spending objective is increased by $142 million compared to the objective published in the last budget, and stands at $62 255 million, an increase of 1.6%.

This increase stems from the inclusion of a financial allowance for the expected improvement to the pay parameters of government employees following the positive adjustment to nominal economic growth for 2010. The agreement reached by the government with public and parapublic sector employees stipulates that their pay scales can be raised if economic growth from 2010 to 2013 is better than anticipated at the time of the negotiations.

Accordingly, because of the new economic data for 2010 when growth was better than expected as well as the forecast growth for subsequent years, the government is setting up an allowance of $142 million as of 2012-2013, corresponding to an increase in the pay parameters of 0.5%. The agreement stipulates that the final amount of the increase will depend on the adjusted economic data for 2010 and 2011 that will be published in the fall of 2012.

■ 2013-2014

Apart from the recurring wage adjustments in 2012-2013, there is no adjustment to program spending in 2013-2014.

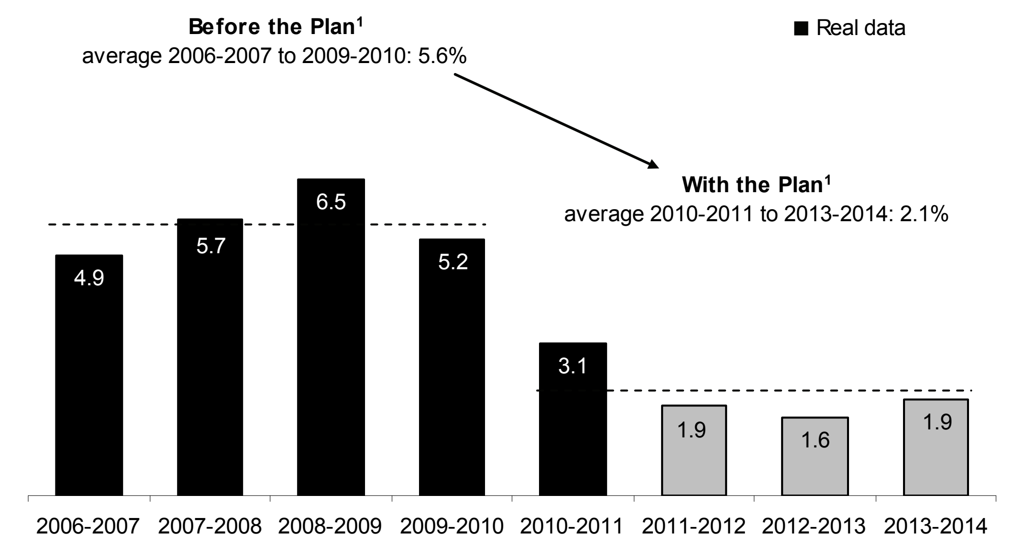
Accordingly, the program spending objective now stands at $63 467 million in 2013-2014, an increase of 1.9% compared to 2012-2013.

■ Slower growth in program spending

Taking all of the adjustments into account, average growth in program spending from 2010-2011 to 2013-2014 stands at 2.1%, down substantially compared with average growth of 5.6% from 2006-2007 to 2009-2010.

CHART 55

Change in growth in program spending
(per cent)



1 Plan to restore fiscal balance.

Slower growth in program spending including the creation of new funds to finance health and transportation infrastructure

Since 2010-2011, the government has set up a number of funds to dedicate revenue to priority sectors, in particular the Fund to Finance Health and Social Services Institutions (FINESSS) and the Land Transportation Network Fund (FORT).

Accordingly, adding the expenditure of these funds to program spending, growth is slower compared with the average of 5.7% observed on this basis from 2006-2007 to 2009-2010 and amounts to:

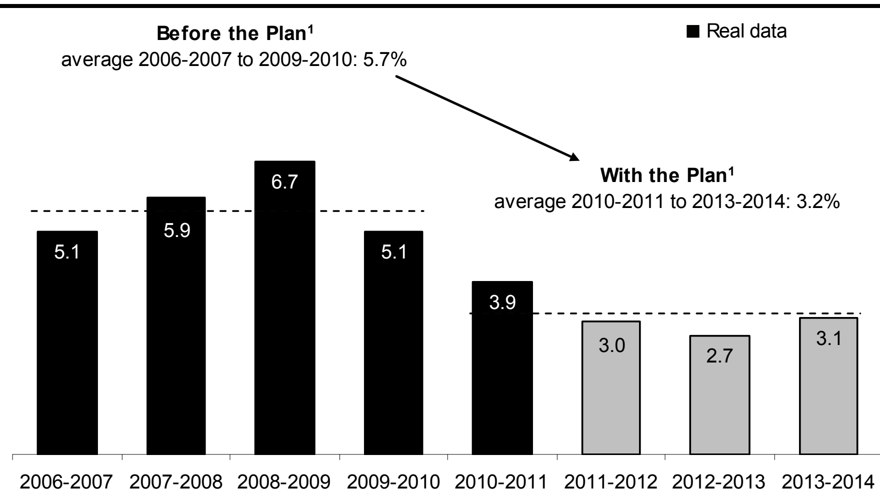
- 3.9% in 2010-2011;
- 3.0% in 2011-2012;
- 2.7% in 2012-2013;
- 3.1% in 2013-2014.

Adjustments to the program spending objective including the FORT and the FINESSS
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Program spending – Fall 2011	**– 58 349**	**– 60 165**	**– 61 284**	**– 62 255**	**– 63 467**
% change	*5.2*	*3.1*	*1.9*	*1.6*	*1.9*
FORT[1]	– 1 715	– 1 993	– 2 392	– 2 784	– 3 164
FINESSS		– 252	– 615	– 995	– 1 445
Program spending including FORT and FINESSS	**– 60 064**	**– 62 410**	**– 64 291**	**– 66 034**	**– 68 076**
% change	*5.1*	*3.9*	*3.0*	*2.7*	*3.1*

1 2011-2012 Budget forecasts for 2011-2012 to 2013-2014.

Change in growth in program spending including the FORT and the FINESSS – Fall 2011
(per cent)



1 Plan to restore fiscal balance.

❑ Debt service

Compared with the forecast of last March, debt service of the Consolidated Revenue Fund is adjusted downward by $71 million in 2011-2012 and by $125 million in 2012-2013, chiefly because of the downward adjustment to interest rates.

2.4.3 The government's consolidated expenditure

The following table shows the amount and the change in the components of consolidated expenditure, i.e. all public expenditure included in the government reporting entity.

— In addition to program spending, consolidated expenditure includes in particular expenditure of the special funds, non-budget-funded bodies, establishments of the health and social services and the education networks, and debt service expenditure.

— As shown in the chart of the next page, growth in consolidated expenditure excluding debt service will average 3.0% from 2010-2011 to 2013-2014.

TABLE 22

Change in consolidated expenditure[1] – Fall 2011
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Program spending	**60 165**	**61 284**	**62 255**	**63 467**
% change	*3.1*	*1.9*	*1.6*	*1.9*
Special funds	**8 829**	**9 723**	**10 614**	**11 467**
% change	*2.2*	*10.1*	*9.2*	*8.0*
Non-budget-funded bodies	**15 818**	**16 464**	**17 263**	**17 631**
% change	*– 1.2*	*4.1*	*4.9*	*2.1*
Health and social services and education networks	**33 602**	**35 051**	**36 620**	**38 226**
% change	*4.8*	*4.3*	*4.5*	*4.4*
Specified purpose accounts	**1 758**	**1 697**	**1 397**	**1 177**
% change	*52.6*	*– 3.5*	*– 17.7*	*– 15.7*
Elimination of inter-entity operations	– 49 017	– 50 365	– 52 551	– 54 673
Consolidated expenditure excluding debt service	**71 155**	**73 854**	**75 598**	**77 295**
% change	*3.5*	*3.8*	*2.4*	*2.2*
Debt service				
Consolidated revenue fund	6 984	7 723	8 521	9 194
% change	*14.2*	*10.6*	*10.3*	*7.9*
Consolidated entities	1 951	2 132	2 333	2 560
% change	*13.0*	*9.3*	*9.4*	*9.7*
Consolidated debt service	**8 935**	**9 855**	**10 854**	**11 754**
% change	*13.9*	*10.3*	*10.1*	*8.3*
Consolidated expenditure	**80 090**	**83 709**	**86 452**	**89 049**
% change	*4.6*	*4.5*	*3.3*	*3.0*

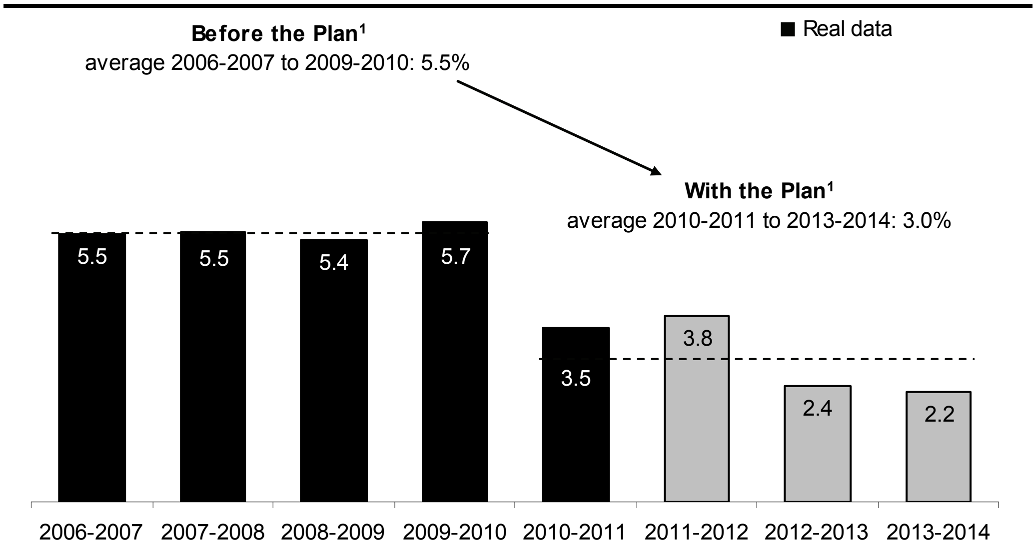
1 Consolidated expenditure is presented by means of the same definition as that of the Public Accounts. The differences in relation to the consolidated expenditure of the government departments and organizations presented in the last Budget stem from the inclusion of expenditure of specified purpose accounts and the addition of the debt service of consolidated entities to that of the Consolidated Revenue Fund.

❑ Change in consolidated expenditure excluding debt service

Overall, growth in consolidated expenditure excluding debt service will amount to 3.8% in 2011-2012 and 2.4% in 2012-2013. For the entire period from 2010-2011 to 2013-2014, annual growth will average 3.0%, down from the average of 5.5% observed for 2006-2007 to 2009-2010.

CHART 56

Change in growth of consolidated expenditure excluding debt service
(per cent)



1 Plan to restore fiscal balance.

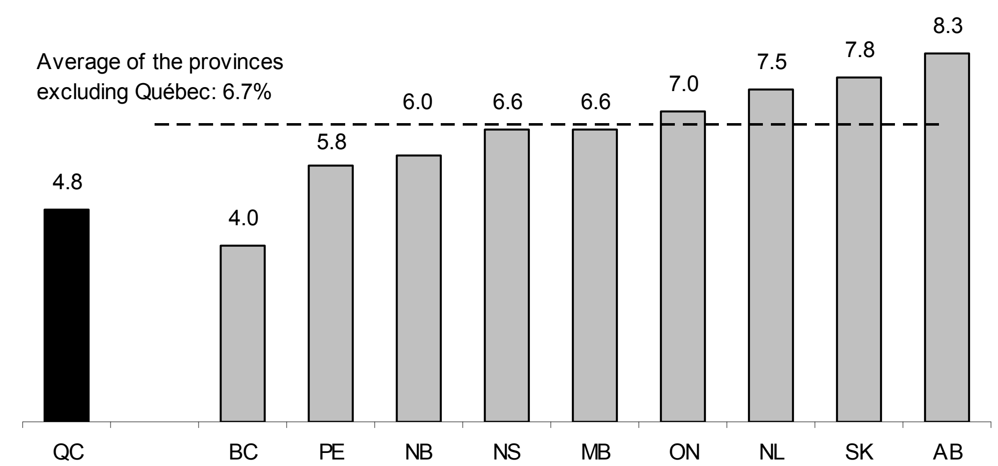
■ Continuing to improve control over our spending

Along with British Columbia, Québec is the province that has been most successful at controlling spending from 2003-2004 to 2010-2011, i.e. for the last eight years.

— Average annual growth in consolidated expenditure excluding debt service stands at 4.8% in Québec compared with 6.7% on average elsewhere in Canada.

CHART 57

Consolidated expenditure of the provinces excluding debt service1
Average annual growth from 2003-2004 to 2010-2011
(per cent)



1 Most recent official documents of jurisdictions as of October 14, 2011.
Sources: Finance ministries of the provinces and Finance Canada.

2.5 Detailed results

The following tables provide detailed results of the major components of the government's financial framework.

TABLE 23

Revenue of the Consolidated Revenue Fund
(millions of dollars)

	2010-2011	2011-2012	% change	2012-2013	% change
Own-source revenue					
Own-source revenue excluding government enterprises					
– Personal income tax	17 913	18 736	4.6	19 427	3.7
– Contributions to the Health Services Fund	5 974	6 122	2.5	6 327	3.3
– Corporate taxes	3 639	3 970	9.1	4 166	4.9
– Consumption taxes	12 669	14 660	15.7	16 610	13.3
– Other	2 192	1 979	– 9.7	2 137	8.0
Subtotal	**42 387**	**45 467**	**7.3**	**48 667**	**7.0**
Revenue from government enterprises	4 838	4 790	– 1.0	4 930	2.9
Total own-source revenue	**47 225**	**50 257**	**6.4**	**53 597**	**6.6**
Federal transfers					
Equalization[1]	8 552	8 184	– 4.3	7 771	– 5.0
Health transfers	4 309	4 544	5.5	4 827	6.2
Transfers for post-secondary education and other social programs	1 455	1 473	1.2	1 498	1.7
Other programs	1 109	946	– 14.7	928	– 1.9
Harmonization of the QST with the GST - Compensation				733	
Total federal transfers	**15 425**	**15 147**	**– 1.8**	**15 757**	**4.0**
BUDGETARY REVENUE	**62 650**	**65 404**	**4.4**	**69 354**	**6.0**

1 Including a protection payment in 2011-2012.

TABLE 24

Expenditure of the Consolidated Revenue Fund
(millions of dollars)

	2010-2011	2011-2012	% change	2012-2013	% change
Program spending	– 60 165	– 61 284	1.9	– 62 255	1.6
Debt service	– 6 984	– 7 723	10.6	– 8 521	10.3
BUDGETARY EXPENDITURE	**– 67 149**	**– 69 007**	**2.8**	**– 70 776**	**2.6**

2.6 The Government's Financial Framework

2.6.1 The five-year financial framework

The following table shows the final results for fiscal year 2010-2011 and the government's five-year financial forecasts.

During the implementation period of the plan to restore fiscal balance, revenue will grow faster than expenditure, enabling a gradual return to fiscal balance by 2013-2014.

As of 2014-2015, forecast budgetary revenue remains similar to the level of budgetary expenditure. The shortfall that needs to be offset to maintain a balanced budget within the meaning of the Balanced Budget Act essentially corresponds to the amount the government must pay into the Generations Fund.

TABLE 25

The Québec government's financial framework – Fall 2011
(millions of dollars)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
BUDGETARY TRANSACTIONS						
Budgetary revenue						
Own-source revenue	47 225	50 257	53 597	56 225	58 269	60 218
% change	*7.1*	*6.4*	*6.6*	*4.9*	*3.6*	*3.3*
Federal transfers	15 425	15 147	15 757	16 939	16 046(1)	16 772(1)
% change	*1.7*	*– 1.8*	*4.0*	*7.5*	*– 5.3*	*4.5*
Total budgetary revenue	**62 650**	**65 404**	**69 354**	**73 164**	**74 315**	**76 990**
% change	***5.7***	***4.4***	***6.0***	***5.5***	***1.6***	***3.6***
Budgetary expenditure						
Program spending	– 60 165	– 61 284	– 62 255	– 63 467	– 65 348	– 67 614
% change	*3.1*	*1.9*	*1.6*	*1.9*	*3.0*	*3.5*
Debt service	– 6 984	– 7 723	– 8 521	– 9 194	– 9 236	– 9 422
% change	*14.2*	*10.6*	*10.3*	*7.9*	*0.5*	*2.0*
Total budgetary expenditure	**– 67 149**	**– 69 007**	**– 70 776**	**– 72 661**	**– 74 584**	**– 77 036**
% change	***4.2***	***2.8***	***2.6***	***2.7***	***2.6***	***3.3***
Consolidated entities						
– Non-budget-funded bodies and special funds	1 189	150	70	– 439	– 736	– 939
– Health and social services and education networks	160	53	52	36	30	10
– Generations Fund	760	929	1 047	1 108	1 560	2 008
Total of consolidated entities	**2 109**	**1 132**	**1 169**	**705**	**854**	**1 079**
Contingency reserve	—	– 400	– 200	– 100	—	—
Shortfall to be offset	—	—	—	—	975	975
SURPLUS (DEFICIT)	**– 2 390**	**– 2 871**	**– 453**	**1 108**	**1 560**	**2 008**
BALANCED BUDGET ACT						
Payments of revenue dedicated to the Generations Fund	– 760	– 929	– 1 047	– 1 108	– 1 560	– 2 008
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 150**	**– 3 800**	**– 1 500**	**0**	**0**	**0**

1 The Fiscal Arrangements Act between the federal government and the provinces determines the formulas for payments of equalization, the CHT and the CST until 2013-2014. The forecast for these transfers as of 2014-2015 was generated assuming the existing formulas remain in force.

2.6.2 Consolidated results

The following table shows the government's consolidated financial framework. The consolidated budgetary transactions provide complete information on the government's financial framework.

TABLE 26

Consolidated financial framework of adjusted revenue and expenditure – Fall 2011
Consolidated results by sector[1]
(millions of dollars)

	2011-2012	2012-2013	2013-2014
Revenue			
Consolidated revenue fund	65 404	69 354	73 164
Special funds	11 214	12 118	12 772
Non-budget-funded bodies	17 521	18 652	19 235
Health and social services and education networks	35 929	37 539	39 205
Generations Fund	929	1 047	1 108
Specified purpose accounts	1 697	1 397	1 177
Less: Elimination of inter-entity operations	– 51 456	– 53 908	– 56 404
Consolidated revenue	**81 238**	**86 199**	**90 257**
Expenditure			
Consolidated revenue fund	– 61 284	– 62 255	– 63 467
Special funds	– 9 723	– 10 614	– 11 467
Non-budget-funded bodies	– 16 464	– 17 263	– 17 631
Health and social services and education networks	– 35 051	– 36 620	– 38 226
Specified purpose accounts	– 1 697	– 1 397	– 1 177
Less: Elimination of inter-entity operations	50 365	52 551	54 673
Consolidated expenditure excluding debt service	**– 73 854**	**– 75 598**	**– 77 295**
Debt service			
Consolidated revenue fund	– 7 723	– 8 521	– 9 194
Consolidated entities	– 2 132	– 2 333	– 2 560
Consolidated debt service	**– 9 855**	**– 10 854**	**– 11 754**
Consolidated expenditure	**– 83 709**	**– 86 452**	**– 89 049**
Contingency reserve	– 400	– 200	– 100
SURPLUS (DEFICIT)	**– 2 871**	**– 453**	**1 108**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	– 929	– 1 047	– 1 108
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 800**	**– 1 500**	**0**

1 This table shows the consolidated results by sector according to the accounting standards in force. As of fiscal year 2012-2013, the presentation will be changed to reflect the new standard concerning tax transfers made through a tax system. The Ministère des Finances will publish an information note to that effect before the next budget.

PART THREE:

FOLLOW-UP ON THE PLAN TO RESTORE FISCAL BALANCE AND DEBT REDUCTION EFFORTS

3. Follow-up on the plan to restore fiscal balance and debt reduction efforts

In the 2009-2010 and 2010-2011 budgets, the government made it clear that it intended to support the economy during the recession and that it would take the steps required to restore balance to public finances once economic recovery was underway.

This budgetary discipline was acknowledged by the rating agencies, which once again confirmed Québec's credit rating following the 2011-2012 Budget, recognizing the credibility of the plan to restore fiscal balance and the government's determination to reduce the debt burden.

3.1 Plan to restore fiscal balance

When it tabled the 2009-2010 Budget, the government announced the implementation of a plan to restore fiscal balance seeking to eliminate the deficit by 2013-2014, based on an effort shared by the government (62%) and taxpayers (38%).

In the 2011-2012 Budget, the government put the total effort required to restore fiscal balance by 2013-2014 at $12.2 billion.

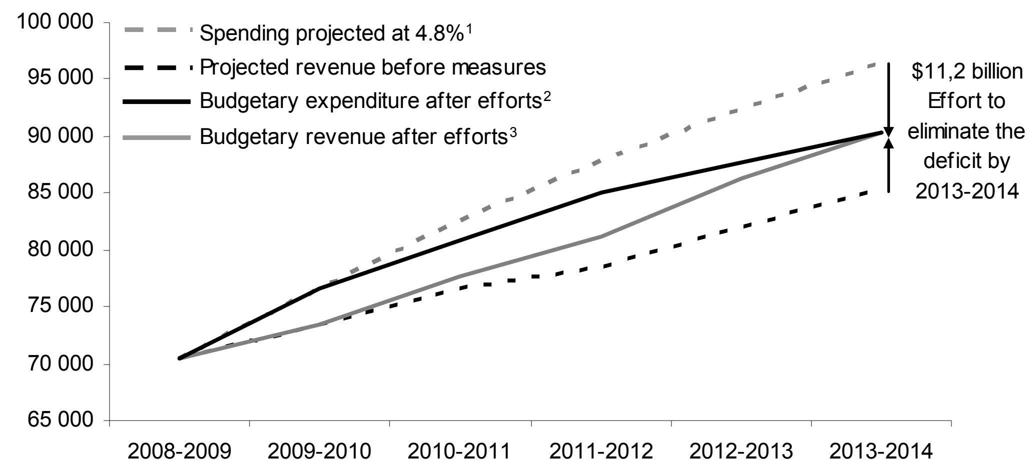
— This amount included $1 025 million in measures still to be identified.

In the fall update, despite the economic slowdown, the anticipate additional revenue further to a set of adjustments enables the government to defer the identification of new measures needed to keep the budget balanced to 2014-2015. Accordingly, the total effort required in 2013-2014 is lowered to $11.2 billion.

All of the measures identified over the last two years and more are enough to complete the plan to restore fiscal balance.

CHART 58

Impact of the plan to restore fiscal balance on revenue and expenditure – Fall 2011
(millions of dollars)



1 Total budgetary expenditure including 4.8% growth in program spending, i.e. the average annual growth rate for the period 2003-2004 to 2009-2010 that prevailed in the 2010-2011 Budget.
2 Including the payments to the Generations Fund and spending efforts.
3 Including the net results of consolidated entities, the contingency reserve, the stabilization reserve and revenue efforts, in particular efforts to combat tax evasion.

3.1.1 Follow-up on the effort made in 2010-2011 under the plan to restore fiscal balance

In 2010, the government implemented the initial measures of the plan to restore fiscal balance regarding spending growth reduction and revenue.

In the first year of implementation of the plan, the total effort amounts to $2.8 billion. The results for 2010-2011 show that:

- the government's share amounts to $1.8 billion, accounting for 65% of the total effort.
  - efforts by government departments and organizations reached $1 377 million or 49.2% of the effort. These efforts notably stem from:
    - parameters that help limit spending on remuneration, including a payroll freeze in the public administration;
    - a 10% reduction in administrative operating expenditure;
    - a program spending growth limitation;
  - efforts by public organizations reached $110 million or 3.9% of the effort;
  - amounts from the effort to combat tax evasion reached $338 million or 12.1% of the effort;

TABLE 27

Breakdown of the effort identified to balance the budget – 2010-2011
(millions of dollars)

	Government				Taxpayers			
	Tax evasion	**Public organizations**	**Government departments**	**Subtotal**	**Individuals[1]**	**Businesses and other**	**Subtotal**	**Total**
Total effort	338	110	1 377	**1 825**	643	333	**976**	**2 801**
– Breakdown of the effort (%)	12.1	3.9	49.2	**65.2**	22.9	11.9	**34.8**	**100.0**

1 Including the health contribution.

— taxpayers' share amounts to $976 million, corresponding to 35% of the total effort;

  — revenue from the health contribution amounted to $252 million representing 9.0% of the effort and was used to fund the equivalent amount of health spending;

  — other efforts by individuals generated $391 million, accounting for 13.9% of the effort;

  — businesses contributed $333 million, including the other components of the plan, i.e. 11.9% of the effort.

The results for 2010-2011 are consistent with the objective whereby once the plan to restore fiscal balance is completed in 2013-2014, the government will have furnished 62% of the total effort and taxpayers the remaining 38%.

TABLE 28

Follow-up on the plan to restore fiscal balance[1] – 2010-2011 results

(millions of dollars)

	2010-2011						
	Initial plan	**Real**		**2011-2012**	**2012-2013**	**2013-2014**	
BUDGETARY BALANCE BEFORE THE PLAN TO RESTORE FISCAL BALANCE - 2011-2012 BUDGET		**– 6 835**		**– 9 389**	**– 10 666**	**– 12 236**	
Adjustments							
Budgetary revenue		274		29	267	1 077	
Budgetary expenditure		– 396		71	– 17	– 2	
Consolidated entities		872		—	50	50	
Contingency reserves		300		– 100	—	– 100	
Reduction in efforts to be identified		—		—	– 300	– 1 025	
Total adjustments – Fall 2011		**1 050**		**0**	**0**	**0**	
Offset of measures to be identified				—	300	1 025	
Other adjustments offset by additional efforts		– 166[2]					
BUDGETARY BALANCE BEFORE THE PLAN TO RESTORE FISCAL BALANCE		**– 5 951**		**– 9 389**	**– 10 366**	**– 11 211**	
PLAN TO RESTORE FISCAL BALANCE							
Government efforts							
Government departments	972	1 377		2 289	3 699	5 204	
Public organizations	80	110	65%	240	365	530	
Countering tax evasion	320	338		555	875	1 200	62%
Subtotal	**1 372**	**1 825**		**3 084**	**4 939**	**6 934**	
Taxpayers' effort							
Individuals	421	391		1 553	2 329	2 536	
Health contribution	180	252		575	945	945	
Subtotal	**601**	**643**	35%	**2 128**	**3 274**	**3 481**	38%
Businesses and other	230	333		377	653	796	
Subtotal	**831**	**976**		**2 505**	**3 927**	**4 277**	
Total identified efforts	**2 203**	**2 801**		**5 589**	**8 866**	**11 211**	
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT		**– 3 150**		**– 3 800**	**– 1 500**	**0**	

1 The data for the plan to restore fiscal balance have been adjusted for the year ended March 31, 2011.
2 These adjustments are in addition to those of $432 million shown in the 2011-2012 Budget, for a total of $598 million, which corresponds to the difference between the effort identified for 2010-2011 and the effort stipulated in the initial plan for the same year.

❑ Implementation of the solidarity tax credit

Fiscal balance will be restored while protecting the purchasing power of low-income households. In the 2010-2011 Budget, the government announced the implementation of the solidarity tax credit that pays financial assistance to disadvantaged households to enable them to deal with the announced rises in the QST.

Solidarity Tax Credit

A new tax credit to protect the purchasing power of disadvantaged households

In the 2010-2011 Budget, the government announced the implementation of a new solidarity tax credit. This new tax credit replaces three tax credits, namely:

- the QST credit;
- the property tax refund;
- the tax credit for individuals living in a northern village.

The solidarity tax credit offers enhanced assistance to disadvantaged households to protect their purchasing power from the rises in the tax announced as part of the plan to restore fiscal balance.

Tax assistance of $1.4 billion per year to 2.7 million households

Ultimately, the tax assistance arising from the implementation of the solidarity tax credit will benefit almost 2.7 million households. They will receive almost $1.4 billion annually.

The solidarity tax credit:

- provides households with $510 million more each year;
- improves the cash flow of individuals;
- compensates low-income households for the announced tax rises.

For example, a couple with two children will ultimately be fully compensated up to an income of roughly $31 500.

Assistance adapted to the needs of households

One of the objectives of the solidarity tax credit is to provide households with assistance based on their financial situation as it changes and throughout the year. In order to achieve these objectives, the assistance is:

- paid monthly rather than twice a year or annually as was the case with the tax credits that have been replaced;
- adjusted each month to reflect changes in the needs and family situation of households.

It is important to point out that these features associated with the solidarity tax credit place Québec among the leading jurisdictions regarding support for low-income households.

Introduction of payment by direct deposit

Payments of the solidarity tax credit payment are made by direct deposit.

- For taxpayers, the main advantages of direct deposit are its reliability and security. Payments are received more quickly and there is no risk of a cheque being lost or stolen.
- Direct deposit also reduces administrative costs such as printing, mailing, postage and handling costs associated with payments by cheque.

Almost 2.1 million households already receive the solidarity tax credit

Since the solidarity tax credit came into force last July, Revenu Québec has made a large number of assistance payments to Québec households.

For the month of September 2011 alone, almost 2.1 million households received the tax credit, for total assistance of $116 million.

- 98% of the assistance was paid by direct deposit.

Solidarity Tax Credit (continued)

Sustained efforts to ensure that the assistance granted benefits the largest number

Implementation of the solidarity tax credit is a major operation. Because it was introduced recently, many eligible households have still not completed the application or are not yet registered for direct deposit. Consequently, Revenu Québec will continue the efforts in place for a number of months now to ensure that all eligible households receive this assistance.

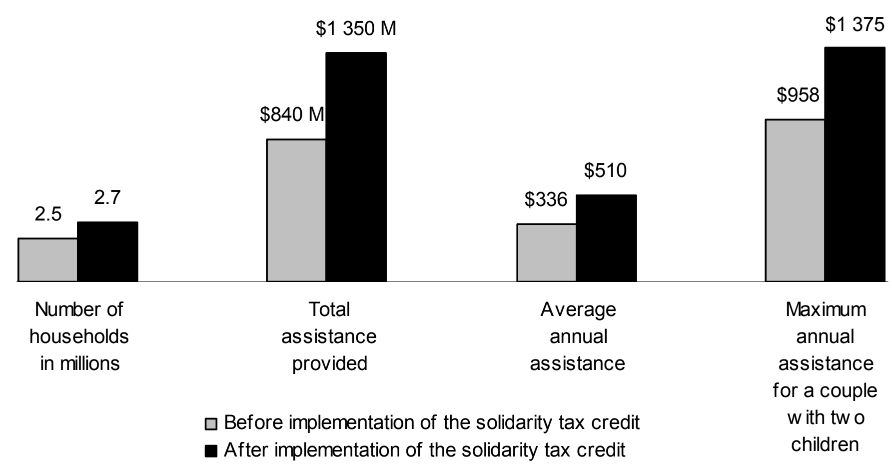
It is estimated that by the end of the first year of implementation, the tax credit will benefit roughly 2.5 million Québec households.

Improved tax assistance with the solidarity tax credit

Once fully implemented in 2012, the solidarity tax credit will provide households with $510 million more than the three tax credits it replaces, i.e. support of $1 350 million.

- The number of recipient households will reach 2.7 million, i.e. 200 000 more.
- Average assistance will rise from $336 to $510, i.e. $174 more per year.
- The maximum amount for a couple with two children, which was $958, will now be $1 375.

Number of households and cost of tax credits – Situation before and after implementation of the solidarity tax credit



3.2 The Québec government's debt: continue work to achieve debt reduction targets

3.2.1 Gross debt

The gross debt corresponds to the sum of the debt contracted on financial markets and the net liabilities for the retirement plans and future employment benefits of parapublic and public sector employees, from which the balance of the Generations Fund is subtracted.

As at March 31, 2011, the gross debt stood at $173.4 billion, equivalent to 54.6% of GDP. As at March 31, 2012, it is expected to amount to $184.0 billion, equivalent to 55.5% of GDP.

TABLE 29

Gross debt as at March 31
(millions of dollars)

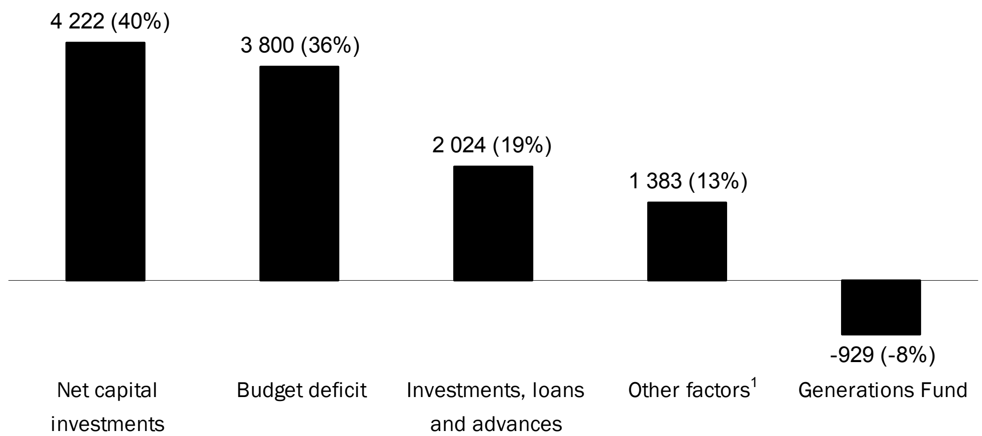
	2011	2012
Consolidated direct debt[1]	147 748	158 563
Plus: Net retirement plans and future employment benefits liabilities	29 125	29 739
Less: Generations Fund	– 3 437	– 4 366
Gross DEBT[1]	**173 436**	**183 936**
As a % of GDP	***54.6***	***55.5***

1 The consolidated direct debt and the gross debt exclude pre-financing.

The expected rise in the gross debt of $10.5 billion in 2011-2012 is attributable mainly to government investments in fixed assets and the budget deficit.

CHART 59

Growth factors of the gross debt in 2011-2012
(millions of dollars)



1 Other factors include in particular the change in "other accounts", such as accounts receivable and accounts payable, as well as the change in the value of the debt in foreign currencies.

Since March 31, 1998, the Québec government's gross debt/GDP ratio has fallen significantly. While gross debt was equivalent to 59.2% of GDP as at March 31, 1998, this percentage stood at 50.3% as at March 31, 2009.

The result of line-by-line consolidation of the results of institutions of the health and social services and the education networks with those of the government has been to raise the debt-to-GDP ratio to 52.0% as at March 31, 2009.

The ratio is expected to reach 55.6% as at March 31, 2013 mainly as a result of capital investments. Thereafter, the debt-to-GDP ratio should decline to 53.6% as at March 31, 2016.

TABLE 30

The Québec government's gross debt

	$ millions[1]	As a % of GDP
With networks consolidated at modified equity value		
1997-1998	111 525	59.2
1998-1999	115 432	58.8
1999-2000	116 761	55.4
2000-2001	120 562	53.6
2001-2002	123 912	53.5
2002-2003	129 135	53.5
2003-2004	133 231	53.1
2004-2005	136 894	52.1
2005-2006	139 728	51.4
2006-2007	144 505	51.2
2007-2008	149 225	50.4
2008-2009	152 514	50.3
With networks consolidated line by line[2]		
2008-2009	157 630	52.0
2009-2010	163 318	54.0
2010-2011	173 436	54.6
2011-2012	183 936	55.5
2012-2013	191 172	55.6
2013-2014	196 314	54.8
2014-2015	202 154	54.2
2015-2016	207 547	53.6

1 The gross debt excludes pre-financing.
2 The gross debt reflects the line-by-line consolidation of the institutions of the health and social services and the education networks. For this reason, the data from 2009 to 2016 are not comparable with those from 1998 to 2008.

3.3 The debt representing accumulated deficits

The government owns substantial assets that offset the gross debt.

The debt representing accumulated deficits corresponds to the difference between the government's liabilities and its assets. This concept provides a good representation of the government's financial situation since it includes all its assets and liabilities.

As at March 31, 2011, the Québec government's debt representing accumulated deficits stood at $111.9 billion, i.e. 35.2% of GDP. As at March 31, 2012, it should amount to $114.8 billion or 34.6% of GDP.

TABLE 31

Debt representing accumulated deficits as at March 31
(millions of dollars)

	2011	2012
Gross debt	173 436	183 936
Less: Financial assets, net of other liabilities	– 14 147	– 17 554
Less: Non-financial assets	– 47 387	– 51 609
Debt representing accumulated deficits	**111 902**	**114 773**
As a % of GDP	***35.2***	***34.6***

The debt representing accumulated deficits is expected to increase until 2012-2013 because of budget deficits and will stop rising in 2013-2014 once the budget is balanced. It will then decline year after year at the rate of the increase of the Generations Fund. As at March 31, 2016, the debt representing accumulated deficits should decline to $110.6 billion or 28.6% of GDP.

TABLE 32

Growth factors of the debt representing accumulated deficits

(millions of dollars)

	Debt at the start of the fiscal year	Budget deficit	Generations Fund	Restatements	Debt at the end of the fiscal year	As a % of GDP
2010-2011	109 125[1]	3 150	– 760	387	111 902	35.2
2011-2012	111 902	3 800	– 929	—	114 773	34.6
2012-2013	114 773	1 500	– 1 047	—	115 226	33.5
2013-2014	115 226	—	– 1 108	—	114 118	31.9
2014-2015	114 118	—	– 1 560	—	112 558	30.2
2015-2016	112 558	—	– 2 008	—	110 550	28.6

1 The debt representing accumulated deficits as at March 31, 2010 was restated by $1 508 million. This restatement stems chiefly from the revaluation of liabilities arising from the remediation of contaminated land under the government's responsibility.

3.4 Debt reduction objectives

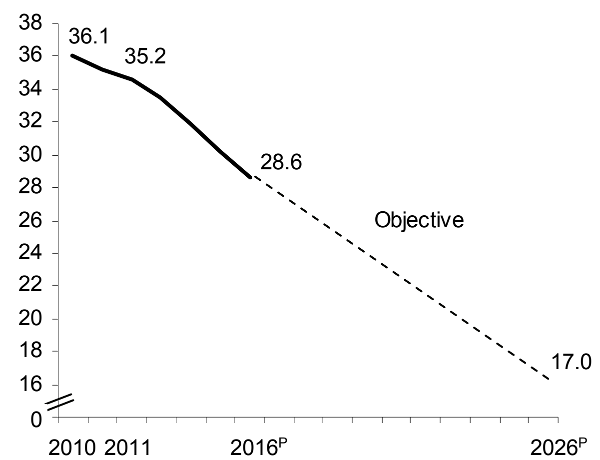
In 2010, the government set new debt reduction objectives for 2025-2026:

— 45% of GDP for the gross debt;

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

CHART 60

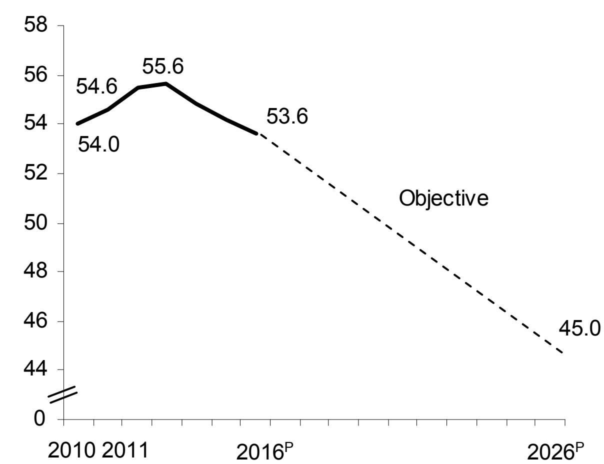
Debt representing accumulated deficits
(as at March 31, as a percentage of GDP)



P: Forecasts for 2012 to 2016 and projections for subsequent years.

CHART 61

Gross debt[1]
(as at March 31, as a percentage of GDP)



P: Forecasts for 2012 to 2016 and projections for subsequent years.
Note: The gross debt takes the amounts accumulated in the Generations Fund into account.
1 The gross debt excludes pre-financing.

In the March 2010 budget, the government announced that, to achieve these objectives, the price of heritage pool electricity would rise by 1 cent/kWh over five years, as of 2014-2015, and that the resulting revenue would be paid into the Generations Fund. These additional payments will represent $315 million in 2014-2015, $630 million in 2015-2016, reaching almost $1.6 billion in 2018-2019.

Two new initiatives were included in the March 2011 budget:

— First, the government will gradually reduce the overall infrastructure investment envelope stipulated in the Québec Infrastructures Plan over the coming years, while maintaining the quality of public infrastructures.

— In addition, 25% of mining, oil and gas royalties in excess of $200 million will be paid into the Generations Fund beginning in 2014-2015, i.e. an additional annual payment of $40 million for that year.

With all of the measures that have been announced, the balance of the Generations Fund should reach $10.1 billion as at March 31, 2016.

3.4.1 Gradual reduction in investment targets

The government is continuing to make the investments of $9.6 billion stipulated in 2011-2012 in the 2010-2015 Québec Infrastructures Plan. In all, investments of $44.6 billion will have been made over five years. Adding the contribution of the Québec government's various partners to the projects in the five-year plan, infrastructure investments will reach $57.0 billion from 2010-2011 to 2014-2015.

The government has made unprecedented investments since the creation of the Québec Infrastructures Plan in 2007, investments that in particular have enabled Québec to get through the economic upheavals of recent years. However, the level of investment must slow to remain compatible with taxpayers' ability to pay.

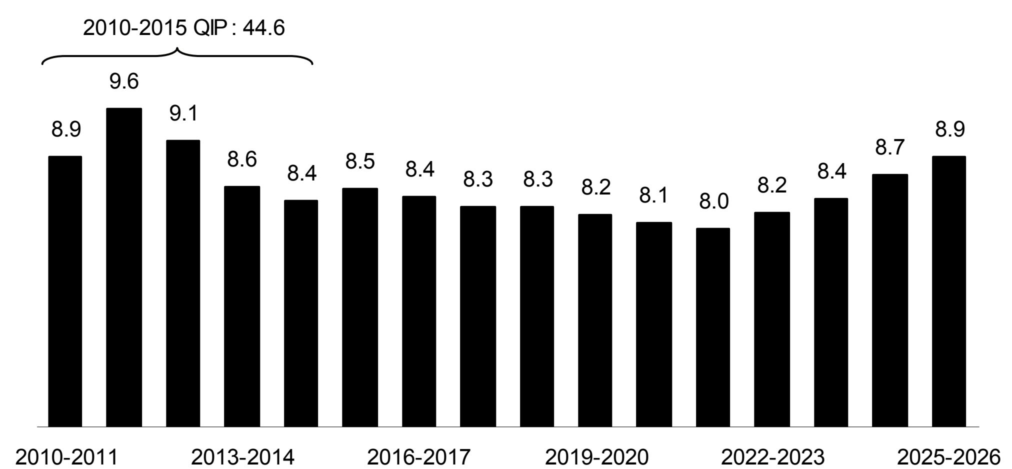
In the 2011-2012 Budget, the government announced the following infrastructure investment policy directions.

— To consolidate the economic recovery, the annual amount of investment was set at $9.6 billion in 2011-2012. This will allow the construction and restoration of many roads, municipal infrastructure projects, schools and hospitals in the regions of Québec.

— Thereafter, i.e. as of 2012-2013, infrastructure investment will gradually be reduced to $8.5 billion in 2015-2016 and to $8.0 billion in 2021-2022.

CHART 62

Annual investments under the Québec Infrastructures Plan
(billions of dollars)



This reduction in annual envelopes is necessary to comply with the government's financial framework and achieve debt load reduction objectives.

Achieving these targets implies choosing infrastructure investment projects so as to fund new priority initiatives and ensure that the quality of all the existing infrastructure stock is maintained. The government intends to fully eliminate the maintenance deficit by 2022-2023 and to continue investing in asset maintenance, as stipulated in the Act to promote the maintenance and renewal of public infrastructures.

PART FOUR:
THE FIGHT AGAINST TAX EVASION

4. THE FIGHT AGAINST TAX EVASION

Since 2009, within the context of the plan to restore fiscal balance, the government has stepped up its efforts to combat tax evasion. It is doing so with the objective of ensuring that everyone pays his fair share to fund public services.

The new initiatives have produced encouraging results.

— The 2010-2011 tax recovery target has even been surpassed.

Despite the efforts made, tax losses stemming from unreported work in Québec nonetheless remain significant and stand at roughly $3.5 billion a year.

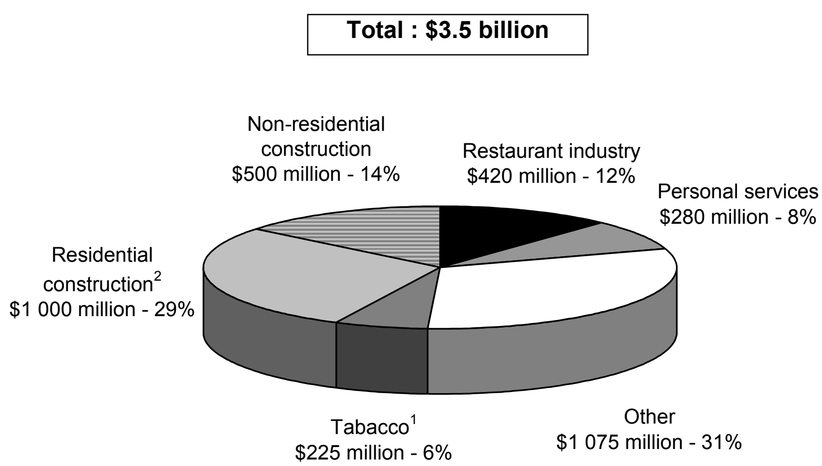
— The losses in the residential construction (29%) and non-residential construction (14%) sectors are the highest.

— Other sectors of activity that rank among the highest for tax losses are the food service industry (12%) and tobacco products (6%).

— An assessment of the scope of tax losses allows the government to target its measures in the sectors at highest risk.

CHART 63

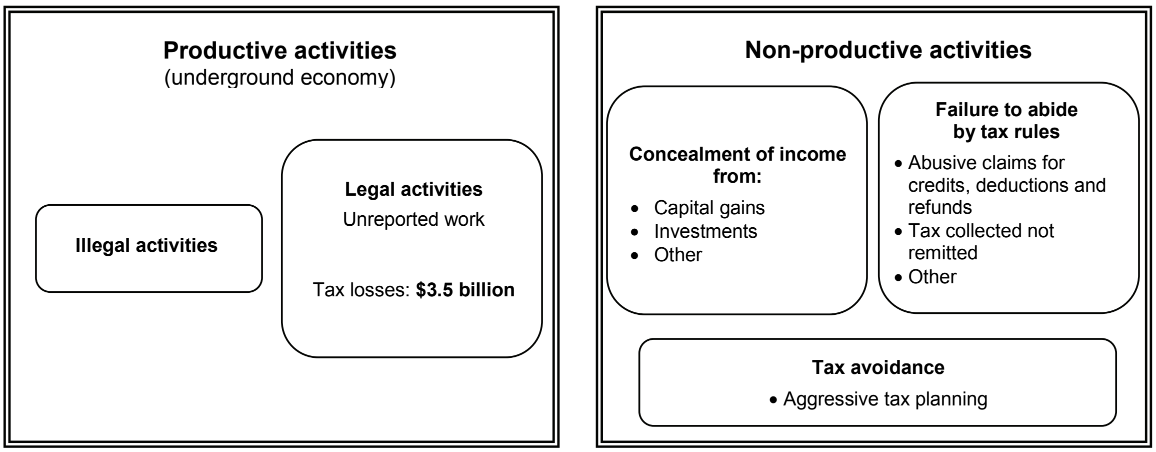
Breakdown of tax losses by sector, 2008
(in millions of dollars and as a percentage)



1 The estimate of tax losses linked to tobacco smuggling is for 2010.
2 Includes renovation activities.
Sources: Revenu Québec, Ministère des Finances du Québec and Statistics Canada.

The $3.5-billion estimate of tax losses does not include losses stemming from non-productive activities such as the concealing of income, failure to obey tax rules (fraudulent tax refunds on inputs) or tax avoidance (aggressive tax planning), activities in respect of which it is harder to estimate overall tax losses.

Tax evasion: illustration of the origin of tax losses



4.1 Objectives and principles of the fight against tax evasion

The Québec government is stepping up the fight against tax evasion to:

- enhance fairness for taxpayers;
- improve standards in certain sectors at risk;
- increase revenue, which will facilitate a return to fiscal balance without penalizing taxpayers who assume their fiscal obligations;
- reduce tax losses.

The observance of fiscal obligations is directly linked to the penalties to which individuals expose themselves and the perception of the likelihood of getting caught. Recent government initiatives have been shaped in light of these principles.

Recent examples of the means adopted to combat tax evasion

Revision of the penalties applicable

Revision of legislation

- To broaden the penalties applicable to individuals who fail to abide by their fiscal obligations, the government has proposed legislative amendments to better structure the efforts of interveners and facilitate their work, as it did when it reviewed the legislative framework applicable to tax planning.

Higher penalties and fines

- Several increases in penalties and fines have been announced in recent years. For example, adjustments have been made to allow a court to levy not only a fine but also impose a prison sentence of up to five years less a day for serious tax delinquency.

Denunciation to professional associations

- Revenu Québec denounces to the ethics committees of professional associations or corporations the reprehensible behaviour of their members, while respecting tax secrecy.

Initiatives designed to heighten the perception of the likelihood of getting caught

Intensification of tax audits at Revenu Québec

- Additional investment at Revenu Québec for tax audits.

Consensus-building initiatives

- The government has established several ACCES (Actions concertées pour contrer les économies souterraines) committees that assemble the key interveners who are combating tax evasion. The committees' efforts support Revenu Québec in sectors of activity at high risk:
  - construction, alcoholic beverages, tobacco products, and economic and financial crime.

Communications initiatives

- Awareness-raising among Quebecers of the impact of unreported work.

4.2 Investments to support efforts to combat tax evasion

Under the plan to restore fiscal balance, the government has stepped up tax audits and measures in the sectors at risk. The investments necessary to fund these initiatives total over $400 million in 2011-2012, a $126-million increase over 2009-2010.

While the government is granting Revenu Québec most of the funding to fight tax evasion by means of tax audits, certain government departments and bodies are receiving funding for initiatives in sectors at risk. The funding comes from the provision to increase any appropriation for initiatives concerning the revenues of the Ministère des Finances.

— Funding from the provision is aimed at projects not covered by Revenu Québec's regular initiatives that require additional effort by government departments and bodies.

Moreover, the Unité permanente anticorruption (UPAC), an independent, permanent body, is being called upon to combat activities that may lead to tax evasion, in particular by conducting investigations and administrative verifications on allegations of corruption and collusion in the processes of awarding public contracts.

TABLE 33

Government investments in initiatives to combat tax evasion
(millions of dollars)

	2009-2010	2011-2012	Discrepancy
Tax audits (Revenu Québec)	**238.0**	**318.0**	**80.0**
Sectors at risk (provision)	**40.1**	**61.3**	**21.2**
– Construction	4.6	12.9	8.3
– Economic and financial crime	15.4	17.3	1.9
– Tobacco	9.8	11.1	1.3
– Alcoholic beverages	6.6	6.8	0.2
– Other	3.7	13.2	9.5
Unité permanente anticorruption (UPAC)	**0.0**	**25.0**	**25.0**
TOTAL	**278.1**	**404.3**	**126.2**

4.2.1 Revenu Québec tax audits

The increase in the government's investments goes hand in hand with the increase in tax recovery targets at Revenu Québec.

Additional tax recovery objectives will reach $1.4 billion in 2013-2014, when a balanced budget is restored.

— Revenu Québec will increase its staff by over 1 000 employees in relation to 2009-2010.

— In 2010-2011, 408 of the targeted 430 employees were hired. Since April 1, 2011, 128 additional employees have been hired, bringing the total number of new staff to 536.

TABLE 34

Additional tax recovery targets and additional staff at Revenu Québec

	2010-2011	2011-2012	2012-2013	2013-2014
Additional targets set[1] (millions of dollars)	320	705	1 075	1 400
Additional staff (in FTEs)[2]	408	630	860	1 085

1 Tax recovery targets in the plan to restore fiscal balance, to which have been added the targets set in the 2011-2012 Budget following the change in Revenu Québec's status to that of an agency. The additional targets are $150 million in 2011-2012 and $200 million a year subsequently.
2 Full time equivalent.

❑ Results for 2010-2011

In 2010-2011, Revenu Québec recovered $2.8 billion through tax audits.

— The additional $320-million recovery target set in the plan to restore fiscal balance was exceeded by $18 million, for total revenue of $338 million.

— The target for regular tax recovery operations was also exceeded by over $150 million.

TABLE 35

Results of the fight against tax evasion – 2010-2011
(millions of dollars)

	Target	Result	Discrepancy	Attainment of targets
Plan to restore fiscal balance	320	338	18	106%
Regular tax recovery operations	2 272	2 423	151	107%
TOTAL – ALL OPERATIONS	**2 592**	**2 760**	**169**	**107%**

Note: Since figures are rounded, they may not add up to the total shown.

❑ Preliminary results for 2011-2012

Preliminary data for 2011-2012 reveal that Revenu Québec, through its new status as an agency and the additional resources granted to it, is on the way to attaining its recovery target for the year under way.

- The results as of August 31, 2011, including operations under the plan to restore fiscal balance and regular tax recovery initiatives, stood at $1 063 million, 97% of the anticipated target.
- The additional target of $705 million for 2011-2012 is thus being maintained.

TABLE 36

Preliminary results of the fight against tax evasion – 2011-2012
(millions of dollars)

		As of August 31, 2011			
	2011-2012 target	Target	Result	Discrepancy	Attainment of targets
Plan to restore fiscal balance	705	196	180	– 16	92 %
Regular tax recovery operations	2 272	898	883	– 15	98 %
TOTAL – ALL OPERATIONS	**2 977**	**1 094**	**1 063**	**– 31**	**97%**

❑ Growth in yields from Revenu Québec tax recovery operations

Since 2006-2007, the government has emphasized initiatives in sectors at risk, which has led to the significant advancement of tax recovery. The results obtained do not, therefore, reflect only the increase in investments but also an improvement in the performance of the operations funded.

— Through an investment of $252 million in 2010-2011, the government recovered $2.8 billion, $775 million more than in 2006-2007.

— For the same period, the return per dollar invested increased from $8.75 to $10.92.

CHART 64

Tax recovery
(billions of dollars)

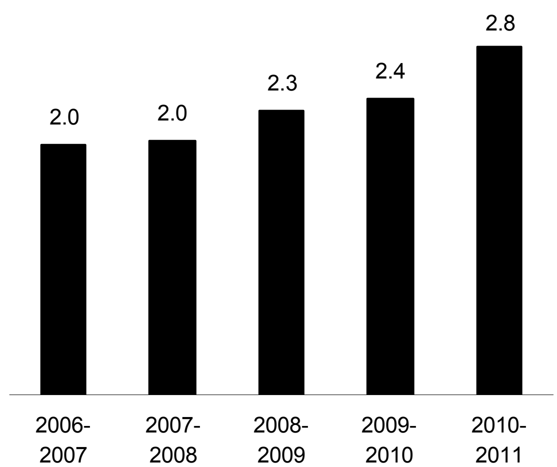
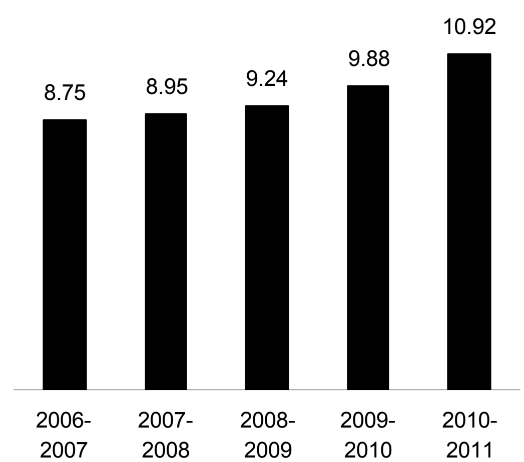


CHART 65

Yield per dollar invested
(dollars)



4.2.2 New initiatives in at-risk sectors

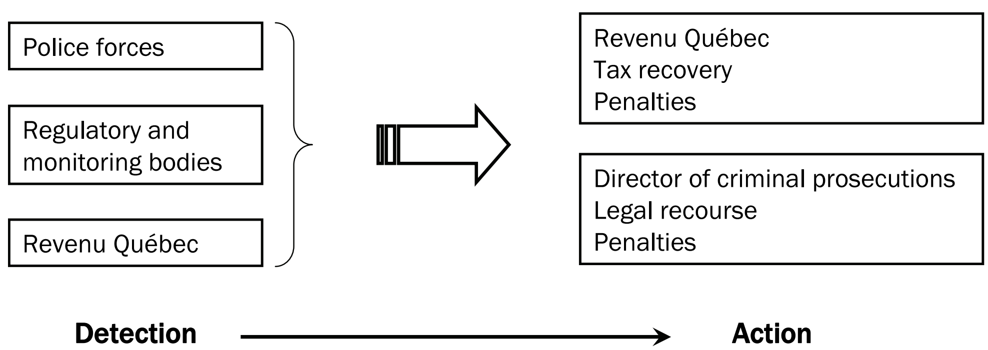
In addition to the establishment of the Agence du revenu du Québec, the government announced in the 2011-2012 Budget a series of new initiatives in at-risk sectors, in particular:

- the intensification of the fight against unreported work in the construction industry;
- targeted measures against organized unreported work networks;
- more extensive resources for the Autorité des marchés financiers to combat economic and financial crime;
- broadening of the fight against tobacco smuggling in neighbourhood networks.

These initiatives are in addition to those already announced over the past two years, including the establishment of sales recording modules in restaurants.

Cooperation underpins the operation of the ACCES[1] committees

When Revenu Québec intervenes in more problematical sectors, especially the construction industry or against organized unreported work or tobacco smuggling networks, it does so with the support of its partners.



1 Actions concertées pour contrer les économies souterraines.

❑ The intensification of the fight against unreported work in the construction industry

Construction is the economic sector in which tax losses are the highest. For this reason, the efforts devoted to the sector are considerable and are realized with the assistance of several partners.

Government measures target all stakeholders, i.e. businesses, workers, individuals, professionals and financial institutions, and seek to:

- reduce unfair competition between **enterprises**;
- broaden compliance among **workers** so that they can benefit from social protection programs;
- dissuade **Quebecers** from supporting tax evasion and unreported work;
- establish partnerships with a view to blocking the development and implementation of tax evasion schemes (**professionals and financial institutions**).

■ Recent initiatives in the construction industry

Additional measures were announced in the most recent Budget to combat tax evasion and unreported work in the construction industry, in particular through the ACCES construction committee.

Accordingly, the new measures seek to:

- increase the number of enterprises that must submit a Revenu Québec certificate to obtain a public contract;
- intensify information exchanges and concerted intervention initiatives;
- emphasize prevention among clients and increase the penalties stipulated in Bill R-20.[5]

Moreover, Revenu Québec now has nearly 350 full time equivalent employees dedicated to combating tax evasion in the construction industry.

ACCES construction partners	
Canada Revenue Agency	Ministère des Finances du Québec
Commission de la construction du Québec	Régie du bâtiment du Québec
Commission de la santé et de la sécurité du travail	Revenu Québec
Director of Criminal and Penal Prosecution	Sûreté du Québec

5 Act respecting labour relations, vocational training and workforce management in the construction industry (R.S.Q., c. R-20).

TABLE 37

Joint projects – Construction
Measures announced in the 2011-2012 Budget

Departments and bodies[1]	Projects	Results
SCT (coordination) MFQ, RQ, MAMROT	Broadening of the Revenu Québec certificate[2]	The draft legislation and regulations have been assented to.
CCQ (coordination) RQ, RBQ, CSST	Double joint operations: – the number of joint operations on worksites will increase from 150 to 300.	Since April 1, 2011, 128 joint operations have been carried out.
CCQ (coordination) RQ, RBQ, CSST	Increase inspections, audits and investigations.	Some 922 audits, including 267 (29%) in the wake of an operation on a worksite, have been conducted.
RQ (coordination) RBQ, CSST, municipalities	Act in the home renovation sector - collaboration between Québec and the municipalities: – carry out worksite inspection blitzes; – implement a pilot project, in particular in Montréal and Québec City.	From April 1 to August 31, 2011, 202 joint visits were conducted.
RQ (coordination) CCQ, RBQ, CSST	Improve information exchanges and propose legislative amendments, if needed.	The Tax Administration Act was amended to allow information transfers from the CSST to RQ and from RQ to the RBQ. Information exchange agreements are being drafted.
CCQ (coordination) RQ, CSST, RBQ, SCT	Increase prevention among major clients by organizing preventive meetings to propose measures reducing the likelihood of unreported work on worksites.	Officials met with six major clients. Some 26 prevention meetings were held on MTQ worksites.
CCQ (coordination) DCPP	Increase penal and administrative sanctions under Bill R-20. – Three amendments were made under Bill 10, assented to on June 13, 2011.	Fines were increased for undeclared hours and failure to register with the CCQ. The rates of monetary administrative penalties related to repeated failure to declare hours worked were increased from 20% to 40%. New measures were added to prevent certain worksite delegates and union representatives found guilty of offences stipulated in the Criminal Code from performing their duties.

1 Commission de la construction du Québec (CCQ), Commission de la santé et de la sécurité du travail (CSST), Director of Criminal and Penal Prosecution (DCPP), Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT), Ministère des Finances du Québec (MFQ), Régie du bâtiment du Québec (RBQ), Revenu Québec (RQ) and Secrétariat du Conseil du trésor (SCT).
2 The next box provides more details on this project.

Broadening of the requirement of the Revenu Québec certificate to obtain public contracts

Since June 1, 2010, government departments and public bodies demand a Revenu Québec certificate[1] from any enterprise that bids on a public contract[2] worth $25 000 or more. The requirements were broadened in the wake of the implementation of the 2011-2012 Budget.

– Since September 15, 2011, the requirement has also applied to:

  ▪ first-tier subcontractors interested in subcontracting construction work worth $25 000 or more with an entrepreneur awarded a public construction contract;

  ▪ bidders on procurement, services and construction contracts worth $25 000 or more of government corporations and other government bodies not yet covered.

– Starting January 1, 2012, the requirement will also apply to:

  ▪ bidders and their first-tier subcontractors on construction contracts worth $25 000 or more awarded by municipalities and other municipal bodies.

– Moreover, starting January 1, 2012, Revenu Québec will take the necessary steps to facilitate the use of the certificate by private-sector enterprises and organizations that wish to add this requirement when contracts are awarded.

1 The certificate is a document that confirms that an enterprise has filed the returns required pursuant to Québec tax laws and that it has no delinquent accounts with respect to Revenu Québec.

2 This requirement applies to construction, procurement and service contracts.

■ Measures already announced in the construction industry

The projects initiated over the past two years have produced positive results. For example:

— because, in particular, of the broader presence of partners on worksites, the hours declared to the Commission de la construction du Québec increased by 8% in 2010-2011 in relation to 2009-2010, which surpasses growth in the volume of activity in the sector measured by real GDP;

— since the coming into force of the requirement of the Revenu Québec certificate to obtain public contracts, 26 041 certificates have been issued to 9 749 enterprises and the tax files of over 2 000 enterprises have been regularized in the amount of $27 million.

TABLE 38

Measures announced in March 2010 – Construction
Results since the projects were launched

Department and body	Projects	Additional resources	Results[1]
Revenu Québec	Sustained presence on major worksites	50	650 interventions conducted on 77 major public worksites
	Special squad to deal with embezzlement and corruption	15[2]	Team participating actively in the work of the UPAC
Commission de la construction du Québec	Tactical squad	17	1 649 worksite visits 170 cases completed and $2.9 million claimed 133 investigation, audit or information cases under way
	Construction integrity service	7	130 worksite visits with the MTQ 40 audits 15 000 hours recovered and $400 000 claimed
	Complaints and denunciation service	6	816 complaints submitted to the CCQ 24 cases under investigation
Régie du bâtiment du Québec	Integrity of contractors	13	624 investigations conducted 40 460 systematic requests for information on judicial records submitted to the Sûreté du Québec 7 licences cancelled with regard to criminal offences 17 licences suspended with regard to tax delinquency 62 restricted licences issued for the purposes of obtaining a public contract

1 The data are valid as of August 31, 2011.
2 Five additional staff members have been assigned to this team since 2011-2012.
Sources: Revenu Québec, Commission de la construction du Québec and Régie du bâtiment du Québec. Compilation of the Ministère des Finances du Québec.

❑ The restaurant industry

The restaurant industry is a sector of economic activity in which tax losses remain substantial, i.e. an estimated $420 million a year. The Québec government has, therefore, announced the following fiscal measures to counteract tax evasion and unreported work in this sector of activity.

— Since September 1, 2010, legislation has compelled all food service outlets to give their customers a bill and to keep a copy of it.

— By November 1, 2011 at the latest, all covered establishments registered in the QST file must provide their customers with a bill produced using a sales recording module (SRM) chosen by Revenu Québec.

The SRM project is already well under way.

— As of October 5, 2011, 23 792 SRMs had been installed in 13 584 restaurants.

Through these measures, the amounts recovered will gradually increase to $300 million annually starting in 2013-2014.

❑ Organized networks of unreported work

In the last Budget, the government announced a $2-million investment to combat organized networks of unreported work. Accordingly, the Commission des normes du travail and Emploi-Québec will be able to intervene more extensively with illegal employment agencies and clients. In the wake of these measures, Revenu Québec will have a mandate to engage in tax recovery from the agencies caught out.

The new teams are in place at Emploi-Québec and the Commission des normes du travail.

— Intervention by the new teams will affect personnel placement in service sectors such as household services, handling, parcel distribution, direct mail advertising, and so on.

❑ Economic and financial crime

To bolster its investigations and the supervision of financial markets, the government has authorized the Autorité des marchés financiers to spend an additional $3.7 million in 2011-2012. These additional resources will enable the Autorité des marchés financiers to ensure that Québec's regulatory and monitoring framework complies with the highest international standards.

Through this measure, the government hopes to strengthen protection for investors.

❑ Tobacco

The tobacco sector is also an area of activity in which losses are substantial.

— Tax losses stemming from tobacco smuggling reached an estimated $225 million in 2010, equivalent to 20% of the market.

The government's efforts to combat tobacco smuggling, carried out through the ACCES tobacco committee, have, however, achieved significant results.

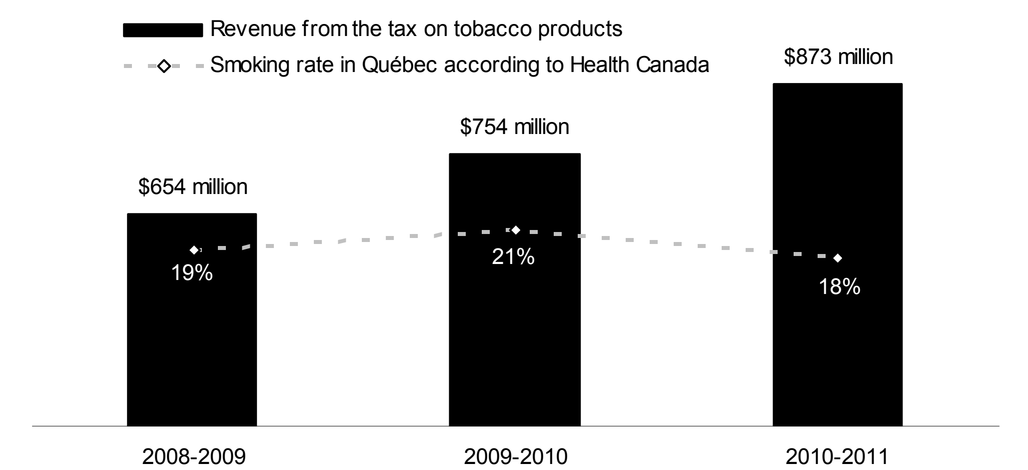
— Revenue from the specific tax on tobacco products stood at $873 million for the 2010-2011 fiscal year, up $219 million in relation to 2008-2009.

  — The increase in revenue is not attributable to an increase in smoking since the latest Health Canada data[6] show that smoking has stagnated in Québec in recent years.

— Consumers turned more extensively to legal products, in particular because of the efforts of ACCES tobacco.

CHART 66

Change in revenue from the specific tax on tobacco products and the smoking rate



Sources: Health Canada and Ministère des Finances du Québec.

6 Statistics Canada, for Health Canada, *Canadian Tobacco Use Monitoring Survey.* Annual results for 2010.

■ New initiatives to combat tobacco smuggling

In the 2011-2012 Budget, the government announced that it was granting an additional $3 million to police forces to support their operations against neighbourhood smuggling networks.

— Seven new teams of investigators are already in place in different regions of Québec and are tackling neighbourhood smuggling.

Moreover, Bill 10, assented to on June 13, 2011, amended, in particular, the Tobacco Tax Act in order to increase the amounts of certain fines levied on consumers found guilty of possessing illegal tobacco.

— The fines have been revised to take into account the quantity of tobacco seized.

4.3 Results of the projects funded by the provision of the Ministère des Finances

In recent years, the government, through the ACCES committees and Revenu Québec, has made a considerable effort to ensure the integrity of the tax system. Certain initiatives are funded by the provision of the Ministère des Finances. In 2010-2011:

- operations to combat tax evasion funded by the provision yielded $887.4 million;
- the amounts paid as appropriations and used by different government departments and bodies engaged in the operations totalled $80.4 million;
- the annual yield per dollar invested in the projects stands at $11.04.

TABLE 39

Yield from projects funded by the Ministère des Finances to combat tax evasion
(millions of dollars)

	2007-08	2008-09	2009-10	2010-11
Projects				
– ACCES construction	334.5	336.0	375.0	425.0
– Revenu Québec – Specific projects	103.1	98.8	135.0	172.4
– Aggressive tax planning	0.0	50.0	50.0	70.0
– ACCES alcohol	66.0	66.0	60.0	60.0
– ACCES tobacco	35.0	40.0	50.0	110.0
– Concerted initiatives against economic and financial crime	20.3	41.9	42.7	50.0
Total yield from the projects	**558.9**	**632.7**	**712.7**	**887.4**
Amount used from the provision	48.1	53.8	59.5	80.4
YIELD PER DOLLAR INVESTED ($)	**11.63**	**11.75**	**11.98**	**11.04**

Note: Since figures are rounded, they may not add up to the total shown. The yield from the projects under the provision is added to that of Revenu Québec's current tax recovery operations. Contrary to the information in the 2011-2012 Budget, the amount of the provision that has been used, rather than the amount allocated, is entered in the calculation of the yield per dollar invested. The amount of the provision used represents the amount allocated to the various government departments and organizations less the appropriations they have not used and returned.

The yields on projects funded by the Provision include:

- direct yields, i.e. tax recovery revenues;
- indirect yields, i.e. the increase in tax revenues (self-assessment) following interventions, fines issued, money seized or revenues from the proceeds of crime.