

**Regulatory Announcement**

RNS Number: "RNS to insert number here"

Québec

16 March, 2020

Re: Québec Excerpts from the "Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020", March 10, 2020

**Exhibit 99.18**

Excerpts from Section E - "The Québec Economy: Recent Developments and Outlook for 2020 and 2021" of "Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020", March 10, 2020

**Exhibit 99.19**

Section F - "Québec's Financial Situation" from "Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020", March 10, 2020

**Exhibit 99.20**

Section G - "The Québec Government's Debt" from "Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020", March 10, 2020

**Exhibit 99.21**

Excerpts from "Budget Speech 2020-2021", March 10, 2020

To view the Exhibits in full, please paste the following URL into the address bar of your browser.

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Exhibit 99.18 - Excerpts from Section E - “The Québec Economy: Recent Developments and Outlook for 2020 and 2021” of “Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020”, March 10, 2020.

<http://www.rns-pdf.londonstockexchange.com/rns/“RNS to insert link here”>

Exhibit 99.19 - Section F - “Québec’s Financial Situation” from “Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020”, March 10, 2020.

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Exhibit 99.20 - Section G - “The Québec Government’s Debt” from “Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020”, March 10, 2020.

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Exhibit 99.21 - Excerpts from “Budget Speech 2020-2021”, March 10, 2020.

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Exhibits 99.18, 99.19, 99.20 and 99.21 of the Amendment dated March 16, 2020 to Québec’s Annual Report (on Form 18-K) for the fiscal year ended March 31, 2019 (containing excerpts from Québec’s Budget 2020-2021 – Your Future, your Budget – Budget Plan – March 2020 and Budget Speech and filed with the US Securities and Exchange Commission on March 16, 2020 have been submitted to the National Storage Mechanism and will shortly be available for inspection at: <http://www.morningstar.co.uk/uk/NSM>.

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Excerpts from Section E - "The Québec Economy: Recent Developments and Outlook for 2020 and 2021" of "Budget 2020-2021 - Your Future, your Budget - Budget Plan - March 2020", March 10, 2020

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TABLE E.5

**Economic outlook for Québec**

(percentage change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
<b>Output</b>						
Real gross domestic product	2.8	2.0	1.5	1.4	1.4	1.4
Nominal gross domestic product	4.7	4.1	3.4	3.2	3.2	3.2
Nominal gross domestic product (\$billion)	459.9	478.6	495.0	510.8	526.9	544.0
<b>Components of GDP</b> (in real terms)						
Final domestic demand	2.5	1.8	1.4	1.3	1.3	1.5
- Household consumption	1.8	1.9	1.6	1.5	1.4	1.4
- Government spending and investment	3.7	1.9	0.9	1.0	1.1	1.6
- Residential investment	3.1	0.9	0.3	0.0	0.3	0.4
- Non-residential business investment	2.0	2.6	2.3	2.1	2.1	2.1
Exports	1.6	1.9	1.8	1.8	1.8	1.8
Imports	0.2	1.4	1.7	1.7	1.7	1.8
<b>Labour market</b>						
Population (thousands)	8 485	8 542	8 598	8 654	8 709	8 762
Population aged 15 and over (thousands)	7 052	7 101	7 150	7 202	7 255	7 309
Jobs (thousands)	4 340	4 377	4 403	4 424	4 442	4 460
Job creation (thousands)	77.7	37.2	25.8	21.2	17.7	17.8
Unemployment rate (per cent)	5.1	5.0	4.9	4.9	4.8	4.7
<b>Other economic indicators</b> (in nominal terms)						
Household consumption	3.2	3.5	3.5	3.1	3.0	3.0
- Excluding food expenditures and shelter	2.9	3.3	3.3	2.9	2.9	2.9
Housing starts (thousands of units)	48.0	47.6	45.2	43.6	42.1	40.8
Residential investment	7.5	4.1	3.0	2.4	2.5	2.6
Non-residential business investment	4.4	3.2	3.2	2.8	3.5	3.8
Wages and salaries	5.9	4.8	3.7	3.1	3.0	3.0
Household income	5.9	4.6	3.6	3.3	3.2	3.1
Net operating surplus of corporations	4.0	3.6	3.5	3.5	3.5	3.5
Consumer price index	2.1	2.2	2.2	2.0	2.0	2.0
- Excluding food and energy	2.5	2.3	2.1	1.8	1.8	1.8

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

TABLE E.8

**Canadian financial markets**

(average annual percentage rate, unless otherwise indicated, end-of-year data in brackets)

	<b>2019</b>	<b>2020</b>	<b>2021</b>
Overnight rate target	1.8 (1.8)	1.8 (1.8)	1.8 (2.0)
3-month Treasury bills	1.7 (1.7)	1.7 (1.8)	1.9 (2.0)
10-year bonds	1.6 (1.6)	1.7 (1.8)	2.0 (2.1)
Canadian dollar (in U.S. cents)	75.6 (77.0)	76.8 (77.2)	77.8 (78.6)
U.S. dollar (in Canadian dollars)	1.32 (1.30)	1.30 (1.30)	1.29 (1.27)

Sources: Statistics Canada, Bloomberg and Ministère des Finances du Québec.

## **Section F**

### **QUÉBEC'S FINANCIAL SITUATION**

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## SUMMARY

Budget 2020-2021 is an opportunity for the government to present its fiscal policy directions and announce new initiatives for the benefit of all Quebecers.

Québec's economic and fiscal policy directions include:

- actions to provide environmental leadership;
- initiatives to increase the potential of Québec's economy and create wealth;
- measures to improve services and meet the needs of Quebecers;
- maintenance of a balanced budget and further debt reduction;
- further public infrastructure investment, in particular in the education, health and public transit sectors.

Budget 2020-2021 contains:

- positive adjustments in the financial framework since March 2019;
- additional investments totalling \$1.8 billion in 2019-2020, \$2.6 billion in 2020-2021 and \$3.5 billion in 2021-2022 to implement new initiatives;
- a budgetary surplus of \$1.9 billion in 2019-2020 and a balanced budget as of 2020-2021;
- in 2020-2021, a spending increase of 4.5% for the Éducation et Enseignement supérieur portfolio and 5.3% for the Santé et Services sociaux portfolio.

In addition, the Québec government is reiterating its intention to have the QST collected on sales of movable corporeal property from abroad and plans to work with the federal government to implement a harmonized solution.



## 1. QUÉBEC'S BUDGETARY SITUATION

### ▣ Québec's 2020-2021 budget

The Québec government's revenue in 2020-2021 stands at \$121.3 billion, making it possible to fund:

- portfolio expenditures, that is, spending for the government's various functions, totalling \$110.3 billion;
- debt service, totalling \$8.3 billion;
- deposits of dedicated revenues in the Generations Fund, totalling \$2.7 billion. A balanced budget is forecast for 2020-2021.

TABLE F.1

#### Québec's budget – March 2020 (millions of dollars)

	2020-2021
<b>Revenue</b>	
Own-source revenue	95 603
% change	3.0
Federal transfers	25 692
% change	2.4
<b>Total revenue</b>	<b>121 295</b>
% change	2.8
<b>Expenditure</b>	
Portfolio expenditures	-110 300
% change	5.1
Debt service	-8 266
% change	5.4
<b>Total expenditure</b>	<b>-118 566</b>
% change	5.1
<b>SURPLUS</b>	<b>2 729</b>
<b>BALANCED BUDGET ACT</b>	
Deposits of dedicated revenues in the Generations Fund	-2 729
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>—</b>

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

**1.1 Recent developments in the budgetary situation**

Since March 2019, robust economic growth has resulted in positive adjustments as of 2019-2020.

Favourable adjustments stemming from changes in the economic and budgetary situation total \$4.3 billion in 2019-2020, \$2.6 billion in 2020-2021 and \$3.3 billion in 2021-2022.

These improvements allow the government to continue delivering on its commitments by investing \$1.8 billion in 2019-2020, \$2.6 billion in 2020-2021 and \$3.5 billion in 2021-2022 in Quebecers' priorities.

For 2019-2020, spending is down \$227 million relative to March 2019.



TABLE F.2

**Adjustments to the financial framework since March 2019**  
(millions of dollars)

	2019-2020	2020-2021	2021-2022
<b>BUDGETARY BALANCE<sup>(1)</sup> – MARCH 2019</b>	—	—	—
<b>ECONOMIC AND BUDGETARY SITUATION</b>			
Own-source revenue excluding revenue from government enterprises			
– Tax revenue	1 454	1 989	2 267
– Other revenue	763	360	69
Subtotal	2 217	2 348	2 336
Revenue from government enterprises	–85	–253	–184
Federal transfers	173	92	343
Portfolio expenditures	880	–490	167
Debt service	1 151	872	662
Deposits of dedicated revenues in the Generations Fund	–129	–45	–83
Use of the contingency reserve	100	100	100
<b>TOTAL IMPROVEMENTS</b>	<b>4 307</b>	<b>2 624</b>	<b>3 341</b>
<b>MARCH 2020 INITIATIVES</b>			
Providing environmental leadership <sup>(2)</sup>	–266	–322	–1 007
Increasing the potential of the economy and creating wealth <sup>(3)</sup>	–388	–843	–971
Improving services and meeting the needs of Quebecers	–294	–582	–615
<b>Subtotal</b>	<b>–947</b>	<b>–1 747</b>	<b>–2 594</b>
<b>NOVEMBER 2019 INITIATIVES</b>	<b>–857</b>	<b>–876</b>	<b>–872</b>
<b>TOTAL INITIATIVES</b>	<b>–1 804</b>	<b>–2 624</b>	<b>–3 466</b>
<b>OTHER ADJUSTMENTS</b>			
Estimated losses on the CSeries investment	–603	—	—
Shortfall to be offset	—	—	125
<b>BUDGETARY BALANCE<sup>(1)</sup> – MARCH 2020</b>	<b>1 900</b>	—	—

Note: Totals may not add due to rounding.

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

(2) These initiatives include investments totalling \$6.2 billion over six years under the first implementation plan for the electrification and climate change framework policy, as well as environmental protection measures totalling \$472.7 million. Funding for this plan is presented on page F.27.

(3) These initiatives exclude amounts of \$45.5 million in 2019-2020, \$82.8 million in 2020-2021 and \$104.7 million in 2021-2022 since they are included under the heading “Providing environmental leadership” in this table.

## ❑ Adjustments related to the economic and budgetary situation

Adjustments related to the economic and budgetary situation are due to, in particular:

- an increase of \$2.2 billion in own-source revenue excluding revenue from government enterprises in 2019-2020 and \$2.3 billion in 2020-2021 and 2021-2022;
  - Tax revenue, which includes, among other things, personal income tax and corporate taxes, is adjusted upward by \$1.5 billion in 2019-2020, \$2.0 billion in 2020-2021 and \$2.3 billion in 2021-2022 owing, in particular, to the stronger-than-anticipated economy.
  - Other revenue is adjusted upward by \$763 million in 2019-2020, \$360 million in 2020-2021 and \$69 million in 2021-2022. The adjustments for 2019-2020 are explained by the higher-than-anticipated results for carbon market auctions and the increase in the revenue of the Natural Resources and Energy Capital Fund,<sup>1</sup> tied to the sale of shares held in Quebec Iron Ore.
- a reduction of \$85 million in revenue from government enterprises in 2019-2020, \$253 million in 2020-2021 and \$184 million in 2021-2022 resulting from, in particular, the decrease in the results of Hydro-Québec which is tied to the rate freeze in 2020-2021, the decline in energy prices on export markets and the drop in the price of aluminum;
- an increase of \$173 million in revenues from federal transfers in 2019-2020, owing to, in particular, the reimbursement of expenditures related to asylum seekers. The increase of \$92 million in 2020-2021 and \$343 million in 2021-2022 is attributable to, in particular, the implementation of infrastructure projects for which a federal contribution is received, in particular, as part of the one-off increase in the Gas Tax Fund announced in 2019;
- a decrease of \$880 million in portfolio expenditures in 2019-2020 representing funding that became available during the year and an increase of \$490 million in 2020-2021 stemming from:
  - the reassessment of the cost of certain programs related to, in particular, the demand for services in health and education,
  - the implementation of infrastructure projects that receive a federal contribution;
- a decrease of \$1.2 billion in debt service in 2019-2020, \$872 million in 2020-2021 and \$662 million in 2021-2022, mainly because of lower-than-expected interest rates and the return on the Retirement Plans Sinking Fund (RPSF), which was higher than anticipated in 2018-2019 and has an impact on future years.

<sup>1</sup> After the Act respecting mainly government organization as regards the economy and innovation was assented to (December 11, 2019), the name Mining and Hydrocarbon Capital Fund was replaced by Natural Resources and Energy Capital Fund.

## ❑ March 2020 initiatives

The favourable budgetary situation allows the government to announce new initiatives so as to continue implementing its commitments.

In Budget 2020-2021, the government is providing for additional investments of \$947 million in 2019-2020, \$1.7 billion in 2020-2021 and \$2.6 billion in 2021-2022, to:

- provide environmental leadership;
- increase the potential of the economy and create wealth;
- improve services and meet the needs of Quebecers.

These investments are in addition to those announced in the November 2019 *Update on Québec's Economic and Financial Situation*, that is, \$857 million in 2019-2020, \$876 million in 2020-2021 and \$872 million in 2021-2022.

## ❑ Other adjustments

Other adjustments stem from factoring in:

- the losses estimated at \$603 million on the CSeries investment in 2019-2020;
- a shortfall to be offset of \$125 million in 2021-2022. This shortfall will be managed so as to eliminate it by the time Budget 2021-2022 is prepared.

### Recap of the November 2019 initiatives

*In the November 2019 Update on Québec's Economic and Financial Situation, the government announced investments of \$857 million in 2019-2020, \$876 million in 2020-2021 and \$872 million in 2021-2022.*

The government put money back in the pockets of Quebecers through, in particular:

- the full enhancement of the family allowance;
- the immediate elimination of the additional contribution for childcare;
- the reduction in healthcare institution parking fees.

The government has also implemented many targeted initiatives to meet specific needs.

#### November 2019 initiatives (millions of dollars)

	2019-2020	2020-2021	2021-2022
Putting money back in the pockets of Quebecers	–332	–758	–717
Targeted initiatives to meet specific needs	–525	–119	–155
<b>TOTAL</b>	<b>–857</b>	<b>–876</b>	<b>–872</b>

Note: Totals may not add due to rounding.

## Adjustments to the financial framework since November 2019

Acceleration of economic growth has resulted in positive adjustments to the financial framework for 2019-2020 and subsequent years relative to the data presented in the November 2019 *Update on Québec's Economic and Financial Situation*.

- Overall, adjustments related to the economic and budgetary situation total \$2.1 billion in 2019-2020, \$1.6 billion in 2020-2021 and \$2.4 billion in 2021-2022.

The improvements in the financial framework are enabling the government to fund initiatives totalling \$947 million in 2019-2020, \$1.7 billion in 2020-2021 and \$2.6 billion in 2021-2022.

**Adjustments to the financial framework since November 2019**  
(millions of dollars)

	2019- 2020	2020- 2021	2021- 2022
<b>BUDGETARY BALANCE<sup>(1)</sup> – NOVEMBER 2019</b>	<b>1 400</b>	<b>100</b>	<b>100</b>
<b>ECONOMIC AND BUDGETARY SITUATION</b>			
Own-source revenue excluding revenue from government enterprises	651	1 111	1 101
Revenue from government enterprises	257	116	178
Federal transfers	–339	359	610
Portfolio expenditures	1 447	–244	152
Debt service	–104	197	204
Deposits of dedicated revenues in the Generations Fund	38	9	24
Use of the contingency reserve	100	100	100
<b>TOTAL IMPROVEMENTS</b>	<b>2 050</b>	<b>1 647</b>	<b>2 369</b>
<b>MARCH 2020 INITIATIVES</b>			
Providing environmental leadership <sup>(2)</sup>	–266	–322	–1 007
Increasing the potential of the economy and creating wealth <sup>(3)</sup>	–388	–843	–971
Improving services and meeting the needs of Quebecers	–294	–582	–615
<b>TOTAL INITIATIVES</b>	<b>–947</b>	<b>–1 747</b>	<b>–2 594</b>
<b>OTHER ADJUSTMENTS</b>			
Estimated losses on the CSeries investment	–603	—	—
Shortfall to be offset	—	—	125
<b>BUDGETARY BALANCE<sup>(1)</sup> – MARCH 2020</b>	<b>1 900</b>	<b>—</b>	<b>—</b>

Note: Totals may not add due to rounding.

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

(2) These initiatives include investments totalling \$6.2 billion over six years under the first implementation plan for the electrification and climate change framework policy, as well as environmental protection measures totalling \$472.7 million. Funding for this plan is presented on page F.27.

(3) These initiatives exclude amounts of \$45.5 million in 2019-2020, \$82.8 million in 2020-2021 and \$104.7 million in 2021-2022 since they are included under the heading “Providing environmental leadership” in this table.

## 1.2 Detailed adjustments for 2019-2020

The adjustments to the financial framework since March 2019 are making it possible to keep the budget balanced.

The economic and budgetary situation leads to a \$4.3-billion positive adjustment in the budgetary balance in 2019-2020. Thanks to this improvement, targeted initiatives and the estimated losses on the CSeries investment totalling \$2.4 billion can be funded.

A budgetary surplus of \$1.9 billion results from these adjustments for 2019-2020.

TABLE F.3

### Adjustments to the financial framework since March 2019 (millions of dollars)

(millions of dollars)

	2019-2020				
	March 2019	Adjustments			March 2020
		Economic and budgetary situation	Initiatives and other	Total	
Own-source revenue					
Tax revenue	71 027	1 454	—	1 454	72 481
Other revenue	14 909	763	—	763	15 672
Subtotal	85 936	2 217	—	2 217	88 153
Revenue from government enterprises	4 778	–85	—	–85	4 693
Total	90 714	2 132	—	2 132	92 846
Federal transfers	24 924	173	—	173	25 097
<b>Revenue</b>	<b>115 638</b>	<b>2 305</b>	<b>—</b>	<b>2 305</b>	<b>117 943</b>
Portfolio expenditures	–104 038	880	–1 804	–924	–104 962
Debt service	–8 996	1 151	—	1 151	–7 845
<b>Expenditure</b>	<b>–113 034</b>	<b>2 031</b>	<b>–1 804</b>	<b>227</b>	<b>–112 807</b>
Estimated losses on the CSeries investment	—	—	–603	–603	–603
Contingency reserve	–100	100	—	100	—
<b>SURPLUS</b>	<b>2 504</b>	<b>4 436</b>	<b>–2 407</b>	<b>2 029</b>	<b>4 533</b>
<b>BALANCED BUDGET ACT</b>					
Deposits of dedicated revenues in the Generations Fund	–2 504	–129	—	–129	–2 633
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>—</b>	<b>4 307</b>	<b>–2 407</b>	<b>1 900</b>	<b>1 900</b>

Note: Totals may not add due to rounding.

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



## ❑ Own-source revenue excluding revenue from government enterprises

For 2019-2020, own-source revenue excluding revenue from government enterprises shows a positive adjustment of \$2.2 billion compared to the March 2019 forecast and totals \$88.2 billion.

TABLE F.4

### Adjustments to own-source revenue excluding revenue from government enterprises (millions of dollars)

	2019-2020
<b>OWN-SOURCE REVENUE<sup>(1)</sup> – MARCH 2019</b>	<b>85 936</b>
<b>Tax revenue</b>	
Personal income tax	1 004
Contributions for health services	–3
Corporate taxes	196
School property tax	3
Consumption taxes	254
<b>Subtotal</b>	<b>1 454</b>
<b>Other revenue</b>	
Duties and permits	283
Miscellaneous revenue	480
<b>Subtotal</b>	<b>763</b>
<b>Total adjustments</b>	<b>2 217</b>
<b>OWN-SOURCE REVENUE<sup>(1)</sup> – MARCH 2020</b>	<b>88 153</b>

(1) Own-source revenue excluding revenue from government enterprises.

## ■ Tax revenue

For 2019-2020, revenue from personal income tax is adjusted upward by \$1.0 billion relative to the March 2019 forecast.

— This adjustment is explained by higher-than-expected withholdings at source since the beginning of fiscal 2019-2020 owing to, in particular, the fact that the growth of 5.9% in wages and salaries is 2.7 percentage points higher than forecast in March 2019.

In 2019-2020, revenue from corporate taxes is adjusted upward by \$196 million compared to the March 2019 forecast. This adjustment is due essentially to more-favourable-than-expected tax revenues since the beginning of the fiscal year despite the downward adjustment of 0.7 percentage point in the net operating surplus of corporations in 2019.

Revenue from consumption taxes is adjusted upward by \$254 million in 2019-2020. This adjustment, which stems mainly from the Québec sales tax, is explained by, in particular, the fact that growth in residential construction is 5.6 percentage points higher than forecast in 2019 and by higher-than-expected growth in household consumption<sup>2</sup> (0.1 percentage point in 2019).

## ■ Other revenue

Revenue from duties and permits is adjusted upward by \$283 million in 2019-2020 due to, in particular, the higher-than-expected revenue collected under Québec's cap-and-trade system for GHG emission allowances (carbon market).

In addition, miscellaneous revenue is adjusted upward by \$480 million in 2019-2020 owing to, in particular, the higher-than-anticipated investment income of the Generations Fund and the higher-than-anticipated revenue of the Natural Resources and Energy Capital Fund, tied to the sale of shares held in Quebec Iron Ore.

<sup>2</sup> Household consumption excluding food expenditures and shelter.

## ❑ Revenue from government enterprises

For 2019-2020, revenue from government enterprises is adjusted downward by \$85 million, to \$4.7 billion.

This adjustment can be attributed to, in particular, a decrease in the results of Hydro-Québec, which is tied to the downward adjustment in sales in Québec and in energy prices on export markets.

TABLE F.5

### Adjustments to revenue from government enterprises (millions of dollars)

	2019-2020
<b>REVENUE FROM GOVERNMENT ENTERPRISES – MARCH 2019</b>	<b>4 778</b>
Hydro-Québec	-250
Loto-Québec	91
Société des alcools du Québec	35
Investissement Québec	9
Société québécoise du cannabis <sup>(1)</sup>	7
Other <sup>(2)</sup>	23
<b>Total adjustments</b>	<b>-85</b>
<b>REVENUE FROM GOVERNMENT ENTERPRISES – MARCH 2020</b>	<b>4 693</b>

(1) Revenue allocated to the Cannabis Sales Revenue Fund.

(2) Other revenue includes, in particular, the forecast for other government enterprises and the impact of the Electricity Discount Program for Consumers Billed at Rate L.

## ❑ Federal transfers

For 2019-2020, revenues from federal transfers stand at \$25.1 billion, or \$173 million more than forecast in the March 2019 budget.

This upward adjustment is explained by a \$442-million increase in other programs, attributable to, in particular, the agreement concluded with the federal government in August 2019 regarding the reimbursement of expenses related to asylum seekers.

In addition, transfers for health and for post-secondary education and other social programs have been adjusted downward by \$165 million and \$104 million, respectively, due to an increase in the value of the special Québec abatement, which is subtracted from these transfers.

— The increase in the value of the special Québec abatement is explained by higher growth in wages and salaries in Québec since the March 2019 budget.

TABLE F.6

### Adjustments to federal transfers (millions of dollars)

	2019-2020
<b>FEDERAL TRANSFERS – MARCH 2019</b>	<b>24 924</b>
Equalization	—
Health transfers	–165
Transfers for post-secondary education and other social programs	–104
Other programs	442
<b>Total adjustments</b>	<b>173</b>
<b>FEDERAL TRANSFERS – MARCH 2020</b>	<b>25 097</b>

## ❑ Portfolio expenditures

For 2019-2020, portfolio expenditures amount to \$105.0 billion, which represents an upward adjustment of \$924 million relative to the March 2019 forecasts.

TABLE F.7

### Adjustments to portfolio expenditures (millions of dollars)

	2019-2020
<b>PORTFOLIO EXPENDITURES – MARCH 2019</b>	<b>104 038</b>
<b>Éducation et Enseignement supérieur</b>	
Increased support for college centres for technology transfer (March 2020 initiative)	50
Spending by education and higher education institutions	141
<b>Subtotal</b>	<b>191</b>
<b>Santé et Services sociaux</b>	
Improvement of the accessibility and quality of health services (March 2020 initiative)	200
Medication costs and other funding that became available during the year	-256
<b>Subtotal</b>	<b>-56</b>
<b>Other portfolios</b>	
Initiatives to meet specific needs (fall 2019)	525
Full enhancement of the family allowance (fall 2019)	132
Immediate elimination of the additional contribution for childcare (fall 2019)	161
Other March 2020 initiatives	697
Reallocation of funding that became available during the year and other adjustments	-726
<b>Subtotal</b>	<b>789</b>
<b>Total adjustments</b>	<b>924</b>
<b>PORTFOLIO EXPENDITURES – MARCH 2020</b>	<b>104 962</b>

Note: Totals may not add due to rounding.

Spending for the Éducation et Enseignement supérieur portfolio increased by \$191 million in 2019-2020 owing to additional support for college centres for technology transfer and increased spending by education and higher education institutions.

Spending for the Santé et Services sociaux portfolio was adjusted downward by \$56 million in 2019-2020. Savings relative to the cost of medication made it possible to fund additional investments for improving the accessibility and quality of health services.

Spending for other portfolios was adjusted upward by \$789 million in 2019-2020 due to, in particular:

- the initiatives announced in fall 2019, which include initiatives to meet specific needs, full enhancement of the family allowance and immediate elimination of the additional contribution for childcare;
- new non-recurring initiatives to fight climate change, create wealth, improve services and meet the needs of Quebecers;
- reallocation of funding that became available during the year, making it possible to fund new targeted initiatives in 2019-2020.

#### **Spending is down relative to March 2019**

The government is managing spending responsibly and efficiently.

Government spending for 2019-2020 is \$227 million less than forecast a year ago in the March 2019 Budget.

Savings on debt service, coupled with funds that became available in portfolio expenditures, have made it possible to implement new initiatives totalling:

- \$857 million in the *Update on Québec's Economic and Financial Situation of last November*;
- \$947 million in this budget.

#### **Expenditure management, 2019-2020** (millions of dollars)

	<b>2019-2020</b>
<b>EXPENDITURE – MARCH 2019</b>	<b>–113 034</b>
<b>ADJUSTMENTS RELATED TO THE ECONOMIC AND BUDGETARY SITUATION</b>	
<b>Portfolio expenditures</b>	
November 2019 adjustments (page A.17 of the November 2019 update)	–567
Funding available in March 2020 to finance new initiatives	1 447
<b>Subtotal</b>	<b>880</b>
<b>Debt service</b>	<b>1 151</b>
<b>INITIATIVES</b>	
November 2019 initiatives	–857
March 2020 initiatives	–947
<b>Subtotal</b>	<b>–1 804</b>
<b>Total expenditure adjustments</b>	<b>227</b>
<b>EXPENDITURE – MARCH 2020</b>	<b>–112 807</b>

## □ Debt service

For 2019-2020, debt service is adjusted downward by \$1.2 billion to \$7.8 billion.

- Interest on the direct debt is \$1 040 million less because of lower-than-expected interest rates and improvement of the budgetary situation.
- The \$111-million downward adjustment in interest on the liability for the retirement plans and other employee future benefits is due to the higher-than-anticipated return on the Retirement Plans Sinking Fund (RPSF) in 2018-2019. The income of the RPSF is applied against debt service.

TABLE F.8

### Adjustments to debt service (millions of dollars)

	2019-2020
<b>DEBT SERVICE – MARCH 2019</b>	<b>8 996</b>
Interest on the direct debt <sup>(1)</sup>	–1 040
Interest on the liability for the retirement plans and other employee future benefits <sup>(2)</sup>	–111
<b>Total adjustments</b>	<b>–1 151</b>
<b>DEBT SERVICE – MARCH 2020</b>	<b>7 845</b>

- (1) Interest on the direct debt includes the income of the Sinking Fund for Government Borrowings. This income, which is applied against debt service, consists of interest generated on investments as well as gains and losses on disposal. Given that the forecast for this revenue is closely tied to the change in interest rates, it may be adjusted upward or downward.
- (2) This corresponds to the interest on obligations relating to the retirement plans and other employee future benefits of public and parapublic sector employees, minus mainly the investment income of the RPSF.

### 1.2.1 Targeted initiatives in 2019-2020

As part of Budget 2020-2021, the government is investing additional sums as of 2019-2020, mainly by implementing targeted, non-recurring measures. These investments are being made thanks to funding that became available during the year in expenditures.

#### ❑ Providing environmental leadership

The government is taking actions to fight climate change. To ensure environmental leadership as of 2019-2020, the government is:

- transferring \$150.0 million to the Ville de Montréal for making green infrastructure investments for water management under the “Montréal Reflex” framework agreement;
- investing \$70.0 million to promote the enhancement and accessibility of natural environments by renewing agreements to fund greenways and blueways with the Communauté métropolitaine de Montréal and the Communauté métropolitaine de Québec and by supporting projects to improve the supply and accessibility of bicycle paths in the other regions;
- announcing \$45.0 million to support the production and distribution of renewable natural gas;
- investing \$0.5 million to promote the development of sustainable tourism projects.

#### ❑ Increasing the potential of the economy and creating wealth

To increase the potential of Québec's economy and create wealth, the government is:

- granting \$140.0 million to partially reimburse the deficit of the Fonds d'assurance stabilisation des revenus agricoles assumed by La Financière agricole du Québec;
- allocating \$81.0 million to increase clinical research and genomics research by providing financial support to Génome Québec and the Montreal Clinical Research Institute;
- increasing by \$50.0 million the funding granted to college centres for technology transfer, which contribute to the economic development of their respective regions and Québec as a whole;
- investing \$47.3 million for the purpose of revising the farm property tax credit program;
- granting \$44.5 million for implementing the 2020-2025 tourism industry growth strategy;



- providing \$10.0 million to attract skilled foreign workers;
- awarding a subsidy of \$7.0 million to the Ville de Québec to redevelop the Espace de la Capitale-Nationale;
- providing \$3.2 million for rebuilding the fuel facilities of the Coopérative de consommation de l'île d'Anticosti in order to ensure energy supplies for the population and businesses;
- granting \$2.6 million to encourage cultural vision and innovation;
- allocating \$2.0 million to implement Québec's new international vision.

### **□ Improving services and meeting the needs of Quebecers**

To improve services and meet the needs of Quebecers as of 2019-2020, the government is:

- allocating \$200.0 million to improve the accessibility and quality of health services;
- granting \$58.0 million to support the building of housing units under the AccèsLogis Québec program that were previously announced but are not yet completed;
- providing \$15.0 million in support of infrastructure projects in the Eeyou Istchee James Bay region in partnership with the Cree community;
- allocating \$13.5 million to roll out a free mediation program for small claims and for family mediation for couples without children, and thereby improve access to legal services for people throughout Québec;
- awarding \$4.0 million to build a warehouse to support the social housing stock in Nunavik;
- transferring \$3.0 million to the Fondation Forces AVENIR to enhance recognition programs for science and technological application projects.

### **□ Renewal of the collective agreements**

The government is providing \$400.0 million to cover the financial impact of the government offers proposed as part of the renewal of the collective agreements of government employees.

TABLE F.9

**Targeted initiatives in 2019-2020**  
(millions of dollars)

	2019-2020
<b>Providing environmental leadership</b>	<b>-265.5</b>
–Enhancing the “Montréal Reflex” framework agreement	-150.0
–Improving the draw of natural environments	-70.0
–Supporting the production and distribution of renewable natural gas	-45.0
–Promoting the development of sustainable tourism projects	-0.5
<b>Increasing the potential of the economy and creating wealth</b>	<b>-387.6</b>
Reimbursing La Financière agricole du Québec's share of the deficit of the Fonds d'assurance stabilisation des revenus agricoles	-140.0
–Increasing clinical research and genomics research	-81.0
–Increasing support for college centres for technology transfer	-50.0
–Revising the farm property tax credit program	-47.3
–Implementing the 2020-2025 tourism industry growth strategy	-44.5
–Attracting skilled foreign workers	-10.0
–Redeveloping the Espace de la Capitale-Nationale	-7.0
–Ensuring energy supplies for the île d'Anticosti	-3.2
–Stimulating cultural vision and innovation	-2.6
–Implementing Québec's new international vision	-2.0
<b>Improving services and meeting the needs of Quebecers</b>	<b>-293.5</b>
–Improving the accessibility and quality of health services	-200.0
–Supporting the building of housing units previously announced under the AccèsLogis Québec program	-58.0
–Supporting the development of infrastructure in the Eeyou Istchee James Bay region	-15.0
–Rolling out a free mediation program	-13.5
–Funding the construction of a warehouse in Nunavik	-4.0
– Enhancing Fondation Forces AVENIR programs	-3.0
<b>Subtotal March 2020 initiatives</b>	<b>-946.6</b>
Government offers for the renewal of the collective agreements of government employees	-400.0
<b>TOTAL</b>	<b>-1 346.6</b>

**Budgetary surpluses generated by the strong performance  
of the economy over the past three years**

Surpluses of roughly \$2.8 billion, or about 2.5% of the government's annual budget, have been recorded over the past five years.

- While the surpluses for 2015-2016 and 2016-2017 stem mainly from expenditures that were less than originally planned, the surpluses recorded over the past three years can be attributed chiefly to the strong performance of the economy.

Indeed, in 2015-2016 and 2016-2017, differences of \$2.1 billion and \$1.6 billion, respectively, were recorded relative to expenditure. For these two years, the differences associated with revenue were –\$37 million and \$318 million, respectively.

However, the budgetary surpluses recorded since 2017-2018 stem essentially from the adjustment of approximately \$3.2 billion per year on average in revenue, resulting from the increase in tax revenue associated with the main sources of the government's own-source revenue, tied to sustained economic growth.

- In 2018-2019, the improvements have made it possible to eliminate the use reserve that was forecast in the of \$1.6 billion from the stabilization March 2018 budget.

The recurring portion of the improvements linked to revenue, which is in the order of \$2.3 billion, is being reinvested as of 2020-2021 as part of this budget.

**Differences in the budgetary balance, 2015-2016 to 2019-2020**  
(millions of dollars)

	<b>2015- 2016</b>	<b>2016- 2017</b>	<b>2017- 2018</b>	<b>2018- 2019</b>	<b>2019- 2020</b>
Revenues <sup>(1)</sup>	–37	318	2 096	5 149	2 305
Portfolio expenditures <sup>(2)</sup> and debt service	2 095	1 616	231	2 227	227
Estimated losses on the C Series investment	—	—	—	—	–603
Other adjustments affecting the budgetary balance <sup>(3)</sup>	133	427	295	–2 573	–29
<b>Budgetary balance<sup>(4)</sup></b>	<b>2 191</b>	<b>2 361</b>	<b>2 622</b>	<b>4 803</b>	<b>1 900</b>

Note: The differences in the budgetary balance represent the difference between the original budget forecast and the results in the Public Accounts. For 2019-2020, the forecasts in Budget 2019-2020 are compared to those in Budget 2020-2021.

- (1) For 2018-2019, the \$5.1-billion adjustment in revenue takes into account an upward adjustment of nearly \$1 billion in revenues dedicated to the Generations Fund.
- (2) The differences in expenditures take into account the implementation of targeted initiatives totalling \$2 199 million in 2017-2018, \$1 617 million in 2018-2019 (total initiatives of \$1 661 million, less those of \$44 million in revenue) and \$1 804 million in 2019-2020.
- (3) Takes into account deposits of dedicated revenues in the Generations Fund, contingency reserves and elimination of the use of \$1 587-million from the stabilization reserve in 2018-2019.
- (4) Budgetary balance within the meaning of the *Balanced Budget Act*.

## 1.3 Budgetary outlook

This subsection presents Québec's budgetary outlook for the years 2019-2020 to 2024-2025.

— The government forecasts a balanced budget for the period covered by the financial framework.

### 1.3.1 Five-year financial framework

Revenue amounts to \$121.3 billion in 2020-2021, with growth of 2.8%. In 2021-2022, it will grow by 3.2%.

Expenditure amounts to \$118.6 billion in 2020-2021, with growth of 5.1%. In 2021-2022, it will grow by 3.1%.

Deposits of dedicated revenues in the Generations Fund amount to \$2.7 billion in 2020-2021 and will reach \$3.0 billion in 2021-2022.

Steps to offset a shortfall of \$125 million in 2021-2022 and \$250 million from 2022-2023 to 2024-2025 will be identified in the coming years.

— In the event that the shortfall has not been completely eliminated by the tabling of the budget for each of the years with a shortfall, the stabilization reserve would be used to achieve budgetary balance within the meaning of the *Balanced Budget Act*.



TABLE F.10

**Financial framework, 2019-2020 to 2024-2025**  
(millions of dollars)

	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	AAGR <sup>(1)</sup>
<b>Revenue</b>							
Personal income tax	33 502	35 435	36 898	38 222	39 686	41 177	
Contributions for health services	6 593	6 896	7 059	7 210	7 323	7 501	
Corporate taxes	8 712	8 530	8 862	9 025	9 259	9 503	
School property tax	1 556	1 349	1 323	1 356	1 391	1 426	
Consumption taxes	22 118	22 961	23 702	24 351	25 142	25 894	
Duties and permits	4 512	4 643	4 546	4 653	4 756	4 877	
Miscellaneous revenue	11 160	10 975	11 354	11 742	12 099	12 493	
Government enterprises	4 693	4 814	5 115	5 535	5 967	6 190	
<b>Own-source revenue</b>	<b>92 846</b>	<b>95 603</b>	<b>98 859</b>	<b>102 094</b>	<b>105 623</b>	<b>109 061</b>	
<i>% change</i>	<i>1.3</i>	<i>3.0</i>	<i>3.4</i>	<i>3.3</i>	<i>3.5</i>	<i>3.3</i>	<i>2.9</i>
Federal transfers	25 097	25 692	26 293	26 529	26 598	26 808	
<i>% change</i>	<i>8.6</i>	<i>2.4</i>	<i>2.3</i>	<i>0.9</i>	<i>0.3</i>	<i>0.8</i>	<i>2.5</i>
<b>Total revenue</b>	<b>117 943</b>	<b>121 295</b>	<b>125 152</b>	<b>128 623</b>	<b>132 221</b>	<b>135 869</b>	
<i>% change</i>	<i>2.8</i>	<i>2.8</i>	<i>3.2</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.9</i>
<b>Expenditure</b>							
Portfolio expenditures	-104 962	-110 300	-113 617	-116 837	-120 375	-123 664	
<i>% change</i>	<i>7.4</i>	<i>5.1</i>	<i>3.0</i>	<i>2.8</i>	<i>3.0</i>	<i>2.7</i>	<i>4.0</i>
Debt service	-7 845	-8 266	-8 630	-8 683	-8 420	-8 460	
<i>% change</i>	<i>-10.1</i>	<i>5.4</i>	<i>4.4</i>	<i>0.6</i>	<i>-3.0</i>	<i>0.5</i>	<i>-0.5</i>
<b>Total expenditure</b>	<b>-112 807</b>	<b>-118 566</b>	<b>-122 247</b>	<b>-125 520</b>	<b>-128 795</b>	<b>-132 124</b>	
<i>% change</i>	<i>6.0</i>	<i>5.1</i>	<i>3.1</i>	<i>2.7</i>	<i>2.6</i>	<i>2.6</i>	<i>3.7</i>
Estimated losses on the CSeries investment	-603	—	—	—	—	—	
Shortfall to be offset	—	—	125	250	250	250	
<b>SURPLUS</b>	<b>4 533</b>	<b>2 729</b>	<b>3 030</b>	<b>3 353</b>	<b>3 676</b>	<b>3 995</b>	
<b>BALANCED BUDGET ACT</b>							
Deposits of dedicated revenues in the Generations Fund	-2 633	-2 729	-3 030	-3 353	-3 676	-3 995	
<b>BUDGETARY BALANCE<sup>(2)</sup></b>	<b>1 900</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	

(1) Average annual growth rate (AAGR) from 2019-2020 to 2024-2025.

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

### Funding for the first implementation plan for the electrification and climate change framework policy

The government will soon be tabling the electrification and climate change framework policy. With this framework policy, the government will set forth Québec's vision for fighting climate change, meeting the 2030 target for the reduction of GHG emissions and adapting to climate change, while also contributing to Québec's economic development.

Over the next six years, the government will allocate \$6.2 billion to the fight against climate change. These amounts are provided for in the government's financial framework.

- Revenues of \$4.1 billion from the Electrification and Climate Change Fund (ECCF),<sup>1</sup> derived mainly from revenue from the carbon market, will be reinvested in their entirety in measures to fight climate change.
- Given the urgent need for action, and recognizing the need to broaden the scope of its environmental action, the government is awarding an additional \$2.1 billion in the form of budgetary appropriations funded by general and other taxes. These sums will be allocated to:
  - public transit (\$1.3 billion);<sup>2</sup>
  - initiatives introduced by various departments (\$0.8 billion).

### Financing of the implementation plan for the electrification and climate change framework policy (millions of dollars)

	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026-	Total
<b>Revenue</b>								
ECCF <sup>(1)</sup>	—	192	795	754	770	788	817	4 116
General and other taxes	116	73	146	291	433	509	538	2 105
<b>Total revenue</b>	<b>116</b>	<b>265</b>	<b>942</b>	<b>1 045</b>	<b>1 202</b>	<b>1 297</b>	<b>1 355</b>	<b>6 221</b>
<b>Expenditure</b>								
ECCF	—	–192	–795	–754	–770	–788	–817	–4 116
Public transit (LTNF)	—	—	—	–150	–300	–400	–450	–1 300
Budgetary appropriations for the departments	–116	–73	–146	–141	–133	–109	–88	–805
<b>Total expenditure</b>	<b>–116</b>	<b>–265</b>	<b>–942</b>	<b>–1 045</b>	<b>–1 202</b>	<b>–1 297</b>	<b>–1 355</b>	<b>–6 221</b>

(1) Consists mainly of revenues from the carbon market, investment income of the ECCF and revenues from the federal government's Leadership Fund.

1 Bill 44 stipulates that the Green Fund will become the Electrification and Climate Change Fund.

2 In this regard, budgetary appropriations will be allocated to the Ministère de l'Environnement et de la Lutte contre les changements climatiques to allow the transfer of funds from the Electrification and Climate Change Fund to the Land Transportation Network Fund (LTNF). The LTNF is responsible, in particular, for funding public transit projects.

## ❑ Stabilization reserve

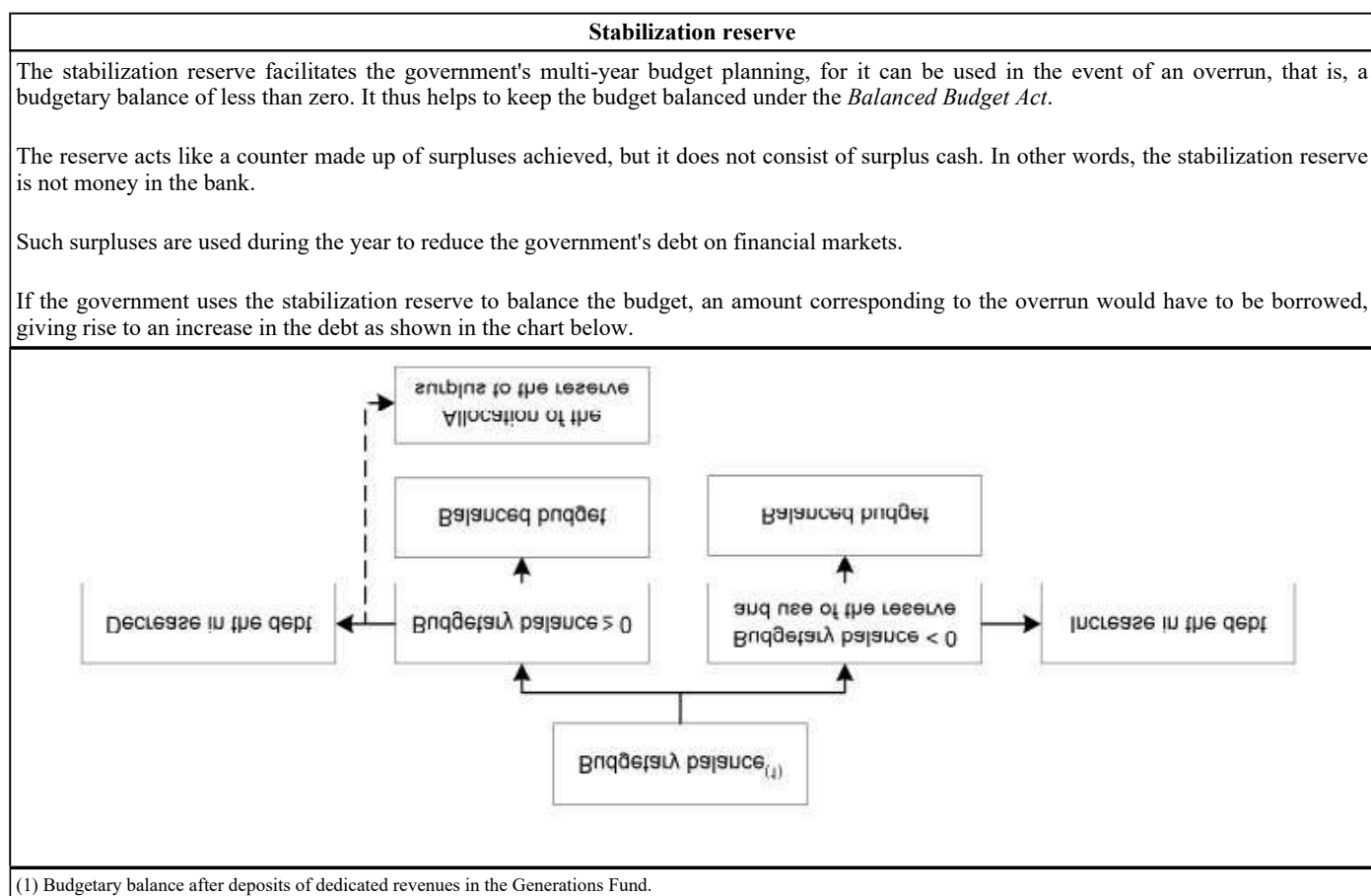
Under the *Balanced Budget Act*, a recorded surplus, which is a budgetary balance that is greater than zero, must be allocated to the stabilization reserve.

— As at March 31, 2020, the stabilization reserve will stand at \$13.9 billion.

TABLE F.11

### Stabilization reserve (millions of dollars)

Fiscal year	Balance, beginning of year	Allocations	Uses	Balance, end of year
2015-2016	—	2 191	—	2 191
2016-2017	2 191	2 361	—	4 552
2017-2018	4 552	2 622	—	7 174
2018-2019	7 174	4 803	—	11 977
2019-2020	11 977	1 900	—	13 877





## 1.4 Major investments in public infrastructure

Québec has significant public infrastructure needs. To meet them, the government is announcing an increase of \$15.1 billion over 10 years for the Québec Infrastructure Plan (QIP).

— The 2020-2030 QIP thus amounts to \$130.5 billion, or more than \$13 billion per year on average.

TABLE F.12

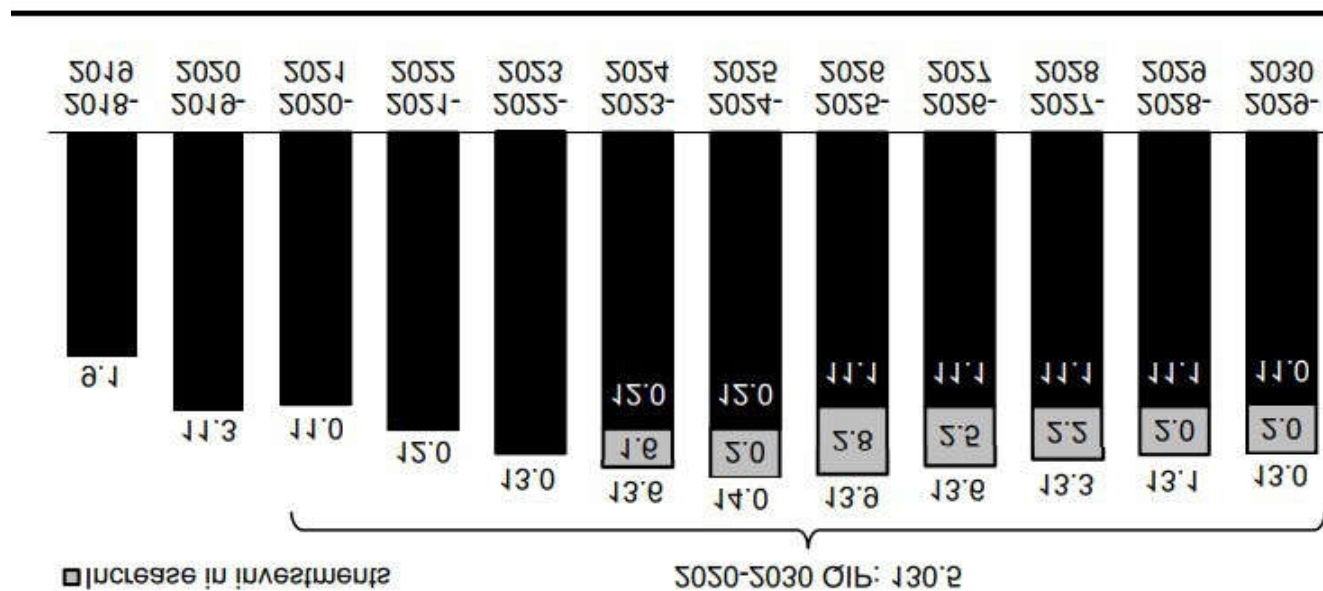
### Investments under the 2020-2030 Québec Infrastructure Plan (billions of dollars)

	2020-2030
Investments under the 2019-2029 QIP	115.4
Increase in investments	15.1
<b>INVESTMENTS UNDER THE 2020-2030 QIP</b>	<b>130.5</b>

The 2020-2030 QIP allocates substantial sums to public transit (\$13.6 billion<sup>3</sup>) and is studying several new large-scale projects for the development of structuring networks.

In addition, it provides for major investments in education and higher education (\$25.5 billion, including \$19.2 billion in schools), in health and social services (\$20.5 billion) and for keeping the road network in good condition (\$26.8 billion).

CHART F.1



(billions of dollars)

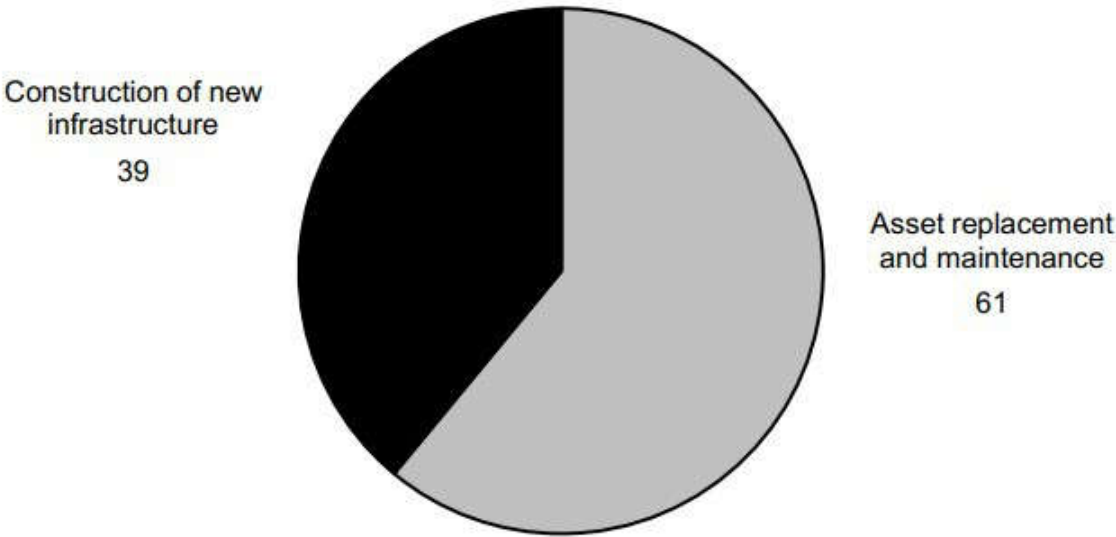
### Annual investments under the 2020-2030 Québec Infrastructure Plan

<sup>3</sup> Investments in public transit total \$15.8 billion including the portion of the central envelope allocated to this sector.

Under the 2020-2030 QIP, the major share of investments, or 61%,<sup>4</sup> will go to replacing and maintaining assets. The share devoted to the construction of new infrastructure is 39%.

CHART F.2

**2020-2030 Québec Infrastructure Plan by type of investment**  
(per cent)



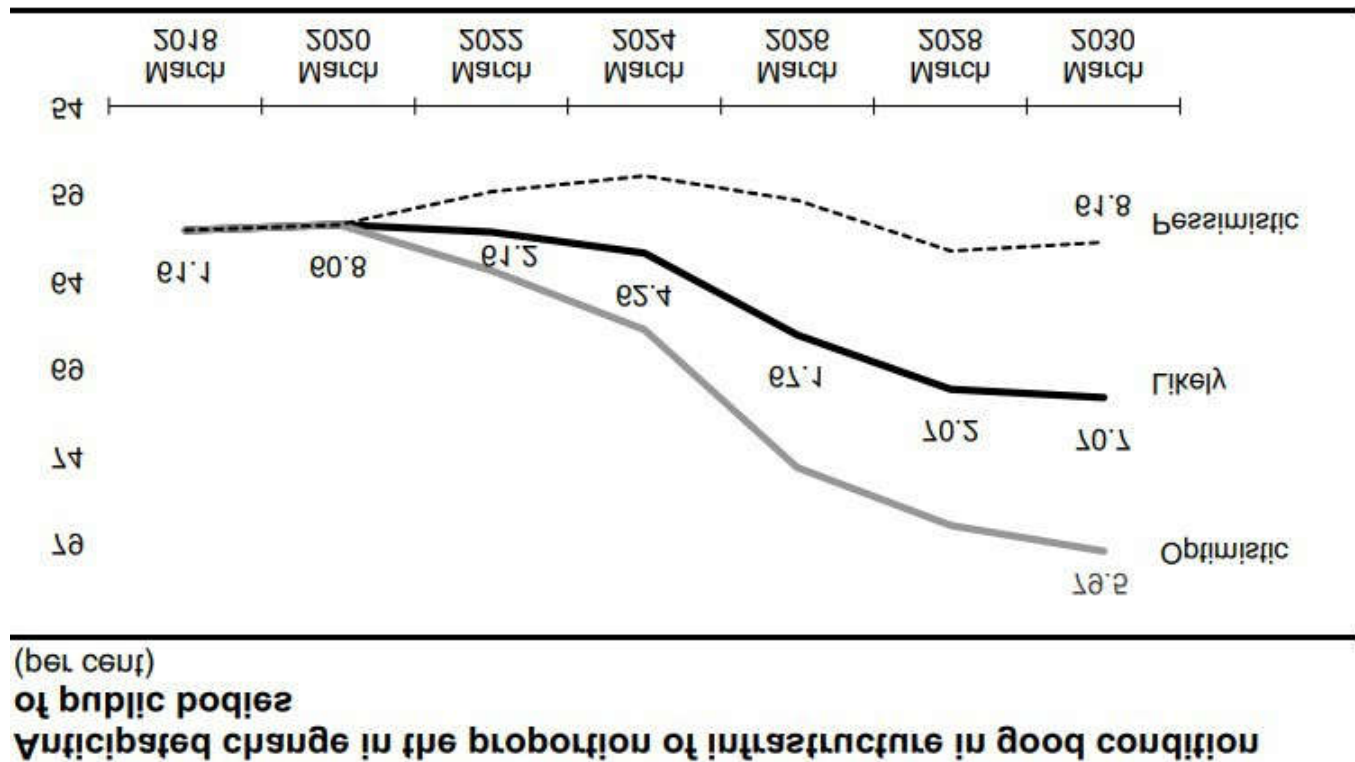
Source: Secrétariat du Conseil du trésor.

<sup>4</sup> Excluding the central envelope.

In view of the investments currently planned under the 2020-2030 QIP, of which a large share will go to maintaining assets, the government expects that the proportion of assets in good condition will increase in the coming years.

— It is estimated<sup>5</sup> that the proportion of infrastructure in good condition will increase from 60.8% in March 2020 to 70.7% in March 2030.

CHART F.3



Note: The proportion of infrastructure in good condition could increase to a rate of 79.5% in March 2030 if future QIPs give priority to maintenance projects or not exceeding a rate of 61.8% if the rate of deterioration or inflation in the cost of work is higher than expected.

Source: Secrétariat du Conseil du trésor.

<sup>5</sup> These estimates are preliminary. They were obtained using an initial model. They will be refined and improved during future QIPs and could vary over time, particularly with regard to the investment choices made by departments and bodies and their ability to carry out planned work, as well as by the ability of the construction industry to respond.

## 2. REVENUE AND EXPENDITURE FORECASTS

This section presents the revenue and expenditure outlook for three years, from 2019-2020 to 2021-2022.

TABLE F.13

### Change in revenue and expenditure (millions of dollars)

	2019-2020	2020-2021	2021-2022	AAGR <sup>(1)</sup>
<b>Revenue</b>				
Own-source revenue excluding revenue from government enterprises	88 153	90 789	93 744	
% change	2.4	3.0	3.3	2.9
Revenue from government enterprises	4 693	4 814	5 115	
% change	-15.4	2.6	6.3	-2.7
Federal transfers	25 097	25 692	26 293	
% change	8.6	2.4	2.3	4.4
<b>Total revenue</b>	<b>117 943</b>	<b>121 295</b>	<b>125 152</b>	
% change	<b>2.8</b>	<b>2.8</b>	<b>3.2</b>	<b>2.9</b>
<b>Expenditure</b>				
Portfolio expenditures <sup>(2)</sup>	-104 962	-110 300	-113 617	
% change	7.4	5.1	3.0	5.1
Debt service	-7 845	-8 266	-8 630	
% change	-10.1	5.4	4.4	-0.4
<b>Total expenditure<sup>(2)</sup></b>	<b>-112 807</b>	<b>-118 566</b>	<b>-122 247</b>	
% change	<b>6.0</b>	<b>5.1</b>	<b>3.1</b>	<b>4.7</b>
Estimated losses on the CSeries investment	-603	—	—	
Shortfall to be offset	—	—	125	
<b>SURPLUS</b>	<b>4 533</b>	<b>2 729</b>	<b>3 030</b>	
<b>BALANCED BUDGET ACT</b>				
Deposits of dedicated revenues in the Generations Fund	-2 633	-2 729	-3 030	
<b>BUDGETARY BALANCE<sup>(3)</sup></b>	<b>1 900</b>	<b>—</b>	<b>—</b>	

(1) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

(2) Growth in portfolio expenditures went from 5.0% in Budget 2019-2020 to 7.4% in Budget 2020-2021 due mainly to the decrease in expenditure in 2018-2019.

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

## 2.1 Change in revenue

Revenue encompasses own-source revenue, including revenue from government enterprises, as well as federal transfers.

Revenue totals \$117.9 billion in 2019-2020, or \$92.8 billion in own-source revenue and \$25.1 billion from federal transfers.

Revenue will stand at \$121.3 billion in 2020-2021 and \$125.2 billion in 2021-2022, representing growth of 2.8% and 3.2%, respectively.

TABLE F.14

<b>Change in revenue</b> (millions of dollars)				
	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>AAGR<sup>(1)</sup></b>
<b>Own-source revenue</b>				
Own-source revenue excluding revenue from government enterprises	88 153	90 789	93 744	
<i>% change</i>	2.4	3.0	3.3	2.9
Revenue from government enterprises	4 693	4 814	5 115	
<i>% change</i>	-15.4	2.6	6.3	-2.7
<b>Subtotal</b>	<b>92 846</b>	<b>95 603</b>	<b>98 859</b>	
<i>% change</i>	1.3	3.0	3.4	2.6
Federal transfers	25 097	25 692	26 293	
<i>% change</i>	8.6	2.4	2.3	4.4
<b>TOTAL</b>	<b>117 943</b>	<b>121 295</b>	<b>125 152</b>	
<i>% change</i>	2.8	2.8	3.2	2.9

(1) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

### 2.1.1 Own-source revenue excluding revenue from government enterprises

Own-source revenue excluding revenue from government enterprises consists mainly of tax revenue, which is made up of personal income tax, contributions for health services, corporate taxes, school property tax and consumption taxes. How it changes is tied to economic activity in Québec and to changes in the tax system.

Own-source revenue also includes other revenue sources, that is, duties and permits, in particular revenue from the carbon market, and miscellaneous revenue, such as interest, the sale of goods and services, as well as fines, forfeitures and recoveries.

Own-source revenue excluding revenue from government enterprises will reach \$88.2 billion in 2019-2020, \$90.8 billion in 2020-2021 and \$93.7 billion in 2021-2022. It will grow by 2.4%, 3.0% and 3.3%, respectively. These changes reflect essentially the vitality of the economic activity forecast for those years and the impact of the fiscal measures announced and implemented.

TABLE F.15

#### Change in own-source revenue excluding revenue from government enterprises (millions of dollars)

	2019-2020	2020-2021	2021-2022	AAGR <sup>(1)</sup>
Tax revenue	72 481	75 171	77 844	
<i>% change</i>	3.3	3.7	3.6	3.5
Other revenue	15 672	15 618	15 900	
<i>% change</i>	-1.5	-0.3	1.8	0.0
<b>TOTAL</b>	<b>88 153</b>	<b>90 789</b>	<b>93 744</b>	
<i>% change</i>	<b>2.4</b>	<b>3.0</b>	<b>3.3</b>	<b>2.9</b>

(1) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

## ❑ Tax revenue

Personal income tax, the government's largest revenue source, will grow by 5.4% in 2019-2020, 5.8% in 2020-2021 and 4.1% in 2021-2022, settling at \$33.5 billion, \$35.4 billion and \$36.9 billion, respectively.

— These changes reflect, in particular, the growth of household income, including wages and salaries, and takes into account the parameters of the personal income tax system.

— They also reflect the contribution of pension income to the growth of income subject to tax, particularly income from private pension plans.

TABLE F.16

### **Change in own-source revenue excluding revenue from government enterprises** (millions of dollars)

	2019-2020	2020-2021	2021-2022	AAGR <sup>(1)</sup>
<b>Tax revenue</b>				
Personal income tax	33 502	35 435	36 898	
<i>% change</i>	5.4	5.8	4.1	5.1
Contributions for health services	6 593	6 896	7 059	
<i>% change</i>	3.7	4.6	2.4	3.5
Corporate taxes	8 712	8 530	8 862	
<i>% change</i>	-5.1	-2.1	3.9	-1.2
School property tax	1 556	1 349	1 323	
<i>% change</i>	-16.0	-13.3	-1.9	-10.6
Consumption taxes	22 118	22 961	23 702	
<i>% change</i>	5.3	3.8	3.2	4.1
<b>Subtotal</b>	<b>72 481</b>	<b>75 171</b>	<b>77 844</b>	
<i>% change</i>	3.3	3.7	3.6	3.5
<b>Other revenue</b>				
Duties and permits	4 512	4 643	4 546	
<i>% change</i>	3.5	2.9	-2.1	1.4
Miscellaneous revenue	11 160	10 975	11 354	
<i>% change</i>	-3.4	-1.7	3.5	-0.6
<b>Subtotal</b>	<b>15 672</b>	<b>15 618</b>	<b>15 900</b>	
<i>% change</i>	-1.5	-0.3	1.8	0.0
<b>TOTAL</b>	<b>88 153</b>	<b>90 789</b>	<b>93 744</b>	
<i>% change</i>	2.4	3.0	3.3	2.9

(1) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

Contributions for health services will grow by 3.7% in 2019-2020, 4.6% in 2020-2021 and 2.4% in 2021-2022, settling at \$6.6 billion, \$6.9 billion and \$7.1 billion, respectively.

- These changes reflect the fact that wages and salaries are expected to grow by 5.9% in 2019, 4.8% in 2020 and 3.7% in 2021.
- They also take into account the impact of the reduction of the Health Services Fund contribution rate for all Québec SMBs.

Revenue from corporate taxes will decrease by 5.1% in 2019-2020 and 2.1% in 2020-2021 and increase by 3.9% in 2021-2022. It will stand at \$8.7 billion, \$8.5 billion and \$8.9 billion, respectively, for those same three fiscal years.

- These changes reflect the projected growth of the net operating surplus of corporations, established at 4.0% in 2019, 3.6% in 2020 and 3.5% in 2021.
- They also reflect the measures implemented in recent years to ease the tax burden, in particular the depreciation measure to incentivize businesses to invest more, announced in the December 2018 *Update on Québec's Economic and Financial Situation*.

Revenue from the school property tax will decline by 16.0% in 2019-2020, 13.3% in 2020-2021 and 1.9% in 2021-2022, settling at \$1.6 billion in 2019-2020 and \$1.3 billion in 2020-2021 and 2021-2022. These changes are explained mainly by the impact of the projected tax rate reduction as part of the gradual implementation of a single school tax rate.

Revenue from consumption taxes will grow by 5.3% in 2019-2020, 3.8% in 2020-2021 and 3.2% in 2021-2022, reaching \$22.1 billion, \$23.0 billion and \$23.7 billion, respectively.

- These changes reflect the projected growth of household consumption,<sup>6</sup> established at 2.9% in 2019 and 3.3% in 2020 and 2021 and sustained mainly by the growth in wages and salaries.
- They also reflect the growth of residential construction, amounting to 7.5% in 2019, 4.1% in 2020 and 3.0% in 2021.

<sup>6</sup> Household consumption excluding food expenditures and shelter.



## ❑ Other revenue

Revenue from duties and permits will increase by 3.5% in 2019-2020 and 2.9% in 2020-2021 and will decrease by 2.1% in 2021-2022, settling at \$4.5 billion, \$4.6 billion and \$4.5 billion, respectively.

— These changes can be attributed to, in particular, the anticipated growth in carbon market revenue.

Miscellaneous revenue will decline by 3.4% and 1.7% in 2019-2020 and 2020-2021 and will climb by 3.5% in 2021-2022, reaching \$11.2 billion, \$11.0 billion and \$11.4 billion, respectively.

— These changes stem mainly from the investment income of the Generations Fund and the anticipated revenue of special funds, non-budget-funded bodies and bodies in the health and social services and education networks.

— They also reflect the government's decision to make the first two hours of parking at healthcare institutions free of charge and to set the daily rate between \$7 and \$10 depending on the region.

## ❑ Changes in line with those in the economy

Growth in own-source revenue excluding revenue from government enterprises generally reflects the changes in economic activity and the impact of measures introduced by the government.

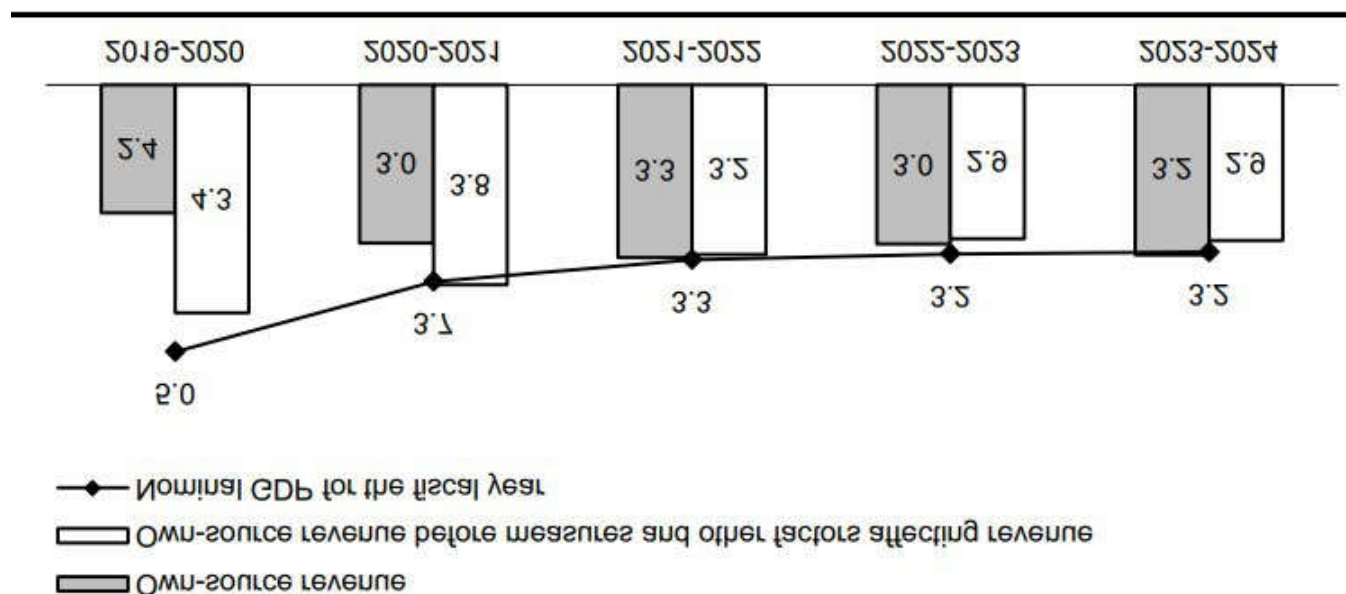
Growth in this revenue will stand at 3.0% in 2020-2021 and reach 3.3% in 2021-2022.

— This growth reflects, in particular, various initiatives implemented in recent years, including the standardization of the school tax rates announced in budgets 2019-2020 and 2020-2021 and the depreciation measures announced in the December 2018 *Update on Québec's Economic and Financial Situation*.

— Had it not been for those measures, own-source revenue growth in 2020-2021 would stand at 3.8%, a rate in line with economic growth.

Over the forecast period, revenue growth will keep pace with economic growth.

CHART F.4



(per cent)

enterprises

Growth in own-source revenue excluding revenue from government

Revenue growth in line with economic growth					
Growth in own-source revenue excluding revenue from government enterprises, 2019-2020 to 2023-2024 (millions of dollars)					
	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
<b>Own-source revenue</b>	<b>92 846</b>	<b>95 603</b>	<b>98 859</b>	<b>102 094</b>	<b>105 623</b>
<i>% change</i>	<i>1.3</i>	<i>3.0</i>	<i>3.4</i>	<i>3.3</i>	<i>3.5</i>
Less: Government enterprises	4 693	4 814	5 115	5 535	5 967
<b>Own-source revenue excluding revenue from government enterprises</b>	<b>88 153</b>	<b>90 789</b>	<b>93 744</b>	<b>96 559</b>	<b>99 656</b>
<i>% change</i>	<i>2.4</i>	<i>3.0</i>	<i>3.3</i>	<i>3.0</i>	<i>3.2</i>
<b>Less: Measures and other factors affecting revenue growth<sup>(1)</sup></b>					
Budget 2020-2021	—	–183	–252	–266	–224
Fall 2019 update	—	–99	–75	–87	–90
Budget 2019-2020	–314	–381	–377	–374	–369
Fall 2018 update	–436	–581	–383	–270	–230
Recovery measures – August 2018	–83	–48	–21	—	—
Budget 2018-2019	–998	–1 104	–1 190	–1 219	–1 227
Previous budgets and other <sup>(2)</sup>	–173	–403	–563	–661	–566
<b>Subtotal</b>	<b>–2 004</b>	<b>–2 798</b>	<b>–2 861</b>	<b>–2 877</b>	<b>–2 706</b>
<b>Own-source revenue excluding revenue from government enterprises before measures</b>	<b>90 157</b>	<b>93 587</b>	<b>96 605</b>	<b>99 436</b>	<b>102 362</b>
<i>% change</i>	<i>4.3</i>	<i>3.8</i>	<i>3.2</i>	<i>2.9</i>	<i>2.9</i>
<b>Nominal GDP growth in %</b>	<b>5.0</b>	<b>3.7</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>

Note: Totals may not add due to rounding. Save for some exceptions, the amounts correspond to those published in the budgets and fall updates.

(1) Main measures affecting revenue growth.

(2) This category includes, in particular, the revenue measures published in the budgets and fall updates since fall 2014, revenues from the carbon market, the elimination of restrictions on input tax refunds for large businesses and the investment income of the Generations Fund.

## 2.1.2 Revenue from government enterprises

Government enterprises consist of public corporations that play a commercial role, have managerial autonomy and are financially self-sufficient. Revenue from government enterprises corresponds in large part to the net earnings of these enterprises.

Revenue from government enterprises will stand at \$4.7 billion in 2019-2020, for a decrease of 15.4%, at \$4.8 billion in 2020-2021, for an increase of 2.6%, and at \$5.1 billion in 2021-2022, for an increase of 6.3%.

- The decrease of 15.4% for 2019-2020 reflects, in particular, the anticipated decrease in the results of Hydro-Québec, attributable to the non-recurrence of gains associated with the partial disposal of the TM4 subsidiary by Hydro-Québec in 2018-2019 and to a decline in net exports of electricity.
- The change of 2.6% in 2020-2021 mainly reflects the increase in the anticipated results of Hydro-Québec resulting from the growth forecast for net exports of electricity and demand in Québec, taking into account the impact of the rate freeze.
- The change of 6.3% in 2021-2022 mainly reflects the increase in the anticipated results of Hydro-Québec resulting from the growth forecast for demand in Québec.

The increase in revenue from government enterprises also includes the positive impact of the increased sales and productivity of Loto-Québec and the Société des alcools du Québec.

TABLE F.17

### Change in revenue from government enterprises (millions of dollars)

	2019-2020	2020-2021	2021-2022	AAGR <sup>(1)</sup>
Hydro-Québec	2 175	2 275	2 500	
Loto-Québec	1 362	1 372	1 406	
Société des alcools du Québec	1 194	1 222	1 252	
Investissement Québec	148	131	137	
Société québécoise du cannabis <sup>(2)</sup>	27	50	71	
Other <sup>(3)</sup>	-213	-236	-251	
<b>TOTAL</b>	<b>4 693</b>	<b>4 814</b>	<b>5 115</b>	
<b>% change</b>	<b>-15.4</b>	<b>2.6</b>	<b>6.3</b>	<b>-2.7</b>

(1) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

(2) Revenue allocated to the Cannabis Sales Revenue Fund.

(3) Other revenue includes, in particular, the forecast for other government enterprises and the impact of the Electricity Discount Program for Consumers Billed at Rate L.

### 2.1.3 Federal transfers

Federal transfer revenues correspond to revenues from the federal government paid to Québec pursuant to the *Federal-Provincial Fiscal Arrangements Act*, to which is added revenue from other programs under bilateral agreements. They include mainly equalization and revenue from the Canada Health Transfer and the Canada Social Transfer.

— In 2020-2021, they will account for 21% of government revenue.

Federal transfers will stand at \$25.1 billion in 2019-2020, \$25.7 billion in 2020-2021 and \$26.3 billion in 2021-2022. They will show a slight increase of 2.4% in 2020-2021 and 2.3% in 2021-2022, owing mainly to health transfers.

Growth in equalization revenue will be much lower in 2020-2021 and 2021-2022 than in 2019-2020, causing Québec's share of the equalization envelope to decline from 66.2% in 2019-2020 to 63.4% in 2021-2022. This weak growth is due to Québec's remarkable economic performance relative to that of the rest of Canada.

TABLE F.18

#### Change in federal transfer revenues (millions of dollars)

	2019-2020	2020-2021	2021-2022	AAGR <sup>(1)</sup>
Equalization	13 124	13 253	13 514	
% change	11.9 <sup>(2)</sup>	1.0	2.0	4.8
Health transfers	6 463	6 768	6 998	
% change	2.5	4.7	3.4	3.5
Transfers for post-secondary education and other social programs	1 516	1 581	1 600	
% change	-5.0	4.3	1.2	0.1
Other programs	3 994	4 090	4 181	
% change	14.6	2.4	2.2	6.2
<b>TOTAL</b>	<b>25 097</b>	<b>25 692</b>	<b>26 293</b>	
% change	8.6	2.4	2.3	4.4

(1) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

(2) The equalization envelope grows in pace with Canada's nominal GDP. In addition, growing disparities in fiscal capacity compared to the average of the ten provinces have been observed. Equalization for 2019-2020 is based on data for the years 2015-2016 to 2017-2018.

## 2.2 Change in expenditure

Expenditure consists of portfolio expenditures, which are tied to the delivery of public services, and debt service.

Expenditure stands at \$112.8 billion in 2019-2020, that is, \$105.0 billion for portfolio expenditures and \$7.8 billion for debt service.

Expenditure will stand at \$118.6 billion in 2020-2021 and \$122.2 billion in 2021-2022, up 5.1% and 3.1%, respectively.

- The decrease in expenditures in 2018-2019 and the increase in expenditures in 2019-2020 raise the growth in portfolio expenditures for 2019-2020, from 5.0% in Budget 2019-2020 to 7.4% in Budget 2020-2021.
- The higher growth in debt service in 2020-2021 is explained, in particular, by the low level in 2019-2020 stemming from very low interest rates.

TABLE F.19

### Change in expenditure (millions of dollars)

	2019-2020	2020-2021	2021-2022	AAGR <sup>(1)</sup>
Portfolio expenditures	104 962	110 300	113 617	
% change	7.4	5.1	3.0	5.1
Debt service	7 845	8 266	8 630	
% change	-10.1	5.4	4.4	-0.4
<b>TOTAL</b>	<b>112 807</b>	<b>118 566</b>	<b>122 247</b>	
% change	6.0	5.1	3.1	4.7

(1) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

### Adjustment to expenditure growth in 2019-2020

Budget 2019-2020 established expenditure at \$108.0 billion for 2018-2019 and \$113.0 billion for 2019-2020.

- This represented an annual spending growth of 4.7%.

The results published in Public Accounts 2018-2019 in fall 2019 showed that the level of spending for 2018-2019 had reached \$106.5 billion.

- This is a downward adjustment of \$1.5 billion compared to the March 2019 budget.

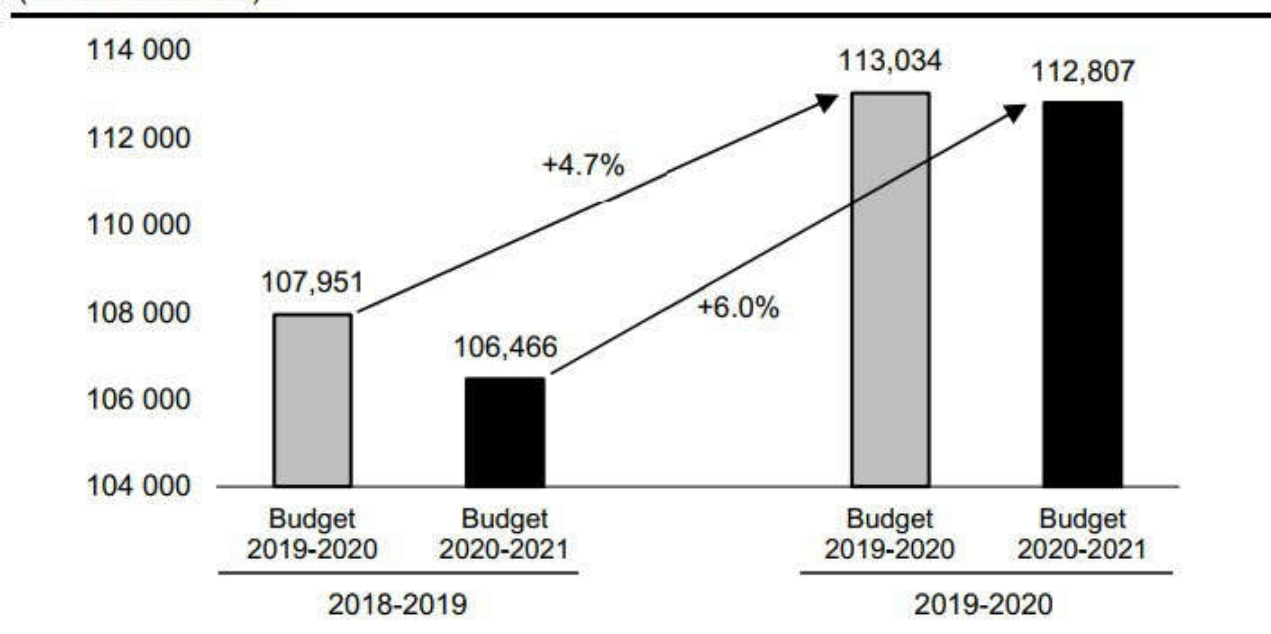
This adjustment is due mainly to a difference between planned expenditures and those incurred by bodies and special funds. Lower-than-anticipated interest rates also generated savings.<sup>1</sup>

Budget 2020-2021 shows an expenditure level that is \$227 million lower than the target set for 2019-2020 in the previous budget.<sup>2</sup>

Growth in portfolio expenditures went from 5.0% in Budget 2019-2020 to 7.4% in Budget 2020-2021 mainly because of the decrease in expenditures in 2018-2019.

### Adjustment to expenditure growth in 2019-2020

(millions of dollars)



<sup>1</sup> For more information on the spending adjustments in 2018-2019, see page D.9 of the November 2019 *Update on Québec's Economic and Financial Situation*.

<sup>2</sup> For more information on the spending adjustments in 2019-2020, see page F.18 of this document.

## 2.2.1 Portfolio expenditures

To achieve its objectives and carry out its activities, the government sets up programs that are administered by government entities, including departments and bodies. The array of entities for which a minister is responsible constitutes a portfolio.

Portfolio expenditures will stand at \$105.0 billion in 2019-2020, \$110.3 billion in 2020-2021 and \$113.6 billion in 2021-2022, with growth reaching 7.4%, 5.1% and 3.0% respectively.

TABLE F.20

### Change in expenditure by departmental portfolio (millions of dollars)

	2019-2020	2020-2021 <sup>(1)</sup>	2021-2022	AAGR <sup>(2)</sup>
Éducation et Enseignement supérieur	24 627	25 734	26 672	
% change	6.7	4.5	3.6	4.9
Santé et Services sociaux	45 377	47 760	49 780	
% change	6.6	5.3	4.2	5.4
Other portfolios <sup>(3)</sup>	34 958	36 806	37 165	
% change	8.9	5.3	1.0	5.0
<b>TOTAL</b>	<b>104 962</b>	<b>110 300</b>	<b>113 617</b>	
% change	7.4	5.1	3.0	5.1

Note: Totals may not add due to rounding.

(1) The breakdown of expenditures in 2020-2021 for the portfolios as a whole is presented in Appendix 1.

(2) Average annual growth rate (AAGR) from 2019-2020 to 2021-2022.

(3) Other portfolios include inter-portfolio eliminations resulting from the elimination of reciprocal transactions between entities in different portfolios.



**The government's wage offers to public and parapublic  
sector union representatives**

On December 12, 2019, the Minister Responsible for Government Administration and Chair of the Conseil du trésor presented the government's offers to public and parapublic sector union representatives as part of negotiations to renew the collective agreements of government employees.

- The agreements entered into with most government employees for the period 2015-2020 expire on March 31, 2020.

The government is offering wage parameters of 7.00% over five years, which, when fully implemented, will correspond to an additional \$2.9 billion.

The offer also provides for the payment of a lump sum of \$1 000 to any employee who will actually perform work on March 31, 2020 and who will have reached the maximum in his or her compensation scale on that date.

In addition, the government has proposed the creation of three discussion forums, for which additional sums are being provided. These forums will focus on these government priorities:

- educational success;
- accessibility of care for the clientele of residential and long-term care centres or people receiving home care;
- the overall health of employees.

All of these parameters are included in the financial framework of Budget 2020-2021 and represent a total increase of 9.00% of the payroll over five years.

**Negotiation financial framework**

	<b>2020- 2021</b>	<b>2021- 2022</b>	<b>2022- 2023</b>	<b>Total 3 years</b>	<b>2023- 2024</b>	<b>2024- 2025</b>	<b>Total 5 years</b>
Wage parameters	1.75%	1.75%	1.50%	5.00%	1.00%	1.00%	7.00%
Lump sum	\$1 000						
Discussion forums <sup>(1)</sup>							
Sectoral measures							
Impact on the payroll	2.00%	2.00%	2.00%	6.00%	1.50%	1.50%	9.00%

**For priority groups**

**Sectoral measures to be determined**

- (1) The forums will be made up of labour and union representatives and be aimed, in particular, at discussing special monetary measures for teachers at the beginning of their career, patient-care attendants working in CHSLDs and health and social services assistants for home care.

Source: Secrétariat du Conseil du trésor.

## □ Expenditures of the Éducation et Enseignement supérieur portfolio

The expenditures of the Éducation et Enseignement supérieur portfolio are allocated primarily to the activities of educational institutions (school boards,<sup>7</sup> CEGEPs, universities, private educational institutions and government schools). This portfolio also includes student financial assistance and programs to promote recreation and sports activities.

Spending for the Éducation et Enseignement supérieur portfolio will stand at \$24.6 billion in 2019-2020, \$25.7 billion in 2020-2021, \$26.7 billion in 2021-2022 and \$27.6 billion in 2022-2023. Spending for this portfolio represents roughly 23% of total portfolio expenditures, ranking it second in importance.

— Growth in spending for the Éducation et Enseignement supérieur portfolio stands at 6.7% in 2019-2020. It will reach 4.5% in 2020-2021, 3.6% in 2021-2022 and 3.5% in 2022-2023.

Over four years, that is, from 2019-2020 to 2022-2023, annual growth of the Éducation et Enseignement supérieur portfolio will average 4.6%.

— The Québec government is meeting its objective of reaching an average annual growth rate of 3.5% in education over the period covered by the financial framework.

TABLE F.21

### Expenditures of the Éducation et Enseignement supérieur portfolio (millions of dollars)

	2019-2020	2020-2021	2021-2022	2022-2023	AAGR <sup>(1)</sup>
Program spending <sup>(2)</sup>	21 207	22 196	23 143	24 123	
Other spending <sup>(3)</sup>	3 420	3 538	3 529	3 484	
<b>TOTAL</b>	<b>24 627</b>	<b>25 734</b>	<b>26 672</b>	<b>27 607</b>	
<b>% change</b>	<b>6.7</b>	<b>4.5</b>	<b>3.6</b>	<b>3.5</b>	<b>4.6</b>

(1) Average annual growth rate (AAGR) from 2019-2020 to 2022-2023.

(2) This spending corresponds to departments' expenditures and is funded mainly through general and other taxes.

(3) This spending corresponds to entities' expenditures funded through their own revenue and to tax-funded expenditures.

<sup>7</sup> Now that the Act to amend mainly the Education Act with regard to school organization and governance has been assented to, school boards will be replaced by school service centres in fiscal 2020-2021 except in the case of the Cree and Kativik school boards.

### Financial impact of the initiatives announced in education

In Budget 2020-2021, the government is providing additional investments of \$265 million in 2020-2021 and \$298 million in 2021-2022 and 2022-2023.

In 2020-2021, these investments will total:

- \$141 million to improve the educational success of young people;
- \$100 million to foster the graduation rate for higher education and bringing institutions closer to their communities;
- \$20 million to promote participation in recreation and sports opportunities;
- \$5 million for the Secrétariat à la condition féminine to provide better support to women who are victims of domestic violence.

### Financial impact of the initiatives in education (millions of dollars)

	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	Total
Improving the educational success of young people	—	–141	–169	–169	–169	–169	–817
Fostering the graduation rate for higher education and bringing institutions closer to their communities	–50	–100	–100	–100	–100	–100	–550
Promoting participation in recreation and sports opportunities	—	–20	–20	–20	–20	–20	–99
Providing better support for women who are victims of domestic violence (Secrétariat à la condition féminine)	—	–5	–9	–9	–9	–9	–41
<b>TOTAL</b>	<b>–50</b>	<b>–265</b>	<b>–298</b>	<b>–298</b>	<b>–298</b>	<b>–298</b>	<b>–1 506</b>

Note: Totals may not add due to rounding.

## □ Expenditures of the Santé et Services sociaux portfolio

The expenditures of the Santé et Services sociaux portfolio consist primarily of the activities of the health and social services network and programs administered by the Régie de l'assurance maladie du Québec. This portfolio also includes the expenditures of other health-related government bodies, such as Héma-Québec.

Spending for the Santé et Services sociaux portfolio will stand at \$45.4 billion in 2019-2020, \$47.8 billion in 2020-2021, \$49.8 billion in 2021-2022 and \$51.8 billion in 2022-2023. Spending for this portfolio represents roughly 43% of total portfolio expenditures, ranking it first in importance.

— Growth in spending for the Santé et Services sociaux portfolio will reach 6.6% in 2019-2020, 5.3% in 2020-2021, 4.2% in 2021-2022 and 4.1% in 2022-2023.

Over four years, that is, from 2019-2020 to 2022-2023, annual growth of the Santé et Services sociaux portfolio will average 5.1%.

— The Québec government is meeting its objective of reaching an average annual growth rate of 4.1% in health over the period covered by the financial framework.

TABLE F.22

### Expenditures of the Santé et Services sociaux portfolio (millions of dollars)

	2019-2020	2020-2021	2021-2022	2022-2023	AAGR <sup>(1)</sup>
Program spending <sup>(2)</sup>	40 625	42 787	44 678	46 657	
Other spending <sup>(3)</sup>	4 752	4 973	5 102	5 175	
<b>TOTAL</b>	<b>45 377</b>	<b>47 760</b>	<b>49 780</b>	<b>51 832</b>	
<b>% change</b>	<b>6.6</b>	<b>5.3</b>	<b>4.2</b>	<b>4.1</b>	<b>5.1</b>

(1) Average annual growth rate (AAGR) from 2019-2020 to 2022-2023.

(2) This spending corresponds to expenditures of the Ministère de la Santé et des Services sociaux funded mainly through general and other taxes.

(3) This spending corresponds to entities' expenditures funded through their own revenue and to tax-funded expenditures.

### Impact of the initiatives announced in health and social services

In Budget 2020-2021, the government is providing additional investments of \$1.2 billion in 2020-2021 and 2021-2022 and \$1.1 billion in 2022-2023 and subsequent years. In 2020-2021, the government will provide:

- \$489 million to improve access to health and social services;
- \$311 million to enhance senior care;
- \$190 million to continue enhancing services for youth in difficulty;
- \$220 million to increase services that address specific needs, including enhanced care and services for people with disabilities and more mental health initiatives;
- \$27 million to provide better support to women who are victims of domestic violence.

A portion of the funding required for these investments comes from the reallocation of health spending. In particular, for 2020-2021:

- \$313 million comes from savings made under the agreement entered into between the government and the Fédération des médecins spécialistes du Québec (FMSQ);
- \$487 million comes essentially from the reallocation of unrealized expenditures in health, in order to direct available funding more effectively toward the health services needs of the population.

### Financial impact of the initiatives in health and social services

(millions of dollars)

	2019- 2020-	2020- 2021-	2021- 2022-	2022- 2023-	2023- 2024-	2024- 2025-	Total
Improving access to health and social services	-409	-489	-489	-585	-585	-585	-3 141
Enhancing senior care	—	-311	-313	-200	-200	-200	-1 224
Continuing to enhance services for youth in difficulty	—	-190	-190	-190	-190	-190	-950
Increasing services for specific needs	—	-220	-220	-100	-101	-101	-741
Providing better support to women who are victims of domestic violence	—	-27	-27	-27	-27	-27	-134
<b>Total initiatives</b>	<b>-409</b>	<b>-1 236</b>	<b>-1 238</b>	<b>-1 102</b>	<b>-1 102</b>	<b>-1 102</b>	<b>-6 191</b>
<b>Available funding</b>							
Agreement with the FMSQ <sup>(1),(2)</sup>	209	313	428	585	—	—	1 536
Reallocation of health spending	—	487	372	102	687	687	2 334
<b>Total available funding</b>	<b>209</b>	<b>800</b>	<b>800</b>	<b>687</b>	<b>687</b>	<b>687</b>	<b>3 870</b>
<b>TOTAL</b>	<b>-200</b>	<b>-436</b>	<b>-438</b>	<b>-415</b>	<b>-415</b>	<b>-415</b>	<b>-2 321</b>

(1) A portion of the funding required to implement the initiatives in health and social services is drawn from savings made under the agreement entered into between the government and the FMSQ. Use of these sums will be determined according to the decisions of the Institut de la pertinence des actes médicaux. In addition to the available funding recorded as of 2019-2020, the agreement provides for savings of \$69 million in 2018-2019, bringing total savings made over the period up to 2022-2023 to \$1.6 billion.

(2) The agreement with the FMSQ expires on March 31, 2023 and it is projected that all of the savings made will have been reinvested.

**Program spending and other spending**

Portfolio expenditures consist of program spending, that is, spending by departments, and other spending, namely, spending by entities funded through their own revenue and tax-funded expenditures.

– Growth in program spending will stand at 4.4% in 2020-2021 and 3.5% in 2021-2022.

**Change in portfolio expenditures**

(millions of dollars)

	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>
Program spending <sup>(1)</sup>	82 532	86 191	89 226
% change	8.0	4.4	3.5
Other spending <sup>(2)</sup>	22 430	24 109	24 391
% change	5.0	7.5	1.2 <sup>(3)</sup>
<b>TOTAL</b>	<b>104 962</b>	<b>110 300</b>	<b>113 617</b>
% change	7.4	5.1	3.0

(1) This spending corresponds to departments' expenditures and is funded mainly through general and other taxes.

(2) This spending corresponds to entities' expenditures funded through their own revenue and to tax-funded expenditures.

(3) The growth in spending for "Other portfolios" in 2021-2022 is explained mainly by the reallocation of planned environmental expenditures for the fight against climate change and by the expiry of certain programs or agreements with the federal government.

### Mission expenditures

Government expenditures are broken down into five public service missions. This breakdown of the government's expenditures into its main areas of activity is a stable indicator over time because it is not usually affected by Cabinet shuffles. Moreover, since this breakdown is also used in the Public Accounts, it facilitates comparisons of forecasts with actual results.

The public service missions are:

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

### Mission expenditures (millions of dollars)

	2019-2020	2020-2021	2021-2022
Health and Social Services <sup>(1)</sup>	44 124	46 562	48 520
Education and Culture	25 517	26 989	27 939
Economy and Environment	16 205	16 683	16 988
Support for Individuals and Families	10 899	11 413	11 558
Administration and Justice <sup>(2)</sup>	8 217	8 653	8 612
<b>TOTAL</b>	<b>104 962</b>	<b>110 300</b>	<b>113 617</b>
<b>% change</b>	<b>7.4</b>	<b>5.1</b>	<b>3.0</b>

(1) The expenditures of the Health and Social Services mission are lower than those of the Santé et Services sociaux portfolio mainly because of the different treatment of expenditures made for entities in other portfolios. Such spending is eliminated in the missions when expenditures by mission are established, while it is eliminated under a separate heading "Inter-portfolio" eliminations when expenditures by portfolio are established.

(2) These amounts include the Contingency Fund reserve.

### 2.2.2 Debt service

Debt service consists of interest on the direct debt as well as interest on the liability for the retirement plans and other future benefits of public and parapublic sector employees.

Debt service changes primarily according to the level of the debt, interest rates and the return on the Retirement Plans Sinking Fund (RPSF).

Overall, debt service will stand at \$7.8 billion in 2019-2020, \$8.3 billion in 2020-2021 and \$8.6 billion in 2021-2022, representing changes of -10.1%, 5.4% and 4.4%, respectively.

In 2019-2020, interest on the direct debt will decrease by 6.6% owing to lower interest rates and accelerated repayment of the debt from the Generations Fund.

In 2020-2021 and 2021-2022, it will increase by 10.0% and 9.2%, respectively, mainly because of the government's increased borrowing needs related, in particular, to public infrastructure investments, and the anticipated change in long-term interest rates. Interest on the direct debt was very low in 2019-2020 owing to, among other things, very low interest rates.

Interest on the liability for the retirement plans and other employee future benefits will decrease due to the annual increase in the investment income of the RPSF. The investment income of the RPSF is applied against debt service.

TABLE F.23

#### Change in debt service (millions of dollars)

	2019-2020	2020-2021	2021-2022
Interest on the direct debt <sup>(1)</sup>	6 944	7 639	8 341
% change	-6.6	10.0	9.2
Interest on the liability for the retirement plans and other employee future benefits <sup>(2)</sup>	901	627	289
<b>TOTAL</b>	<b>7 845</b>	<b>8 266</b>	<b>8 630</b>
% change	-10.1	5.4	4.4

(1) Interest on the direct debt includes the income of the Sinking Fund for Government Borrowing. This income, which is applied against debt service, consists of interest generated on investments as well as gains and losses on disposal. Given that the forecast for this revenue is closely tied to the change in interest rates, it may be adjusted upward or downward.

(2) This interest corresponds to the interest on obligations relating to the retirement plans and other employee future benefits of public and parapublic sector employees, minus mainly the investment income of the RPSF.

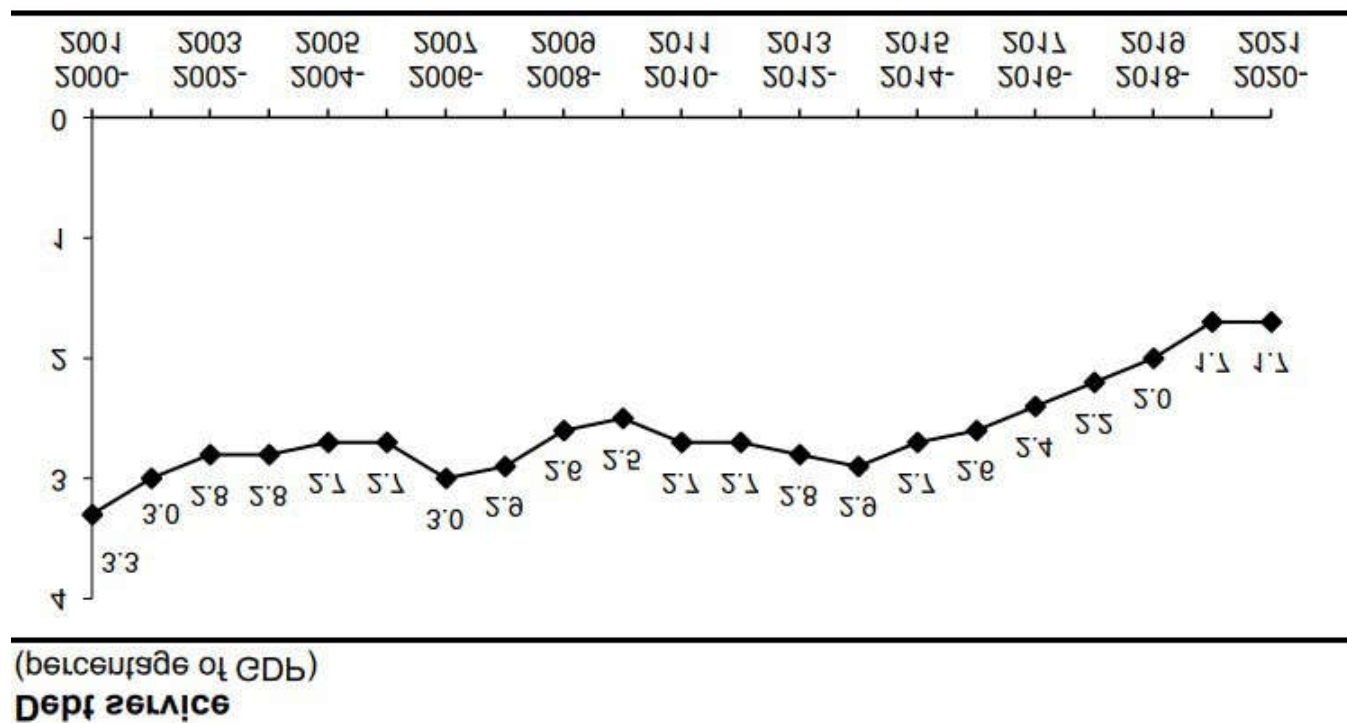


## □ Debt service burden relative to the economy

The debt service burden relative to the economy has decreased since 2013-2014, falling from 2.9% of GDP in 2013-2014 to 1.7% of GDP in 2019-2020.

The decrease in 2018-2019 and 2019-2020 is due to, in particular, the \$10-billion repayment of the debt from the Generations Fund.

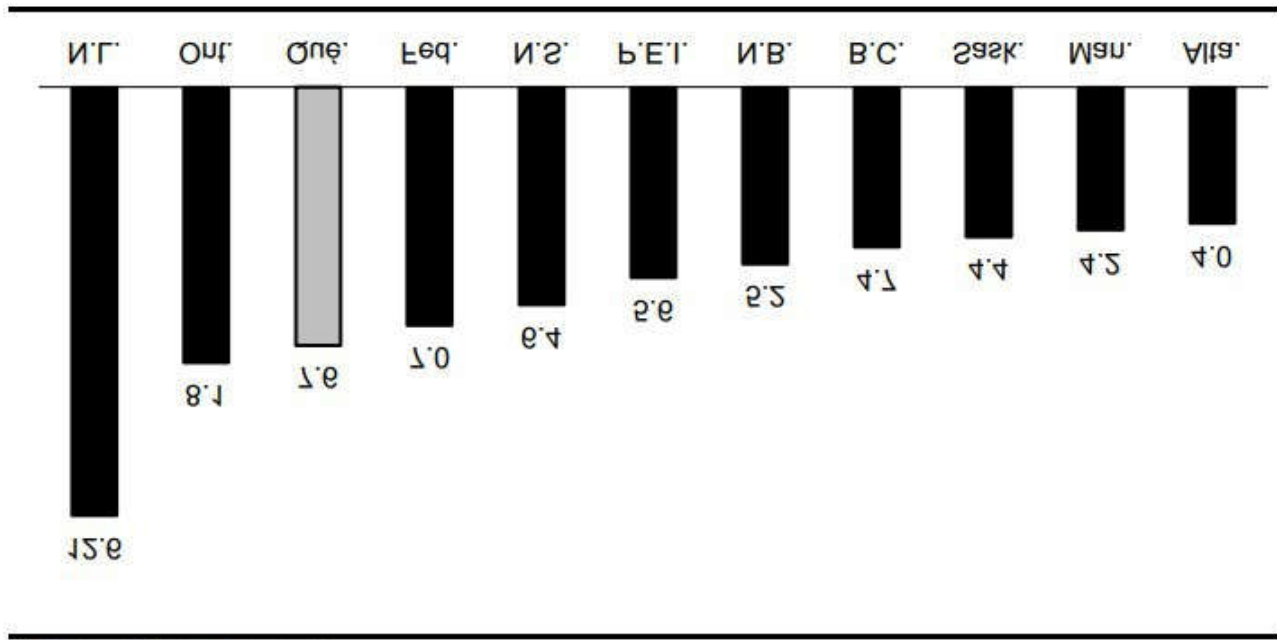
CHART F.5



### Comparison of the debt service of governments in Canada

In 2018-2019, Québec's debt service as a percentage of revenue was among the highest in Canada.

- In 2018-2019, interest payments on the debt totalled \$8.7 billion, which represents 7.6% of revenue, or \$1 040 per capita.
- Debt service is the third largest expenditure category of the government, after health and education.
- Every dollar paid in interest is one dollar less for funding public services.



(percentage of revenue)

**Debt service of governments in Canada, 2018-2019**

Sources: Governments' public accounts.

### **3. QUÉBEC'S DEMANDS WITH REGARD TO FEDERAL TRANSFERS**

#### **3.1 For an increase in the federal contribution to health and social programs**

The federal government contributes to provincial spending on health, post-secondary education and other social sectors mainly through the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

Québec is asking that these two transfers be increased so that the provinces have the means to fully shoulder their responsibilities.

— The CHT envelope for Canada as a whole should correspond to 25% of provincial health spending, whereas the CST should be brought back to its 1994-1995 level, after inflation.

In the area of health care in particular, Québec expects the federal government to give priority to increasing the CHT before implementing other initiatives.

Furthermore, if the federal government decides to introduce a Canada-wide public prescription drug insurance plan, Québec would ask for the right to opt out with full financial compensation given that a plan of this type has already been in place in Québec since 1997.

❑ **Priority must be given to increasing the CHT**

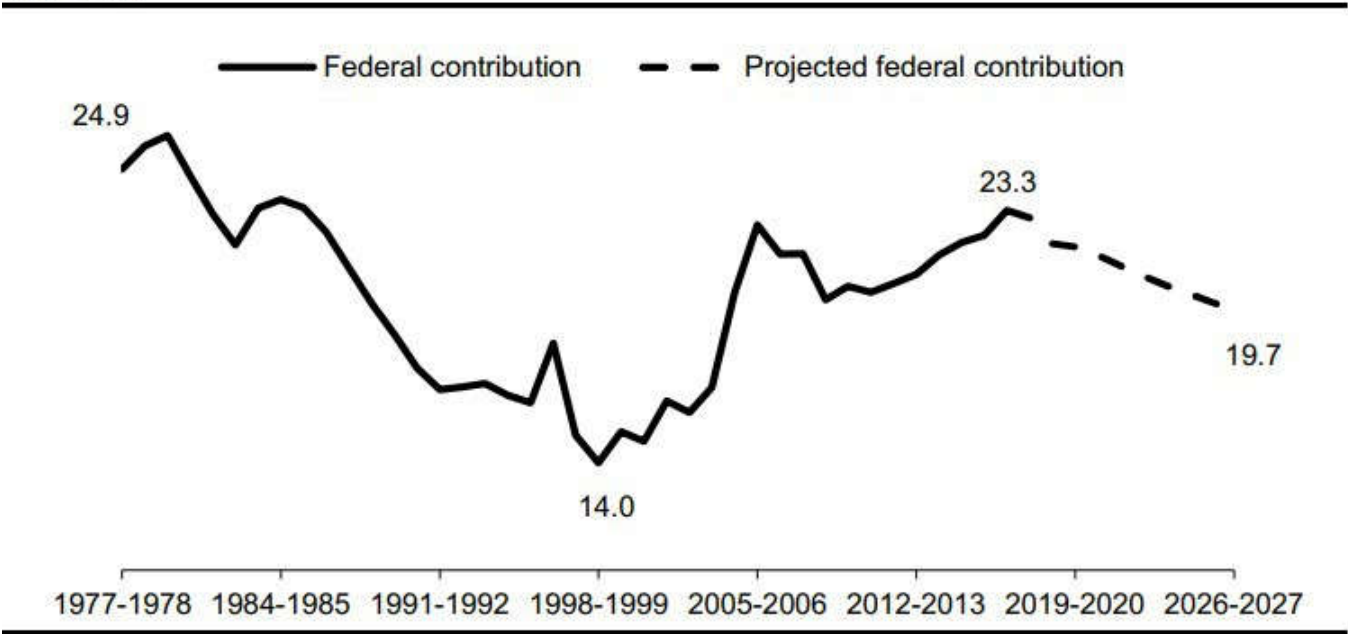
The CHT has grown in pace with Canada's nominal GDP<sup>8</sup> since 2017-2018, whereas prior to that it grew by 6% per year.

On account of this lower indexation, the federal contribution to provincial health spending will decline in a context where population aging is adding to the pressure placed on such spending.

- While the federal contribution to the provinces' health spending stood at roughly 25% in the late 1970s, it reached a record low in the late 1990s, before climbing back up following the signing of the federal-provincial-territorial agreement on health in September 2004.
- This contribution is expected to fall to 19.7% by 2026-2027, whereas it stood at 23.3% in 2016-2017.

CHART F.6

**Share of federal funding in provincial health spending,  
1977-1978 to 2026-2027**  
(per cent)



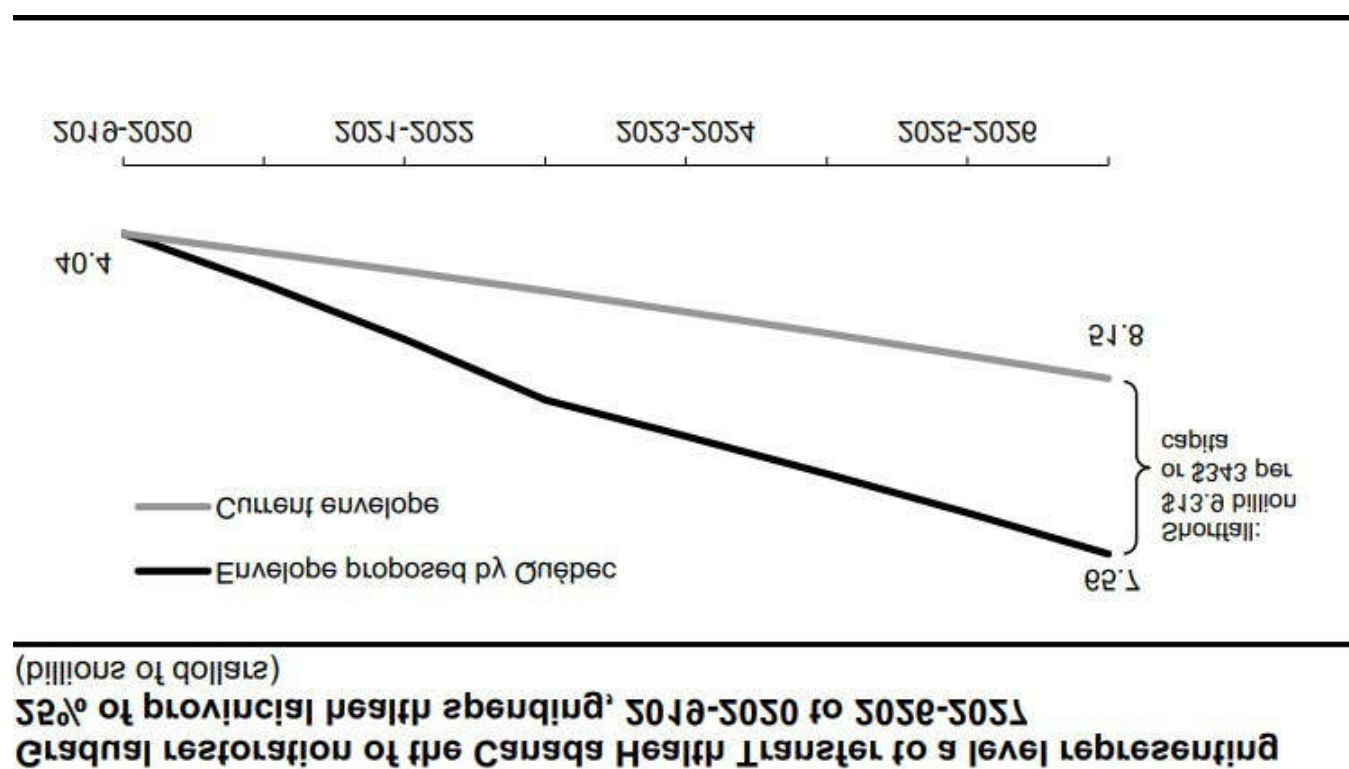
Sources: Canadian Institute for Health Information, Conference Board of Canada, Department of Finance Canada and Ministère des Finances du Québec.

<sup>8</sup> Indexation is subject to a floor of 3% per year.

Like the other provinces, Québec is asking for the CHT to be increased so that it corresponds to 25% of provincial health spending, as was the case in the late 1970s.<sup>9</sup>

- The CHT could be raised gradually between now and 2022-2023 to 25% of the health spending of the provinces and territories as a whole.
- Subsequently, this share would be maintained. In this way, the CHT would grow in pace with provincial and territorial health spending.<sup>10</sup>
- A favourable response to this request would lead, for Canada as a whole, to an additional contribution to the CHT of \$2.5 billion in 2020-2021 and \$13.9 billion or \$343 per capita in 2026-2027.
- For Québec, this increase would represent \$557 million in 2020-2021 and \$3.0 billion in 2026-2027.

CHART F.7



Note: The current envelope excludes targeted funds. If these funds were included, the additional funding required in 2026-2027 would be reduced from \$13.9 billion to \$12.7 billion for Canada as a whole.

Sources: Conference Board of Canada, Department of Finance Canada and Ministère des Finances du Québec.

<sup>9</sup> During a meeting of the Council of the Federation in December 2019, the premiers of the provinces and territories asked the federal government to increase CHT funding using an annual growth factor of 5.2% in accordance with an independent analysis of financial pressures conducted by the Conference Board of Canada in 2016.

<sup>10</sup> In July 2018, the Conference Board of Canada estimated this average annual growth rate at 5.1%.

## ❑ Increasing the CST to its 1994-1995 level

Québec makes substantial investments in education. These investments are one of the pillars on which the potential of Québec's economy can be built.

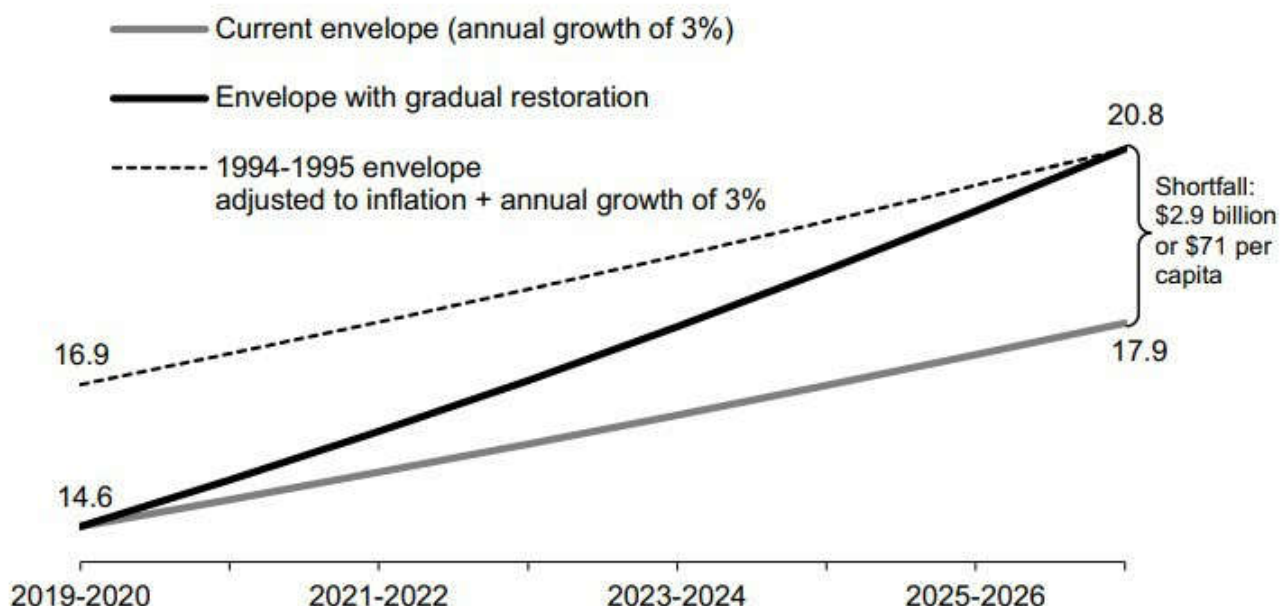
The federal government contributes to provincial spending on post-secondary education and other social sectors through the CST.

The CST, which increases by 3% per year, will stand at \$15.0 billion for Canada as a whole in 2020-2021. Taking inflation into account, this is lower than the level that prevailed in 1994-1995, prior to the substantial reductions in federal funding in the mid-1990s.

- Québec is asking the federal government to increase the CST envelope to its 1994-1995 level, after inflation. Québec is proposing that this funding shortfall be gradually eliminated by 2026-2027.
- A favourable response to this request would lead, for Canada as a whole, to an increase in the CST of \$323 million in 2020-2021 and \$2.9 billion or \$71 per capita in 2026-2027.
- For Québec, this increase would represent \$73 million in 2020-2021 and \$627 million in 2026-2027.

CHART F.8

### Gradual restoration of the Canada Social Transfer to its 1994-1995 level after inflation, 2019-2020 to 2026-2027 (billions of dollars)



Sources: Department of Finance Canada and Ministère des Finances du Québec.

### 3.2 Strengthening of the fiscal stabilization program

The stabilization program, established since 1967, allows a province to qualify for federal compensation when it suffers a substantial decline in its revenues because of the economic situation.<sup>11</sup>

Three provinces have received payments under this program since 2015-2016, namely, Alberta, Saskatchewan and Newfoundland and Labrador. These three provinces were hard hit by the significant drop in the price of oil in 2014.

The fiscal stabilization program is subject to certain criteria (for example, a province must have seen its non-resource revenues decrease by at least 5% relative to the previous year).

Québec, like the other provinces, considers that this program is no longer adapted to the realities of today and must be revisited.

In December 2019, following a meeting of the Council of the Federation in Toronto, the finance ministers of the provinces asked their federal counterpart to make the following main improvements to the fiscal stabilization program:

- elimination of the maximum per capita payment, which has been \$60 since 1987-1988;
- lowering of the qualifying threshold for non-resource revenues from 5% to 3% and that for resource revenues from 50% to 40%;
- retroactive payments based on these changes for the past five years, that is, back to 2015-2016.

However, it is crucial for Québec that the enhancement of the fiscal stabilization program does not occur at the expense of other transfers to the provinces.

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<sup>11</sup> Like equalization, the fiscal stabilization program is funded by the federal government from revenues collected throughout Canada.

3.3 Equalization

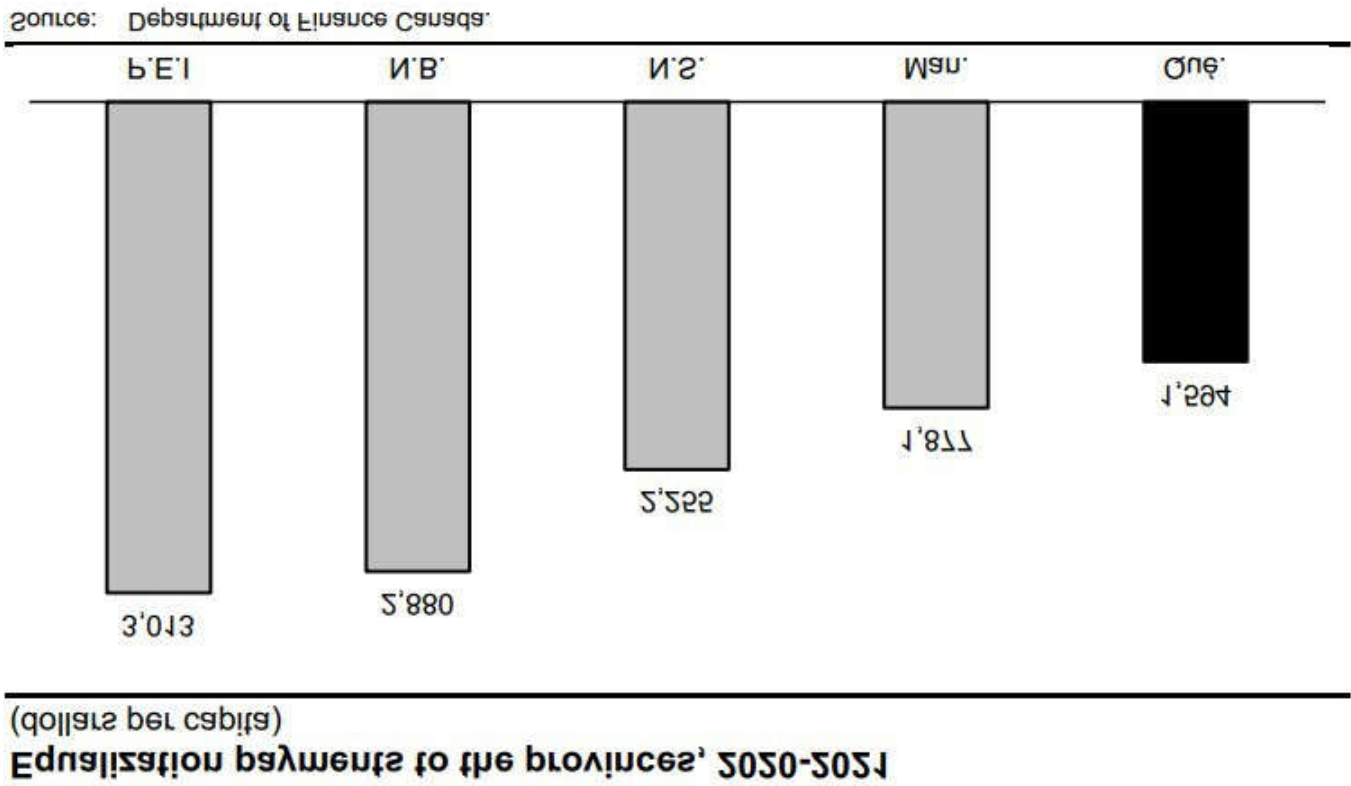
The provinces do not all have the same fiscal capacity, that is, they do not all have the same capacity to generate revenue.

Provinces whose fiscal capacity, in dollars per capita, is below the average of the ten provinces receive equalization payments. They therefore have, after equalization, a fiscal capacity equivalent to the average of the ten provinces to provide public services.<sup>12</sup>

In 2020-2021, five provinces will receive equalization: Manitoba, Québec, New Brunswick, Nova Scotia and Prince Edward Island.

Québec is the recipient province that receives the least equalization per capita (\$1 594 per capita).

CHART F.9

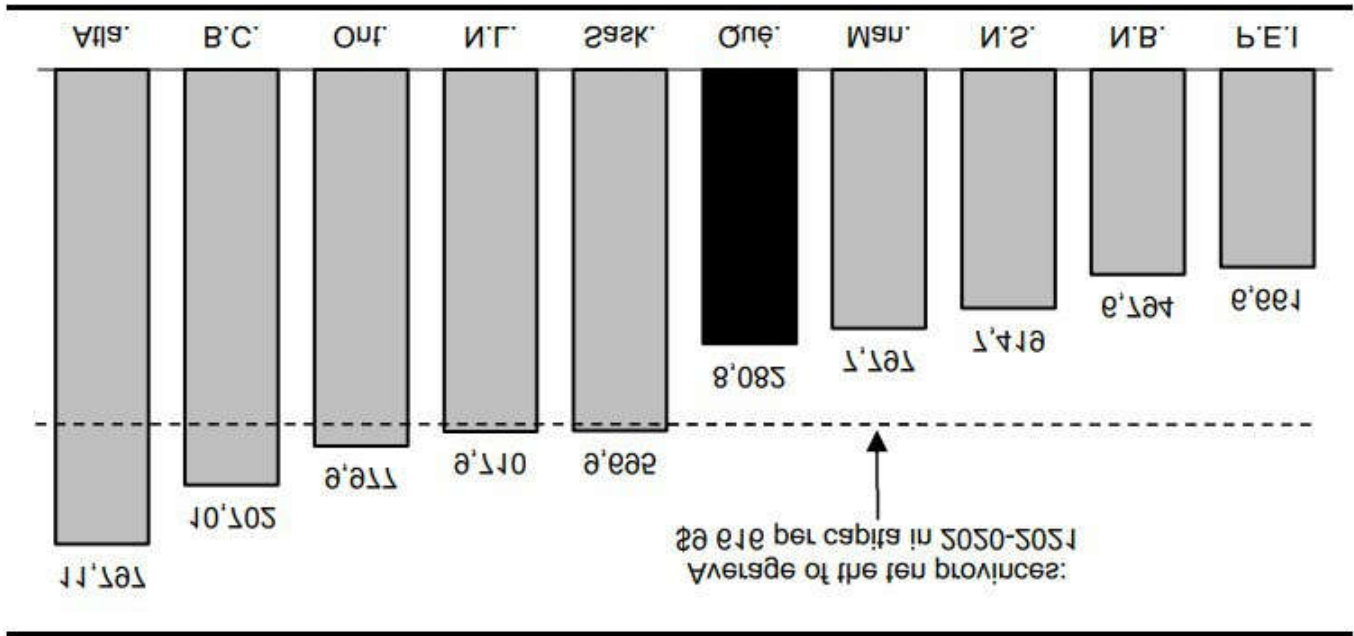


<sup>12</sup> The provinces' fiscal capacity is assessed using five tax bases (personal income tax, corporate income tax, consumption taxes, property taxes and natural resources).



Among the recipient provinces, Québec is the one that receives the least equalization, because it has the highest fiscal capacity per capita (\$8 082 per capita).

CHART F.10



(dollars per capita)  
**Fiscal capacity of the provinces, 2020-2021**

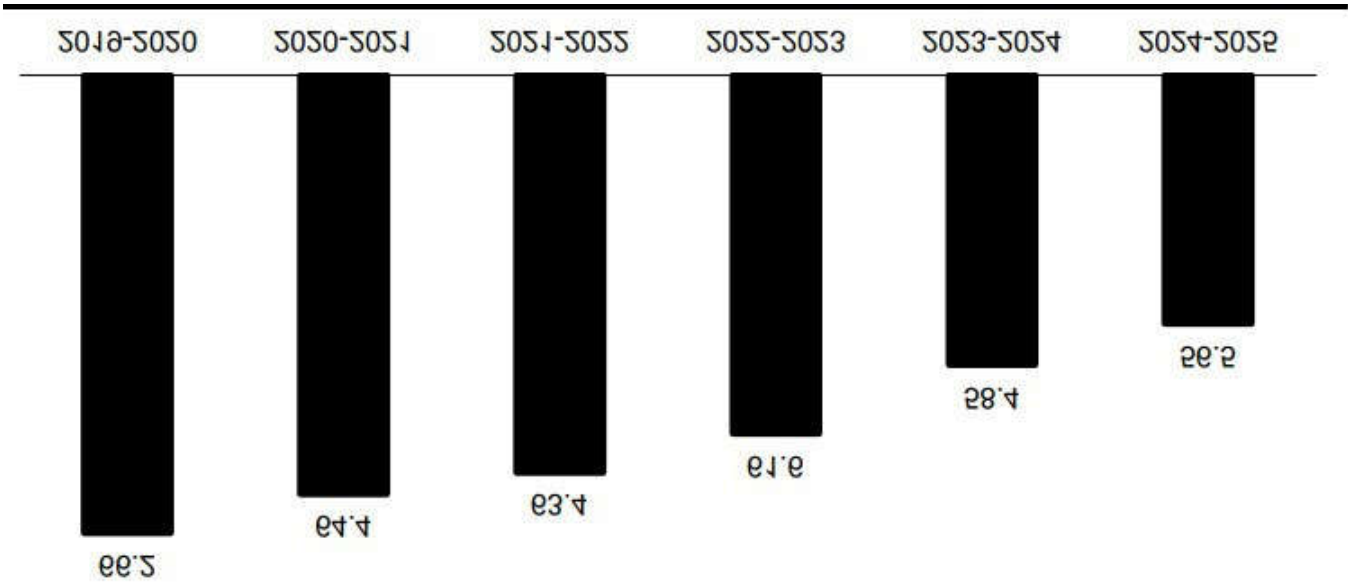
Note: Equalization payments for 2020-2021 are based on data for the years 2016-2017 (25%), 2017-2018 (25%) and 2018-2019 (50%). The fiscal capacity of the provinces takes into account 50% of revenues derived from natural resources.  
Source: Department of Finance Canada.

❑ A decline in Québec's share of the equalization envelope

The Québec government is determined to increase the potential of Québec's economy so that one day it will no longer receive equalization. This is a key long-term objective. In fact, recent economic development initiatives taken by Québec are already bearing fruit. Owing to the remarkable performance of Québec's economy relative to that of the rest of Canada, it is anticipated that Québec's share of the equalization envelope will decline in the coming years.

— Québec's share of the equalization envelope for Canada as a whole is expected to decrease to 56.5% in 2024-2025, compared to 66.2% in 2019-2020.

CHART F.11



(per cent)  
**Anticipated change in Québec's share of the equalization envelope<sup>(1)</sup>**

(1) A smoothing mechanism with lag is applied to determine equalization payments. For example, the equalization payments for the provinces for 2020-2021 are based on data for the years 2016-2017 (25%), 2017-2018 (25%) and 2018-2019 (50%).  
Sources: Department of Finance Canada and Ministère des Finances du Québec.

## ❑ Fair treatment of Hydro-Québec dividends

In November 2008, the federal government changed the equalization program by transferring dividends paid to the Ontario government by Hydro One, a corporation that transports and distributes electricity, from the natural resource base to the corporate income tax base.

However, this decision by the federal government is unfair, because the dividends from activities in transporting and distributing electricity paid to the Québec government by Hydro-Québec (28.7% of the dividend in 2018) are still included in the natural resource base.

In 2018, the federal government renewed the equalization program until 2023-2024, without making the changes requested by Québec. Québec estimates the annual shortfall at roughly \$200 million.

## APPENDIX 1: EXPENDITURE BY DEPARTMENTAL PORTFOLIO

TABLE F.24

### Expenditure by portfolio, 2020-2021 (millions of dollars)

	2020-2021	Change %
Affaires municipales et Habitation	3 078	-11.5 <sup>(1)</sup>
Agriculture, Pêcheries et Alimentation	1 066	-14.7 <sup>(2)</sup>
Conseil du trésor et Administration gouvernementale	2 858	14.3
Conseil exécutif	533	4.3
Culture et Communications	1 444	12.6
Économie et Innovation	2 759	-1.0 <sup>(3)</sup>
Éducation et Enseignement supérieur	25 734	4.5
Énergie et Ressources naturelles	748	20.8
Environnement et Lutte contre les changements climatiques	1 646	28.5
Famille	6 936	7.9
Finances	3 434	21.7
Forêts, Faune et Parcs	1 074	5.8
Immigration, Francisation et Intégration	581	43.5
Justice	1 274	4.2
National Assembly	138	—
Persons Appointed by the National Assembly	110	2.8
Relations internationales et Francophonie	132	7.3
Santé et Services sociaux	47 760	5.3
Sécurité publique	2 122	-6.1 <sup>(4)</sup>
Tourisme	399	5.8
Transports	5 370	-3.6 <sup>(5)</sup>
Travail, Emploi et Solidarité sociale	5 304	0.4
Inter-portfolio eliminations <sup>(6)</sup>	-4 200	n/a
<b>Subtotal</b>	<b>110 300</b>	<b>5.1</b>
Debt service	8 266	5.4
<b>TOTAL</b>	<b>118 566</b>	<b>5.1</b>

Note: Totals may not add due to rounding.

- (1) The negative change is explained by the 2019-2020 initiatives for Ville de Montréal (\$150 million), AccèsLogis (\$58 million) and the agreements on greenways and blueways and support for bicycle paths (\$70 million).
- (2) The negative change is explained mainly by an expenditure of \$140 million in 2019-2020 to partially reimburse the deficit of the Fonds d'assurance stabilisation des revenus agricoles assumed by La Financière Agricole du Québec.
- (3) The negative change is explained mainly by the investment of \$81 million in 2019-2020 to increase clinical research and genomics research.
- (4) The negative change is explained by the costs related to the 2019 spring flooding.
- (5) The negative change is explained mainly by the \$260 million subsidy granted in 2019-2020 under the program to compensate the holders of a taxi owner's permit.
- (6) Inter-portfolio eliminations result mainly from the elimination of reciprocal transactions between entities in different portfolios.

## APPENDIX 2: ADDITIONAL INFORMATION

Digital dissemination of content reflects the department's desire to improve the messages addressed to the public through the use of electronic documents that can be consulted on a smartphone, tablet or computer.

The Ministère des Finances is promoting the transition to digital documents. Therefore, certain additional budgetary information is presented exclusively on the department's website, including:

- *Québec's Budgetary Statistics*, which present, among other things, the government's revenue and expenditure on a historical basis;
- *Budget by the Numbers* and interactive charts;
- the financial framework according to the government's financial organization;
- additional information on own-source revenue and portfolio expenditures;
- margins of prudence, sensitivity analyses and the main risks to Québec's financial situation;
- entities included in the government's reporting entity, classified by portfolio;
- the government's net financial surpluses or requirements.

Additional information is available on the Ministère des Finances website. To consult it, visit the Budget 2020-2021 documents' page at:

[www.budget.finances.gouv.qc.ca/budget/2020-2021/en/index.asp](http://www.budget.finances.gouv.qc.ca/budget/2020-2021/en/index.asp)

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## Section G

### THE QUÉBEC GOVERNMENT'S DEBT

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## SUMMARY

### ❑ Québec's debt

As at March 31, 2020, the gross debt will stand at \$197.7 billion, or 43.0% of GDP. The objective of reducing the gross debt to 45% of GDP has thus been achieved.

— This objective has been achieved six years ahead of schedule.

The objective of reducing the debt representing accumulated deficits to 17% of GDP should be achieved as at March 31, 2023, three years ahead of schedule.

Reducing the debt has tangible benefits.

- Less interest is payable on the debt, which frees up resources for funding public services. This ensures stable funding for the government's main missions, including health and education.
- Québec can invest heavily in public infrastructure without increasing its indebtedness. The 2020-2030 Québec Infrastructure Plan (QIP) stands at \$130.5 billion.
- Québec's debt burden is lower than it was prior to the last recession, thus putting Québec in a good position to cope with a potential economic slowdown.
- In November 2019, the DBRS Morningstar credit rating agency announced an increase in Québec's credit rating, thus enabling the province to benefit from advantageous borrowing costs. Québec currently borrows at lower costs than Ontario.

### ❑ Debt reduction objectives

The government intends to define new policy directions on debt reduction within the context of achieving its target in 2023. A reflection process is being launched in this regard.

Indeed, it is time to reflect on:

- the need to continue debt reduction efforts;
- the determination of a new target and a new indicator, if applicable;
- the rate at which the new target should be met.

The fact that Québec is still fairly indebted compared to the Canadian provincial average will have to be considered in this reflection process, for it is important not to leave future generations with this heavy burden.

## 1. QUÉBEC'S DEBT

### 1.1 Different concepts of debt

A number of different concepts of debt are used to measure a government's indebtedness.

- **Gross debt** corresponds to the debt on financial markets, plus the commitments made with regard to the retirement plans of government employees. The balance of the Generations Fund is subtracted from the gross debt.
- **Net debt** corresponds to the government's liabilities as a whole, less its financial assets.
- **Debt representing accumulated deficits** corresponds to the difference between the government's assets and liabilities. It is the debt that does not correspond to any assets.<sup>1</sup>

TABLE G.1

**Debt of the Québec government as at March 31 according to various concepts**  
(millions of dollars)

	2019	2020	2021
<b>GROSS DEBT<sup>(1)</sup></b>	<b>199 098</b>	<b>197 685</b>	<b>202 185</b>
% of GDP	45.3	43.0	42.2
Less: Financial assets, net of other liabilities <sup>(2)</sup>	-26 540	-26 027	-29 560
<b>NET DEBT</b>	<b>172 558</b>	<b>171 658</b>	<b>172 625</b>
% of GDP	39.3	37.3	36.1
Less: Non-financial assets	-72 110	-75 743	-79 439
<b>DEBT REPRESENTING ACCUMULATED DEFICITS WITHIN THE MEANING OF THE PUBLIC ACCOUNTS</b>	<b>100 448</b>	<b>95 915</b>	<b>93 186</b>
% of GDP	22.9	20.9	19.5

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

(2) Financial assets include, in particular, participations in government enterprises (e.g. Hydro-Québec) and accounts receivable, minus other liabilities (e.g. accounts payable).

<sup>1</sup> As announced in the November 2019 economic and financial update, the government intends, for the purpose of monitoring this objective, to use the debt representing accumulated deficits within the meaning of the Public Accounts, that is, without the addition of the stabilization reserve. To that end, amendments will have to be made to the *Act to reduce the debt and establish the Generations Fund*.



## ❑ Accumulated deficits account for slightly less than half of the gross debt

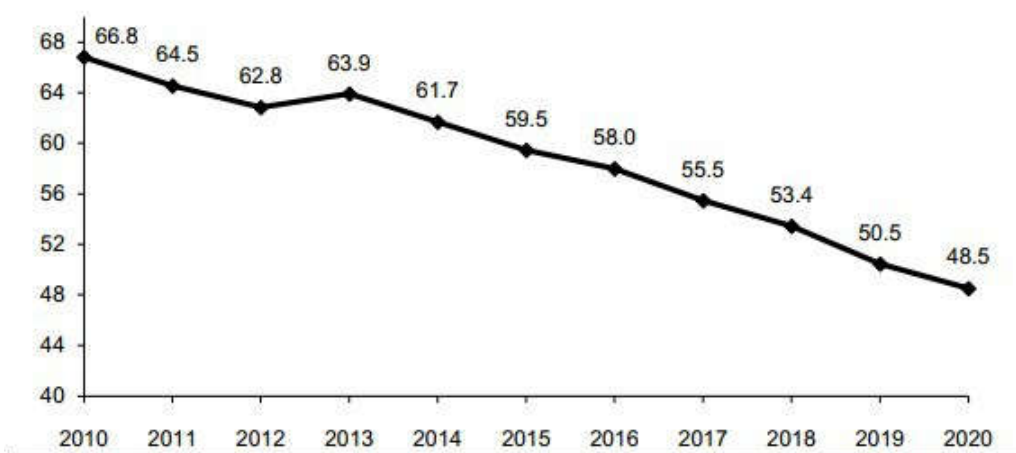
As at March 31, 2020, accumulated deficits will account for slightly less than half of the gross debt, that is, 48.5%. The share of accumulated deficits in the gross debt is decreasing thanks to maintenance of a balanced budget.

The gross debt is thus increasingly associated with assets, that is, public infrastructure and investments in government enterprises.

CHART G.1

**Share of accumulated deficits in the gross debt as at March 31**  
(per cent)

**Share of accumulated deficits in the gross debt as at March 31**  
(per cent)



## 1.2 Gross debt

The gross debt corresponds to the amount of debt issued on financial markets (consolidated direct debt) plus the net liability for the retirement plans and other future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2020, the gross debt will stand at \$197.7 billion, or 43.0% of GDP. The debt burden is expected to gradually and steadily decline until 2024-2025. The gross debt-to-GDP ratio should stand at 39.5% as at March 31, 2025.

Furthermore, as at March 31, 2025, the sums accumulated in the Retirement Plans Sinking Fund (RPSF) to pay the retirement benefits of government employees will exceed the government's liability in this regard.

— Thus, the government will be in a net asset position with regard to the retirement plans and other employee future benefits.

— In the coming years, the government will be able to use the assets of the RPSF to pay for the retirement benefits of its employees.

TABLE G.2

### Gross debt as at March 31 (millions of dollars)

	2019	2020	2021	2022	2023	2024	2025
Consolidated direct debt	189 029	192 025	201 973	212 508	222 753	234 259	244 222
Plus: Retirement plans and other employee future benefits <sup>(1)</sup>	18 362	14 586	11 867	8 694	5 268	1 094	-3 487
Less: Generations Fund	-8 293	-8 926	-11 655	-14 685	-18 038	-21 714	-25 709
<b>GROSS DEBT</b>	<b>199 098</b>	<b>197 685</b>	<b>202 185</b>	<b>206 517</b>	<b>209 983</b>	<b>213 639</b>	<b>215 026</b>
<b>% of GDP</b>	<b>45.3</b>	<b>43.0</b>	<b>42.2</b>	<b>41.7</b>	<b>41.1</b>	<b>40.5</b>	<b>39.5</b>

(1) A positive entry represents a net liability while a negative entry represents a net asset.

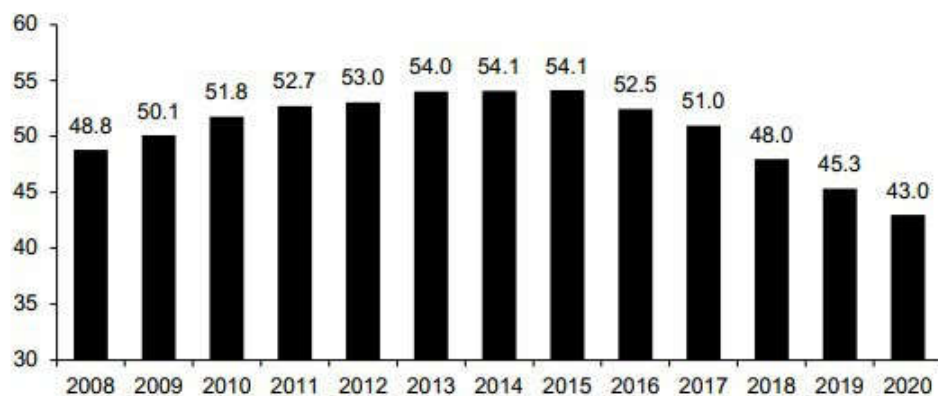
## ❑ The debt is lower than it was prior to the last recession

As at March 31, 2008, that is, before the 2008-2009 recession, the gross debt burden stood at 48.8% of GDP. As at March 31, 2020, it will stand at 43.0% of GDP.

This puts Québec in a good position to counter a potential economic slowdown.

CHART G.2

### Change in the gross debt as at March 31 (percentage of GDP)



## □ Adjustments to the gross debt compared to the March 2019 budget

The gross debt as at March 31, 2024 has been adjusted downward by \$1.9 billion relative to the March 2019 budget.

— This downward adjustment is explained by the improvement in the budgetary situation in 2018-2019 and 2019-2020.

The gross debt-to-GDP ratio as at March 31, 2024 has been adjusted downward by 1.8 percentage points owing, in particular, to higher-than-anticipated growth in nominal GDP.

TABLE G.3

### Adjustments to the gross debt as at March 31 since the March 2019 budget (millions of dollars)

	2019	2020	2021	2022	2023	2024
<b>March 2020</b>	<b>199 098</b>	<b>197 685</b>	<b>202 185</b>	<b>206 517</b>	<b>209 983</b>	<b>213 639</b>
<i>% of GDP</i>	<i>45.3</i>	<i>43.0</i>	<i>42.2</i>	<i>41.7</i>	<i>41.1</i>	<i>40.5</i>
<b>March 2019</b>	<b>200 756</b>	<b>204 169</b>	<b>207 318</b>	<b>211 357</b>	<b>214 095</b>	<b>215 494</b>
<i>% of GDP</i>	<i>46.1</i>	<i>45.3</i>	<i>44.6</i>	<i>44.1</i>	<i>43.4</i>	<i>42.3</i>
<b>Adjustments</b>	<b>-1 658</b>	<b>-6 484</b>	<b>-5 133</b>	<b>-4 840</b>	<b>-4 112</b>	<b>-1 855</b>
<i>% of GDP</i>	<i>-0.8</i>	<i>-2.3</i>	<i>-2.4</i>	<i>-2.4</i>	<i>-2.3</i>	<i>-1.8</i>

TABLE G.4

**Factors responsible for the change in the Québec government's gross debt**  
(millions of dollars)

	<b>Debt, beginning of year</b>	<b>Budgetary deficit (surplus)</b>	<b>Investments, loans and advances</b>	<b>Net capital investments (1)</b>	<b>Other factors(2)</b>	<b>Deposits in the Generations Fund</b>	<b>Total change</b>	<b>Debt, end of year</b>	<b>% of GDP</b>
2010-2011	163 318	3 150	2 507	4 923	298	-760	10 118	173 436	52.7
2011-2012	173 436	2 628	1 861	5 071	1 228	-840	9 948	183 384	53.0
2012-2013	183 384	3 476 <sup>(3)</sup>	659	4 863	445	-961	8 482	191 866	54.0
2013-2014	191 866	2 824	1 349	3 977	-788	-1 421	5 941	197 807	54.1
2014-2015	197 807	1 143 <sup>(4)</sup>	2 146	2 980	1 160	-1 279	6 150	203 957	54.1
2015-2016	203 957	-2 191	808	2 695	-338	-1 584	-610	203 347	52.5
2016-2017	203 347	-2 361	2 527	1 784	194	-2 001	143	203 490	51.0
2017-2018	203 490	-2 622	1 859	2 173	-1 536	-2 293	-2 419	201 071	48.0
2018-2019	201 071	-4 803	1 296	3 002	2 009	-3 477	-1 973	199 098	45.3
2019-2020	199 098	-1 900	1 841	3 633	-2 354	-2 633	-1 413	197 685	43.0
2020-2021	197 685	—	2 737	3 696	796	-2 729	4 500	202 185	42.2
2021-2022	202 185	—	2 926	4 821	-385	-3 030	4 332	206 517	41.7
2022-2023	206 517	—	1 969	4 737	113	-3 353	3 466	209 983	41.1
2023-2024	209 983	—	1 803	4 769	760	-3 676	3 656	213 639	40.5
2024-2025	213 639	—	1 808	4 873	-1 299	-3 995	1 387	215 026	39.5

(1) Investments made under public-private partnership agreements are included in net capital investments.

(2) Other factors include, in particular, the change in other accounts, such as accounts receivable and accounts payable.

(3) This amount includes the loss of \$1 876 million stemming from activities abandoned following the closure of Hydro-Québec's Gentilly-2 nuclear power plan.

(4) Budgetary balance excluding the impact of accounting changes. The budgetary balance including accounting changes totalling \$418 million is a deficit of \$725 million.

### Net capital investments

Net capital investments consist of the government's gross investments minus depreciation expenses.

- The Québec government's contribution to the projects of partners (e.g. municipalities) is not included in net capital investments, whereas it is included in the annual investments of the Québec Infrastructure Plan.

Even though gross investments have an impact on the gross debt, net capital investments are presented in the factors responsible for the change in the gross debt due to the fact that depreciation expenses are included in the budgetary balance.

From 2020-2021 to 2024-2025, net capital investments will increase the gross debt by \$4.6 billion per year on average.

### Net capital investments (millions of dollars)

	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025
Gross investments <sup>(1)</sup>	7 836	8 070	9 374	9 560	9 830	10 177
Less: Depreciation	–4 203	–4 374	–4 553	–4 823	–5 061	–5 304
<b>Net capital investments</b>	<b>3 633</b>	<b>3 696</b>	<b>4 821</b>	<b>4 737</b>	<b>4 769</b>	<b>4 873</b>

(1) Gross investments include those made under public-private partnership agreements net of the value of disposals.

### Investments, loans and advances

Investments, loans and advances refer to investments made by the government in enterprises, mainly government enterprises.

Such investments may be made through advances, capital outlays or by allowing government enterprises to keep part of their net earnings.

- For example, every year, Hydro-Québec pays the government a dividend corresponding to 75% of its net earnings. Hydro-Québec uses the portion of net earnings not paid to the government (25%) to finance its investments, in particular hydroelectric dams.
- For the government, this constitutes an investment in Hydro-Québec that creates a financial requirement and thus leads to an increase in the gross debt.

### 1.3 Net debt

The net debt corresponds to the government's liabilities less its financial assets. As at March 31, 2020, it will stand at \$171.7 billion, or 37.3% of GDP.

TABLE G.5

#### Factors responsible for the change in the net debt (millions of dollars)

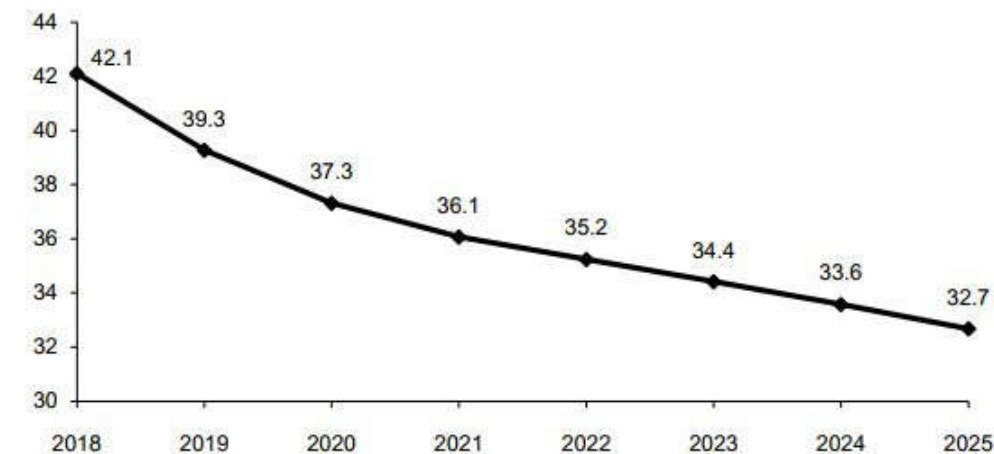
	Debt, beginning of year	Budgetary deficit (surplus)	Net capital investments	Other	Deposits in the Generations Fund	Total change	Debt, end of year	% of GDP
2018-2019	176 543	-4 803	3 002	1 293 <sup>(1)</sup>	-3 477	-3 985	172 558	39.3
2019-2020	172 558	-1 900	3 633	—	-2 633	-900	171 658	37.3
2020-2021	171 658	—	3 696	—	-2 729	967	172 625	36.1
2021-2022	172 625	—	4 821	—	-3 030	1 791	174 416	35.2
2022-2023	174 416	—	4 737	—	-3 353	1 384	175 800	34.4
2023-2024	175 800	—	4 769	—	-3 676	1 093	176 893	33.6
2024-2025	176 893	—	4 873	—	-3 995	878	177 771	32.7

(1) The increase in the net debt is due, in particular, to the other comprehensive income of Hydro-Québec. This includes accounting entries (e.g. unrealized exchange gains and losses) that, without affecting Hydro-Québec's net earnings, have an impact on its net assets and, consequently, the value of the government's participation in Hydro-Québec.

In the coming years, the net debt-to-GDP ratio will fall, reaching 32.7% as at March 31, 2025.

CHART G.3

#### Net debt as at March 31 (percentage of GDP)

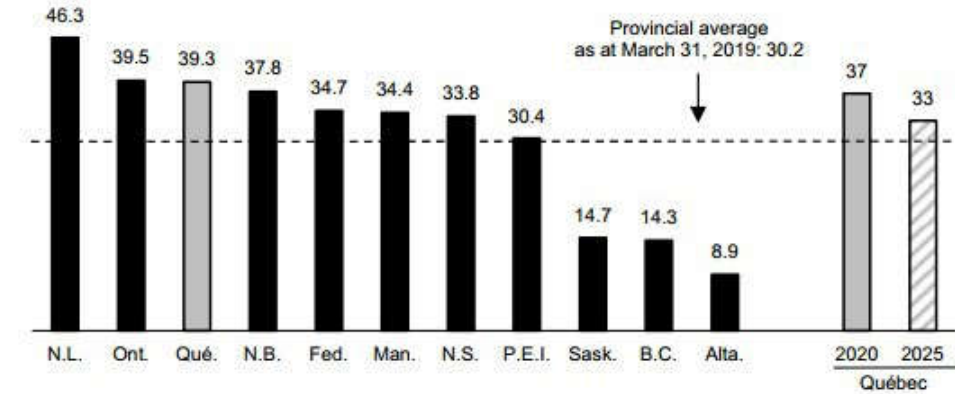


**Comparison of the net debt of governments in Canada**

As at March 31, 2019, Québec's net debt burden was 39.3% of GDP, compared with the provincial average of 30.2%.<sup>1</sup>

Québec's net debt burden is expected to decrease to 37% in 2020 and to 33% in 2025.

**Net debt of governments in Canada as at March 31, 2019**  
(percentage of GDP)



Sources: Governments' public accounts and Ministère des Finances du Québec.

<sup>1</sup> Weighted average as a proportion of GDP.



## 1.4 Debt representing accumulated deficits

The debt representing accumulated deficits consists of the accumulated deficits figuring in the government's financial statements.<sup>2</sup> It is the debt that does not correspond to any assets.

The debt representing accumulated deficits will stand at 20.9% of GDP as at March 31, 2020.

— It is forecast to decrease to 14.5% of GDP as at March 31, 2025.

TABLE G.6

**Factors responsible for the change in the debt representing accumulated deficits within the meaning of the Public Accounts**  
(millions of dollars)

	<b>Debt, beginning of year</b>	<b>Budgetary deficit (surplus)</b>	<b>Accounting adjustments</b>	<b>Deposits in the Generations Fund</b>	<b>Total change</b>	<b>Debt, end of year</b>	<b>% of GDP</b>
2018-2019	107 470	-4 803	1 258 <sup>(1)</sup>	-3 477	-7 022	100 448	22.9
2019-2020	100 448	-1 900	—	-2 633	-4 533	95 915	20.9
2020-2021	95 915	—	—	-2 729	-2 729	93 186	19.5
2021-2022	93 186	—	—	-3 030	-3 030	90 156	18.2
2022-2023	90 156	—	—	-3 353	-3 353	86 803	17.0
2023-2024	86 803	—	—	-3 676	-3 676	83 127	15.8
2024-2025	83 127	—	—	-3 995	-3 995	79 132	14.5

(1) The change in the debt representing accumulated deficits in 2018-2019 as a result of accounting adjustments is due, in particular, to the other comprehensive income of Hydro-Québec. This includes accounting entries (e.g. unrealized exchange gains and losses) that, without affecting Hydro-Québec's net earnings, affect its net assets and, consequently, the value of the government's participation in Hydro-Québec.

<sup>2</sup> As announced in the November 2019 economic and financial update, the government intends, for the purpose of monitoring this objective, to use the debt representing accumulated deficits within the meaning of the Public Accounts, that is, without the addition of the stabilization reserve. To that end, amendments will have to be made to the *Act to reduce the debt and establish the Generations Fund*.

## □ Adjustments to the debt representing accumulated deficits compared to the March 2019 budget

The debt representing accumulated deficits as at March 31, 2024 has been adjusted downward by \$3.2 billion relative to the March 2019 budget.

— This downward adjustment is explained by the improvement in the budgetary situation in 2018-2019 and 2019-2020.

The ratio of debt representing accumulated deficits to GDP has been adjusted downward by 1.2 percentage points, owing, in particular, to higher-than-anticipated growth in nominal GDP.

TABLE G.7

**Adjustments to the debt representing accumulated deficits within the meaning of the Public Accounts as at March 31 since the March 2019 budget**  
(millions of dollars)

	2019	2020	2021	2022	2023	2024
<b>March 2020</b>	<b>100 448</b>	<b>95 915</b>	<b>93 186</b>	<b>90 156</b>	<b>86 803</b>	<b>83 127</b>
<i>% of GDP</i>	<i>22.9</i>	<i>20.9</i>	<i>19.5</i>	<i>18.2</i>	<i>17.0</i>	<i>15.8</i>
<b>March 2019</b>	<b>101 864</b>	<b>99 360</b>	<b>96 676</b>	<b>93 729</b>	<b>90 369</b>	<b>86 337</b>
<i>% of GDP</i>	<i>23.4</i>	<i>22.1</i>	<i>20.8</i>	<i>19.6</i>	<i>18.3</i>	<i>17.0</i>
<b>Adjustments</b>	<b>-1 416</b>	<b>-3 445</b>	<b>-3 490</b>	<b>-3 573</b>	<b>-3 566</b>	<b>-3 210</b>
<i>% of GDP</i>	<i>-0.5</i>	<i>-1.2</i>	<i>-1.3</i>	<i>-1.4</i>	<i>-1.3</i>	<i>-1.2</i>

### Québec's public sector debt

The public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, the municipalities, universities other than the Université du Québec and its constituents, and other government enterprises. This debt has served, in particular, to fund public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2020, Québec's public sector debt will stand at \$271.0 billion, or 58.9% of GDP. These figures must be seen in perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

#### Public sector debt as at March 31

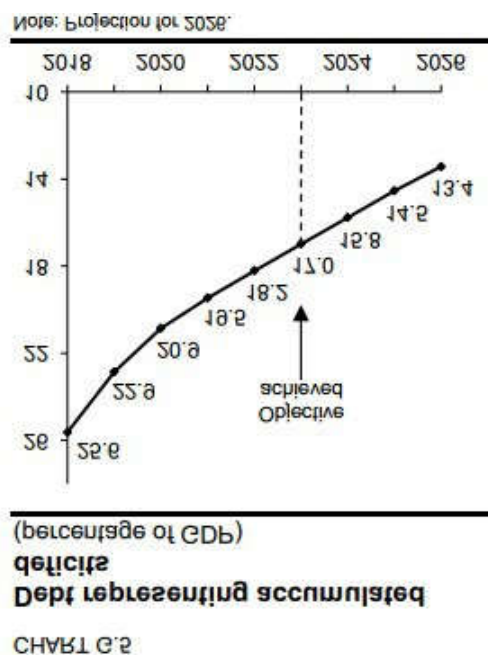
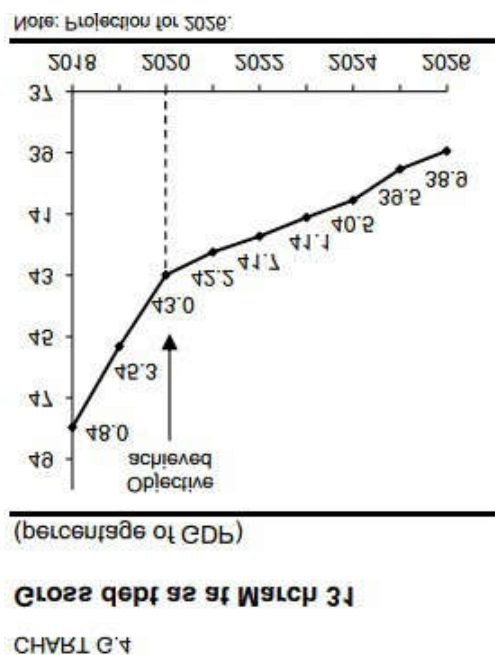
(millions of dollars)

	2016	2017	2018	2019	2020
Government's gross debt	203 347	203 490	201 071	199 098	197 685
Hydro-Québec	43 843	42 882	43 160	43 054	44 875
Municipalities	23 846	24 058	24 505	25 173	26 641
Universities other than the Université du Québec and its constituents	1 608	1 656	1 321	1 458	1 458
Other government enterprises	308	258	218	210	374
<b>PUBLIC SECTOR DEBT</b>	<b>272 952</b>	<b>272 344</b>	<b>270 275</b>	<b>268 993</b>	<b>271 033</b>
<b>% of GDP</b>	<b>70.4</b>	<b>68.2</b>	<b>64.5</b>	<b>61.2</b>	<b>58.9</b>

## 1.5 Achievement of debt reduction targets

The Act to reduce the debt and establish the Generations Fund stipulates that for fiscal 2025-2026, the gross debt must not exceed 45% of GDP, while the debt representing accumulated deficits must not exceed 17% of GDP.

- The objective of reducing the gross debt to 45% of GDP has been achieved. As at March 31, 2020, the ratio of gross debt to GDP will stand at 43.0%.
- The objective of reducing the debt representing accumulated deficits to 17% of GDP should be achieved in 2022-2023, three years ahead of schedule.



These targets will have been achieved thanks to:

- economic growth, which is helping to ease the debt burden;
- maintenance of a balanced budget;
- deposits in the Generations Fund.

❑ **Impact of the Generations Fund**

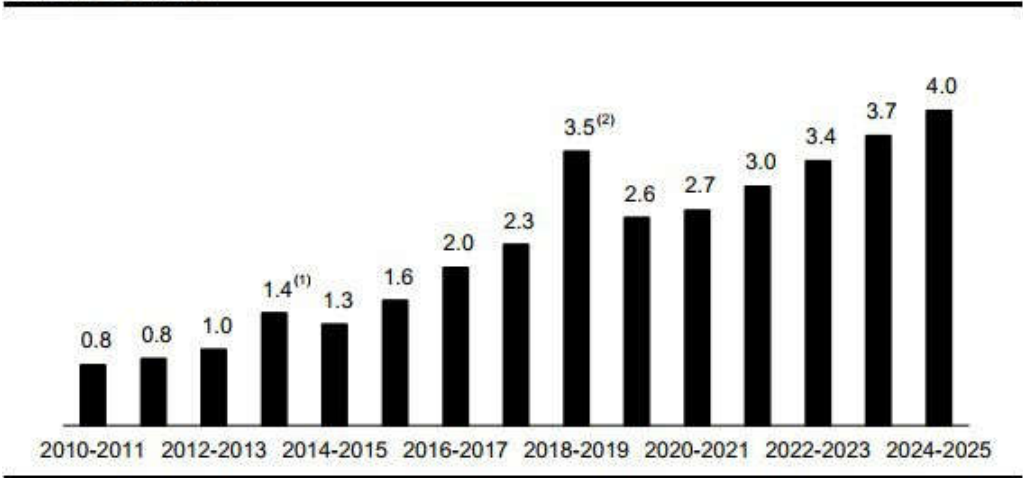
The Generations Fund, which is dedicated exclusively to debt reduction, was created in 2006.

Since 2006-2007, the government has been allocating revenues to debt reduction every year.

— In 2020-2021, revenues totalling \$2.7 billion will be dedicated to the Generations Fund.

CHART G.6

**Deposits in the Generations Fund since 2010-2011**  
(billions of dollars)



(1) In 2013-2014, a one-off payment of \$300 million from the Territorial Information Fund was made to the Generations Fund.

(2) The larger deposits in 2018-2019 are explained by the materialization of investment gains resulting from accelerated debt repayment from the Generations Fund.

As at March 31, 2020, the gross debt burden will stand at 43.0% of GDP. It would have stood at 47.3% of GDP, or 4.3 percentage points higher, if the deposits in the Generations Fund had been excluded.

The gross debt per capita as at March 31, 2020 will stand at \$23 298, whereas it would have stood at \$25 647 excluding the deposits in the Generations Fund, a difference of \$2 349 per capita.

CHART G.7

**Gross debt as at March 31**  
(percentage of GDP)

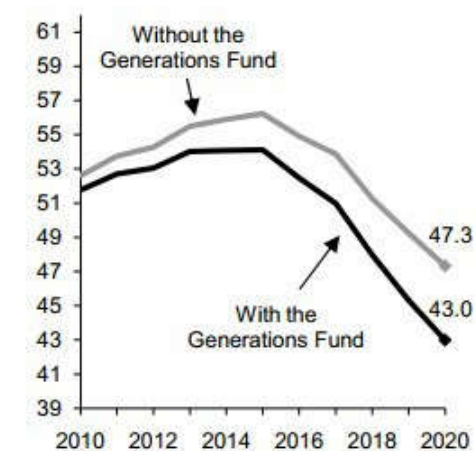
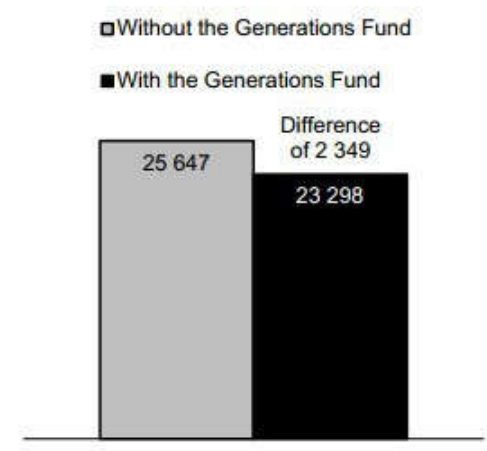


CHART G.8

**Gross debt as at March 31, 2020**  
(dollars per capita)



***The Act to reduce the debt and establish the Generations Fund***

In 2006, the National Assembly passed legislation setting debt reduction targets and establishing the Generations Fund, a fund dedicated exclusively to debt reduction. This Act flowed from the *Balanced Budget Act* passed in 1996.

At the time, Québec was the most indebted province in Canada. The government set the objective of reducing Québec's debt burden to the provincial average, in particular to meet the challenge of demographic change. The objective was determined using the concept of total debt.

By tackling the debt burden, the government wished to foster intergenerational fairness, hence the fund's name, and ensure the sustainability of social programs.

In 2010, the government set new debt reduction targets for the gross debt and the debt representing accumulated deficits. This change was in keeping with the deficit situation resulting from the global financial crisis and the accounting reform leading to line-by-line consolidation of the health and social services and education networks that increased the gross debt by more than \$5 billion as at March 31, 2009.

The Act also specifies the revenue sources dedicated to the Generations Fund for repaying the debt, in particular:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- revenue stemming from the indexation of the price of heritage electricity;
- mining revenues;
- an amount from the specific tax on alcoholic beverage;
- investment income.

The sums making up the Generations Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance, in collaboration with representatives of the Caisse.

In 2018-2019 and 2019-2020, for the purposes of sound risk management, \$10 billion was withdrawn from the Generations Fund to reduce Québec's debt on financial markets and lower the government's interest charges.

*The Act to reduce the debt and establish  
the Generations Fund (cont.)*

In 2020-2021, deposits of dedicated revenues in the Generations Fund will amount to \$2.7 billion.

The Generations Fund will stand at \$11.7 billion as at March 31, 2021.

**Generations Fund**  
(millions of dollars)

	2019- 2020 <sup>(1)</sup>	2020- 2021	2021- 2022-	2022- 2023	2023- 2024	2024- 2025
<b>Book value, beginning of year</b>	<b>8 293</b>	<b>8 926</b>	<b>11 655</b>	<b>14 685</b>	<b>18 038</b>	<b>21 714</b>
<b>Dedicated revenues</b>						
Water-power royalties						
Hydro-Québec	741	763	776	818	829	838
Private producers	102	103	105	106	108	111
<b>Subtotal</b>	<b>843</b>	<b>866</b>	<b>881</b>	<b>924</b>	<b>937</b>	<b>949</b>
Indexation of the price of heritage electricity	317	388	525	635	750	855
Additional contribution from Hydro-Québec	215	215	215	215	215	215
Mining revenues	279	283	301	325	358	384
Specific tax on alcoholic beverages	500	500	500	500	500	500
Unclaimed property	20	15	15	15	15	15
Investment income <sup>(2)</sup>	459	462	593	739	901	1 077
<b>Total dedicated revenues</b>	<b>2 633</b>	<b>2 729</b>	<b>3 030</b>	<b>3 353</b>	<b>3 676</b>	<b>3 995</b>
Use of the Generations Fund to repay borrowings	-2 000	—	—	—	—	—
<b>BOOK VALUE, END OF YEAR</b>	<b>8 926</b>	<b>11 655</b>	<b>14 685</b>	<b>18 038</b>	<b>21 714</b>	<b>25 709</b>

(1) For information purposes, the market value of the Generations Fund as at December 31, 2019 was \$9.2 billion, or \$1.0 billion higher than its book value at that date.

(2) The investment income of the Generations Fund corresponds to realized investment income (interest, dividends, gains on the disposal of assets, etc.). The forecast may thus be adjusted upward or downward according to the timing of realized gains or losses. In addition to the realized gains stemming from withdrawals from the Generations Fund, an annual return of 4.8% is expected, a rate based on five historic years.



### Return of the Generations Fund

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than the cost of new borrowings by the government 12 years out of 13.

- From 2007 to 2019, the average return was 5.8%, compared with an average cost of 3.3% for new borrowings, which represents a difference of 2.5 percentage points.

### Comparison of the Generations Fund's annual return and the Québec government's borrowing costs (per cent, on a calendar year basis)

	Return of the Generations Fund	Cost of new borrowings <sup>(1)</sup>	Difference (percentage points)
2007	5.6	4.7	0.9
2008	-22.4	4.5	-26.9
2009	11.3	4.4	6.9
2010	12.3	4.1	8.2
2011	4.0	3.7	0.3
2012	8.4	3.0	5.4
2013	12.0	3.3	8.7
2014	11.7	3.2	8.5
2015	8.1	2.4	5.7
2016	7.3	2.2	5.1
2017	8.5	2.5	6.0
2018	4.4	2.9	1.5
2019	9.5	2.3	7.2

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.  
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

## □ Tangible benefits of reducing the debt burden

Several tangible benefits are associated with reducing the debt burden.

- Québec is no longer the most indebted province.
- The interest savings generated by reducing the debt help to ensure stable funding for the government's chief missions, including health and education.
  - They also contribute to the measures implemented by the government to put money back in the pockets of Quebecers and fight climate change.
- Québec can invest heavily in public infrastructure without increasing its indebtedness.
  - The 2020-2030 Québec Infrastructure Plan (QIP) stands at \$130.5 billion.
- Québec's debt burden is lower than it was prior to the last recession, thus putting Québec in a good position to cope with a potential economic slowdown.
- Québec's credit rating has been raised by two credit rating agencies in recent years.
  - In June 2017, Standard & Poor's (S&P) raised Québec's credit rating from “A+” to “AA–”, a first since 1993. Québec has thus recovered the credit rating it had with S&P from 1982 to 1993.
  - In November 2019, DBRS Morningstar raised Québec's credit rating by one notch, from “A (high)” to “AA (low)”. It is the first time DBRS has assigned a credit rating in the “AA” category to Québec.
- Québec benefits from advantageous borrowing costs. It currently borrows at lower costs than Ontario.

#### **A strategy recognized by credit rating agencies and investors**

Québec's debt reduction strategy is recognized by credit rating agencies and investors.

When the Generations Fund was created in 2006, several credit rating agencies said that this initiative demonstrated Québec's determination to reduce its debt.

In 2018, the National Bank of Canada published a note entitled “All hail Québec's mighty Generations Fund.” In it, the Bank noted:

Since being established back in 2006, this Fund has become the very backbone of debt reduction strategy. To the extent debt containment has earned kudos from rating agencies (e.g. witness last year's upgrade to 'AA-' by closely watched S&P) and encouraged investors to scoop up Québec bonds at ever tighter spreads to provincial peers, it's hard to overplay the Generations Fund's importance to the province's overall credit story.

It is also important to mention that the strategy of reducing the debt through the Generations Fund has gained credibility over the years, given that all political parties that have governed Québec since 2006 have maintained it. In this regard, Moody's credit rating agency noted the following in 2019:

The continued adherence to the Generations Fund, despite the province undergoing multiple government changes, highlights the broad commitment for the debt reduction strategy.<sup>1</sup>

<sup>1</sup> Moody's, Credit Opinion, June 21, 2019.

## 1.6 Ongoing debt reduction: the need to initiate a reflection process

The achievement of the debt reduction targets raises the issue of setting new policy directions on debt reduction.

It is time to initiate a reflection process focusing on:

- the need to continue debt reduction efforts;
- the determination of a new target and a new indicator, if applicable;
- the rate at which the new target should be met.

### □ Against the backdrop of intergenerational fairness

*The Act to reduce the debt and establish the Generations Fund was born of the will to improve intergenerational fairness. Through the Generations Fund, the government dedicates revenues to reducing the debt that has served to pay current expenditures, with a view to improving fairness for future generations as well as preserving, and even enhancing the quality of public services.*

- As at March 31, 2020, the debt representing accumulated deficits, that is, the debt that has served to pay current expenditures, will stand at \$95.9 billion, or 20.9% of GDP.

For the government, intergenerational fairness is an objective that should be pursued, and reducing the debt burden is an excellent way to achieve it. In fact, debt reduction is one of the keys to improving intergenerational fairness. However, it is not the only way. Indeed, the government helps to improve intergenerational fairness when it:

- takes steps to increase Québec's economic potential;
- boosts the purchasing power of Québec families;
- invests in education, childcare services and public infrastructure;
- implements measures to reduce GHG emissions.

The government will have to take into account various avenues favouring intergenerational fairness in the reflection process that has been launched.

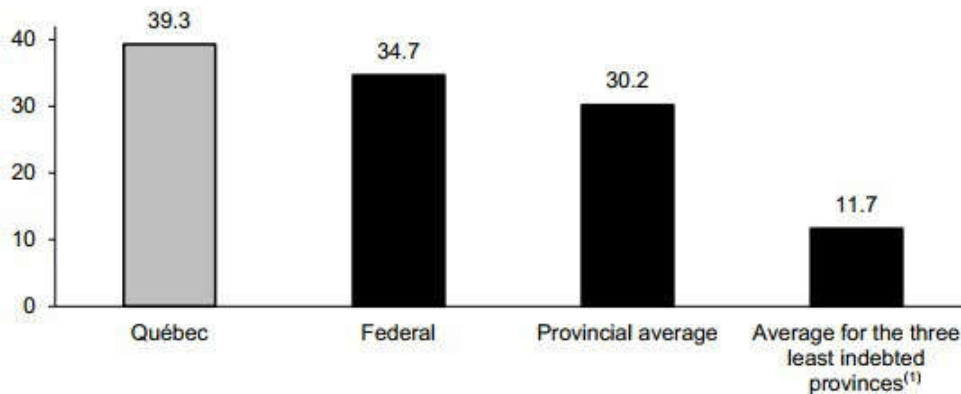
## ❑ Target to be achieved

Québec's debt remains high compared to that of the other provinces, even though budgetary surpluses have been posted in recent years.

- As at March 31, 2019, Québec's net debt burden stood at 39.3% of GDP, compared to 34.7% for the federal government, 30.2%<sup>3</sup> for the provincial average and 11.7%<sup>3</sup> for the average of the three least indebted provinces, namely, British Columbia, Alberta and Saskatchewan.

CHART G.9

### Net debt burden as at March 31, 2019 (percentage of GDP)



(1) Weighted average as a proportion of GDP for British Columbia, Alberta and Saskatchewan.

Sources: Governments' public accounts.

If the government sets a new debt reduction target, it could, for example, decide to reduce Québec's net debt burden to the current provincial average of 30%.

It could also decide to eliminate the debt representing accumulated deficits, that is, the debt that does not correspond to any assets.<sup>4</sup>

Like the federal and Ontario governments, the Québec government could limit itself to one target in order to simplify reporting.

- The federal government reports on changes in the burden of the debt representing accumulated deficits, whereas Ontario has set an objective for the net debt burden.

<sup>3</sup> Weighted average as a proportion of GDP.

<sup>4</sup> Three provinces, namely, British Columbia, Alberta and Saskatchewan, did not have any debt representing accumulated deficits as at March 31, 2019.

## ❑ Indicator to be used

Québec's main concepts of debt are gross debt, net debt and debt representing accumulated deficits. Each of these concepts has its own specific characteristics.

Like Ontario and certain other provinces, Québec could focus its reporting on the net debt, which:

- takes into account government borrowings arising from substantial capital investments;
- subtracts financial assets that will ultimately be used to reduce the debt on financial markets;
- is readily comparable from one province to another.

TABLE G.8

### Change factors that affect each debt concept

	Gross debt	Net debt	Debt representing accumulated deficits
The budgetary balance (including deposits in the Generations Fund) has an impact on all three concepts of debt (a surplus reduces the debt, while a deficit increases it)	✓	✓	✓
Capital investments lead to an increase in the gross debt and the net debt	✓	✓	
The government's investments, loans and advances affect only the gross debt (they have no impact on the net debt because the government owns financial assets in exchange; these assets will ultimately be used to reduce the debt on financial markets)	✓		

## ❑ Target achievement rate

Since 2006-2007, the main component of the government's debt reduction strategy has been based on depositing revenues in the Generations Fund year after year.

The larger the deposits are, the faster the debt is reduced.

- The government plans to deposit \$16.8 billion in the Generations Fund from 2020-2021 to 2024-2025, or nearly \$3.4 billion a year on average.

It is important to stress that implementing the new policy directions on debt reduction must not call into question the relevance of the Generations Fund as a tool for reducing the debt burden in a context where:

- Québec remains one of the most indebted provinces;
- future generations must not be left with the burden of repaying the debt, so as to uphold the commitment made by every government since 2006;
- the Generations Fund is an effective tool recognized by credit rating agencies and investors.

## □ The benefits of future debt reduction

Reducing the debt burden contributes to economic growth by creating a climate of confidence conducive to private investment and higher productivity.

Accordingly, it is in the best interests of Québec to continue reducing the debt burden, for this would enable it to:

- ensure stable funding for the government's main missions, including health and education;
- cope with the costs associated with an aging population;
- fund investment in public infrastructure;
- fight climate change;
- ease the tax burden on Quebecers;
- counter a potential economic slowdown;
- increase Québec's financial autonomy within the federation.

### **The importance of setting a long-term objective**

Setting a long-term debt reduction objective is an excellent way to ensure sound management of public finances. Since it makes the government accountable to parliamentarians and citizens year after year, it makes government action more transparent and efficient.

This type of long-term policy direction reduces uncertainty and contributes to economic growth by anchoring the expectations of the public and businesses regarding the budgetary and financial policies to be issued by the government, enabling them to make better decisions.

- For example, thanks to debt reduction objectives, the government can plan its annual infrastructure investments over a long period, that is, 10 years.

It also makes it possible to work towards the achievement of a common objective, which, in this case, is to not leave future generations with the heavy burden of repaying the debt.

Lastly, it sends a positive signal to credit rating agencies and investors.



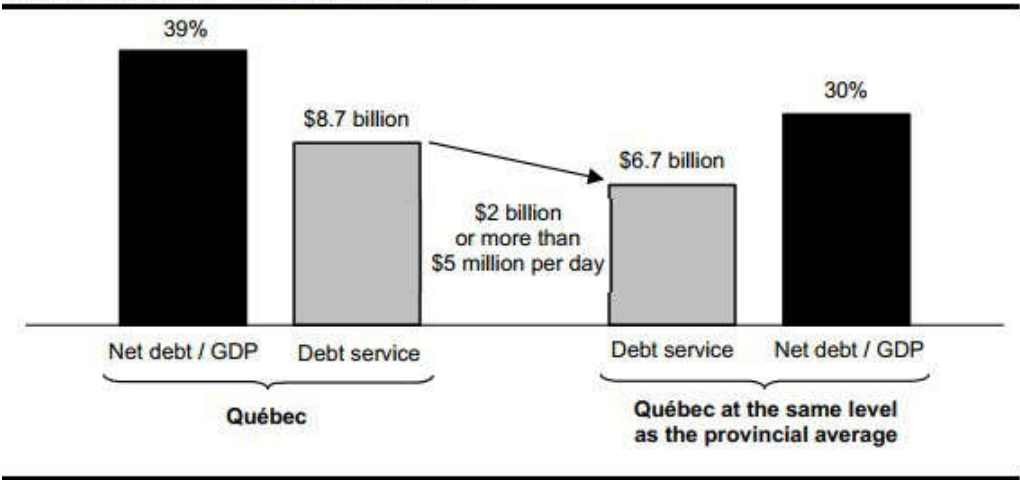
❑ **Debt service savings of \$2 billion per year**

It is estimated that if Québec's net debt burden as at March 31, 2019 had been equivalent to the provincial average of 30%, debt service, or the interest paid on the debt, would have been \$2 billion less in 2018-2019.

— This would have given the government an additional amount of more than \$5 million per day for funding public services, clearly illustrating the benefits of reducing the debt.

CHART G.10

**Net debt and debt service, 2018-2019**  
(percentage of GDP and billions of dollars)



❑ **New policy directions to be defined**

The achievement of the debt reduction targets makes it necessary to begin reflecting on new policy directions for reducing the debt. This reflection process should focus on the setting of a new target, the debt concept to be used and the rate at which the government would like to achieve that objective.

The fact that Québec is still fairly indebted compared to the Canadian provincial average will have to be considered in this reflection process, for it is important not to leave future generations with this heavy burden.

## 2. FINANCING

### 2.1 Financing program

The financing program corresponds to long-term borrowings made, in particular, to repay maturing borrowings and to fund the government's capital investments.

For 2019-2020, the program amounts to \$19.2 billion, which is \$7.4 billion more than forecast in the March 2019 budget.

The main adjustments leading to this increase stem from repayments of borrowings, deposits in the Retirement Plans Sinking Fund and pre-financing.

TABLE G.9

#### The government's financing program, 2019-2020 (millions of dollars)

	March 2019	Adjustments	March 2020
Net financial requirements	8 118	-4 993	3 125
Repayments of borrowings	11 066	5 676	16 742
Use of Generations Fund to repay borrowings	-2 000	—	-2 000
Withdrawal from the Accumulated Sick Leave Fund	—	-100	-100
Use of pre-financing	-4 167	-1 782	-5 949
Change in cash position	-1 235	492	-743
Deposits in the Retirement Plans Sinking Fund (RPSF) <sup>(1)</sup>	—	1 500	1 500
Transactions under the credit policy <sup>(2)</sup>	—	355	355
Pre-financing	—	6 299	6 299
<b>TOTAL</b>	<b>11 782</b>	<b>7 447</b>	<b>19 229<sup>(3)</sup></b>

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.

(2) Under the credit policy, which is designed to limit risk with respect to counterparties, the government disburses or receives amounts following, in particular, movements in exchange rates. These amounts have no effect on the debt.

(3) This data is based on borrowings contracted as at February 14, 2020.

### Borrowings contracted in 2019-2020

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

Thus far in 2019-2020, the government has contracted 36% of its borrowings on foreign markets, compared to an average of 21% for the past 10 years. However, the government keeps no exposure of its debt to foreign currencies so as to neutralize the impact of variations in foreign exchange rates on debt service.

In 2019-2020, conventional bonds in Canadian dollars were the main debt instrument used.

To date, approximately 68% of the borrowings contracted in 2019-2020 had a maturity of 10 years or more.

As at March 31, 2020, the average maturity of the debt should be 11 years.

#### Summary of long-term borrowings contracted in 2019-2020

Currencies	\$million	%
<b>CANADIAN DOLLAR</b>		
Conventional bonds	11 163	58.1
Green Bonds	500	2.6
Immigrant investors <sup>(1)</sup>	371	1.9
Savings products issued by Épargne Placements Québec	295	1.5
<b>Subtotal</b>	<b>12 329</b>	<b>64.1</b>
<b>OTHER CURRENCIES</b>		
U.S. dollar	4 633	24.1
Euro	1 461	7.6
Pound sterling	407	2.1
Swedish krona	245	1.3
Australian dollar	95	0.5
New Zealand dollar	59	0.3
<b>Subtotal</b>	<b>6 900</b>	<b>35.9</b>
<b>TOTAL</b>	<b>19 229</b>	<b>100.0</b>

Note: Borrowings contracted as at February 14, 2020.

(1) These borrowings are from sums advanced by immigrant investors. These sums are lent to the government through Investissement Québec.

The financing program will amount to \$13.9 billion in 2020-2021.

For the four subsequent years, that is, from 2021-2022 to 2024-2025, it will average \$26.9 billion per year.

TABLE G.10

**The government's financing program, 2020-2021 to 2024-2025**  
(millions of dollars)

	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Net financial requirements	9 843	10 377	10 238	11 382	9 632
Repayments of borrowings	10 364	16 680	14 433	16 057	18 968
Use of pre-financing	-6 299	—	—	—	—
Use of the Generations Fund to repay borrowings	—	—	—	—	—
<b>TOTAL</b>	<b>13 908</b>	<b>27 057</b>	<b>24 671</b>	<b>27 439</b>	<b>28 600</b>

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

**Green Bond program**

In 2017, the government introduced a Green Bond program to fund projects providing tangible benefits with regard to protecting the environment, reducing GHG emissions or adapting to climate change. Through this program, the government is contributing to, among other things, the development of a socially responsible investment market.

The program draws on the Green Bond Principles, a set of guidelines created to bring more transparency to the issuance process, disclosure and reporting.

Québec's Green Bond framework received the highest rating possible from CICERO (Center for International Climate Research).

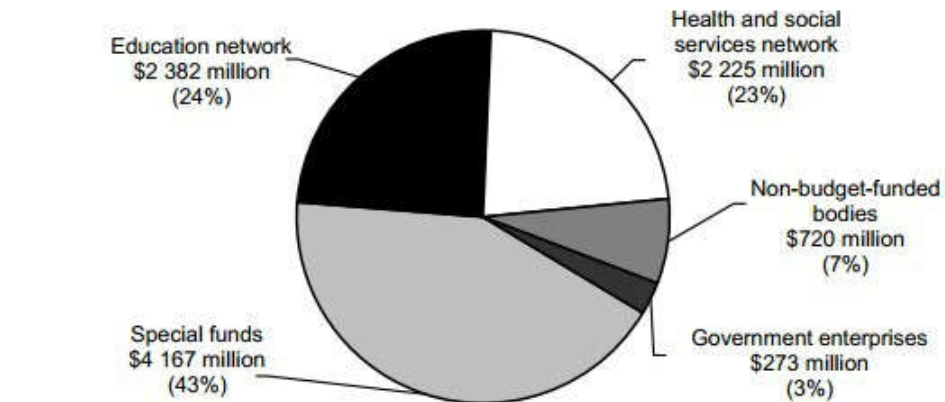
Five issues totalling \$2.8 billion have been made since the program was launched, including an issue of \$500 million in February 2020. Given the demand for Québec's Green Bonds and the government's commitment to the environment, Québec will be a regular issuer of Green Bonds.

For more information, visit [www.finances.gouv.qc.ca/en/RI\\_GB\\_Green\\_Bonds.asp](http://www.finances.gouv.qc.ca/en/RI_GB_Green_Bonds.asp).

## Funding of public bodies

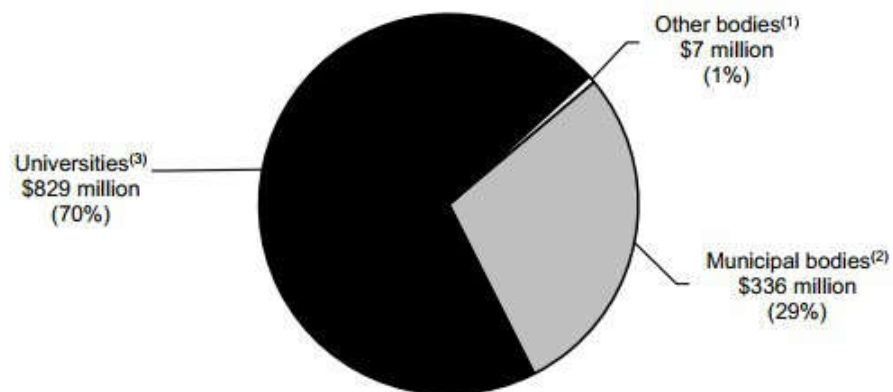
The main mission of the Financing Fund and Financement-Québec is to offer Québec's public sector bodies financing at the lowest possible cost. The clientele of the Financing Fund consists of the public bodies included in the government reporting entity. In fiscal 2019-2020, the long-term loan program of the Financing Fund amounts to \$9.8 billion.

### Long-term loans granted by the Financing Fund, 2019-2020



Financement-Québec also offers funding to public bodies not included in the government reporting entity, in particular universities other than the Université du Québec and its constituents, as well as certain municipal bodies. In fiscal 2019-2020, the long-term loan program of Financement-Québec amounts to \$1.2 billion.

### Long-term loans granted by Financement-Québec, 2019-2020



(1) Montreal Clinical Research Institute and Montreal Museum of Fine Arts.

(2) Société de transport de Montréal, Autorité régionale de transport métropolitain and Réseau de transport métropolitain.

(3) Universities other than the Université du Québec and its constituents.

## 2.2 Debt management strategy

The government, through its debt management strategy, aims to minimize the cost of debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

The government uses a range of financial instruments, particularly interest rate and currency swap agreements (swaps), to achieve desired debt proportions by currency and interest rate.

### □ Structure of the gross debt by currency

As at March 31, 2020, before taking swaps into account, 79.3% of the gross debt is expected to be in Canadian dollars, 12.8% in U.S. dollars, 5.1% in euros, 0.9% in Australian dollars, 0.8% in pounds sterling, 0.7% in Swiss francs and 0.4% in other foreign currencies (yen, New Zealand dollars, Hong Kong dollars and Swedish krona).

After taking swaps into account, the entire gross debt is denominated in Canadian dollar.

Since 2012-2013, the government has maintained no exposure of its debt to foreign currencies.

Swaps allow for neutralization of the impact of variations in foreign exchange rates on debt service.

TABLE G.11

#### Structure of the gross debt by currency as at March 31, 2020 (per cent)

	Before swaps	After swaps
Canadian dollar	79.3	100.0
U.S. dollar	12.8	0.0
Euro	5.1	0.0
Australian dollar	0.9	0.0
Pound sterling	0.8	0.0
Swiss franc	0.7	0.0
Other (yen, New Zealand dollar, Hong Kong dollar and Swedish krona)	0.4	0.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Note: Gross debt including pre-financing.

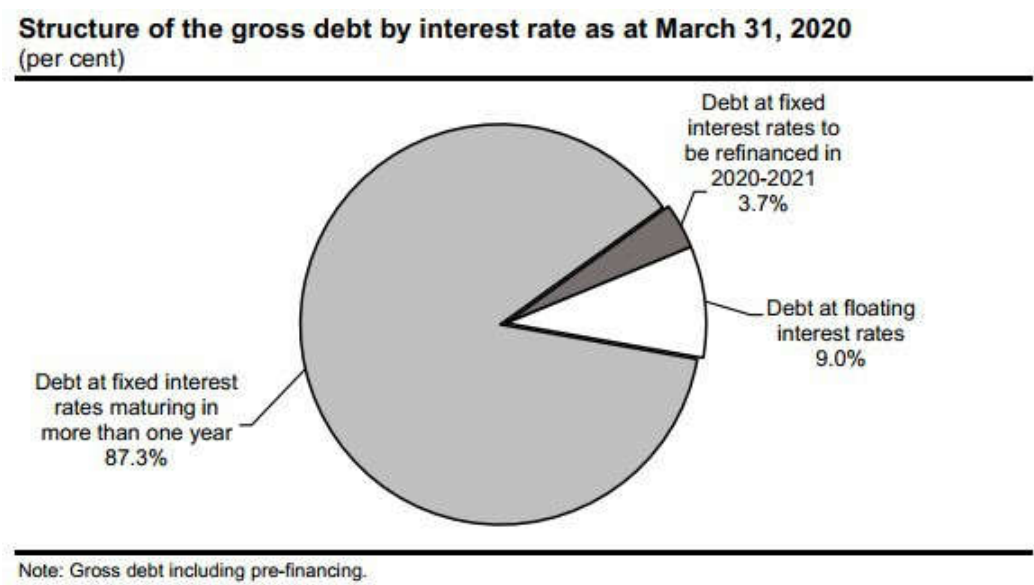
❑ **Structure of the gross debt by interest rate**

The government keeps part of its debt at fixed interest rates and part at floating interest rates.

As at March 31, 2020, after taking swaps into account, the proportion of the gross debt at fixed interest rates is expected to be 91.0%,<sup>5</sup> while the proportion at floating rates is expected to be 9.0%.

In addition, as at March 31, 2020, the share of the gross debt subject to an interest rate change in 2020-2021 is expected to be 12.7%. This share includes the debt at floating interest rates (9.0%) as well as the debt at fixed rates, which will have to be refinanced in 2020-2021 (3.7%).

CHART G.11



<sup>5</sup> This proportion includes the debt at fixed interest rates maturing in more than one year (87.3%) as well as the debt at fixed interest rates to be refinanced in 2020-2021 (3.7%).

## 2.3 Yield on Québec's debt securities

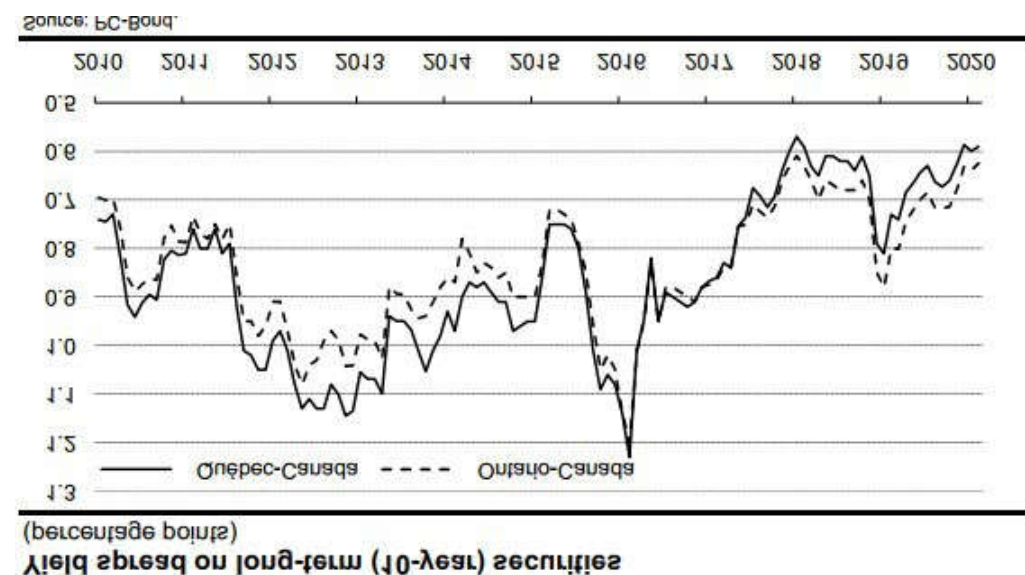
The yield on the Québec's 10-year securities is approximately 1.9%. The yield on Treasury bills is around 1.7%.

CHART G.12



Since June 2017, a spread in favour of Québec has been observed between the yield on 10-year securities of Québec and those of Ontario.

CHART G.13





### 3. PUBLIC AND PARAPUBLIC SECTOR RETIREMENT PLANS

#### 3.1 Net liability for the retirement plans

The Québec government covers its share of the funding of its employees' retirement plans, which are defined-benefit plans.

In its financial statements, it discloses the pension obligation, which corresponds to the present value of the retirement benefits that it will pay to its employees. This obligation is re-evaluated annually using a method that gradually factors in differences observed relative to forecasts.<sup>6</sup> It thus calculates the retirement plans liability.

Sums are accumulated in the Retirement Plans Sinking Fund (RPSF) and other funds in order to pay retirement benefits. The value of these assets is subtracted from the liability to measure the government's net commitment, called the net retirement plans liability. This amount is included in the gross debt.

<sup>6</sup> The value of obligations relating to accrued retirement plan benefits undergoes actuarial valuations every three years. The value is extrapolated between two valuations.

As at March 31, 2019, the net liability for the retirement plans and other employee future benefits stood at \$18.4 billion.

TABLE G.12

**Net liability for the retirement plans and other employee future benefits as at March 31, 2019**  
(millions of dollars)

<b>Retirement plans</b>	
Retirement plans liability <sup>(1)</sup>	105 656
Less: Retirement Plans Sinking Fund (RPSF) and other funds <sup>(2)</sup>	<u>-87 075</u>
<b>Net retirement plans liability</b>	<b>18 581</b>
<b>Other employee future benefits</b>	
Other employee future benefits liability	1 471
Less: Funds dedicated to other employee future benefits	<u>-1 690</u>
<b>Net other employee future benefits liability<sup>(3)</sup></b>	<b>-219</b>
<b>NET LIABILITY FOR THE RETIREMENT PLANS AND OTHER EMPLOYEE FUTURE BENEFITS</b>	<b>18 362</b>

(1) Mainly the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP).

(2) The value of the RPSF is \$81 344 million. The other funds consist mainly of that of the Pension Plan of the Université du Québec.

(3) A negative entry means that the value of assets is higher than the value of liabilities.

## □ Annual retirement plan expenses

Every year, the government records the expenses it has to cover as an employer with regard to the pension plans. These expenses include:

- the cost of accrued benefits, namely, the present value of retirement benefits that employees have accumulated for work performed during the year (\$2 492 million in 2018-2019);
- the net debt service expense, which corresponds to the interest expense on the pension obligation less the investment income of the RPSF and other funds (\$1 327 million in 2018-2019);
- the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations (\$601 million in 2018-2019).

In 2018-2019, the government's expenses for the retirement plans stood at \$4 420 million.

TABLE G.13

### Retirement plan expenses (millions of dollars)

	2018-2019
Cost of accrued benefits	2 492
Net debt service expense	1 327
Amortization of revisions stemming from actuarial valuations <sup>(1)</sup>	601
<b>RETIREMENT PLAN EXPENSES</b>	<b>4 420</b>

(1) This amount includes the cost of other items (\$72 million in 2018-2019), concerning mainly the change in valuation allowances.

## Retirement Plans Sinking Fund

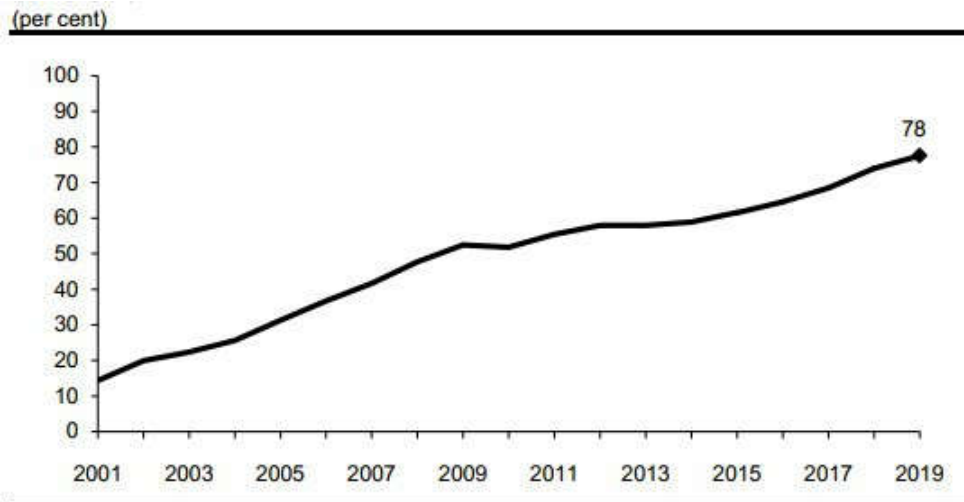
The Retirement Plans Sinking Fund (RPSF) is an asset that was created by the Québec government in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

In December 1999, as part of the agreement concluded for the renewal of its employees' collective agreements, the government set the objective of ensuring that the book value of the sums accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in respect of the retirement plans of public and parapublic sector employees.

- This objective was achieved as at March 31, 2018, two years earlier than expected.
- As at March 31, 2019, the RPSF was equal to 78% of the actuarial obligations in respect of the retirement plans.

Sums will continue to be accumulated in the RPSF to ensure that the government continues reducing the gap between its actuarial obligations in respect of the retirement plans of public and parapublic sector employees and the sums it holds to meet these obligations.

**Book value of the RPSF in proportion to the government's actuarial obligations in respect of the retirement plans of public and parapublic sector employees as at March 31**



**Returns on funds deposited with the  
Caisse de dépôt et placement du Québec**

The main funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec (Retirement Plans Sinking Fund, Generations Fund and Accumulated Sick Leave Fund) are managed in accordance with an investment policy established by the Ministère des Finances in cooperation with representatives of the Caisse.

This investment policy is established taking several factors into account, including 10-year return forecasts, standard deviations and correlations for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

In 2019, the return on funds deposited by the Ministère des Finances with the Caisse was 10.1% for the Retirement Plans Sinking Fund, 9.5% for the Generations Fund and 10.1% for the Accumulated Sick Leave Fund.

The investment policies of these funds are presented in the box on the next page.

**Return on and market value of funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec in 2019**

	<b>Rate of return (%)</b>	<b>Market value as at December 31, 2019 (\$billion)</b>
Retirement Plans Sinking Fund (RPSF)	10.1	93.0
Generations Fund	9.5	9.2
Accumulated Sick Leave Fund (ASLF)	10.1	1.4

Comparison of investment policies			
Investment policies as at January 1, 2020 (per cent)			
	RPSF and ASLF	Generations Fund <sup>(1)</sup>	Average benchmark portfolio of depositors as a whole <sup>(2)</sup>
<b>Specialized portfolios</b>			
Short-Term Investments	1.0	1.0	1.1
Rates <sup>(3)</sup>	13.0	11.0	12.6
Credit <sup>(4)</sup>	19.0	12.2	16.7
Long-Term Bonds	0	0	0.9
Real Return Bonds	0	0	0.4
<b>Total – Fixed income</b>	<b>33.0</b>	<b>24.2</b>	<b>31.7</b>
Infrastructure	8.0	12.1	6.5
Real Estate	12.0	17.1	12.1
<b>Total – Real assets</b>	<b>20.0</b>	<b>29.2</b>	<b>18.6</b>
Public Equity	32.5	23.3	37.2
Private Equity	14.5	23.3	12.5
<b>Total – Equity</b>	<b>47.0</b>	<b>46.6</b>	<b>49.7</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
RPSF: Retirement Plans Sinking Fund. ASLF: Accumulated Sick Leave Fund. (1) The investment policy of the Generations Fund has been adjusted, in cooperation with the Caisse, to take into account withdrawals from this fund for accelerating debt repayment. (2) Data as at December 31, 2018 drawn from the 2018 Annual Report of the Caisse de dépôt et placement du Québec. (3) This portfolio consists of government bonds. (4) Broader range of instruments with fixed income securities characteristics.			

## 4. CREDIT RATINGS

### 4.1 Québec's credit ratings

A credit rating measures the ability of a borrower, such as the Québec government, to pay interest on its debt and repay the principal at maturity.

Québec's credit rating is evaluated by six credit rating agencies.

On November 12, 2019, DBRS Morningstar raised Québec's credit rating by one notch, from “A (high)” to “AA (low)”. It is the first time DBRS has assigned a credit rating in the “AA” category to Québec.

This increase in Québec's credit rating is explained by the outstanding performance of the Québec economy, as well as sound management of public finances thanks, in particular, to a significant reduction of the debt burden.

A higher credit rating means access to a broader pool of investors and advantageous borrowing costs.

TABLE G.14

China Chengxin International (CCXI) <sup>(1)</sup>	AAA	AAA
Japan Credit Rating Agency (JCR)	AA+	AA+
DBRS Morningstar (DBRS)	A (high) →	AA (low)
Euclid	AA-	AA-
Standard & Poor's (S&P)	AA-	AA-
Moodys	Aa2	Aa2
Credit rating agency	5048	5050
<b>Québec's credit ratings</b>		

(1) Credit rating for bond issues on the Chinese market.

Québec's credit ratings, which are indicated in the table below, differ from one credit rating agency to another because of the methodology used to determine credit risk.

The four main credit rating agencies (Moody's, S&P, Fitch and DBRS) assign Québec a credit rating in the “AA” category.

It should be noted that the six credit rating agencies assign a stable outlook to Québec's credit rating.

TABLE G.15

**Credit rating scales for long-term debt**

	Moody's	S&P	Fitch	DBRS	JCR	CCXI <sup>(1)</sup>
Highest credit quality	Aaa	AAA	AAA	AAA	AAA	AAA
	Aa1	AA+	AA+	AA (high)	AA+	AA+
	Aa2	AA	AA	AA	AA	AA
	Aa3	AA-	AA-	AA (low)	AA-	AA-
	A1	A+	A+	A (high)	A+	A+
	A2	A	A	A	A	A
	A3	A-	A-	A (low)	A-	A-
	Baa1	BBB+	BBB+	BBB (high)	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB-	BBB (low)	BBB-	BBB-
	Ba1	BB+	BB+	BB (high)	BB+	BB+
	Ba2	BB	BB	BB	BB	BB
	Ba3	BB-	BB-	BB (low)	BB-	BB-
	B1	B+	B+	B (high)	B+	B+
	B2	B	B	B	B	B
	B3	B-	B-	B (low)	B-	B-

(1) Credit rating for bond issues on the Chinese market.

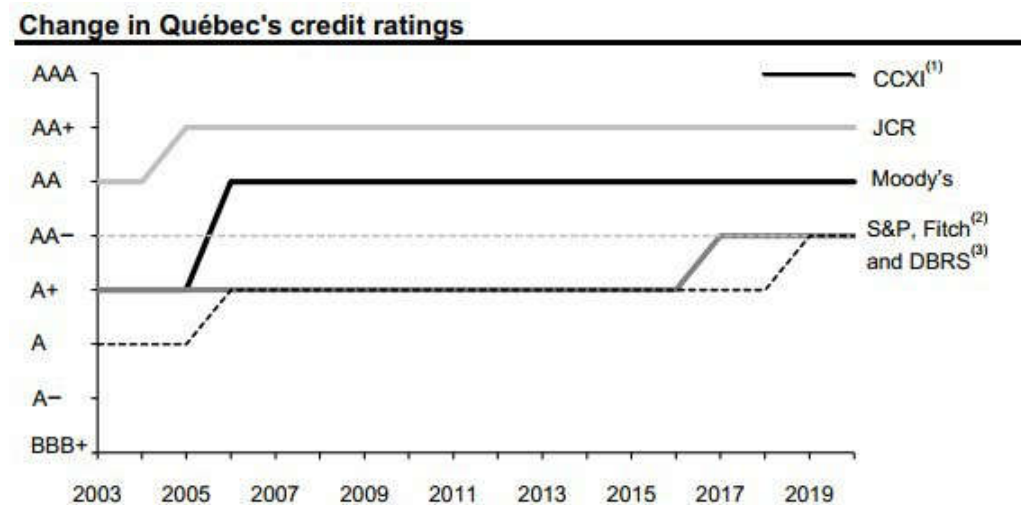


## □ Change in Québec's credit ratings

The following chart shows the change in Québec's credit ratings since 2003.

In November 2019, DBRS raised Québec's credit rating by one notch, from “A (high)” to “AA (low)”. It is the first time DBRS has assigned a credit rating in the “AA” category to Québec.

CHART G.14



Note: The credit ratings for 2020 are those that were in effect on February 20, 2020.

(1) CCXI has assigned Québec a credit rating since 2018.

(2) Fitch's credit rating is indicated by the dotted gray line.

(3) DBRS's credit rating corresponds to the dotted black line.

4.2 Comparison of the credit ratings of the Canadian provinces

The following charts show the credit ratings of the Canadian provinces assigned by Moody's and Standard & Poor's as at February 20, 2020.

CHART G.15

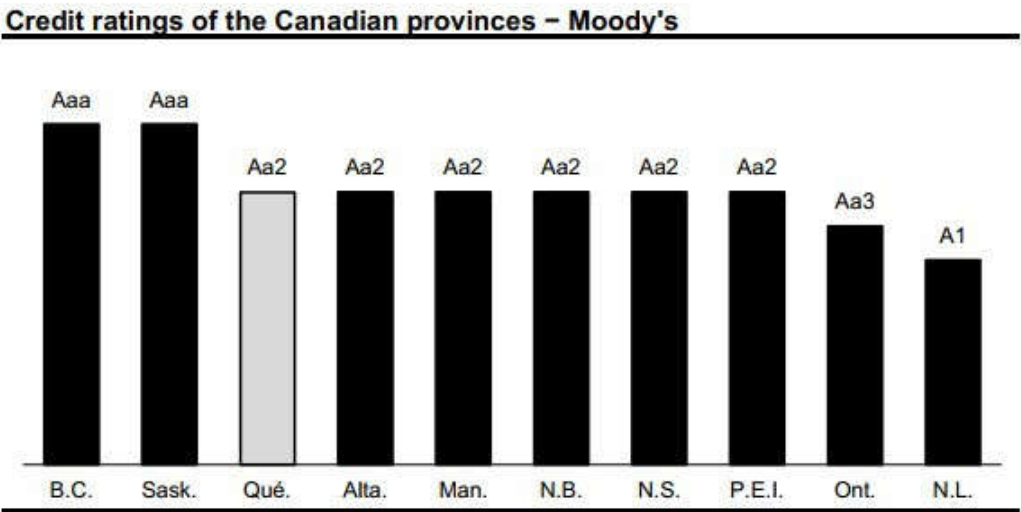
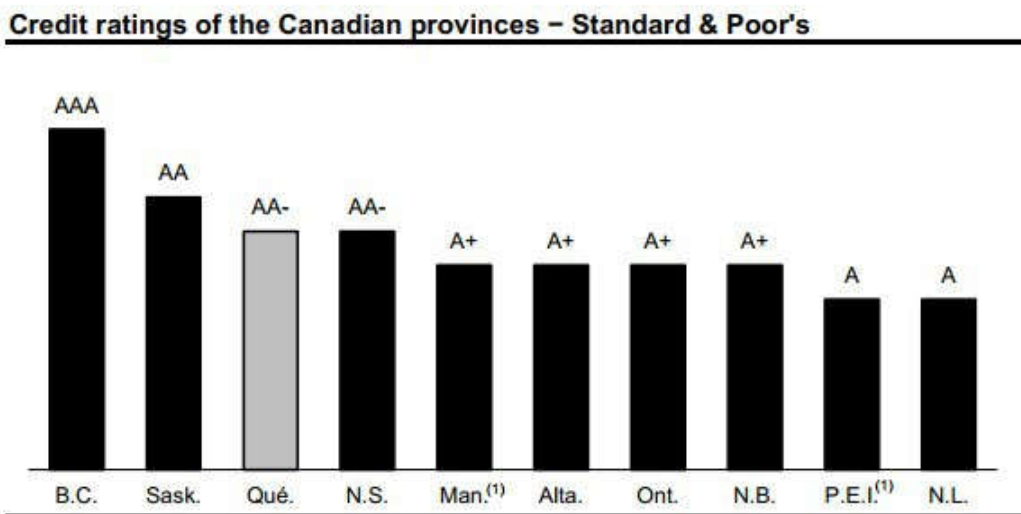


CHART G.16



(1) Rating with a positive outlook.

Excerpts from "Budget Speech 2020-2021", March 10, 2020

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TABLE 1

**Québec government**  
**Summary of budgetary transactions**  
**Preliminary results for 2019-2020**  
(millions of dollars)

	2019-2020
<b>REVENUE</b>	
Own-source revenue	92 846
Federal transfers	25 097
<b>Total</b>	<b>117 943</b>
<b>EXPENDITURE</b>	
Portfolio expenditures	-104 962
Debt service	-7 845
<b>Total</b>	<b>-112 807</b>
Estimated losses on the CSeries investment	-603
<b>SURPLUS</b>	<b>4 533</b>
<b>BALANCED BUDGET ACT</b>	
Deposits of dedicated revenues in the Generations Fund	-2 633
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>1 900</b>

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

TABLE 2

**Québec government**  
**Summary of budgetary transactions**  
**Forecasts for 2020-2021**  
(millions of dollars)

	2020-2021
<b>REVENUE</b>	
Own-source revenue	95 603
Federal transfers	25 692
<b>Total</b>	<b>121 295</b>
<b>EXPENDITURE</b>	
Portfolio expenditures	-110 300
Debt service	-8 266
<b>Total</b>	<b>-118 566</b>
<b>SURPLUS</b>	<b>2 729</b>
<b>BALANCED BUDGET ACT</b>	
Deposits of dedicated revenues in the Generations Fund	-2 729
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>-</b>

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

TABLE 3

**Québec government  
Revenue  
Forecasts for 2020-2021**  
(millions of dollars)

	2020-2021
<b>OWN-SOURCE REVENUE</b>	
Income and property taxes	
Personal income tax	35 435
Contributions for health services	6 896
Corporate taxes	8 530
School property tax	1 349
	<b>52 210</b>
Consumption taxes	
Sales taxes <sup>(1),(2)</sup>	19 019
Fuel	2 308
Tobacco products	943
Alcoholic beverages <sup>(3)</sup>	643
Cannabis <sup>(4)</sup>	48
	<b>22 961</b>
Revenue from government enterprises	
Hydro-Québec	2 275
Loto-Québec	1 372
Société des alcools du Québec	1 222
Investissement Québec	131
Société québécoise du cannabis	50
Other	-236
	<b>4 814</b>
Duties and permits	4 643
Miscellaneous revenue	10 975
<b>TOTAL OWN-SOURCE REVENUE</b>	<b>95 603</b>
<b>FEDERAL TRANSFERS</b>	
Equalization	13 253
Health transfers	6 768
Transfers for post-secondary education and other social programs	1 581
Other programs	4 090
<b>TOTAL FEDERAL TRANSFERS</b>	<b>25 692</b>
<b>TOTAL REVENUE</b>	<b>121 295</b>

(1) Sales taxes, within the meaning of the Public Accounts, include the QST, the tax on insurance premiums, the tax on lodging and the specific tax on new tires.

(2) For presentation purposes, revenue from pari-mutuel is included in sales taxes.

(3) Revenue from the specific tax on alcoholic beverages includes the annual amount of \$500 million dedicated to the Generations Fund.

(4) Québec's component of the excise duty on the sale of cannabis.

TABLE 4

**Québec government  
Expenditure  
Forecasts for 2020-2021**  
(millions of dollars)

	2020-2021
<b>PORTFOLIO EXPENDITURES</b>	
Program spending of the General Fund <sup>(1)</sup>	86 191
Other expenditure <sup>(2)</sup>	24 109
<b>Total</b>	<b>110 300</b>
<b>DEBT SERVICE</b>	
General Fund	5 859
Other sectors <sup>(2)</sup>	2 407
<b>Total</b>	<b>8 266</b>
<b>TOTAL EXPENDITURE</b>	<b>118 566</b>

(1) Program spending includes transfers intended for consolidated entities.

(2) The other expenditure and the debt service of other sectors include consolidation adjustments.

TABLE 5

**Québec government**  
**Expenditure**  
**Forecasts for 2020-2021**  
(millions of dollars)

	2020-2021
<b>PORTFOLIO EXPENDITURES</b>	
Affaires municipales et Habitation	3 078
Agriculture, Pêcheries et Alimentation	1 066
Conseil du trésor et Administration gouvernementale	2 858
Conseil exécutif	533
Culture et Communications	1 444
Économie et Innovation	2 759
Éducation et Enseignement supérieur	25 734
Énergie et Ressources naturelles	748
Environnement et Lutte contre les changements climatiques	1 646
Famille	6 936
Finances	3 434
Forêts, Faune et Parcs	1 074
Immigration, Francisation et Intégration	581
Justice	1 274
National Assembly	138
Persons Appointed by the National Assembly	110
Relations internationales et Francophonie	132
Santé et Services sociaux	47 760
Sécurité publique	2 122
Tourisme	399
Transports	5 370
Travail, Emploi et Solidarité sociale	5 304
Inter-portfolio eliminations <sup>(1)</sup>	-4 200
<b>Total</b>	<b>110 300</b>
<b>DEBT SERVICE</b>	<b>8 266</b>
<b>TOTAL EXPENDITURE</b>	<b>118 566</b>

Note: Totals may not add due to rounding.

(1) Inter-portfolio eliminations result mainly from the elimination of reciprocal transactions between entities in different portfolios.

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TABLE 6

**Québec government**  
**Non-budgetary transactions**  
**Forecasts for 2020-2021**  
(millions of dollars)

	<b>2020-2021</b>
<b>INVESTMENTS, LOANS AND ADVANCES</b>	<b>-2 737</b>
<b>CAPITAL EXPENDITURES</b>	
Investments	-8 070
Amortization	4 374
Less: PPP investments	230
<b>Total</b>	<b>-3 466</b>
<b>RETIREMENT PLANS AND OTHER EMPLOYEE FUTURE BENEFITS</b>	<b>3 383</b>
<b>OTHER ACCOUNTS</b>	<b>-932</b>
<b>TOTAL NON-BUDGETARY TRANSACTIONS</b>	<b>-3 752</b>

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.