

**2007
2008**

Budget | Budget Plan

2007-2008

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Budget Plan

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1. SOUND MANAGEMENT OF PUBLIC FINANCES

The 2007-2008 Budget is in keeping with the government's disciplined management of public finances since 2003:

- A balanced budget has been maintained in each year of the financial framework.
- Growth in spending is tightly controlled.
- Major investments in Quebecers' priorities, namely, health, education, the economy, reduction of the tax burden, the regions, sustainable development, families and infrastructure, are made again this year.
- The effort to reduce the debt load is stepped up with an additional investment of \$500 million in the Generations Fund.
- Exceptional revenue in 2006-2007, coupled with disciplined management of spending, make it possible to earmark \$500 million for the budgetary reserve in order to finance pay equity.

TABLE A.1

Summary of consolidated budgetary transactions – 2007-2008 Budget^P

(millions of dollars)

	2006-2007	2007-2008	2008-2009
BUDGETARY REVENUE	59 489	60 262	61 057
% change	6.8	1.3	1.3
BUDGETARY EXPENDITURE			
Program spending	– 51 519	– 53 594	– 55 178
% change	4.6	4.0	3.0
Debt service	– 6 990	– 7 229	– 7 170
% change	1.7	3.4	– 0.8
Total	– 58 509	– 60 823	– 62 348
% change	4.3	4.0	2.5
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	37	61	296
Deposit in the Generations Fund ¹	– 500		
Allocation to the budgetary reserve	– 500		
Use of the reserve to finance part of the pay equity adjustment		500	
Shortfall to be absorbed			995
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE <i>BALANCED BUDGET ACT</i>	17	0	0
Net results of the Generations Fund	575	446	726
CONSOLIDATED BUDGETARY BALANCE	592	446	726

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1: Additional investment arising from the sale of Hydro-Québec's interest in Transelec Chile.

1.1 Achievement of a balanced budget and deposit of \$500 million in the Generations Fund in 2006-2007

The budget anticipates a surplus of \$17 million for 2006-2007. The sound economy and its impact on revenue from income and other taxes; the increase in the revenue of government enterprises, mainly because of the sale of assets by Hydro-Québec; the rise in federal transfers and the savings realized on debt service because of lower-than-anticipated interest rates have made it possible to free up \$1.8 billion.

The government has used that amount to finance the additional cost of the pay equity settlement and the recurrent expenditures accounted for at the closing of 2005-2006. That amount has also been used to deposit an additional \$500 million in the Generations Fund, derived from the sale of Transelec Chile by Hydro-Québec. Lastly, given the available budgetary funds, it was possible to allocate to the budgetary reserve the sum of \$500 million. Pay equity will be funded out of that reserve.

TABLE A.2

Changes since the 2006-2007 Budget (millions of dollars)

	2006-2007
SOURCE OF FUNDS	
- Revenue from income and other taxes	463
- Government enterprises	965
- Federal transfers	160
- Debt service	215
Sub-total	1 803
USE OF FUNDS	
- Increase in program spending	- 646
- Consolidated organizations	- 140
- Deposit in the Generations Fund	- 500
- Allocation to the budgetary reserve	- 500
Sub-total	- 1 786
DIFFERENCE - BUDGETARY SURPLUS	17

□ On-going disciplined management of spending

Given the increase in expenditures mentioned earlier, the growth in program spending in 2006-2007 will total 4.6%. This spending growth includes the cost of the pay equity agreement between the government and its employees. Excluding pay equity expenditures, growth in program spending is 4.1% in 2006-2007.

TABLE A.3

Impact of pay equity on program spending growth (millions of dollars)

	2005-2006	2006-2007
PROGRAM SPENDING OBJECTIVE PRESENTED IN THE FEBRUARY 2007 BUDGET	49 230	51 519
% change	3.3	4.6
Total cost of pay equity recorded as an expenditure	- 498	- 775
PROGRAM SPENDING EXCLUDING THE COST OF PAY EQUITY	48 732	50 744
% change	3.7	4.1
Nominal GDP growth rate¹	4.0	3.9

1 For the calendar year ending three months before the end of the fiscal year.
Sources: Secrétariat du Conseil du trésor and Institut de la statistique du Québec.

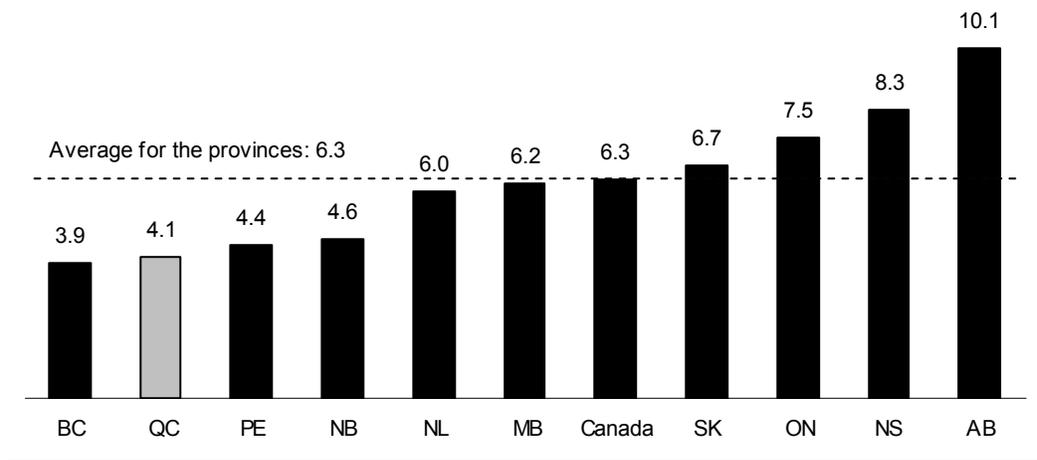
❑ Québec outperforms most of the Canadian provinces

Since 2003-2004, Québec has achieved better results than all of the Canadian provinces as far as spending control is concerned. Indeed, the average annual rate of growth in program spending in Québec over this period has been 4.1%, while the average for the Canadian provinces has been 6.3%.

CHART A.1

Québec outperforms most of the provinces in managing spending

(average annual growth in program spending from 2003-2004 to 2006-2007, in per cent)

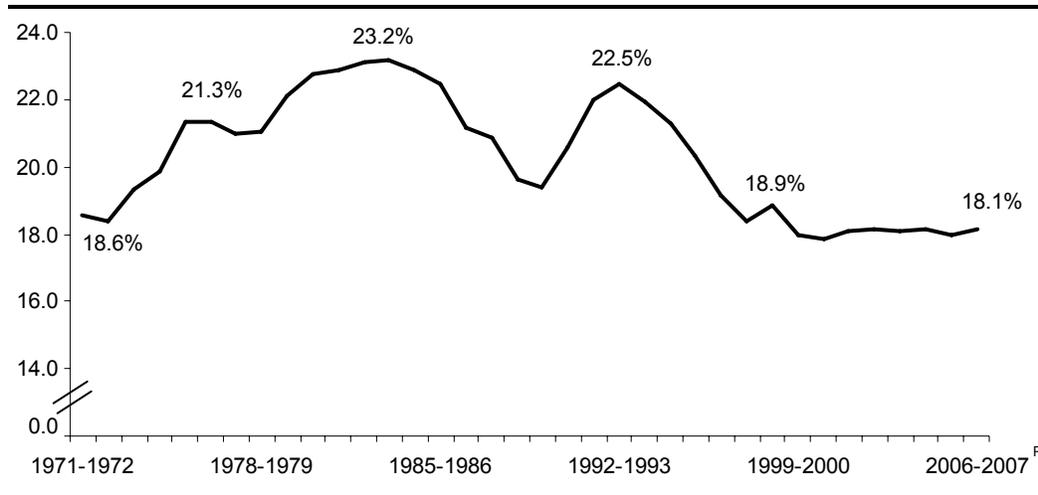


□ Significant reduction in the weight of spending in the economy

Because of budgetary discipline, the weight of program spending compared with the gross domestic product (GDP) in 2006-2007 is 18.1%, one of the lowest levels in 35 years.

CHART A.2

Program spending (percentage of GDP)



P: Preliminary results.

1.2 Maintenance of budgetary discipline in 2007-2008

In addition, in keeping with the budgetary stance pursued by the government, a balanced budget will be maintained in 2007-2008, given the use of the sum of \$500 million from the budgetary reserve constituted this year.

The growth in program spending, including the cost of the measures in this budget, totals 4.0%, a growth rate below the average recorded since 2003. That is also a growth rate below that of the nominal GDP, which is expected to be 4.3%.

□ Priority to health and education

In 2007-2008, the growth in health spending will total 6.0%, an increase of \$1.3 billion. That rise accounts for about two-thirds of the total increase in program spending.

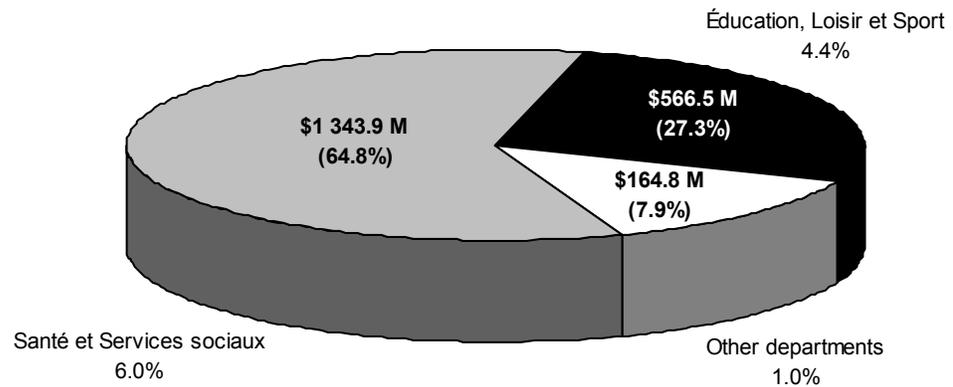
The budget of the ministère de l'Éducation, du Loisir et du Sport is also significantly increased, by 4.4 %, with the addition of \$566.5 million.

Overall, the increases in the budgets for health and education account for over 92% of the rise in program spending in 2007-2008.

CHART A.3

Priority to health and education (program spending growth in 2007-2008)

Total increase of \$2 075.2 M



Source: Secrétariat du Conseil du trésor.

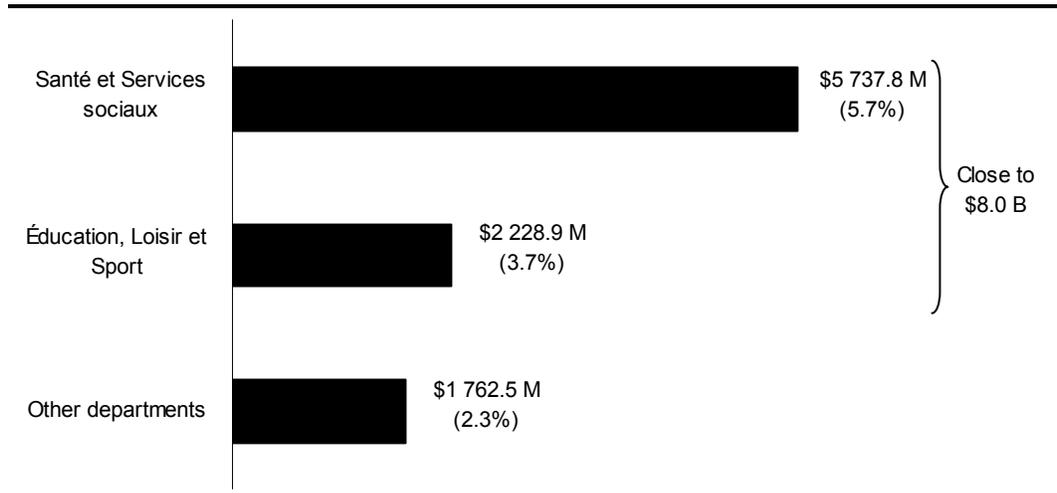
❑ Close to \$8.0 billion more for health and education since 2003

A total of \$8.0 billion has been added by the government to the budgets of the ministère de la Santé et des Services sociaux and the ministère de l'Éducation, du Loisir et du Sport since 2003, i.e. \$5.7 billion and \$2.2 billion respectively. The other portfolios have received an additional \$1.8 billion, notably to improve the road system and provide more assistance to families.

CHART A.4

Close to \$8.0 billion more for health and education since 2003-2004

(growth in program spending from 2003-2004 to 2007-2008)



Source: Secrétariat du Conseil du trésor.

❑ Increase of 1.0% in the budgets of the other departments in 2007-2008

The budgets of the other departments are increasing by 1.0% in 2007-2008 and were established with a view to maintaining and improving public services. Most of the budgetary efforts are limited to operating expenditures.

1.3 A budgetary shortfall of nearly \$1 billion to be absorbed in 2008-2009

For 2008-2009, the government must make up a budgetary shortfall of nearly \$1 billion if it is to achieve a balanced budget. As in the past, the Québec government is determined to act to absorb the shortfall in accordance with its budgetary stance and the *Balanced Budget Act*.

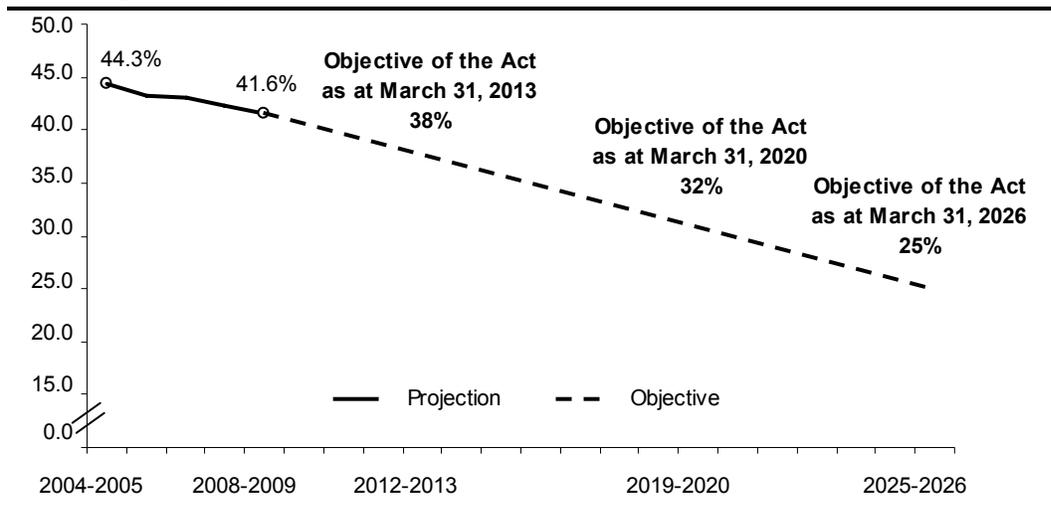
1.4 The Generations Fund, decisive action to reduce the debt burden

The Generations Fund was created last June by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The amounts accumulated in the Generations Fund will be dedicated exclusively to repaying the debt.

With the revenue deposited in the Generations Fund and the additional deposit of \$500 million, announced last October, from the sale of Hydro-Québec's interest in Transelec Chile, the weight of the debt in the economy will be lowered to less than 25% in under 20 years. As early as March 31, 2009, the Generations Fund will make it possible to reduce the debt burden by \$1 747 million, to 41.6% of GDP.

CHART A.5

Total government debt
(percentage of GDP)



2. THE QUÉBEC ECONOMY IS DOING WELL

Since 2003, the Québec economy has experienced good growth despite a competitive and challenging international situation affecting manufacturing businesses. In particular, household demand and business investments have remained high, buoying employment and tax revenues. Coupled with the government's efforts to ensure budgetary discipline, the vitality of the economy has contributed to the soundness of public finances.

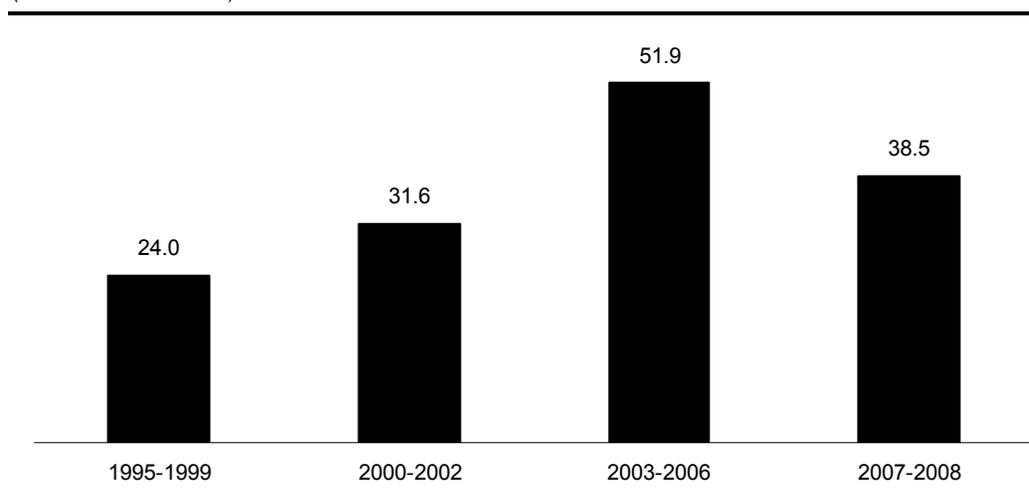
2.1 Dynamic domestic demand

More specifically, the growth of personal household spending should be 3.2% in real terms in 2007. That represents a sixth consecutive year of increases above 3%, a vitality not seen since the late 1980s. Furthermore, the payment of \$1.9 billion in pay equity adjustments, anticipated in 2007, will improve the financial situation of 360 000 public sector employees.

New housing construction will also remain high. Having risen an average of 51 900 units per year since 2003, the number of housing starts will stand at over 38 000 units in the next two years. Those levels are far above the levels of the late 1990s, when 24 000 housing units were started each year.

CHART A.6

Housing starts
(thousands of units)



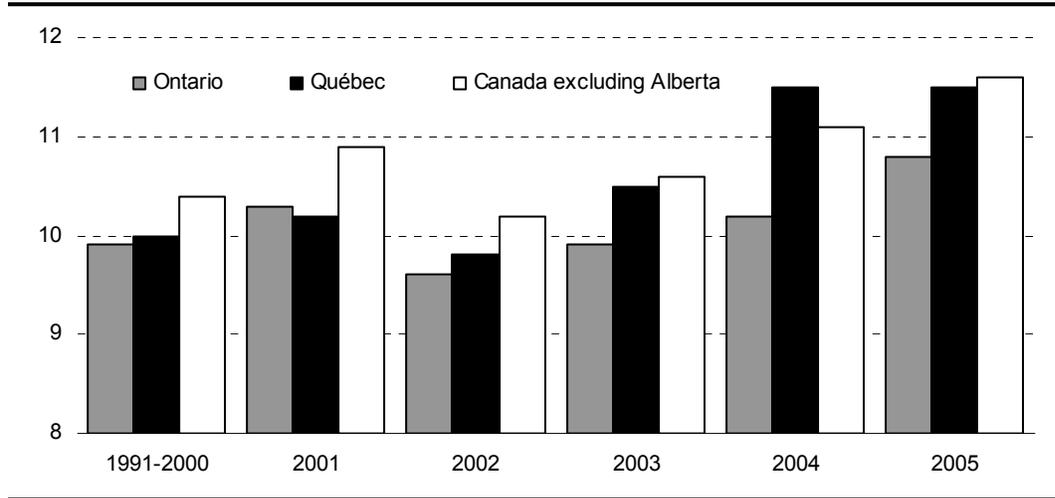
Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

Furthermore, generally benefiting from a favourable economic climate, businesses have increased their investment level by more than 25% since 2003, an increase well above the rise of 6.7% a year recorded from 1999 to 2002. Non-residential investment represented 11.5% of real GDP in 2005, about two percentage points more than in 2002.

This increase tops that seen in Ontario for the same period. Minus investments made in Alberta, Québec's performance was similar to that of Canada.

CHART A.7

Business investment
(percentage of real GDP)



Source: Statistics Canada.

This vitality of households and businesses has been particularly bolstered by the action of the government, which has reduced the tax burden of individuals by \$3.8 billion, eliminated the tax on capital for SMEs and decreased it by half for other businesses, while financially supporting a number of major economic development projects throughout the Québec regions.

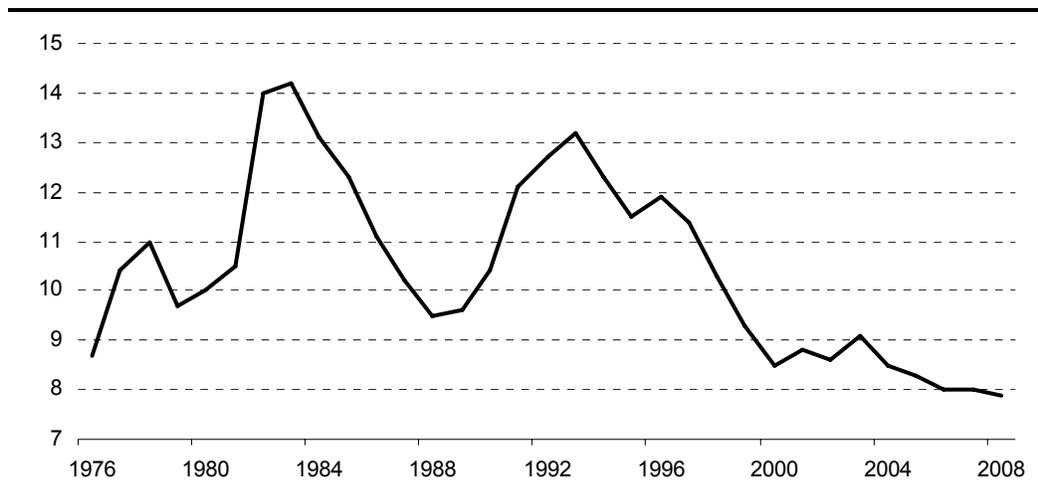
2.2 Robust growth in employment

The growth in employment has remained robust in Québec despite pressure on the manufacturing sector. Roughly 200 000 jobs have been created since 2003. The unemployment rate averaged 8% in 2006, the lowest level in over 30 years.

In addition, never in the recent history of Québec has such a large proportion of the population been employed. For the third year in a row, the employment rate tops 60%, a record.

CHART A.8

Unemployment rate in Québec (per cent)



Sources: Statistics Canada and ministère des Finances du Québec.

2.3 However, the Québec economy faces an international context that is competitive and challenging

With a highly open economy, Québec exports the equivalent of over 50% of its production and is coping with an international context that is competitive and challenging. This environment is marked by high oil prices and a rapid and sharp rise in the Canadian dollar in recent years.

Furthermore, the United States, which is grappling with a correction in the residential market and certain problems in the manufacturing sector, will see its real GDP growth reduced by one percentage point in 2007 compared with last year.

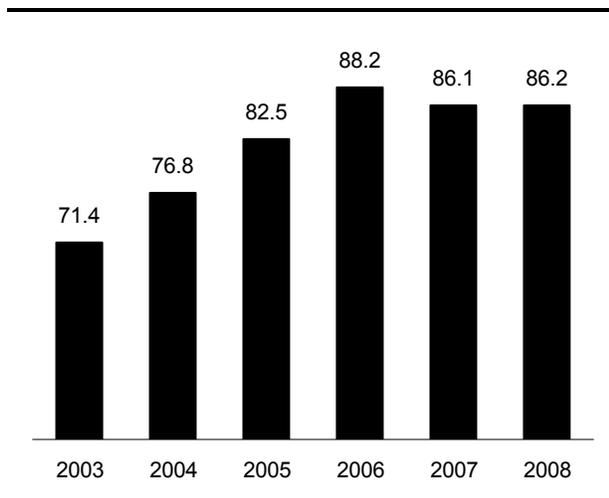
Added to these difficulties is growing international competition, particularly from new emerging powers such as China, which, in the last six years, has doubled its presence on a number of the traditional export markets of Québec businesses.

Whereas Québec's international exports of goods grew an average of about 12% in the later 1990s, they should increase an average of 4.3% in the next two years.

In all, the contribution of the external sector to economic growth, which takes into account the development of exports and imports, will have sliced off an average of 1.6 points annually from growth from 2002 to 2007.

CHART A.9

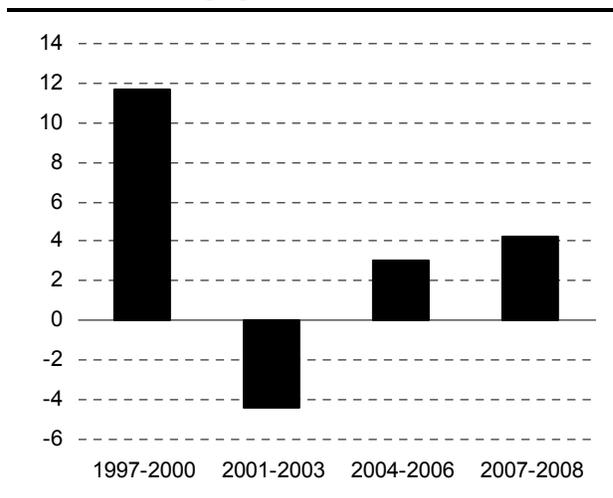
Canadian dollar (US cents)



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

CHART A.10

International exports of goods (annual percentage growth)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

2.4 Accelerated economic growth in 2008

In short, Québec's real GDP has increased by 2% a year for four years, a rate comparable to that of the last 25 years.

The vitality of the Québec economy will continue in the next two years. Although the growth in Québec's real GDP declined this year because of a moderating US demand, it should reach 1.8% in 2007.

With the expected recovery of the US economy, Québec's economic growth should pick up to 2.5% in 2008. That vitality will result in the creation of more than 40 000 jobs in 2007 and 2008. The unemployment rate should therefore decline to 7.9% in 2008 and the employment rate should rise to 60.3%.

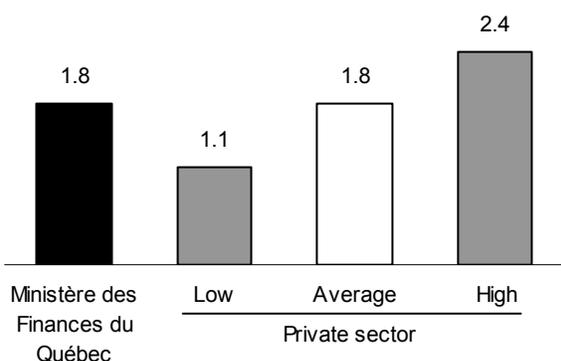
□ Comparison with private-sector forecasts

At 1.8% in 2007 and 2.5% in 2008, the 2007-2008 Budget's economic growth assumptions are similar to the average of private-sector forecasts.

CHART A.11

Economic forecasts for 2007

(real GDP, percentage change)

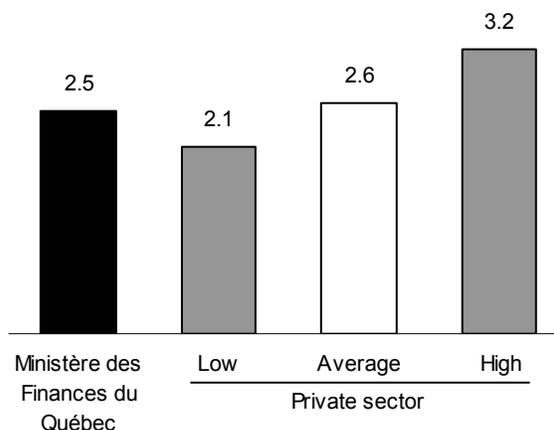


Source: Ministère des Finances du Québec.

CHART A.12

Economic forecasts for 2008

(real GDP, percentage change)



Source: Ministère des Finances du Québec.

TABLE A.4

Economic outlook for Québec

(annual percentage change, except where otherwise indicated)

	2006	2007	2008
Gross domestic product	3.9	4.3	3.5
Real gross domestic product	1.7	1.8	2.5
Real consumption	3.1	3.2	2.4
Housing starts (thousands)	47.9	40.2	36.7
Real international exports	0.9	2.9	5.2
Job creation (thousands)	48.1	40.4	41.3
Unemployment rate (%)	8.0	8.0	7.9

Source: Ministère des Finances du Québec.

Section B

The Québec Economy: Recent Developments and Outlook for 2007 and 2008

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INTRODUCTION

This section presents the economic forecasts underpinning the 2007-2008 Budget.

Global economic growth should start to moderate this year, primarily as a result of slower economic activity in China and the United States.

Slower economic growth in the United States, coupled with a high Canadian dollar and increased competition from emerging economies, will curtail the rise in Québec exports.

Despite a competitive and challenging international context, Québec's economy is healthy. Buoyed by government action, household demand and business investment in particular remain high, fostering job creation:

- In 2007, growth in household personal spending will top 3% for the sixth year in a row. This level of vitality has not been seen since the late 1980s.
- Generally benefiting from a favourable economic climate, Québec enterprises have increased their investment by more than 25% since 2003.

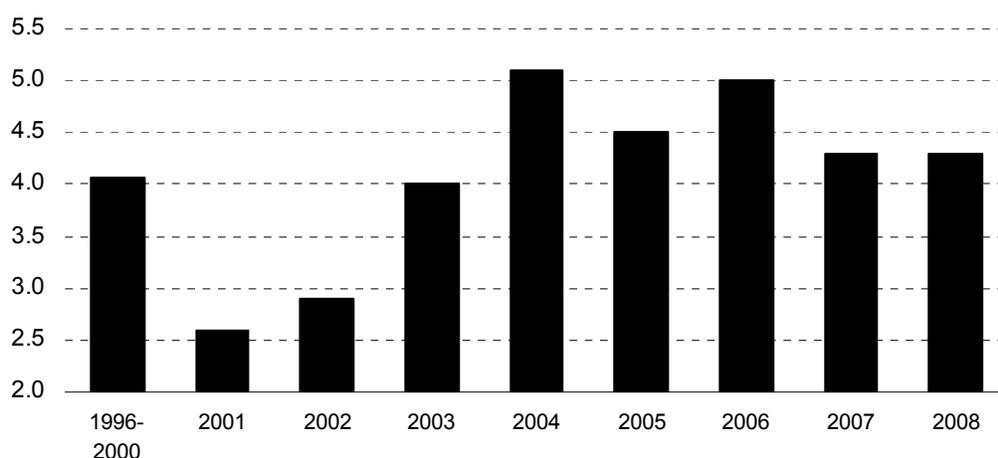
1. GLOBAL ECONOMIC SITUATION

1.1 World economy will lose steam

The world economy has grown at a very vigorous pace over the last three years, reaching 5% in 2006. This rapid expansion has occurred in a context marked by intensification of trade, strong growth in output in emerging economies, tightening of monetary policies and moderate inflation despite a big increase in the barrel price of crude oil.

CHART B.1

Global gross domestic product (real annual percentage change)



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

Real global gross domestic product growth is expected to slow to 4.3% in 2007 and 2008:

- The United States will continue to support world growth, although problems in the residential and manufacturing sectors will stem the robustness of the U.S. economy.
- China, whose economy currently runs the risk of overheating, should see a slowdown in economic growth in the coming years due to restrictive measures imposed by authorities.
- Growth in the economies of the European Union member countries will moderate, notably as a result of the increase in Germany's value-added tax.

Generally speaking, the worldwide monetary tightening initiated in 2004 will stem global economic growth, although the stabilization of oil prices is expected to mitigate the impact.

TABLE B.1

Gross domestic product by region
(real percentage change)

	2005	2006	2007	2008
World	4.5	5.0	4.3	4.3
United States	3.2	3.4	2.4	2.8
China	10.2	10.6	9.7	8.7
Japan	1.9	2.0	1.9	2.1
European Union	1.8	2.9	2.3	2.3
- Germany	1.1	2.7	1.8	1.7
Canada	2.9	2.7	2.5	2.8

Sources: Global Insight and ministère des Finances du Québec.

□ Monetary tightening essentially over

Faster economic growth in the G7 countries as well as inflationary pressure have led the central banks to tighten their monetary policy since 2004. The interest rate hikes that started in the United States in 2004 and followed in the euro zone and Canada in 2005 and Japan in 2006 should end this year, except in Japan.

CHART B.2

Monetary tightening since 2004
(key interest rates, in basis points (bp))



Sources: Datastream and Bank of Canada.

As inflationary pressure subsides, monetary authorities are expected to follow the U.S. Federal Reserve's and Bank of Canada's lead and lower their respective benchmark interest rates to levels favouring continued economic expansion.

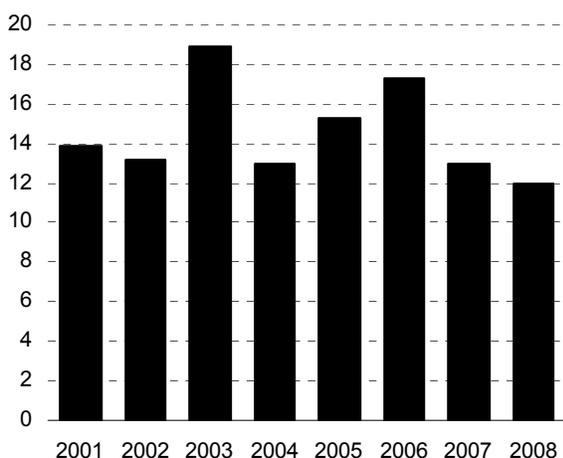
□ Strong economic growth in Asia

Asia, driven by China, will remain the world's most economically vigorous region for the next two years.

China's economic activity grew 10.6% in 2006. Urban investment has risen to such a high level that the Chinese government recently introduced measures to reduce the risk of overheating the economy, notably in the automobile and steel industries. China's economic growth should thus slow to 9.7% in 2007 and 8.7% in 2008 as a result of more-restrictive fiscal and monetary policies and the downturn in trade with its trading partners.

CHART B.3

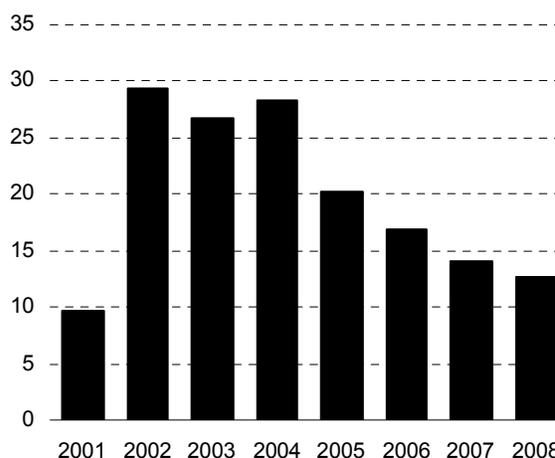
Business investment in China (real percentage change)



Source: Global Insight.

CHART B.4

Chinese exports (real percentage change)



Source: Global Insight.

In Japan, the economic rebound that began in 2002 will continue. The country's economy is expected to grow 1.9% this year and 2.1% next year, with robust domestic demand and employment helping buoy real GDP growth. This outpaces the 1.1% average growth rate seen between 1996 and 2005 and represents sizeable growth considering Japan's declining population.

❑ Continued expansion in Europe

The European Union's economy grew 2.9% in 2006. The expansion was driven by business investment, household consumption and exports, all of which benefited from the vigorous global economy. European economic activity is expected to slow slightly, to 2.3% in 2007 and 2008, notably as a result of the economic slowdown among the European Union's principal trading partners.

After seeing its real GDP rise 2.7% in 2006, Germany's economy will slow to 1.8% in 2007, due to the combined effect of the 3% increase in the country's value-added tax, which will reach 19% this year, and the continued improvement on the fiscal front.

❑ Major issues associated with growing trade

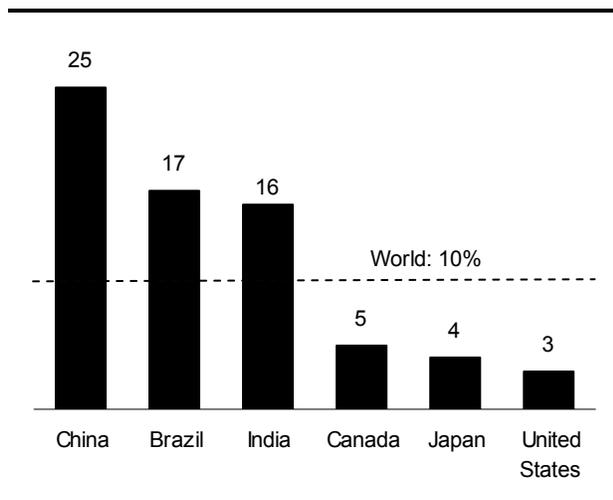
The strong global economic growth in recent years is due in part to the development of international trade. More specifically, after increasing at an average annual rate of 6.5% during the 1980s and 1990s, international trade in manufactured goods has risen 9% annually since 2000. In 2005, international trade was valued at US\$7 300 billion.

In the last few years, the globalization of trade has enabled new economic powers such as China, India and Brazil to emerge and has led to heightened competition for market shares and a widening international trade imbalance. Between 2000 and 2005, merchandise exports grew at an average annual rate of 3% in the United States and 5% in Canada, compared with 25% in China.

CHART B.5

World merchandise exports

(average annual percentage change between 2000 and 2005)

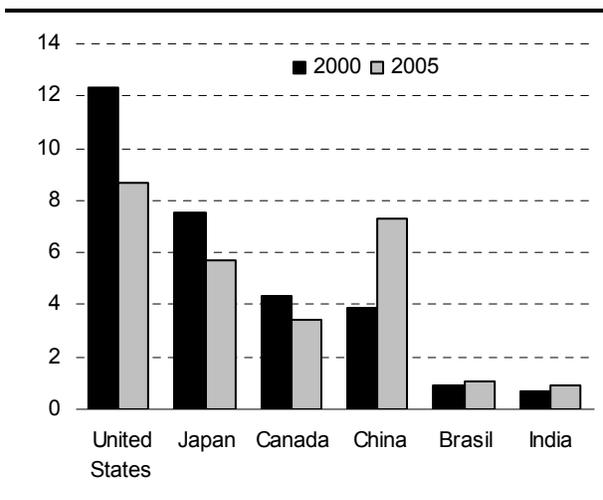


Source: World Trade Organization.

CHART B.6

Share of world merchandise exports

(percent of total exports)



Source: World Trade Organization.

The boom in Chinese exports is attributable not only to the export of more products, but also to product diversification. For example, over 60% of the total increase in Chinese exports to the United States between 1992 and 2005 comes from products that China was not selling to the United States in 1992.

The massive growth in trade has caused major imbalances, as testified by the United State's current account deficit, which topped US\$850 billion in 2006 while Japan and China reported surpluses of \$160 billion and \$180 billion, respectively, mainly with the United States. This situation could gradually correct itself, however, with the depreciation of the U.S. dollar. The U.S. dollar has dropped 25% vis-à-vis the currency of its main trading partners since the start of 2002. Moreover, 2006 saw the first annual decline in the United State's real trade deficit since 1995.

Furthermore, the low wages in the new economies are moving businesses offshore and causing the loss of manufacturing jobs in several Western nations. However, the rapid growth of emerging economies, with their wide, booming market, creates business opportunities for Canada and developed nations as a whole.

1.2 Temporary slowdown in the United States in 2007

Although the U.S. economy has expanded substantially in the last three years, its growth rate slowed considerably halfway through 2006, curtailed by the negative impact of the strongest correction in the residential sector in 15 years, the sharp increase in oil prices and the restrictive monetary policy adopted by the Federal Reserve since 2004. Real GDP nevertheless climbed 3.4% in 2006 thanks to robust growth at the beginning of the year.

The economic slowdown is expected to continue in 2007 owing to difficulties in the manufacturing sector and the correction in the residential market.

□ Hardship for some manufacturing industries

Manufacturing industries involved in the production of automobiles and automobile parts as well as residential construction are being adversely affected. Current restructuring among the three giants of the American automobile industry, which have steadily lost market shares to their Asian competitors in recent years, and the prolonged impact of the real estate correction suggest continued slowdown in these industries in 2007.

On the other hand, sectors such as the aeronautics industry and even the computer products sector, following the introduction of a new generation of software, are expected to support manufacturing output. Despite these more successful industries, growth in total manufacturing output is expected to lose steam, dropping from 4.9% in 2006 to 2.2% in 2007, and then edging up to 3% in 2008.

□ Significant decline in residential investment

As well as directly affecting residential investment, the real estate correction will also have indirect effects on consumption in the short and medium terms. Despite the recent drop in the price of real estate, it is still too expensive in relation to household income, and the stock of houses for sale remains too high. As a result, the real estate sector is expected to continue adjusting in 2007, with a 12.9% decline in real residential investment, which will translate to job losses in the construction sector and related industries.

The real estate slowdown will have repercussions for household spending growth. The end of skyrocketing real estate prices and the recent drop in the value of real estate will reduce household wealth and dampen opportunities to borrow against real estate holdings. Note that the vigorous mortgage refinancing in previous years, which had helped sustain consumption growth, also diminished last year.

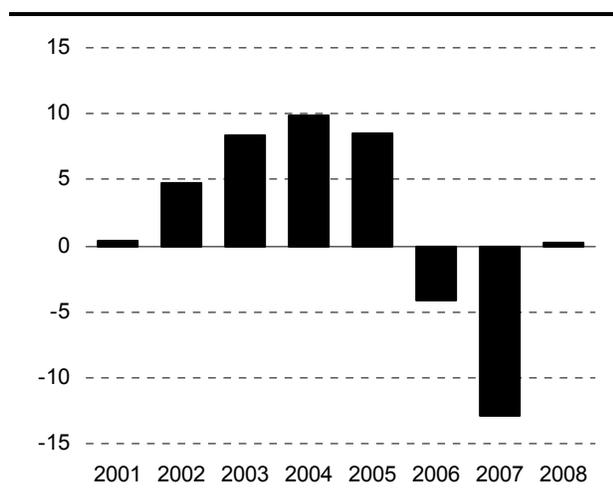
This climate will encourage households to save more. Real consumption growth, which reached 3.2% in 2006, is expected to slow to 2.7% in 2007 and 2.8% in 2008. These rates are lower than the increase in real personal income, which is expected to be 3.4% in 2007 and 3.5% in 2008.

The problems in the manufacturing and real estate sectors will therefore have a negative impact on economic growth in 2007. However, certain factors, such as the continued increase in business investment, the booming service sector and gradual correction of the trade deficit, will drive real GDP growth. Moreover, the drop in housing prices and in the number of properties for sale will prompt a rebound in residential construction in 2008.

CHART B.7

Residential investment in the United States

(real annual percentage change)

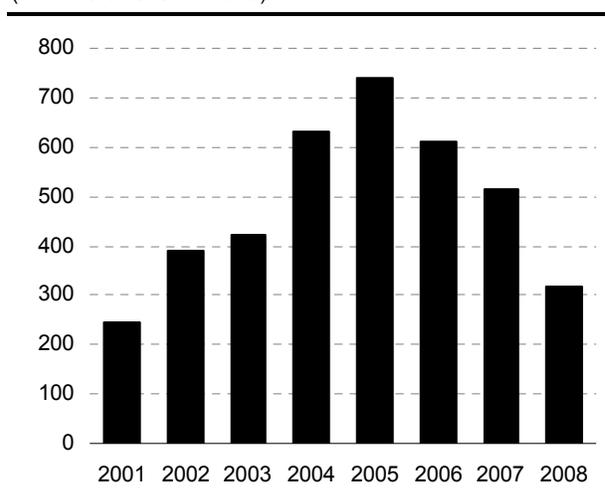


Sources: Global Insight and ministère des Finances du Québec.

CHART B.8

Amount of equity removed during mortgage refinancing

(billions of U.S. dollars)



Sources: Greenspan and Kennedy, Freddie Mac and ministère des Finances du Québec.

□ Growth in investment and service production

After gaining over 7% last year, nonresidential investment is expected to grow at an average 4% annual rate over the next two years. The growth will be supported by:

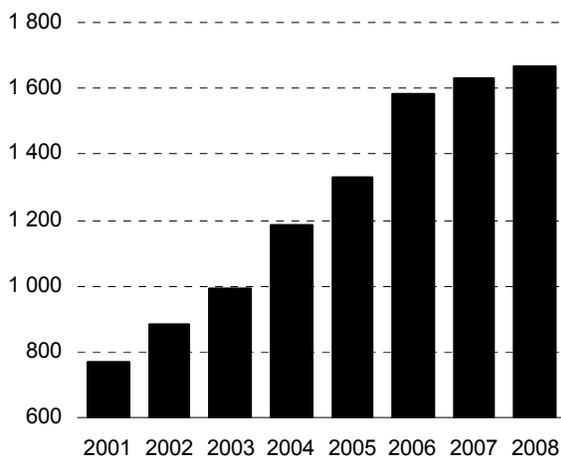
- a high industrial capacity utilization rate in a number of industries, notably the durable goods sector;
- the significant earning power of businesses, which have reported an average annual increase in profits of nearly 17% in the last three years.

In addition, the service sector, which contributes 80% to the economy, will continue to expand, spurred in particular by growth in the information, medical care, professional services and business services sectors.

CHART B.9

Before-tax corporate profits in the United States

(billions of U.S. dollars)

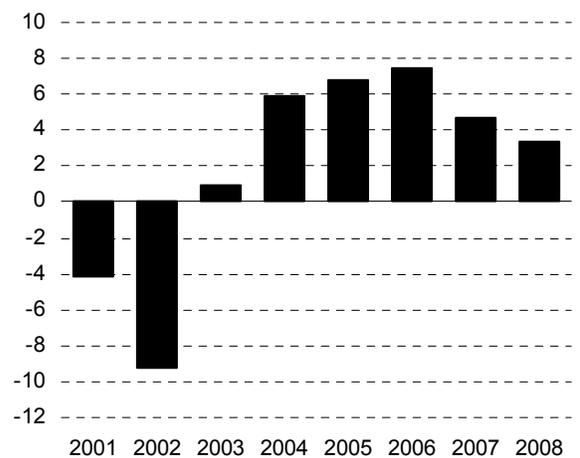


Sources: Global Insight and ministère des Finances du Québec.

CHART B.10

Nonresidential investment in the United States

(real annual percentage change)



Sources: Global Insight and ministère des Finances du Québec.

□ Decline in U.S. trade deficit

The good performance of the world economy, coupled with the falling U.S. dollar against the principal currencies since 2002, will prompt a decline in the trade deficit. Thus, in 2007, the United States' external sector will make a positive contribution to economic growth for the second year in a row, something not seen since 1991. This trend is expected to continue in 2008, with the trade deficit sliding from US\$618 billion in 2006 to \$507 billion in 2008.

CHART B.11

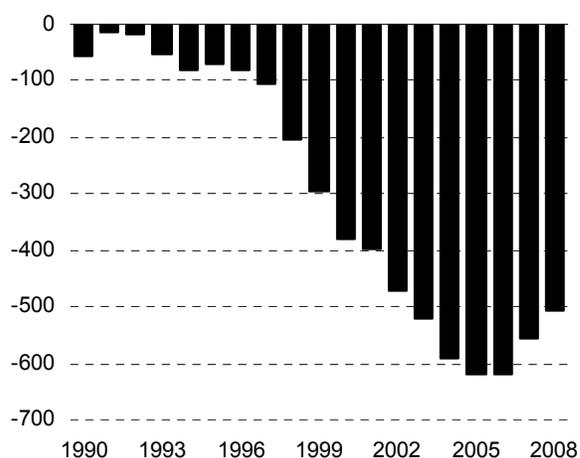
U.S. dollar
(weighted index based on main currencies, 1973 = 100)



Sources: Global Insight and ministère des Finances du Québec.

CHART B.12

U.S. trade balance
(billions of real U.S. dollars)



Sources: Global Insight and ministère des Finances du Québec.

□ Further decline in U.S. budgetary deficit

The state of the U.S. federal government's public finances continued to improve last year thanks to strong growth in corporate profits and ongoing wage progression. In fact, tax revenues were up 12% in 2006. Despite last year's robust growth in government spending, the budgetary deficit fell to US\$248 billion in 2006, from \$318 billion in 2005. The budgetary deficit is expected to continue to decline, to stand at \$239 billion in 2008.

□ Gradual drop in inflation will foster monetary easing

The Federal Reserve has raised the federal funds rate 425 basis points since June 2004, bringing it to 5.25%. The central bank's aim was to slow what it considered excessive economic growth, spurred by the real estate boom, as well as reduce the inflationary pressure associated with swelling energy costs, wages and salaries, and housing costs.

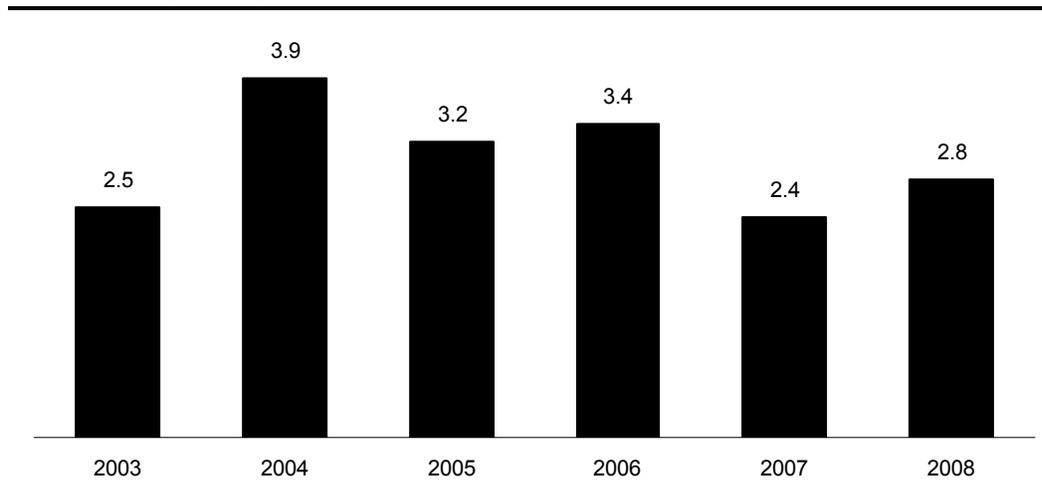
Given the anticipated mitigation of inflationary pressure, with non-food non-energy inflation forecast to drop from 2.5% in 2006 to 1.8% in 2008, the Federal Reserve is expected to cut its benchmark interest rate to 4.75% in 2007.

□ Economic growth to pick up in 2008

In short, real U.S. GDP growth is expected to be 2.4% in 2007 and 2.8% in 2008, while the end of the real estate correction will foster firmer growth in economic activity.

CHART B.13

U.S. gross domestic product (real percentage change)



Sources: Global Insight and ministère des Finances du Québec.

1.3 Rebound expected in Canada in 2008

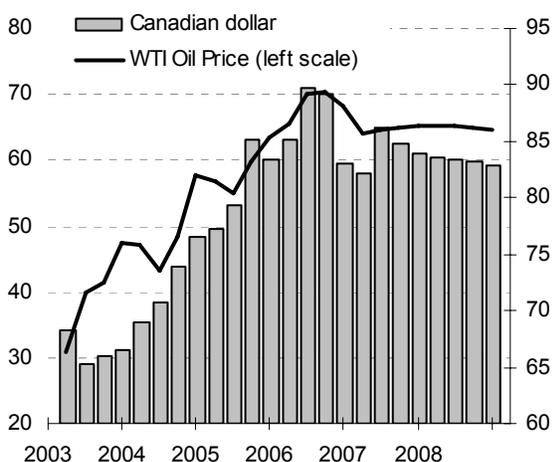
Despite more vigorous economic activity in the United States, the pace of Canadian economic growth moderated to 2.7% last year, after reaching 2.9% in 2005. In 2006, real Canadian GDP growth was affected by weaker foreign demand as a result of the high Canadian dollar and heightened international competition. Between 2002 and 2006, the Canadian dollar appreciated nearly 40% vis-à-vis the U.S. dollar, climbing from 63.7 to 88.2 U.S. cents.

The higher dollar is largely attributable to the rise in the price of raw materials such as oil, the barrel price of crude having more than doubled since 2002 to US\$66 dollars in 2006. The expected slowdown in global GDP should bring the price of oil down to around \$60 per barrel, which will help reduce inflationary pressure, increase consumers' purchasing power and curb the rise of the Canadian dollar. The loonie is expected to remain near its current level, around 86 U.S. cents, until 2008.

CHART B.14

Barrel price of oil and the Canadian dollar

(U.S. dollars per barrel, U.S. cents)

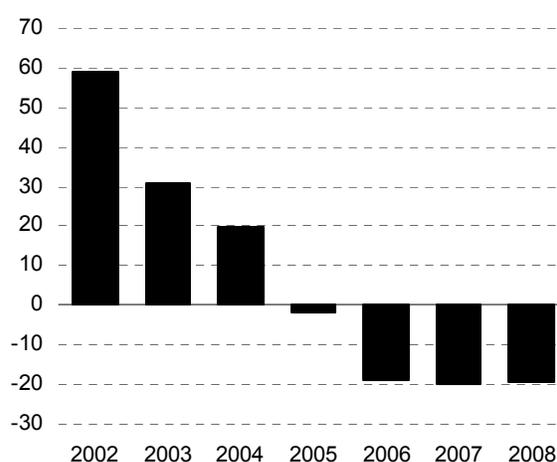


Sources: Bank of Canada, Bloomberg and ministère des Finances du Québec.

CHART B.15

Net Canadian exports

(billions of real dollars)



Sources: Statistics Canada and ministère des Finances du Québec.

The sudden rise in the dollar contributed to significant worsening of Canada's trade balance. Real net exports slid from a surplus of approximately \$59 billion in 2002 to a deficit of \$19 billion in 2006, and should hold at this level until 2008.

The appreciation in the Canadian dollar encouraged business and households to purchase imported goods to the detriment of products made in Canada, such as machinery and electronic products.

□ Large regional disparities

Furthermore, the difficult international context led to a reduction in Canada's manufacturing output, primarily in Ontario and Québec, whose manufacturing shipments account for roughly 74% of the Canadian total. This reduction is reflected in a total loss of 175 000 jobs in Canada's manufacturing sector in 2005 and 2006. In addition, manufacturing output levelled off in 2003, at an average annual growth rate of 0.2%.

However, unlike the rest of Canada, the West is benefiting from the higher oil prices. Development of oil sands, which has become more profitable, is attracting huge investment, resulting in significant job creation, major immigration and high growth in domestic demand—notably in the real estate sector—in this region.

□ Stable short-term interest rates but higher long-term rates

After raising its rates 175 basis points between September 2005 and May 2006, the Bank of Canada maintained its monetary policy, with the benchmark overnight interest rate currently at 4.25%.

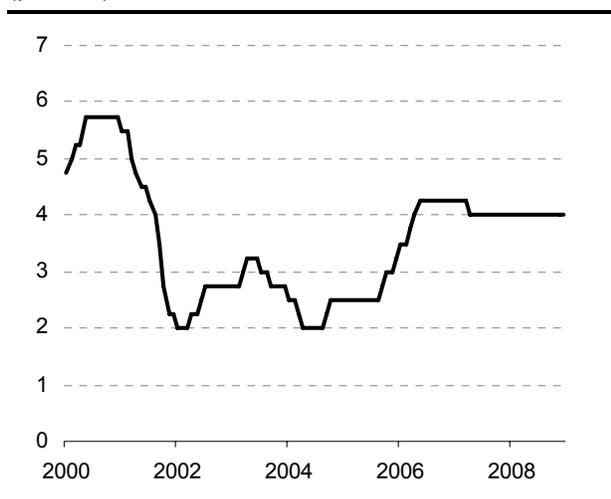
Inflationary pressure is expected to remain moderate with the rate of inflation hovering around 2%, close to the central bank's benchmark rate, between now and the end of 2008. However, to offset the adverse effect of slower foreign demand, the Bank of Canada is expected to cut its benchmark rate 25 basis points in 2007.

After declining for a few years, long-term interest rates reached 4.1% in 2005 and have since triggered an upward trend that is expected to continue for the next two years. The yield rate of 10-year Government of Canada bonds rose to 4.2% in 2006 and will further increase to 4.5% in 2007 and 4.9% in 2008. This is a similar trend to U.S. long-term rates.

CHART B.16

Canadian benchmark overnight lending rate

(percent)

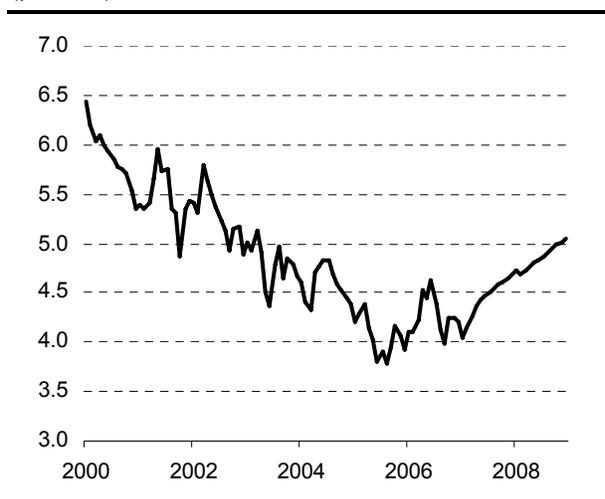


Sources: Bank of Canada and ministère des Finances du Québec.

CHART B.17

Yield rate of 10-year Government of Canada bonds

(percent)



Sources: Statistics Canada and ministère des Finances du Québec.

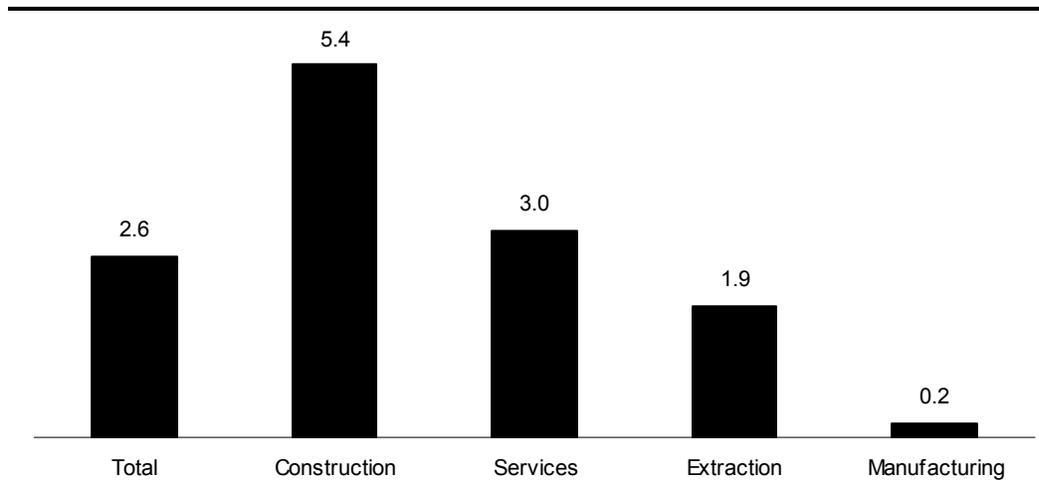
□ Good overall growth in Canadian economy

On the whole, Canada's economy has performed relatively well over the past four years, resulting in sound growth in the construction and service sectors. These sectors, largely related to domestic demand, account for approximately 70% of the productive sectors of the Canadian economy.

However, despite strong demand for mineral, oil and gas extraction, production in these sectors has increased only slightly, as the heavy investment currently being made has not yet affected growth in production capacity.

CHART B.18

Production by sector in Canada (average annual percentage change, 2003-2006*)



* Estimate
Source: Statistics Canada.

Growth in nonresidential investment remains firm, particularly in the West. The sustained increase in personal spending is spurred by job creation. Moreover, governments are contributing to this vitality through tax cuts and greater spending.

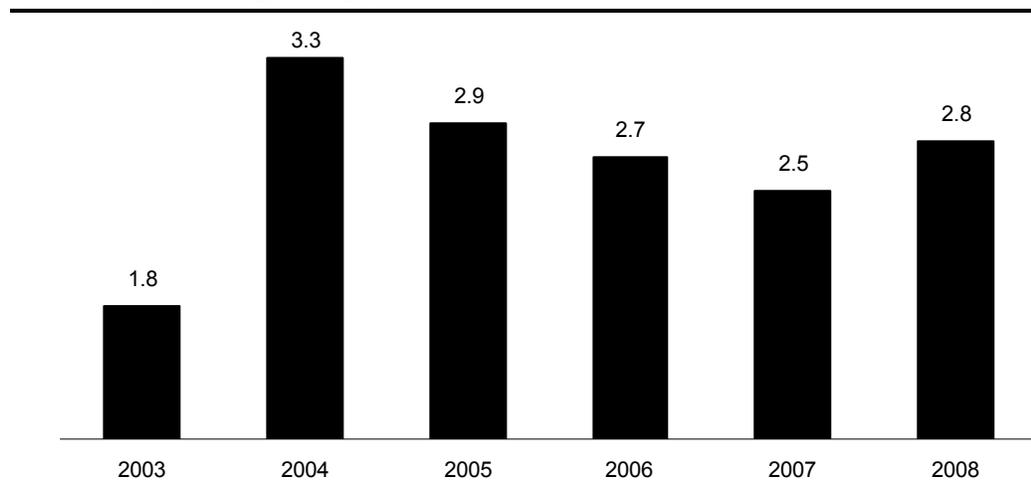
□ Renewed economic growth in 2008

In short, Canada's economy is expected to grow 2.5% in 2007 while the temporary slowdown in U.S. demand will curtail growth in Canadian exports. The pace of real GDP growth will accelerate to 2.8% in 2008 in response to stronger U.S. demand.

CHART B.19

Canadian gross domestic product

(real annual percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

2. ECONOMIC SITUATION IN QUÉBEC

2.1 Québec economy holding up well

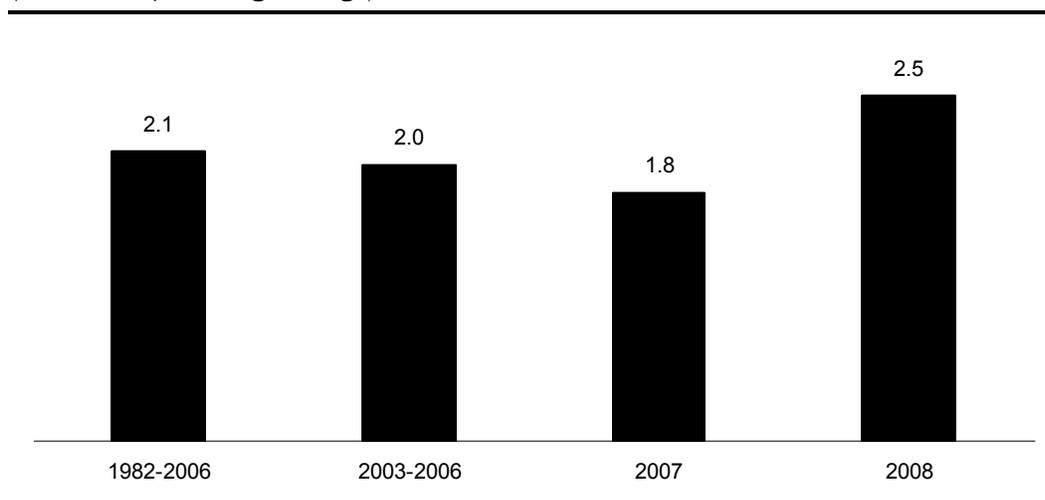
Québec maintained a good economic performance in the difficult international context that is affecting exporting manufacturing firms in particular.

If Québec's economy is doing well, it is due to, among other things, heightened domestic demand, which has increased at an average 3.4% annual rate in the last four years. Household demand and business investment, in particular, have remained high, buoying employment levels. Nearly 200 000 jobs have been created since 2003, despite the hardships affecting the manufacturing sector.

In sum, Québec's real GDP has grown 2% per year in the last four years, which is comparable to the 25-year trend. Looking ahead, real GDP growth is expected to be 1.8% in 2007 and 2.5% in 2008 as the U.S. economy speeds up.

CHART B.20

Québec gross domestic product (real annual percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

2.2 An international context that is competitive and challenging

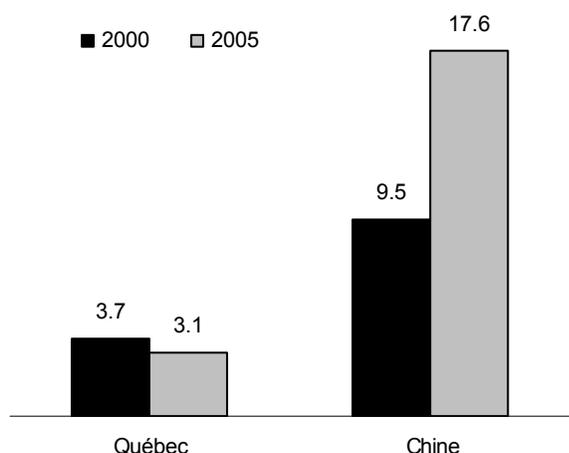
With a highly open economy, Québec exports the equivalent of over 50% of its production and is coping with an international context that is both competitive and challenging. This environment is marked by high oil prices and a rapid, sharp rise in the Canadian dollar in recent years.

Compounding these difficulties is increasingly fierce global competition, notably from newly emerging powers such as China, which in the last six years has doubled its presence on several of the traditional export markets of Québec firms. For example, China has gained large market shares in the United States in sectors such as leather products, furniture, textiles, electrical equipment, printing and computer and electronic products.

CHART B.21

China and Québec in the U.S. market

(share of U.S. imports of manufactured products, in percent)

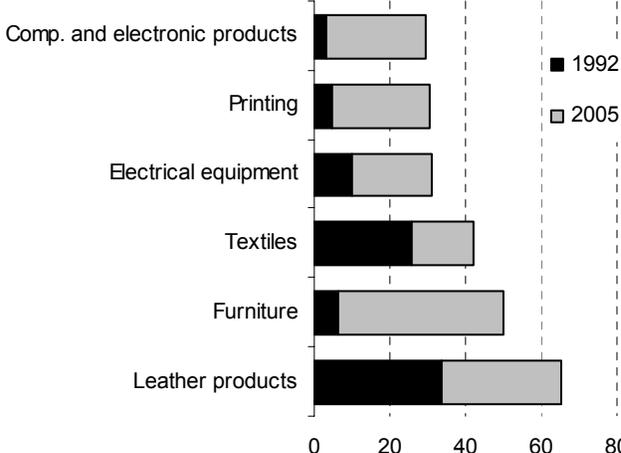


Sources: US Department of Commerce, Institut de la statistique du Québec and ministère des Finances du Québec.

CHART B.22

China's share of U.S. imports of manufactured products

(percent)



Source: US Department of Commerce.

Québec's export industries have had to adjust to this competitive and challenging international context. On the one hand, manufacturing firms have adapted by reducing jobs and, on the other, firms have taken advantage of the high dollar to invest in machinery and equipment, two thirds of which is imported.

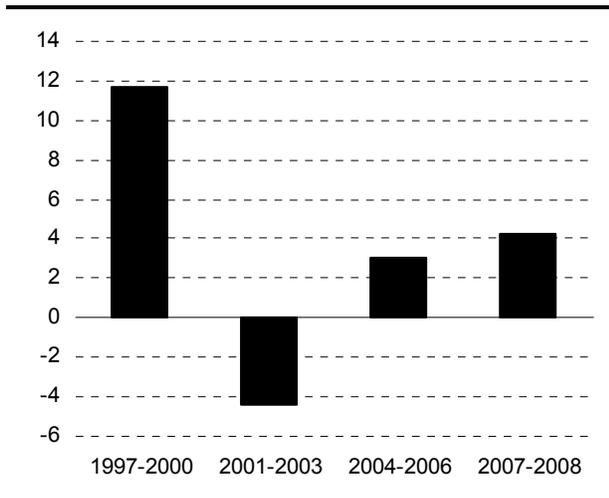
Some important segments of Québec's manufacturing sector have nevertheless successfully capitalized on the strong global demand for their products. In the last four years, production has increased 12.6% in the chemical products sector, 9.1% in the metal products sector and 7.1% in the aerospace sector.

□ Minor contribution of exports to economic growth

Whereas Québec's international exports of goods rose nearly 12% on average in the late 1990s, the rate of growth has fallen by two thirds owing to the difficult international context in recent years. International exports of goods have climbed at an average annual rate of 3.1% since 2004, with the strongest gains being reported in high-value-added sectors, such as machinery and office equipment.

CHART B.23

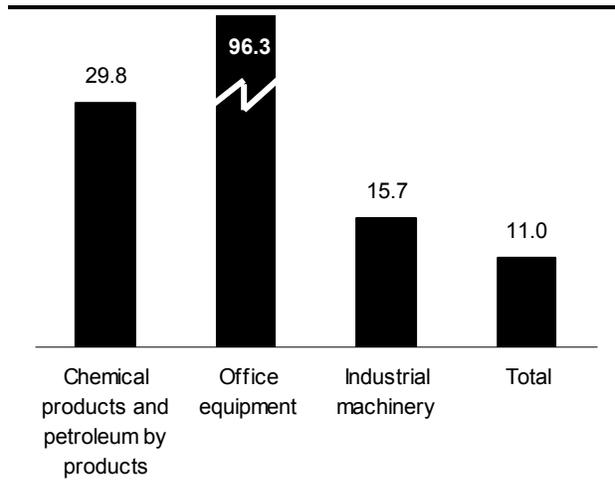
International exports of goods (annual percentage growth)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

CHART B.24

Exports of high-value-added products (cumulative percentage change, 2003-2006*)



* Estimate, on a customs basis in constant dollars.
Source: Institut de la statistique du Québec.

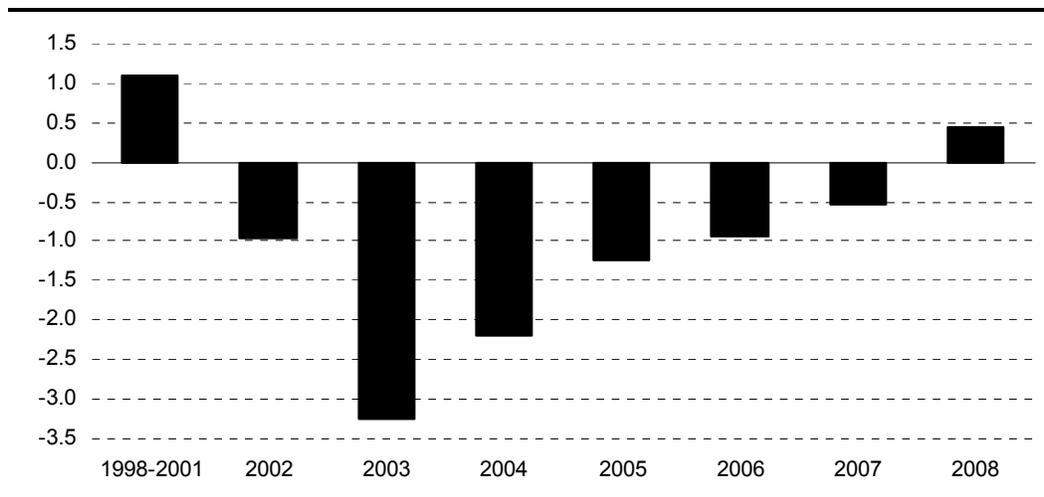
Note that exports had even shrunk between 2001 and 2003, mainly owing to the bursting of the technology bubble, the recession in the United States and the tragic events of September 11, 2001.

Over the next two years, Québec's international exports of goods are expected to grow at an average rate of 4.3%. Exports will gain from a relatively stable Canadian dollar and an upturn in the U.S. economy in 2008.

Québec's international imports have jumped in the last few years, with the higher Canadian dollar prompting Québec households and firms to buy more foreign goods and services to the detriment of local products. With domestic demand to moderate and the dollar having levelled off, growth in imports should slow to nearly 4% in 2007 and 2008.

The external sector's total contribution to economic growth, which accounts for export and import trends, has been negative since 2002. Whereas this sector added nearly 1 percentage point to Québec's economic growth in the late 1990s, it will have reduced growth by an average of 1.6 points per year from 2002 to 2007.

CHART B.25

Contribution of external sector to economic growth
(percentage of real GDP)

Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

2.3 Robust growth in household demand

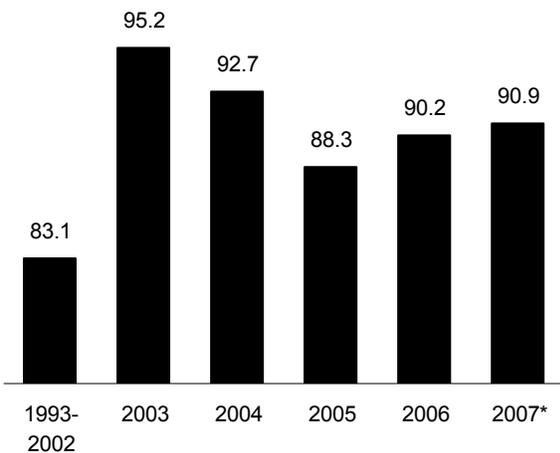
Despite a difficult international context, household demand remains strong, testifying to Québec's vigorous economy. Real household personal spending on goods and services is expected to grow by 3.1% in 2006 and 3.2% in 2007, marking the sixth consecutive year of increases topping 3%. Such robustness has not been seen since the late 1980s.

Employment gains and wage progression should continue to spur household demand. Moreover, the tax cuts made by the Québec government help improve the financial situation of households. The government has eased the personal tax burden by \$3.8 billion since 2003. As well, the expected \$1.9-billion payment in pay equity adjustment in 2007 will improve the financial situation of 360 000 government public sector employees this year.

Still confident, households will enjoy greater purchasing power. The increase in purchasing power is also attributable to a high dollar, which enables households to buy imported products at lower cost, and to the drop in energy prices that began in late 2006.

CHART B.26

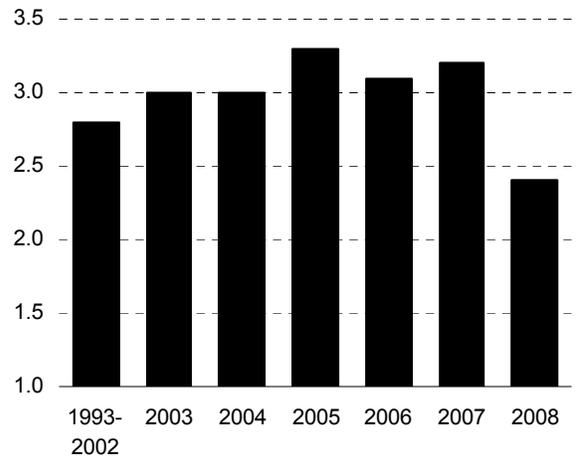
Household confidence (index 2002 = 100)



* January 2007.
Source: Conference Board of Canada.

CHART B.27

Household personal spending (annual percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

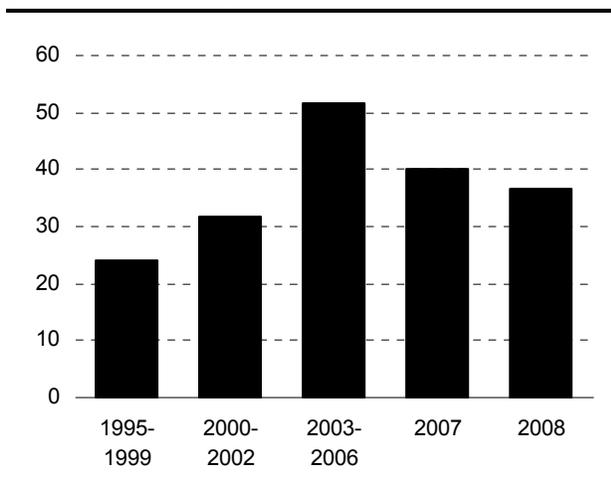
❑ Slowdown in housing starts

New-housing construction has remained high for four years now, increasing by an average of 51 900 units per year since 2003. This is more than double the level in the late 1990s, when 24 000 housing units were started each year.

CHART B.28

Québec housing starts

(thousands of units)

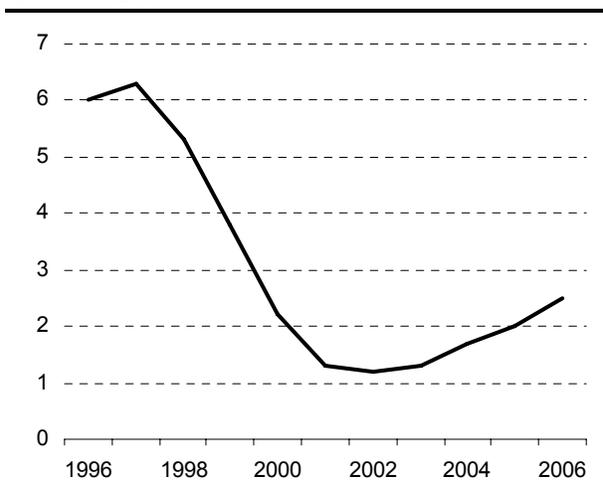


Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

CHART B.29

Vacancy rate for rental units

(percentage)



Source: Canada Mortgage and Housing Corporation.

The good performance of the Québec labour market in recent years, coupled with record-low mortgage rates, has enabled many households to become property owners. The suppressed demand during the 1990s has been largely offset since 2002, as shown by a higher vacancy rate for rental units since 2003.

The gradual slowdown in housing starts, begun in 2005, is expected to continue until 2008. In 2006, there were nearly 48 000 housing starts, compared with 50 900 units built the previous year. In terms of outlook, new residential construction in Québec will continue to dip slightly, closer to the annual trend in household formation.

This trend will also be influenced by slightly higher mortgage rates. More vacant new dwellings as well as the number of housing units available on the resale market will lead to a decline in construction of new units. Consequently, the number of housing starts is expected to be 40 200 in 2007 and 36 700 in 2008.

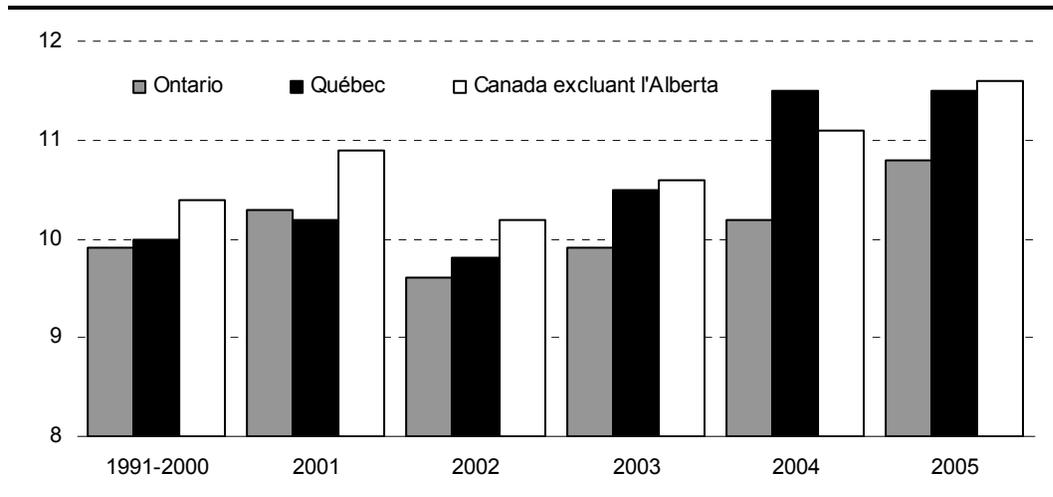
2.4 An economic climate still conducive to nonresidential investment

Generally benefiting from a favourable economic climate, Québec enterprises have increased their investment level by more than 25% since 2003. Nonresidential investment represented 11.5% of real GDP in 2005, nearly two percentage points more than in 2002.

This increase tops that seen in Ontario for the same period. Minus investments made in Alberta, Québec's performance was similar to that of Canada.

CHART B.30

Business investment (percentage of real GDP)



Source: Statistics Canada.

More specifically, firms took advantage of the strong Canadian dollar and high profit levels to purchase machinery and equipment, two thirds of which is imported, these efforts enabling them to become more competitive.

In addition, the industrial capacity utilization rate is high in a number of sectors, such as chemical products, primary metals, machinery and computer and electronic products.

Firms also benefit from the Québec government's measures to eliminate the tax on capital for SMEs and reduce it by half for other types of enterprises. The government also introduced a capital tax credit on new investments in manufacturing and processing equipment. Furthermore, government investment will continue through financial support for several major economic development projects in Québec's regions.

Investment in the energy sector is high owing to the boom in large hydroelectric and wind power projects. Hydro-Québec, in particular, has nearly doubled its level of investment in six years, to nearly \$4 billion in 2006.

A major increase in energy production capacity is envisaged for the coming years. Work is expected to begin soon on a number of projects, including:

- construction of the Eastmain-1-A and Sarcelle powerhouses;
- diversion of part of the waters of the Rupert River in the Eastmain-1 reservoir.

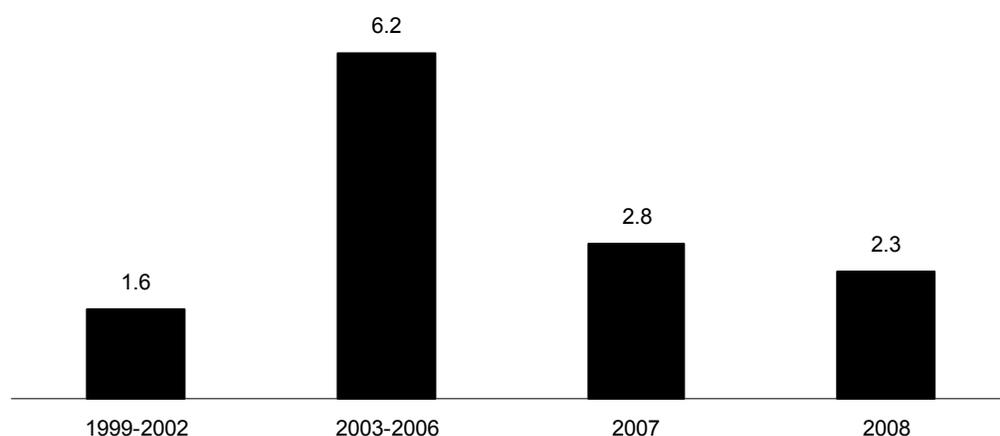
In short, nonresidential investment in Québec has surged in the last four years, increasing at an annual rate of 6.2%. This by far exceeds the 1.6% increase recorded from 1999 to 2002.

Growth in investment is expected to moderate in 2007 and 2008 with the temporary levelling off of the value of large energy projects. It is expected to bounce back after that, notably thanks to continued investment in this sector.

CHART B.31

Nonresidential investment by Québec firms

(real annual percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

2.5 A dynamic labour market

Employment growth remained firm despite pressure on the manufacturing sector. Nearly 200 000 jobs have been created in Québec since 2003, including 48 100 jobs in 2006. For the third year running, the vast majority of the jobs created were full-time.

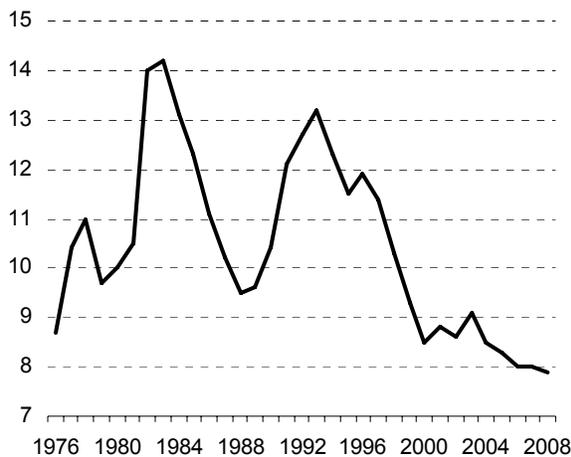
Despite a loss of 34 400 manufacturing jobs in 2006, other sectors reported a significant employment gain. The financial, insurance, real estate and professional, scientific and technical services sectors, to name a few, all created jobs, bearing witness to Québec's robust household and business demand.

The average unemployment rate was 8% in 2006, the lowest level in over 30 years. The unemployment rate even dipped to 7.5% in December 2006. Never in the history of Québec has such a large proportion of the population been employed. For the third year in a row, the employment rate tops 60%, a record.

A continuing robust economy is expected to create over 40 000 jobs a year in 2007 and 2008. As a result, the unemployment rate is expected to fall to 7.9% and the employment rate, to edge up to 60.3% in 2008.

CHART B.32

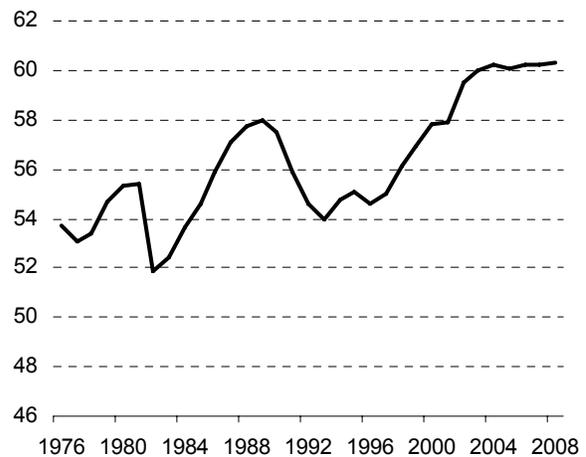
Unemployment rate in Québec
(percent)



Source: Statistics Canada and ministère des Finances du Québec.

CHART B.33

Employment rate in Québec
(percent)



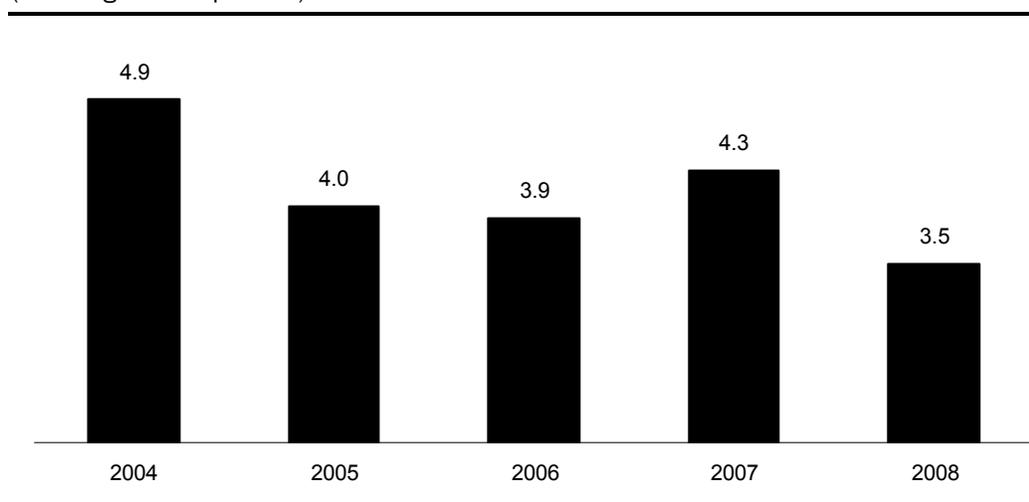
Source: Statistics Canada and ministère des Finances du Québec.

2.6 Solid growth in nominal GDP

After climbing 4.9% in 2004 and 4% in 2005, growth in Québec's nominal GDP is expected to slow again to 3.9% in 2006. In 2007, when payment of the pay equity adjustment will add close to a 0.8 percentage point to nominal GDP growth, the rate will reach 4.3%. More specifically, wage progression is expected to remain high, at 4.9% in 2007. The non-recurring retroactive payment of the pay equity adjustment in 2007 and stabilization of the price of raw materials will cause nominal GDP growth to slow to 3.5% in 2008.

CHART B.34

Québec's nominal gross domestic product (annual growth in percent)



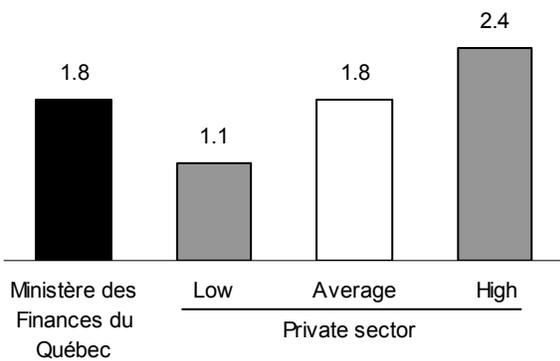
Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

2.7 Comparison with private-sector forecasts

At 1.8% in 2007 and 2.5% in 2008, the 2007-2008 Budget's economic growth forecasts are similar to the average private-sector forecasts.

CHART B.35

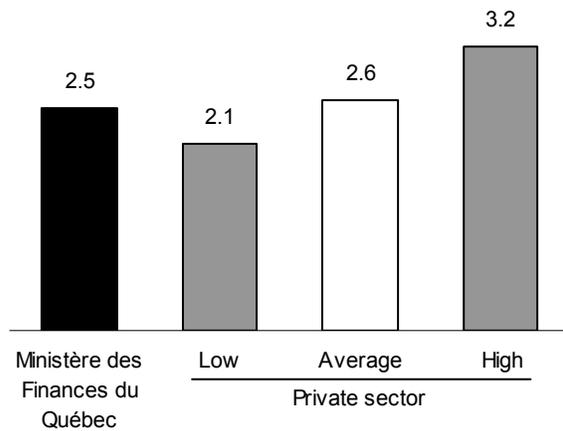
Economic forecast for 2007
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

CHART B.36

Economic forecast for 2008
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

TABLE B.2

Economic outlook for Québec

(annual percentage change, except where otherwise indicated)

	2006	2007	2008
OUTPUT			
Real gross domestic product	1.7	1.8	2.5
Gross domestic product	3.9	4.3	3.5
COMPONENTS (in real terms)			
Consumption	3.1	3.2	2.4
Residential investment	-1.7	-2.6	-3.7
Nonresidential investment	2.2	2.8	2.3
- machinery and equipment	3.8	3.8	2.6
International exports	0.9	2.9	5.2
International imports	4.1	4.1	4.3
OTHER ECONOMIC INDICATORS			
Nominal consumption	4.4	4.6	4.0
Housing starts (thousands)	47.9	40.2	36.7
Wages and salaries	4.2	4.9	2.4
Personal income	4.7	4.7	3.1
Corporate profits	6.0	1.1	5.9
Consumer prices	1.7	1.7	1.8
LABOUR MARKET			
Labour force	1.0	1.0	1.0
Employment	1.3	1.1	1.1
Job creation (thousands)	48.1	40.4	41.3
Unemployment rate (%)	8.0	8.0	7.9
CANADIAN FINANCIAL MARKETS			
3-month Treasury bills (rate in %)	4.0	4.0	4.0
10-year bonds (rate in %)	4.2	4.5	4.9
Canadian dollar (in US cents)	88.2	86.1	86.2

Section C

The Government's Budgetary and Financial Stance

The Government's Budget

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INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2006-2007 and the government's budgetary and financial stance for 2007-2008 and 2008-2009.

The information provided concerns:

- consolidated financial and budgetary transactions for the period from 2006-2007 to 2008-2009, including the impact of the fiscal and budgetary measures announced in the present Budget;
- the change in revenue and expenditure, as well as adjustments made since last year's Budget;
- non-budgetary transactions and investments.

1. SOUND MANAGEMENT OF PUBLIC FINANCES

1.1 The budget remains balanced

Since the 2006-2007 Budget was tabled last spring, several events have had an impact on the government's financial framework, particularly:

- changes in the economic situation and financial markets;
- Hydro-Québec's sale of its interests in certain corporations, including notably Transelec Chile;
- the pay equity agreement reached with government employees;
- the cost of new initiatives announced by the government, including the cost of the measures contained in the present Budget.

Nevertheless, the 2007-2008 Budget forecasts that a balanced budget will be achieved during each year of the financial framework.

TABLE C.1

Summary of consolidated budgetary transactions – 2007-2008 Budget^P (millions of dollars)

	2006-2007	2007-2008	2008-2009
BUDGETARY REVENUE	59 489	60 262	61 057
% change	6.8	1.3	1.3
BUDGETARY EXPENDITURE			
Program spending	- 51 519	- 53 594	- 55 178
% change	4.6	4.0	3.0
Debt service	- 6 990	- 7 229	- 7 170
% change	1.7	3.4	-0.8
Total	- 58 509	- 60 823	- 62 348
% change	4.3	4.0	2.5
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	37	61	296
Deposit in the Generations Fund ¹	- 500		
Allocation to the budgetary reserve	- 500		
Use of the reserve to finance pay equity		500	
Shortfall to be absorbed			995
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE <i>BALANCED BUDGET ACT</i>	17	0	0
Net results of the Generations Fund	575	446	726
CONSOLIDATED BUDGETARY BALANCE	592	446	726

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1: Additional investment arising from the sale of Hydro-Québec's interest in Transelec Chile.

□ **A balanced budget achieved and \$500 million deposited in the Generations Fund in 2006-2007**

The present Budget confirms that a balanced budget will be achieved in 2006-2007. Indeed, the budgetary balance for the purposes of the Balanced Budget Act shows a surplus of \$17 million.

Since the 2006-2007 Budget, the government has recorded substantial additional revenue:

- \$463 million in tax revenues, particularly because of the strong showing by the economy;
- \$965 million from the profits of government enterprises, due mainly to the sale of Hydro-Québec's interest in Transelec Chile;
- \$160 million from federal transfers, particularly because of the impact of the measures announced in the federal budget of May 2006.

TABLE C.2

Summary of consolidated budgetary transactions in 2006-2007

(millions of dollars)

	March 2006 Budget	Adjustments	February 2007 Budget ^P
BUDGETARY REVENUE			
Own-source revenue, excluding government enterprises	42 347	463	42 810
Revenue from government enterprises	4 758	965	5 723
Total own-source revenue	47 105	1 428	48 533
Federal transfers	10 796	160	10 956
Total	57 901	1 588	59 489
BUDGETARY EXPENDITURE			
Program spending	- 50 873	- 646	- 51 519
Debt service	- 7 205	215	- 6 990
Total	- 58 078	- 431	- 58 509
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	177	- 140	37
Deposit in the Generations Fund¹		- 500	- 500
Allocation to the budgetary reserve		- 500	- 500
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	0	17	17
Net results of the Generations Fund	74	501	575
CONSOLIDATED BUDGETARY BALANCE	74	518	592

P: Preliminary results for 2006-2007.

1 Additional investment arising from the sale of Hydro-Québec's interest in Transelec Chile.

In addition, the government saved \$215 million on debt service owing notably to lower-than-anticipated interest rates.

Overall, this additional revenue and these savings totalling \$1.8 billion have enabled the government to:

- increase program spending by \$646 million in order to finance:
 - the additional costs arising from pay equity;
 - the recurrence of expenditures recorded at the close of 2005-2006, particularly in regard to the allowance for doubtful accounts at Revenu Québec and the allowance for losses on guaranteed financial initiatives at Investissement Québec;
- absorb a \$140-million downward revision of the net results of consolidated organizations stemming notably from the additional assistance granted to Québec farmers by La Financière agricole du Québec;
- deposit an additional \$500 million in the Generations Fund;
- allocate \$500 million to the budgetary reserve in order to finance pay equity in 2007-2008.

Given the increase in spending mentioned above, growth in program spending will reach 4.6% in 2006-2007. This growth partly reflects the cost of the pay equity agreement concluded between the government and its employees. Excluding pay equity expenditures, program spending growth will amount to 4.1% in 2006-2007.

TABLE C.3

Impact of pay equity on program spending growth

(millions of dollars)

	2005-2006	2006-2007
PROGRAM SPENDING OBJECTIVE PRESENTED IN THE FEBRUARY 2007 BUDGET	49 230	51 519
% change	3.3	4.6
Total cost of pay equity recorded as an expenditure	- 498	- 775
PROGRAM SPENDING EXCLUDING THE COST OF PAY EQUITY	48 732	50 744
% change	3.7	4.1
Nominal GDP growth rate in %¹	4.0	3.9

1 For the calendar year ending three months before the end of the fiscal year.
Sources: Secrétariat du Conseil du trésor and Institut de la Statistique du Québec.

❑ **A balanced budget in 2007-2008**

In conformity with the government's budgetary stance, a balanced budget will be achieved again in 2007-2008. The government plans to use \$500 million from the budgetary reserve in 2007-2008 to finance pay equity.

Growth in budgetary revenue amounts to 1.3%. This modest increase can be attributed particularly to the impact of the tax reductions granted to individuals and enterprises, announced in this and previous budgets. It also reflects a decline in revenue from government enterprises, owing notably to the non-recurrence of the substantial profits made by Hydro-Québec in 2006-2007 on the sale of its interests in certain enterprises.

In 2007-2008, program spending growth, including the impact of the measures announced in this Budget, will be limited to 4.0%, or less than the nominal GDP growth rate of 4.3%.

❑ **A budgetary shortfall of nearly \$1 billion to be absorbed in 2008-2009**

For 2008-2009, the government must make up a budgetary shortfall of nearly \$1 billion if it is to achieve a balanced budget. As in the past, the Québec government is determined to take action to make up this shortfall in accordance with its budgetary stance and the *Balanced Budget Act*.

1.2 Decisive action to reduce the debt burden

The Generations Fund was created last June by the adoption of the *Act to reduce the debt and establish the Generations Fund*.

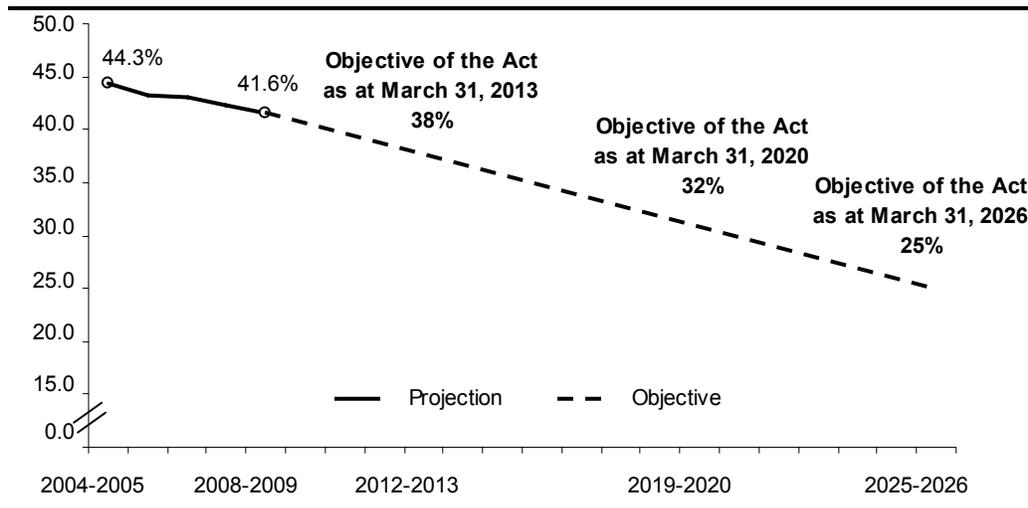
Dedicated exclusively to repaying the debt, the Generations Fund is financed by specific revenue sources, such as the water-power royalties paid by Hydro-Québec and private producers of hydro-electricity, the sale of certain assets and income generated by the investment of the sums making up the fund.

Thanks to the sale of Hydro-Québec's interest in Transelec Chile, an additional \$500 million has been deposited in the Generations Fund, as the government announced last fall in presenting the *Update on Québec's Economic and Financial Situation*.

Taking into account the sums accumulated in the Generations Fund, the debt burden as a proportion of the economy will be reduced to 41.6% in 2008-2009. It will be lowered to less than 25% as at March 31, 2026.

CHART C.1

Total government debt (as a percentage of GDP)



2. UPDATING OF THE FINANCIAL FRAMEWORK

This section presents the main factors that affect the growth in the government's revenue and expenditure. It also explains the adjustments made to the financial framework for 2006-2007 since the Budget of last March.

2.1 Budgetary revenue

The government's budgetary revenue should total \$60 262 million in 2007-2008, i.e. \$48 021 million in own-source revenue and \$12 241 million in federal transfers. Budgetary revenue should grow by 1.3% in 2007-2008 and 2008-2009.

TABLE C.4

Consolidated Revenue Fund Budgetary revenue

(millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
OWN-SOURCE REVENUE					
Own-source revenue excluding government enterprises	42 347	463	42 810	43 361	44 435
<i>% change</i>	3.2		3.9	1.3	2.5
Government enterprises	4 758	965	5 723	4 660	4 774
<i>% change</i>	6.7		25.7	-18.6	2.4
TOTAL	47 105	1 428	48 533	48 021	49 209
<i>% change</i>	3.6		6.1	-1.1	2.5
FEDERAL TRANSFERS	10 796	160	10 956	12 241	11 848
<i>% change</i>	8.3		9.9	11.7	-3.2
BUDGETARY REVENUE	57 901	1 588	59 489	60 262	61 057
<i>% change</i>	4.4		6.8	1.3	1.3

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

2.1.1 Own-source revenue excluding government enterprises

□ Major adjustments to tax revenues in 2006-2007

Preliminary results for fiscal 2006-2007 show that own-source revenue, excluding the profits of government enterprises, are revised upward by \$463 million compared with the 2006-2007 Budget, bringing growth in this revenue to 3.9% compared with the previous year.

Revenue from **personal income tax** is increased by \$719 million, a difference that reflects notably:

- the upward revision of personal income and the impact on tax receipts of the retroactive pay equity adjustments to be paid to government employees from now until March 31, 2007;
- the adjustment to the distribution of source deductions and tax instalments to take actual data into account.

Contributions to the Health Services Fund are reduced by \$216 million, essentially because of the offsetting of the above-mentioned adjustment to the distribution of source deductions to the benefit of personal income tax.

Revenue from **corporate taxes** is raised by \$314 million because of the recurrence of revenue received in late 2005-2006.

- This increased revenue, which reflects the sustained growth in corporate profits in recent years, led to the payment of higher tax instalments by enterprises in 2006-2007.

Revenue from **consumption taxes** is adjusted downward by \$334 million.

- Despite vigorous domestic demand, receipts from the Québec sales tax amounted to have decreased by \$114 million.
- Revenue from the tax on tobacco products is decreased by \$171 million due to the impact of the implementation of the new provisions introduced in the *Tobacco Act* last May on the consumption of such products. This adjustment may also reflect a slight increase in smuggling.

- Lastly, on account of high prices, the volume of fuel sold was lower than initially forecast, reducing revenue from the tax on such products.

TABLE C.5

Consolidated Revenue Fund
Change in own-source revenue excluding government enterprises
(millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Personal income tax	17 309	719	18 028	18 081	18 578
% change	4.2		9.6	0.3	2.7
Health Services Fund	5 331	-216	5 115	5 469	5 667
% change	4.0		1.3	6.9	3.6
Corporate taxes	4 349	314	4 663	4 565	4 558
% change	-0.8		-2.6	-2.1	-0.2
Consumption taxes	13 108	-334	12 774	13 061	13 403
% change	3.6		2.7	2.2	2.6
Other revenues	2 250	-20	2 230	2 185	2 229
% change	-0.1		-9.6	-2.0	2.0
OWN-SOURCE REVENUE EXCLUDING GOVERNMENT ENTERPRISES	42 347	463	42 810	43 361	44 435
% change	3.2		3.9	1.3	2.5

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

□ Growth limited by the impact of measures aimed at reducing the tax burden in 2007-2008 and 2008-2009

In 2007-2008, own-source revenue excluding government enterprises will grow by a rate of 1.3%, which is less than the rate of economic growth. This is explained essentially by:

- the measures announced in this and previous budgets regarding personal income tax and corporate taxes;
- the non-recurring impact of the retroactive pay equity adjustments that will be paid to government employees in March 2007;
- the distribution in 2006-2007 of source deductions for previous years.

For 2008-2009, the growth in own-source revenue, excluding government enterprises, amounts to 2.5%, or less than the growth in gross domestic product, mainly because of the impact of the fiscal measures.

Change by source

More specifically, **personal income tax**, the main source of government revenue, should increase by 0.3%, to \$18.1 billion in 2007-2008.

- In this fiscal year, the progression in income subject to tax will be more than offset by the impact of the fiscal measures announced in this and previous budgets and by the non-recurrence of:
 - revenue from the payment of retroactive pay equity adjustments;
 - the distribution of source deductions in 2006-2007 in respect of previous years.
- In 2008-2009, revenue should grow by 2.7%, an increase that is compatible with the growth in income subject to tax, not taking into account the impact of the fiscal measures announced in this Budget.

Contributions to the Health Services Fund should total \$5.5 billion in 2007-2008, an increase of 6.9%. This growth is comparable to that of salaries and wages if the impact of the non-recurring downward revision stemming from the distribution of source deductions in 2006-2007 is excluded. The growth rate anticipated in 2008-2009, i.e. 3.6%, is similar to that of salaries and wages.

Despite an average increase of over 3.0% in corporate profits in 2007 and 2008, revenue from **corporate taxes** should fall by 2.1% in 2007-2008 and remain fairly stable in 2008-2009. This stems from the impact of the fiscal measures announced in this and previous budgets to foster economic growth, including the reduction in the tax on capital.

In 2007-2008, revenue from **consumption taxes** should climb by 2.2%. This weak growth reflects the impact of the agreement on a new fiscal and financial partnership concluded with the municipalities in spring 2006, which enables them to obtain, as of 2007-2008, a refund of part of the Québec sales tax they pay on their purchases. The change in consumption taxes also reflects the stagnation in revenue from the tobacco tax. In 2008-2009, the 2.6% increase in consumption tax revenue will keep pace with the growth in household consumption, once the weak growth in fuel tax revenue and the stagnation in tobacco tax revenue are taken into account.

□ A change in revenue comparable to that in the economy

Overall, the anticipated growth in own-source revenue, excluding government enterprises, should be similar to nominal economic growth. Excluding the financial impact of the fiscal measures and certain non-recurring revenue, growth in own-source revenue for fiscal years 2007-2008 and 2008-2009 will be 4.0% on average, a rate similar to the increase in gross domestic product.

TABLE C.6

Consolidated Revenue fund Change in own-source revenue on a comparable basis^P (millions of dollars)

	2006-2007	2007-2008	2008-2009
OWN-SOURCE REVENUE EXCLUDING GOVERNMENT ENTERPRISES	42 810	43 361	44 435
% change	3.9	1.3	2.5
Less:			
2007-2008 Budget measures			
- Personal income tax reduction		- 122	- 489
- Other fiscal measures		- 93	- 175
2006-2007 Budget measures			
- Personal income tax reduction	- 75	- 345	- 362
- Other fiscal measures	- 111	- 57	- 93
2005-2006 Budget measures			
- Personal income tax reduction	- 337	- 390	- 395
- Other fiscal measures	- 250	- 392	- 483
Other factors ¹	452	- 285	- 257
Sub-total	- 321	- 1 684	- 2 254
REVENUE BEFORE MEASURES	43 131	45 045	46 689
% change		4.4	3.6
Nominal GDP growth rate in % ²		4.3	3.5
Elasticity in calendar year ³		1.04	1.06

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 Includes notably the amounts arising from the reconciliation of source deductions for employers and self-employed workers, the impact of retroactive pay equity adjustments on revenue and the 2007-2013 agreement on a new fiscal and financial partnership with the municipalities.

2 For the calendar year ending three months before the end of the fiscal year.

3 Elasticity between growth in revenue on a comparable basis and growth in gross domestic product. For example, an elasticity rate of 1.06 means that 1.00% growth in GDP results in 1.06% growth in own-source revenue.

2.1.2 Revenue from government enterprises

□ Major upward adjustment in 2006-2007 owing to the sale of assets

The profits of government enterprises are adjusted upward by \$965 million for 2006-2007, notably because of the additional profits of \$1 114 million made by Hydro-Québec, of which more than \$900 million stem from the sale of assets, primarily the corporation's interest in Transelec Chile.

In addition, Loto-Québec shows a \$152-million decline in profits that can be attributed to the drop in revenue from the use of video lottery machines.

For 2007-2008, revenue from government enterprises is estimated at \$4 660 million. A slight progression in 2008-2009 will increase such revenue to \$4 774 million.

TABLE C.7

Consolidated Revenue Fund Change in revenue from government enterprises (millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Hydro-Québec	2 500	1 114 ¹	3 614	2 545	2 500
Loto-Québec	1 524	- 152	1 372	1 329	1 329
Société des alcools du Québec	702	0	702	745	785
Others	32	3	35	41	160
REVENUE FROM GOVERNMENT ENTERPRISES	4 758	965	5 723	4 660	4 774
% change	6.7		25.7	-18.6	2.4

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 Including profits of over \$900 million made by Hydro-Québec on the sale of its interests in certain corporations, including Transelec Chile.

2.1.3 Revenues from federal transfers

In 2006-2007, revenues from federal transfers should reach \$10 956 million, or \$160 million more than forecast in the March 2006 Budget. For 2007-2008 and 2008-2009, federal transfer revenues are expected to amount to \$12 241 million and \$11 848 million respectively.

The \$160-million adjustment to federal transfer revenues in 2006-2007 can be attributed essentially to additional equalization revenues of \$185 million stemming from the federal budget of May 2006.

TABLE C.8

Consolidated Revenue Fund Change in federal transfer revenues (millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Equalization	5 354	185	5 539	6 462	6 688
% change	11.6		15.4	16.7	3.5
Health transfers	3 605	29	3 634	3 631	3 625
% change	13.2		14.1	-0.1	-0.2
Transfers for post-secondary education and other social programs	1 041	19	1 060	1 288	1 012
% change	0.7		2.5	21.5	-21.4
Other programs	796	- 73	723	860	523
% change	-16.6		-24.1	18.9	-39.2
FEDERAL TRANSFERS	10 796	160	10 956	12 241	11 848
% change	8.3		9.9	11.7	-3.2

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

Federal transfer revenues are expected to increase by 11.7% in 2007-2008. This change can be explained primarily by the growth in equalization revenues resulting from the federal announcement of January 16, 2007, regarding the provinces' minimum equalization entitlements in 2007-2008.

Indeed, on the basis of the most recent economic and fiscal data available, the federal government revised Québec's share of the equalization envelope upward, leading to an increase of 16.7% in these revenues in 2007-2008. For the purposes of the Québec government's financial planning, it was assumed that Québec's equalization revenues would continue to grow thereafter by 3.5% per year, in accordance with the legislative provisions currently in effect.

Revenues from federal transfers should decline by 3.2% in 2008-2009, mainly because of the non-recurrence of most of the income from four trusts established by the federal government in its May 2006 Budget, targeting post-secondary education infrastructure, public transit infrastructure, affordable housing and housing for Aboriginal people living off-reserve.

Québec's share of these four trusts totals \$577 million. The provinces have the flexibility needed to use the funds set aside for them according to their needs and on the basis of a schedule that they themselves define, without exceeding the lifespan of these trusts. The income recording schedule chosen by the Québec government is shown in the following table.

TABLE C.9

Schedule for recording income from the trusts announced in the May 2006 federal budget

(millions of dollars)

	2007-2008	2008-2009	Total
Post-Secondary Education Infrastructure Trust	235	–	235
Public Transit Capital Trust	117	0	117
Affordable Housing Trust	187	0	187
Off-Reserve Aboriginal Housing Trust	26	12	38
TOTAL	565	12	577

Note: The Post-Secondary Education Infrastructure Trust must be used by March 31, 2008 and is part of the "Transfers for post-secondary education and other social programs". The three other trusts must be used by March 31, 2009 at the latest and are part of "Other programs".

Lastly, it should be noted that the forecast for federal transfer revenues contained in the present Budget does not include any amount that might result from federal decisions to correct the fiscal imbalance in Canada.

2.2 Budgetary expenditure

For 2007-2008, budgetary expenditure should reach \$60 823 million. Program spending will total \$53 594 million and debt service \$7 229 million.

TABLE C.10

Consolidated Revenue Fund Change in budgetary expenditure^P (millions of dollars)

	2006-2007	2007-2008	2008-2009
Program spending	51 519	53 594	55 178
% change	4.6	4.0	3.0
Debt service	6 990	7 229	7 170
% change	1.7	3.4	-0.8
BUDGETARY EXPENDITURE	58 509	60 823	62 348
% change	4.3	4.0	2.5
Nominal GDP growth rate in % ¹	3.9	4.3	3.5
Inflation rate in Canada in %	2.0	1.8	1.8

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 For the calendar year ending three months before the end of the fiscal year.

2.2.1 Change in program spending in 2006-2007

In 2003, the government made a commitment to manage public finances in a rigorous and disciplined manner. The 2007-2008 program spending forecast is once again in keeping with this approach, which has enabled Québec to regain control of growth in public spending and improve services for Quebecers.

Program spending in 2006-2007 stands at \$51 519 million, an increase of 4.6% compared with 2005-2006. This represents an upward revision of \$646 million compared with the target of \$50 873 million set in the 2006-2007 Budget Speech.

This adjustment can be explained essentially by the spending adjustments made in regard to the retirement plans and to the allowances for losses on guaranteed financial initiatives and doubtful accounts at Revenu Québec, and by the \$242-million impact of the decision by the Commission de l'équité salariale to spread the wage adjustments arising from the pay equity settlement over seven payments made over six years.

TABLE C.11

Change in the 2006-2007 Expenditure Budget (million of dollars)

EXPENDITURE BUDGET IN THE 2006-2007 BUDGET SPEECH	50 873.0
Adjustments	
New actuarial valuations of the retirement plans	60.0
Increase in the expenditure for the allowance for losses on guaranteed financial initiatives at the ministère du Développement économique, de l'Innovation et de l'Exportation	48.0
Increase in the expenditure for the allowance for doubtful accounts at Revenu Québec	193.0
Impact of the spreading of the pay equity settlement over seven payments made over six years	242.0
Support plan for the forest sector	30.0
Agreement with health professionals and other adjustments at the ministère de la Santé et des Services sociaux	65.5
Other adjustments	7.5
REVISED EXPENDITURE BUDGET	51 519.0

Source: Secrétariat du Conseil du trésor.

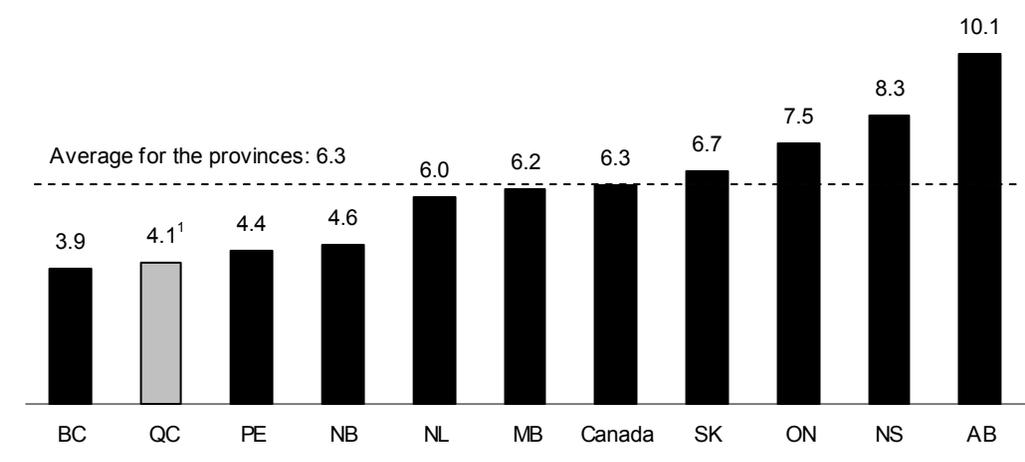
□ Québec outperforms most Canadian provinces

Since 2003-2004, Québec has achieved better results than all of the Canadian provinces regarding spending control. Indeed, the average annual rate of growth in program spending in Québec over this period has been 4.1%, while the average for the Canadian provinces has been 6.3%.

CHART C.2

Québec outperforms most of the provinces in managing spending

(average annual growth in program spending from 2003-2004 to 2006-2007, in percent)

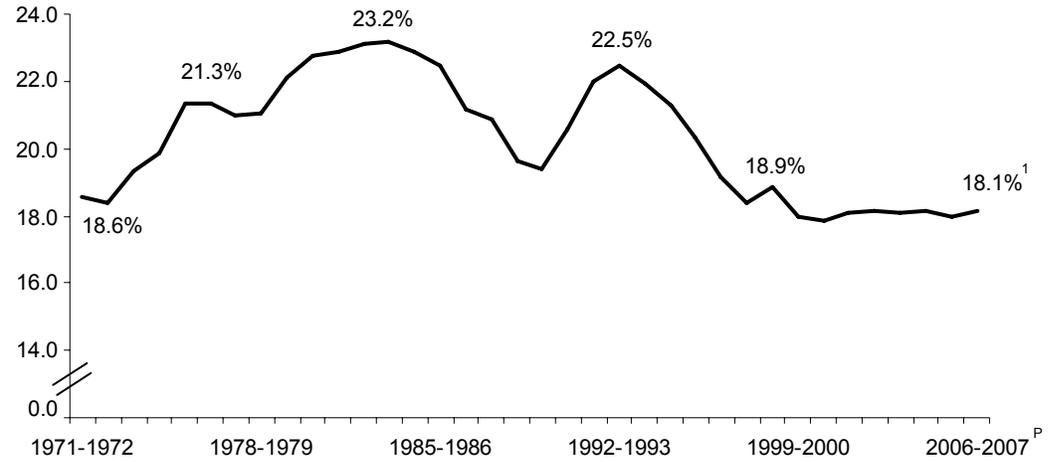


1 The average annual growth in program spending from 2003-2004 to 2006-2007 is revised from 3.8% to 4.1% because of the \$646.0-million upward adjustment of program spending in 2006-2007, including \$242.0 million for pay equity resulting from the decision by the Commission de l'équité salariale to spread the wage adjustments arising from the pay equity settlement over seven payments made over six years.

On account of this fiscal discipline, the weight of program spending in relation to GDP in 2006-2007 is 18.1%, one of the lowest levels in 35 years.

CHART C.3

Program spending
(as a percentage of GDP)



P: Preliminary results.

- 1 In 2006-2007, program spending as a percentage of GDP is revised from 17.8% to 18.1% because of the \$646.0-million upward adjustment of program spending in 2006-2007, including \$242.0 million for pay equity resulting from the decision by the Commission de l'équité salariale to spread the wage adjustments arising from the pay equity settlement over seven payments made over six years.

2.2.2 Maintenance of fiscal discipline in 2007-2008

The government is maintaining the same fiscal discipline in 2007-2008. Program spending, including the cost of the measures announced in this Budget, is increasing by 4.0%, or \$2 075.2 million, in 2007-2008 and should thus reach \$53 594.2 million.

□ Giving priority to health and education

Close to two thirds of the growth in program spending in 2007-2008 is being allocated to health and social services, for a total of \$1 343.9 million. Accordingly, the health and social services budget is growing by 6.0%, making it possible to cover the rising costs of the system, as well as the impact of the agreements with the medical federations and the pay equity settlement. An additional \$20.9 million is also being allocated for implementing the drug policy, including \$16.5 million for extending free medication to people with low incomes as of July 1, 2007.

TABLE C.12

Program spending growth in 2007-2008

(millions of dollars)

	2006-2007	2007-2008	Growth	
			\$M	%
Santé et Services sociaux	22 265.9	23 609.8	1 343.9	6.0
Éducation, Loisir et Sport	12 828.4	13 394.9	566.5	4.4
Other departments	16 424.7	16 589.5	164.8	1.0
TOTAL	51 519.0	53 594.2	2 075.2	4.0

Source: Secrétariat du Conseil du trésor.

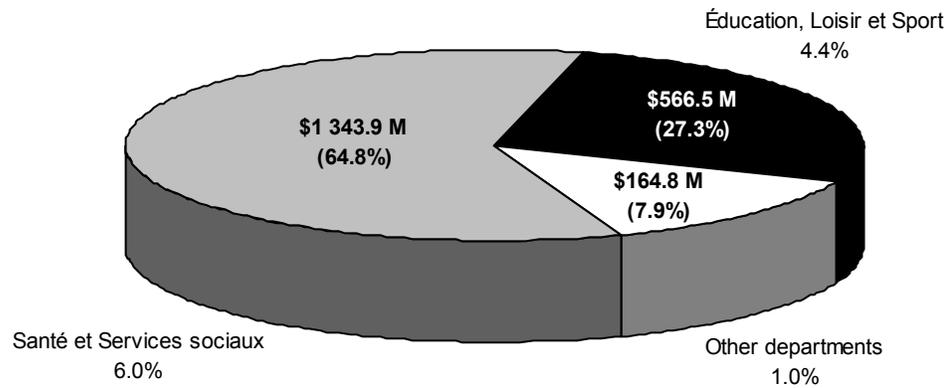
The budget of the ministère de l'Éducation, du Loisir et du Sport is also increasing by a substantial 4.4%, or an additional \$566.5 million. This increase will make it possible to finance the wage adjustments including the pay equity settlement, additional investments of \$120 million in post-secondary education, the impact of \$52 million to complete the financing for adding one and a half hours of teaching time a week at the elementary level, and the impact of \$35 million for adding resources at the elementary and secondary levels for disabled students or students with adjustment or learning difficulties.

The budget of the other portfolios remains fairly constant, with an increase of 1.0%.

CHART C.4

Giving priority to health and education
(program spending growth in 2007-2008^F)

Total increase of \$2 075.2 M



F: Forecasts.
Source: Secrétariat du Conseil du trésor.

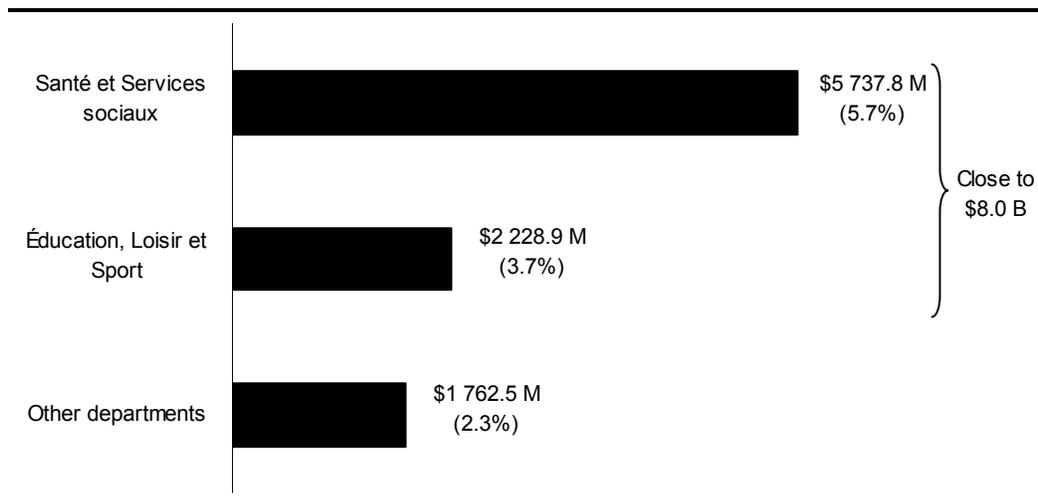
□ Close to \$8.0 billion more for health and education since 2003

Since 2003, the government has added a total of \$8.0 billion to the budgets of the ministère de la Santé et des Services sociaux and the ministère de l'Éducation, du Loisir et du Sport, i.e. \$5.7 billion and \$2.2 billion respectively. The other portfolios have received an additional \$1.8 billion, notably to improve the road system and provide more assistance to families.

CHART C.5

Close to \$8.0 billion more for health and education since 2003-2004

(growth in program spending from 2003-2004 to 2007-2008^F)



F: Forecasts for 2007-2008.

Source: Secrétariat du Conseil du trésor.

□ Increase of 1.0% in the budgets of the other departments in 2007-2008

The budgets of the other departments are increasing by 1.0% in 2007-2008 and have been established with a view to maintaining and improving public services. To that end, most of the budgetary efforts are being limited to operating expenditures through measures such as not replacing one half of the employees who retire. Briefly, the main changes can be explained as follows:

- the budget of the ministère des **Affaires municipales et des Régions** is down \$78.1 million, essentially because of the impact of \$128.0 million stemming from the application of the 2007-2013 agreement on a new fiscal and financial partnership with the municipalities, which provides notably for the replacement of spending programs by sales tax refunds. Excluding this adjustment, the growth in this budget amounts to \$49.9 million, or 2.7%, including \$30.0 million for the National Rurality Policy. In addition, amounts totalling \$35.8 million have been provided for in the Contingency Fund for implementing the Strategy for the Development of Every Region;
- the budget of the ministère de l'**Agriculture, des Pêcheries et de l'Alimentation** is increasing by \$9.0 million, or 1.3%, mainly to cover the \$7.3-million increase in the cost of the property tax refund program for farmers and because of the addition of \$3.0 million for implementing the assistance program for apple growers. As well, \$5.0 million is being added to the Contingency Fund for measures to support farming and fisheries under the Strategy for the Development of Every Region;
- the budget of the **Conseil du trésor** is being adjusted downward by \$248.3 million, owing to a revision of the sums provided for in the Contingency Fund, which are being increased from \$425.8 million in 2006-2007 to \$177.0 million in 2007-2008. This revision stems mainly from the non-recurrence of funds provided in 2006-2007 for the pay equity settlement relating to previous years;
- the budget of the ministère du **Conseil exécutif** is up \$46.1 million, or 17.4%, primarily on account of the \$27.4 million in financing for the 2006-2009 Youth Action Strategy and the implementation of the new Aboriginal Initiatives Fund, an envelope of \$10.2 million;

- the budget of the ministère de la **Culture et des Communications** is growing by \$26.0 million, or 4.4%, mainly because of the \$9.6-million impact of the full payment of municipal taxes by cultural government corporations as of January 1, 2007, the addition of \$3.0 million for the Placements Culture program, and other improvements granted, particularly to libraries and community media. In addition, the emergency assistance of \$10.0 million awarded to the Québec film industry in 2006-2007 and the assistance of \$5.0 million granted to museums are being renewed in 2007-2008;
- the budget of the ministère du **Développement durable, de l'Environnement et des Parcs** is rising by \$2.6 million, or 1.4%, notably because inspection activities are being stepped up in the regions;
- the budget of the ministère du **Développement économique, de l'Innovation et de l'Exportation** is up \$58.8 million, or 8.4%, owing notably to the addition of \$38.5 million in order to increase the funds provided for implementing the support plan for the forest sector to \$68.5 million, the addition of \$58.3 million for deploying the Québec Research and Innovation Strategy, the addition of \$32.7 million for applying the Strategy for the Development of Every Region and non-recurrence in 2007-2008 of the \$48.0-million adjustment in 2006-2007 of the allowance for losses on guaranteed financial initiatives;
- the budget of the ministère de l'**Emploi et de la Solidarité sociale** is increasing by \$36.3 million, or 0.9%, to take into account the impact of the indexation of the benefit rates for last resort assistance and the implementation of the new National Program of Reconciliation with the Duplessis Orphans;
- the budget of the ministère de la **Famille, des Aînés et de la Condition féminine** is up \$70.5 million, or 4.1%, primarily because of the increase in the remuneration of teachers resulting from the increase in wage parameters, teachers' progression up the wage scales and the pay equity settlement. In addition, \$3.0 million for funding drop-in daycare centres and \$5.0 million for the Action Strategy for the Elderly are provided for in the Contingency Fund;
- the budget of ministère des **Finances** is up \$5.0 million, or 3.2%, because of the additional funds being allocated to fight tax evasion;
- the budget of the ministère de l'**Immigration et des Communautés culturelles** is increasing by \$5.3 million, or 5.0 %, essentially because of the additional funds being allocated to the francization of immigrants;

- the budget of the ministère de la **Justice** is rising by \$3.0 million, or 0.5 %, essentially on account of the increase in the cost of wage parameters;
- the budget of the ministère des **Relations internationales** is up \$17.0 million, or 17.2 %, primarily because of the addition of \$8.0 million for Québec's international policy, \$6.1 million for the Francophone Summit to be held in 2008 and \$2.0 million for granting additional assistance to the International Organization of the Francophonie;
- the budget of the ministère des **Ressources naturelles et de la Faune** is increasing by \$56.4 million, or 14.5%, with the addition of \$36.6 million for implementing the support plan for the forest sector, \$16.0 million for the Strategy for the Development of Every Region and \$10.0 million for the silvicultural investment strategy;
- the budget of the ministère du **Revenu** is down \$70.4 million, owing to an \$85.1-million adjustment of the expenditure relating to the allowance for doubtful accounts. Excluding this adjustment, the increase is \$14.7 million, or 1.5%, and it serves mainly to finance the growth in the cost of the Information Technology Fund and to step up the recovery of tax debts;
- the budget of the ministère de la **Sécurité publique** is up \$52.3 million, or 5.6 %, including \$39.4 million for wage parameters and \$17.6 million for pursuing the implementation of the new *Act respecting correctional services*. In addition, \$3.0 million, provided for in the Contingency Fund to step up the fight against street gangs, is being added to the amounts already announced in this regard;
- the budget of the ministère des **Services gouvernementaux** is rising by \$9.1 million, or 11.9%, essentially to continue the deployment of Services Québec, for \$5.7 million, and Online government, for \$2.0 million;
- the budget of the ministère du **Tourisme** is down \$6.8 million, a change that is due to the non-recurrence of the \$7.3-million subsidy awarded to the Granby Zoo in 2006-2007. Without this adjustment, the increase is \$0.5 million, or 0.4%. An additional \$5.0 million to support tourism in the regions is also provided for in the Contingency Fund;

- the budget of the ministère des **Transports** is up \$164.9 million, or 8.4%, owing notably to a \$119.0-million increase in the cost of debt service for the road system and public transit, the addition of \$26.5 million for maintaining the road system and the addition of \$11.0 million in funding for the festivities marking the 400th anniversary of the founding of Québec City. As well, \$11.0 million is provided for in the Contingency Fund for Québec's contribution to an agreement on regionalizing the deficit of Montréal's metro system. Lastly, \$5.5 million in additional assistance, also provided for in the Contingency Fund, is being allocated for developing the Capitale-Nationale region under the Strategy for the Development of Every Region;
- the budget of the ministère du **Travail** remains constant in 2007-2008, at \$31.5 million.

TABLE C.13

Program spending by portfolio

(million of dollars)

	2006-2007	2007-2008	Change	
			\$M	%
Affaires municipales et Régions	1 847.4	1 769.3	- 78.1	- 4.2
Agriculture, Pêcheries et Alimentation	683.3	692.3	9.0	1.3
Assemblée nationale	100.3	105.2	4.9	4.9
Conseil du trésor et Administration gouvernementale ¹	874.6	626.3	- 248.3	- 28.4
Conseil exécutif	265.0	311.1	46.1	17.4
Culture et Communications	589.5	615.5	26.0	4.4
Développement durable, Environnement et Parcs	189.6	192.2	2.6	1.4
Développement économique, Innovation et Exportation	696.5	755.3	58.8	8.4
Éducation, Loisir et Sport	12 828.4	13 394.9	566.5	4.4
Emploi et Solidarité sociale	4 087.9	4 124.2	36.3	0.9
Famille, Aînés et Condition féminine	1 733.3	1 803.8	70.5	4.1
Finances (excluding debt service)	154.6	159.6	5.0	3.2
Immigration et Communautés culturelles	105.8	111.1	5.3	5.0
Justice	630.9	633.9	3.0	0.5
Personnes désignées par l'Assemblée nationale	62.4	63.6	1.2	1.9
Relations internationales	99.0	116.0	17.0	17.2
Ressources naturelles et Faune	390.3	446.7	56.4	14.5
Revenu	996.1	925.7	- 70.4	- 7.1
Santé et Services sociaux	22 265.9	23 609.8	1 343.9	6.0
Sécurité publique	936.6	988.9	52.3	5.6
Services gouvernementaux	76.6	85.7	9.1	11.9
Tourisme	139.3	132.5	- 6.8	- 4.9
Transports	1 963.0	2 127.9	164.9	8.4
Travail	31.5	31.5	-	-
Sub-total	51 747.8	53 823.0	2 075.2	4.0
Anticipated lapsed appropriations	- 150.0	- 150.0	-	-
Deferred appropriations	- 78.8	- 78.8	-	-
TOTAL	51 519.0	53 594.2	2 075.2	4.0

1 In 2007-2008, the sums provided for in the Contingency Fund amount to \$177.0 million.

Source: Secrétariat du Conseil du trésor.

2.2.3 Major investments in public infrastructure

□ A responsible policy for maintaining assets

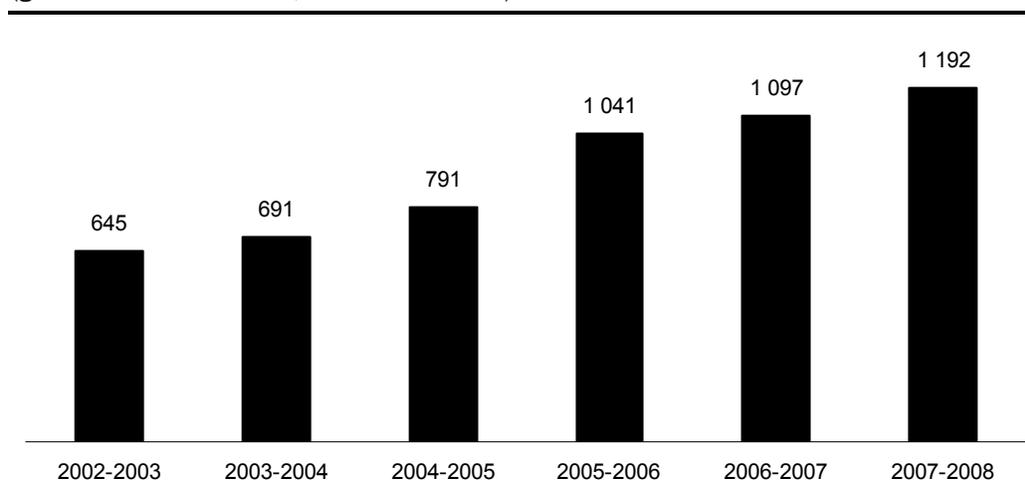
Over the past four years, the government has made unprecedented investments in order to build new facilities and restore public infrastructure, mainly in health and social services, education, recreation and sports, transport, municipal affairs, culture and research.

A new policy has also been implemented to ensure that the government's assets are adequately maintained. This policy, which will be continued and stepped up in 2007-2008, is based on recognized North American standards for infrastructure preservation. With this approach, hospitals and educational institutions are allocated annually an envelope equal to 2.0 % of the value of the immovables in order to ensure they are maintained in good condition. An envelope of 1.0% is being added in the health sector for functional renovation work.

In all, investments for maintaining assets will amount to almost \$1.2 billion in 2007-2008, or nearly double what they were in 2002-2003, when they totalled \$645.0 million.

CHART C.6

Continued implementation of the policy for maintaining assets^{P, 1} (government contribution, millions of dollars)



P: Preliminary results for 2006-2007 and forecasts for 2007-2008

1 Excluding maintenance of assets in the road system, which is included in the road work investment budget.

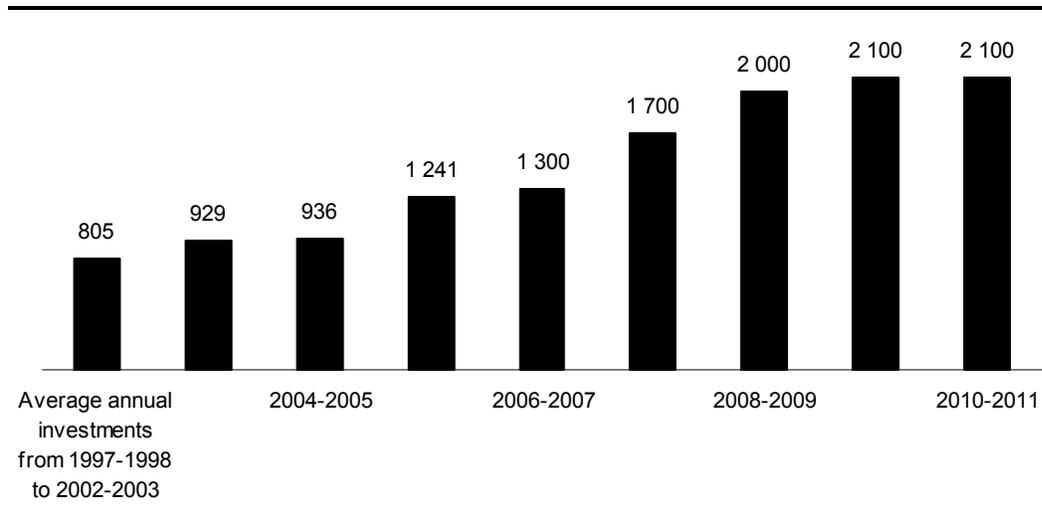
□ Unprecedented increase in the budget for preserving and improving the road system and its structures

In keeping with its commitment, the Québec government will have invested \$1.3 billion in road infrastructures this year. In 2007-2008, investments in the road system will be increased by \$400.0 million, to \$1.7 billion, of which \$1 150.0 million will be reserved for preserving and improving the road system and its structures. Moreover, investments in roads will be increased by an additional \$300.0 million and will thus reach \$2.0 billion in 2008-2009. For the next two years, the investment budget will be raised to \$2.1 billion. From now until 2010-2011, a total of \$7.9 billion will thus be invested in the road system.

By 2009-2010, the budget for the road system will have increased by 160.0% compared with the average budgets allocated from 1997-1998 to 2002-2003.

CHART C.7

Investments in the road system^P
(government contribution, millions of dollars)



P: Preliminary results for 2006-2007 and forecasts for subsequent years.

2.2.4 Pay equity settlement with government employees

In the 2006-2007 Budget Speech, an amount of \$457 million was provided for pay equity expenditures, raising the funds set aside for this purpose for the period from November 2001 to March 31, 2007 to \$1.5 billion.

In June 2006, the government concluded an historic agreement for the settlement of pay equity with labour organizations that will ultimately cost it \$825 million per year. Finally, in November, 2006, the Commission de l'équité salariale ruled that pay equity payments payable as of November 21, 2001 could be spread out until November 21, 2007, i.e. over seven payments made over six years.

From January to March 2007, employees in the public service and the education and health networks will receive the first adjustments arising from the pay equity settlement.

All told, considering the retroactive adjustments that will be paid, over \$1.9 billion will be shared among some 360 000 government employees.

TABLE C.14

Impact of pay equity on program spending (millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Amounts entered in the 2004-2005 Public Accounts	673					
Amounts forecast in the 2006-2007 Budget		390	457	457	457	457
June 2006 agreement		108	76	173	287	368
Impact of the ruling of the Commission de l'équité salariale						
- From 2001-2002 to 2005-2006			166			
- As of 2006-2007			76	90	65	
TOTAL COST OF PAY EQUITY	673	498	775	720	809	825
		1 946				

Source: Secrétariat du Conseil du trésor.

2.2.5 Debt service

In 2006-2007, debt service should amount to \$6 990 million, i.e. \$4 396 million for direct debt service and \$2 594 million for interest ascribed to the retirement plans.

Overall, debt service is revised downward by \$215 million compared with the figure announced in the March 2006 Budget. Direct debt service is \$150 million less than forecast, mainly because medium- and long-term interest rates were lower than anticipated and the Canadian dollar performed better than the yen and the US dollar. Interest ascribed to the retirement plans was \$65 million lower than expected, particularly because of new actuarial valuations.

In 2007-2008, debt service should amount to \$7 229 million, an increase of 3.4%. It should remain at a comparable level in 2008-2009. This change can be explained mainly by the anticipated deterioration of the Canadian dollar compared with the various currencies that make up the debt, and by the increase in medium- and long-term interest rates.

TABLE C.15

Consolidated Revenue Fund Change in debt service

(millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Direct debt service	- 4 546	150	- 4 396	- 4 991	- 5 088
Interest ascribed to the retirement plans	- 2 659	65	- 2 594	- 2 238	- 2 082
DEBT SERVICE	- 7 205	215	- 6 990	- 7 229	- 7 170
% change	5.2		1.7	3.4	- 0.8

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

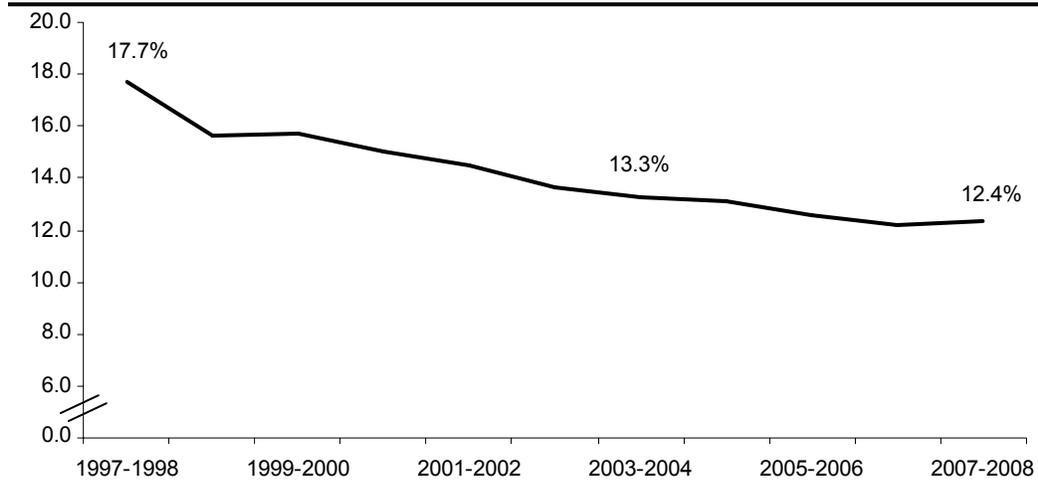
□ **A smaller proportion of revenue is being devoted to servicing the total debt**

The share of budgetary revenue devoted to total debt service, which also includes interest ascribed to the retirement plans and the debt service of consolidated organizations, should stand at 12.4% in 2007-2008, compared with 17.7% in 1997-1998.

CHART C.8

Debt service^P

(as a percentage of total revenue)



P: Preliminary results for 2006-2007 and forecasts for 2007-2008.

2.3 Consolidated organizations

For fiscal 2006-2007, the net results of consolidated organizations show a surplus of \$37 million, a decrease of \$140 million compared with the results forecast in the 2006-2007 Budget.

This decrease can be attributed primarily to the deterioration of over \$100 million in the results of La Financière agricole du Québec. This corporation had to provide greater-than-anticipated assistance to Québec farmers under pork and grain corn insurance programs.

For 2007-2008 and 2008-2009, the net results of consolidated organizations show surpluses of \$61 million and \$296 million respectively.

TABLE C.16

Consolidated organizations Summary of budgetary transactions (millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Own-source revenue	2 466	42	2 508	2 886	2 998
Federal transfers	956	- 138	818	917	793
Total	3 422	- 96	3 326	3 803	3 791
Expenditure excluding debt service	- 2 562	- 7	- 2 569	- 2 973	- 2 632
Debt service	- 683	- 37	- 720	- 769	- 863
Total	- 3 245	- 44	- 3 289	- 3 742	- 3 495
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	177	- 140	37	61	296

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

3. NON-BUDGETARY TRANSACTIONS

The government's non-budgetary transactions consist of transactions which, when they are made, affect borrowing requirements but not revenue and expenditure.

For 2006-2007, consolidated non-budgetary requirements amount to \$1 882 million, an increase of \$1 313 million compared with the 2006-2007 Budget forecasts. This increase stems from the retroactive pay equity adjustments that will be paid to government employees from now until March 31, 2007.

For 2007-2008, consolidated non-budgetary requirements remain high, i.e. \$1 062 million, owing to capital investments, particularly in the road system. Total requirements amount to \$546 million for 2008-2009.

TABLE C.17

Summary of consolidated non-budgetary transactions^{1, 2} (millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
CONSOLIDATED REVENUE FUND					
Investments, loans and advances	- 1 497	202	- 1 295	- 1 469	- 1 522
Capital expenditures	- 78	0	- 78	- 100	- 40
Retirement plans	2 257	148	2 405	2 119	2 093
Other accounts	- 5	- 1 257	- 1 262	11	265
Total	677	- 907	- 230	561	796
CONSOLIDATED ORGANIZATIONS					
Investments, loans and advances	2	- 379	- 377	- 223	- 319
Capital expenditures	- 1 171	- 93	- 1 264	- 1 854	- 1 364
Other accounts	- 77	66	- 11	454	341
Total	- 1 246	- 406	- 1 652	- 1 623	- 1 342
TOTAL NON-BUDGETARY TRANSACTIONS					
Investments, loans and advances	- 1 495	- 177	- 1 672	- 1 692	- 1 841
Capital expenditures	- 1 249	- 93	- 1 342	- 1 954	- 1 404
Retirement plans	2 257	148	2 405	2 119	2 093
Other accounts	- 82	- 1 191	- 1 273	465	606
TOTAL CONSOLIDATED NON-BUDGETARY REQUIREMENTS	- 569	- 1 313	- 1 882	- 1 062	- 546

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 A negative entry indicates a financial requirement and a positive entry, a source of financing

2 The Generations Fund does not affect non-budgetary transactions.

3.1 Investments, loans and advances

For 2006-2007, the investments, loans and advances of the Consolidated Revenue Fund amount to \$1 295 million, a decrease of \$202 million in requirements compared with the forecasts in the March 2006 Budget. This decrease stems notably from a decline in advances from the Consolidated Revenue Fund to consolidated organizations and special funds.

Financial requirements arising from the investments, loans and advances of consolidated organizations grew by \$379 million in 2006-2007 because of the substantial investments made by Investissement Québec under the forest industry support program.

Consolidated financial requirements for 2006-2007 stand at \$1 672 million. Comparable levels are anticipated for 2007-2008 and 2008-2009, i.e. \$1 692 million and \$1 841 million respectively.

3.2 Capital expenditures

For 2006-2007, the public investments of departments, organizations and special funds (e.g: Fonds de conservation et d'amélioration du réseau routier), which are an integral part of the government's reporting entity, amount to \$2 400 million. Taking into account a depreciation expense of \$1 058 million, the financial requirements associated with these capital expenditures total \$1 342 million.

- The financial requirements anticipated for the capital expenditures of the **Consolidated Revenue Fund** for 2006-2007 are identical to those forecast in the 2006-2007 Budget. For subsequent years, financial requirements for capital expenditures will total \$100 million in 2007-2008 and \$40 million in 2008-2009.
- **Consolidated organizations** show a \$93-million upward revision of their capital expenditure requirements in 2006-2007, to \$1.3 billion. These requirements will remain high for subsequent years owing primarily to investments in road infrastructures financed by the Fonds de conservation et d'amélioration du réseau routier.

TABLE C.18

Reconciliation of 2006-2007 capital investments and financial requirements^P

(millions of dollars)

	Level of investment	Depreciation	Financial requirements (capital expenditures)
Departments and organizations	- 304	226	- 78
Special funds	- 1 516	568	- 948
Organizations other than budget-funded organizations	- 580	264	- 316
TOTAL	- 2 400	1 058	- 1 342

P: Preliminary.

3.3 Retirements plans

As regards the retirement plans, 2006-2007 shows an additional funding source of \$148 million compared with the figure forecast in the last Budget, bringing the total to \$2.4 billion.

For 2007-2008 and 2008-2009, it is anticipated that the retirement plans will contribute \$2.1 billion for each of these years to consolidated non-budgetary transactions.

3.4 Other accounts

The \$1 191-million increase in consolidated requirements for other accounts in 2006-2007 is due mainly to the retroactive adjustments paid in March 2007 following the pay equity settlement.

For 2007-2008 and 2008-2009, the change in other accounts represents a funding source of \$465 million and \$606 million respectively.

Other accounts include cash and bills on hand, outstanding cheques, accounts receivable and accounts payable.

4. CONSOLIDATED NET FINANCIAL REQUIREMENTS

Overall, net financial requirements represent the funds the government has to borrow in a given fiscal year to finance the budgetary balance and certain non-budgetary transactions.

The 2007-2008 Budget anticipates net financial requirements of \$250 million in 2006-2007 for the Consolidated Revenue Fund. Net financial surpluses of \$500 million are forecast for subsequent years.

The net financial requirements of consolidated organizations stand at \$1.6 billion for 2006-2007 and 2007-2008 and \$1.0 billion for 2008-2009. These requirements stem mainly from the investments made by the Fonds de conservation et d'amélioration du réseau routier.

The income of the Generations Fund amounts to \$575 million for 2006-2007, \$446 million for 2007-2008 and \$726 million for 2008-2009.

Consolidated net financial requirements stand at \$1.3 billion for 2006-2007 and \$616 million for 2007-2008. However, 2008-2009 shows a surplus of \$180 million, owing primarily to the \$726 million contribution of the Generations Fund.

TABLE C.19

Consolidated net financial requirements¹ (millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Consolidated budgetary balance	74	518	592	446	726
Consolidated non-budgetary requirements	- 569	- 1 313	- 1 882	- 1 062	- 546
CONSOLIDATED NET FINANCIAL REQUIREMENTS	- 495	- 795	- 1 290	- 616	180
Consolidated Revenue Fund	500	- 750	- 250	500	500
Consolidated organizations	- 1 069	- 546	- 1 615	- 1 562	- 1 046
Generations Fund	74	501	575	446	726

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

Section D

Debt, Financing and Debt Management

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1. DEBT

1.1 Total government debt as at March 31, 2007

The government's total debt consists of the consolidated direct debt, i.e. the debt contracted on financial markets, and the net retirement plans liability, minus the value of the Generations Fund.

Preliminary results show that the government's consolidated direct debt should amount to \$96 403 million as at March 31, 2007.

The net retirement plans liability represents the retirement plans liability minus the balance of the retirement plans sinking fund (RPSF), an asset that will be used to pay the retirement benefits of public and parapublic sector employees. As at March 31, 2007, the net retirement plans liability should total \$32 554 million.

Given that the funds accumulated in the Generations Fund will amount to \$575 million as at March 31, 2007, the total debt should be \$122 427 million, excluding pre-financing of \$5 955 million.

TABLE D.1

Total government debt as at March 31, 2007^P
(millions of dollars)

	Consolidated direct debt			Retirement plans				Total debt
	Consolidated Revenue Fund	Consolidated organizations	Total	Retirement plans liability	Less: retirement plans sinking fund	Net retirement plans liability	Less: Generations Fund	
Debt as at March 31, 2007	83 785	12 618	96 403	59 598	- 27 044	32 554	- 575	128 382
Pre-financing	- 5 955	—	- 5 955	—	—	—	—	- 5 955
Total	77 830	12 618	90 448	59 598	- 27 044	32 554	- 575	122 427

P: Preliminary results.

1.2 Change in the total debt in 2006-2007

The government's total debt should increase by \$4 125 million in 2006-2007. Even though the government maintains a balanced budget, the debt continues to rise for the following reasons:

- First of all, the government invests mainly in its corporations. It makes such investments through advances and direct capital outlays or by allowing these corporations to keep part of their profits to finance their own investments. In 2006-2007, the government's investments, loans and advances should lead to a \$1 672-million increase in the debt.
- Secondly, the government makes investments in fixed assets (e.g. roads) that require borrowings. When these capital expenditures are made, they are posted to the government's balance sheet. Subsequently, they are gradually recorded as expenditures based on the useful life of the assets concerned. In 2006-2007, net capital expenditures should lead to a \$1 342-million increase in the debt.
- Lastly, changes in some of the government's other asset and liability items, such as accounts payable and accounts receivable, should raise the debt by \$1 703 million in 2006-2007. In 2004-2005 and 2005-2006, these "Other factors" lowered the debt by \$855 million and \$605 million respectively.

The volatility of "Other factors" in recent years can be attributed mainly to pay equity:

- In 2004-2005, an amount of \$673 million was recorded as a pay equity expenditure for 2001 to 2005. As a result, a budgetary deficit of \$664 million was recorded in 2004-2005. Since this amount of \$673 million did not give rise to a disbursement, an account payable was created, reducing the government's financial requirements in 2004-2005.
- In 2005-2006, a \$498-million expenditure was recorded for pay equity to reflect the most recent data on the cost of the adjustments being contemplated. As in the previous year, this amount was not disbursed in 2005-2006 and an account payable of \$498 million was created, thus reducing the government's financial requirements.

- In 2006-2007, the amounts relating to pay equity began to be disbursed, leading to a rise in financial requirements. These disbursements will continue in 2007-2008 and 2008-2009.
- The box in the following table shows the portion of “Other factors” relating to pay equity. From 2004-2005 to 2008-2009, the sum of these amounts is nil, demonstrating that, in all, pay equity will not have an impact on the government’s debt. Only those pay equity expenditures (\$673 million) that gave rise to a budgetary deficit in 2004-2005 will increase the debt.
- From 2004-2005 to 2008-2009, the growth in the debt will have served essentially to finance investments, loans and advances (\$7 366 million) and the government’s net capital expenditures (\$6 949 million).

TABLE D.2

Main factors responsible for the growth in total government debt

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Investments, loans and advances	Net capital expenditures ¹	Other factors ²	Generations Fund	Debt, end of year ³	As a % of GDP
1998-1999	98 385	- 126	1 402	217	1 235		101 113	51.5
1999-2000	101 113	- 7	2 006	359	- 1 351		102 120	48.4
2000-2001	102 120	- 427	1 632	473	1 050		104 848	46.6
2001-2002	104 848	- 22	1 142	995	212		107 175	46.3
2002-2003	107 175	728	1 651	1 482	306		111 342	46.1
2003-2004	111 342	358	1 125	1 019	881		114 725	45.8
2004-2005	114 725	664	979	1 083	- 855		116 596	44.3
2005-2006	116 596	- 37	1 182	1 166	- 605		118 302	43.2
2006-2007 ^P	118 302	- 17	1 672	1 342	1 703	- 575	122 427	43.1
2007-2008 ^P	122 427	—	1 692	1 954	- 221	- 446	125 406	42.3
2008-2009 ^P	125 406	—	1 841	1 404	- 363	- 726	127 562	41.6

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

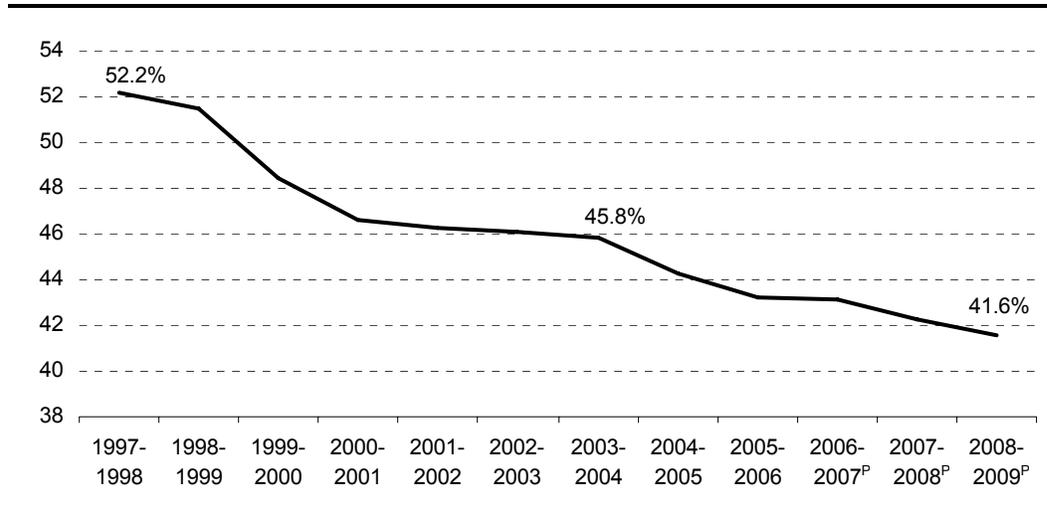
¹ Net capital expenditures made during the year minus the yearly depreciation expenditure.² Includes notably the change in “Other accounts,” such as accounts receivable and accounts payable, as well as foreign exchange losses (gains) following the revaluation of the debt in foreign currency.³ Excluding pre-financing.⁴ This amount includes the settlement of accounts payable recorded in 2004-2005 and 2005-2006 (\$1 171 million), as well as the recording of a new account payable (- \$387 million) that will be disbursed in 2007-2008 (\$310 million) and 2008-2009 (\$77 million).

□ The debt burden continues to decline

While the debt/GDP ratio was 52.2% in 1997-1998, it should be 41.6% in 2008-2009, which represents a decline of over 10 percentage points.

CHART D.1

Total government debt (as a % of GDP)



P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1.3 Retirement plans

The Québec government participates financially in the retirement plans of its employees, which covered, as at December 31, 2005, 522 452 participants and 231 793 beneficiaries.

TABLE D.3

Retirement plans of public and parapublic sector employees as at December 31, 2005

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	485 000	136 332
Pension Plan of Management Personnel (PPMP)	25 750	16 222
Other plans:		
Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	1 455	49 048
Civil Service Superannuation Plan (CSSP)	1 400	24 180
Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 200	4 112
Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 000	1 202
Pension Plan of the Judges of the Court of Québec (PPJCQ)	270	311
Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	255	90
Pension Plan of the Members of the National Assembly (PPMNA)	122	296
Total for other plans	11 702	79 239
Total	522 452	231 793

Source: Commission administrative des régimes de retraite et d'assurances (CARRA).

These plans are defined benefit retirement plans, which means that they guarantee participants a certain level of income upon retirement. Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension represents 2% of an employee's average income per year of service, for a maximum of 70%. Benefits are partially indexed to inflation.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans. In 2006-2007, the government anticipates that it will pay \$3 569 million to cover its share of the benefits paid to its retired employees.

❑ Retirement plans liability

In its financial statements, the government includes the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans, as well as their years of service. This value is called the retirement plans liability.

CARRA performs actuarial valuations of the liability for each retirement plan in conformity with the rules set for the public sector by the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA).

The government's retirement plans liability should amount to \$59 598 million as at March 31, 2007. It is important to note that this amount is recognized in full in the total government debt (see Table D.1).

TABLE D.4

Retirement plans liability (millions of dollars)

	March 31, 2007^P
Government and Public Employees Retirement Plan (RREGOP)	30 620
Pension Plan of Management Personnel (PPMP)	6 546
Other plans	22 432
Retirement plans liability	59 598

P: Preliminary results.

□ Annual retirement plans expenditure

As an employer, the government records annually its expenditure with regard to the retirement plans.

In 2006-2007, this expenditure should total \$1 815 million. It comprises two components:

- the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, i.e. \$1 442 million;
- the amortization of revisions to the government's actuarial obligations that arise from new actuarial valuations, for a cost of \$373 million in 2006-2007.

TABLE D.5

Retirement plans expenditure

(millions of dollars)

	2006-2007^P
Net cost of vested benefits	1 442
Amortization of revisions arising from new actuarial valuations	373
Retirement plans expenditure	1 815

P: Preliminary results.

1.4 Retirement plans sinking fund

The retirement plans sinking fund (RPSF) was created in 1993. It constitutes an asset that will be used to pay the retirement benefits of public and parapublic sector employees.

As at March 31, 2007, the value of the RPSF should be \$27 044 million, \$4 481 million more than the previous fiscal year. This increase is due to deposits of \$3 000 million made by the government in 2006-2007 and investment income estimated at \$1 481 million.

TABLE D.6

Change in the retirement plans sinking fund (RPSF) (millions of dollars)

	Balance, beginning of year	Deposits	Investment income	Balance, end of year
1993-1994	—	850	4	854
1994-1995	854	—	- 5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095 ¹	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007 ^P	22 563	3 000	1 481	27 044

P: Preliminary results.

1 Following the reform of government accounting, an amount of \$81 million was posted to the net debt.

□ Amounts deposited in the RPSF have no impact on the total debt

The government issues bonds on financial markets to make deposits in the RPSF. However, the amounts deposited in the RPSF do not affect the government's total debt.

Indeed, the amount of borrowings contracted to make deposits increases the direct debt. At the same time, however, these deposits reduce the net retirement plans liability by the same amount. Therefore, the net impact on the total debt is nil.

TABLE D.7

Illustration of the impact on the government's total debt of borrowing \$1 billion on financial markets and depositing it in the RPSF¹

(millions of dollars)

	Before deposit	After deposit	Change
(A) Consolidated direct debt	89 448	90 448	1 000
Retirement plans liability	59 598	59 598	0
Less: RPSF	- 26 044	- 27 044	- 1 000
(B) Net retirement plans liability	33 554	32 554	- 1 000
(C) Generations Fund	- 575	- 575	0
(D) Total debt (D=A+B+C)	122 427	122 427	0

1 Illustration based on preliminary results as at March 31, 2007.

□ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

□ A flexible deposit policy

In December 1999, as part of an agreement concluded for the renewal of collective agreements with government employees, the government set the objective that the funds accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the flexibility needed to apply this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

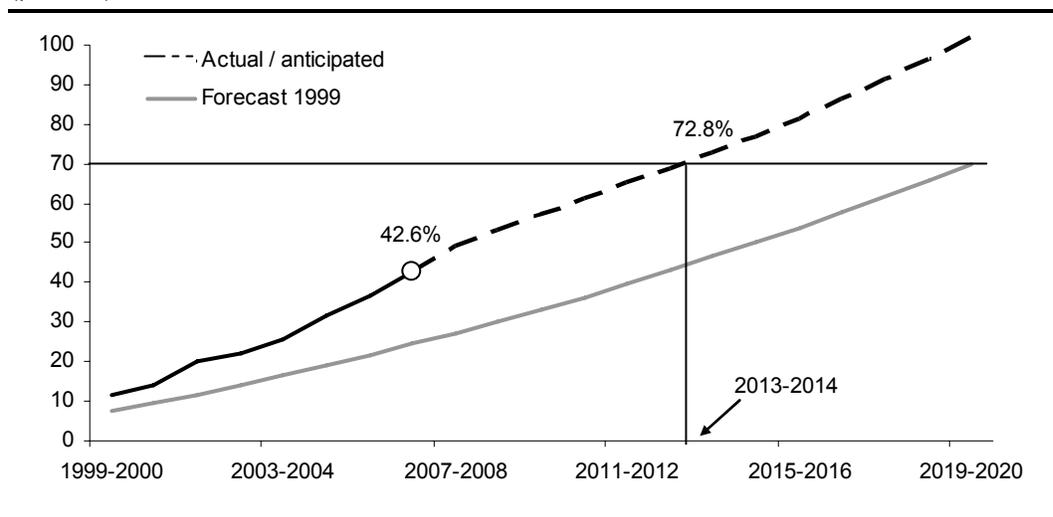
□ Results of deposits made to date

With an anticipated value of \$27 044 million as at March 31, 2007, the assets of the RPSF are now equal to nearly 43% of the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees.

Given the deposits and rates of return anticipated in the coming years, the target of 70% should be reached six years earlier than expected, i.e. in 2013-2014, which is a major improvement over the target set in December 1999. Indeed, the RPSF should represent 100% of actuarial obligations in 2020.

CHART D.2

RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees (percent)



□ Investment policy

The assets of the RPSF are managed by the Caisse de dépôt et placement du Québec in accordance with the investment policy established by the Minister of Finance.

This policy provides for investments in a diversified portfolio that includes notably fixed income securities (e.g. bonds), investments in stock markets and investments in other investment categories (e.g. capital assets, private investments and infrastructure).

1.5 The Generations Fund

The Generations Fund was created last June by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund will be dedicated exclusively to repaying the debt.

As at March 31, 2007, the balance of the Generations Fund should amount to \$575 million.

Section G presents the results of the Generations Fund in accordance with the requirements of the Act.

□ Investment policy

The assets of the Generations Fund are managed by the Caisse de dépôt et placement du Québec in accordance with the investment policy established by the Minister of Finance.

This policy provides for investments in a diversified portfolio that includes notably fixed income securities (e.g. bonds), investments in stock markets and investments in other investment categories (e.g. capital assets, private investments and infrastructure).

1.6 Québec's credit rating

The Québec government is rated by five credit rating agencies.

TABLE D.8

Québec's credit rating

Agency	Rating	Rating outlook
Moody's	Aa2	Stable
Fitch	AA-	Stable
Standard & Poor's	A+	Stable
Dominion Bond Rating Service (DBRS)	A ^H	Stable
Japan Credit Rating Agency	AA+	Stable

In 2006, two credit rating agencies, Moody's and DBRS, raised Québec's credit rating.

The decisions of these agencies were based on the following factors:

- a substantial improvement in the government's financial position in recent years;
- a commitment by the government to continue along this path;
- rigorous spending management, particularly through the settlement of collective agreements until 2010;
- the development of a clear debt burden reduction strategy with the creation of the Generations Fund, which will make it possible to reduce the debt/GDP ratio;
- the size and diversification of the economy.

1.7 Long-term public sector debt

Long-term public sector debt includes the government's total debt as well as the debt of the health and social services and education networks, Hydro-Québec, municipalities and other government enterprises. This debt has served notably to finance public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

Preliminary results show that the public sector debt should be \$191 665 million as at March 31, 2007.

TABLE D.9

Long-term public sector debt as at March 31 (millions of dollars)

	2003	2004	2005	2006	2007 ^P
Total government debt ¹	111 342	114 725	116 596	118 302	122 427
Health and social services and education networks	11 008	10 877	12 301	13 078	14 161
Hydro-Québec	35 639	34 348	33 032	32 367	32 671
Other government enterprises	3 955	3 575	3 726	3 540	3 528
Municipalities and municipal bodies ²	16 530	17 212	17 053	18 347	18 878
Total	178 474	180 737	182 708	185 634	191 665
As a % of GDP	73.9	72.1	69.5	67.9	67.4

P: Preliminary results.

1 Excluding pre-financing.

2 Includes the debt of the Société québécoise d'assainissement des eaux.

2. FINANCING

Borrowings in fiscal 2006-2007 should total \$14 779 million, i.e. \$13 200 million for the Consolidated Revenue Fund and \$1 579 million for the Financing Fund. Borrowings contracted for the Financing Fund are used to meet the financing needs of consolidated organizations and certain government enterprises. It should be noted that pre-financing of \$5 955 million was obtained in the last few months of the fiscal year because of particularly favourable conditions on financial markets. It will be used to cover part of the borrowing program in 2007-2008.

2.1 Financing strategy

The government aims to contract borrowings at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by markets, financial instruments and maturities.

2.1.1 Diversification by markets

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

In 2006-2007, the government contracted 17.5% of its borrowings on foreign markets in five different currencies:

- two borrowings in US dollars, one for US\$1 500 million in November 2006 (CAN\$1 702 million) and the other for US\$100 million in August 2006 (CAN\$110 million);
- two borrowings in Swiss francs, one for 300 million Swiss francs in December 2006 (CAN\$285 million) and the other for 200 million Swiss francs in February 2007 (CAN\$181 million);
- one borrowing for 100 million euros in April 2006 (CAN\$142 million);
- one borrowing for 750 million Hong Kong dollars in February 2007 (CAN\$114 million), Québec's first issue on this market;
- one borrowing for 5 000 million yens in February 2007 (CAN\$48 million).

TABLE D.10

Gouvernement du Québec
Summary of long-term borrowings in 2006-2007^P
(millions of dollars)

	Consolidated Revenue Fund	Financing Fund		Total	%
		Consolidated organizations	Government enterprises		
Currency					
Canadian dollar					
Public issues	5 756	1 087	52	6 895	56.5
Private borrowings	3 431	440	—	3 871	31.7
Savings products	960	—	—	960	7.9
Immigrant Investor Program	450	—	—	450	3.7
Canada Pension Plan Investment Fund	7	—	—	7	0.1
Amount received (disbursed) under interest rate and currency swap agreements	14	—	—	14	0.1
Sub-total	10 618	1 527	52	12 197	82.5
Other currencies					
US dollar	1 812	—	—	1 812	70.2
Hong Kong dollar	114	—	—	114	4.4
Euro	142	—	—	142	5.5
Swiss franc	466	—	—	466	18.0
Yen	48	—	—	48	1.9
Sub-total	2 582	—	—	2 582	17.5
Total	13 200	1 527	52	14 779	100.0

P: Preliminary results.

2.1.2 Diversification by instruments

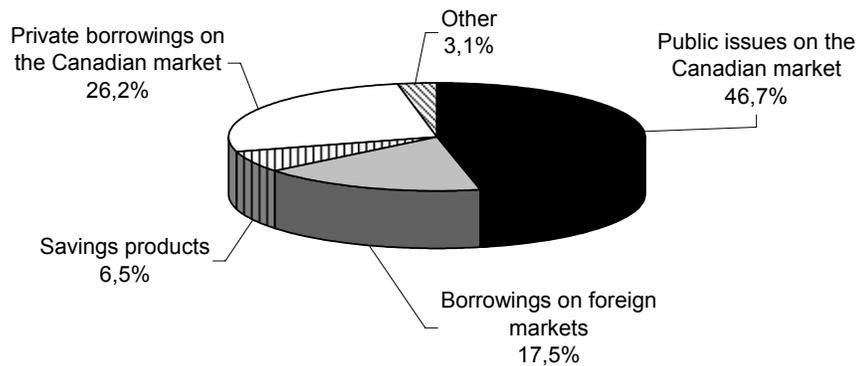
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist of public issues, fixed or variable rate bonds, real-return bonds, private borrowings and savings products.

The long-term instruments used in 2006-2007 consisted mainly of public issues on the Canadian market (46.7%), private borrowings on the Canadian market (26.2%) and borrowings on foreign markets (17.5%).

CHART D.3

Borrowings in 2006-2007^P by instrument



P: Preliminary results.

2.1.3 Diversification by maturities

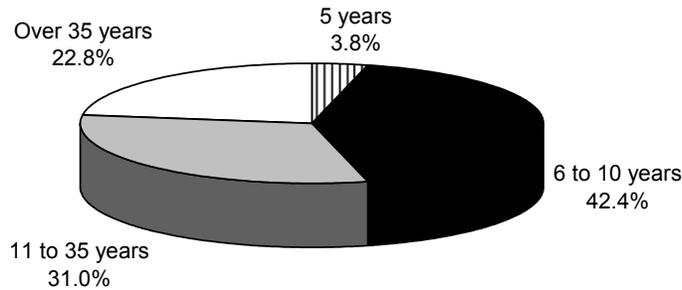
Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and thus avoid overly wide fluctuations in the borrowing program.

In 2006-2007, 42.4% of borrowings contracted had a maturity of between 6 and 10 years; 31.0%, between 11 and 35 years; and 22.8%, over 35 years.

Also in 2006-2007, the government made \$2 913 million worth of borrowings with a maturity of 50 years or more.

CHART D.4

Borrowings in 2006-2007^P by maturity

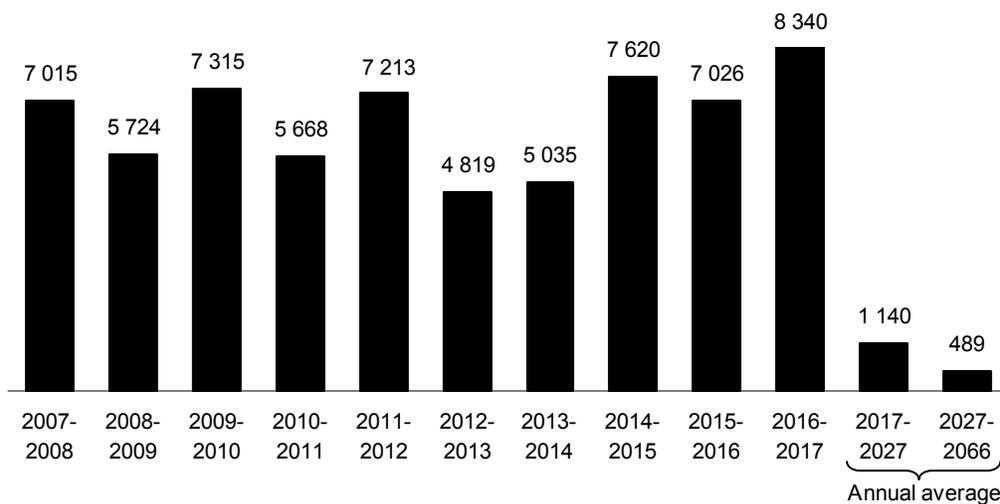


P: Preliminary results.

This diversification by maturities has an impact on the maturity of the debt shown in the following chart. As at March 31, 2007, the average maturity of the debt should be about 12 years.

CHART D.5

Maturity of the debt as at March 31, 2007^P
(millions of dollars)



P: Preliminary results.

Note: Direct debt of the Consolidated Revenue Fund and debt incurred to make advances to the Financing Fund.

2.2 Financing programs

2.2.1 The government

The financing program of the Consolidated Revenue Fund makes it possible to refinance maturing borrowings, contribute to the retirement plans sinking fund and meet new financial requirements, particularly for capital investments and investments in government corporations.

The Financing Fund makes loans to consolidated organizations (e.g. Fonds de conservation et d'amélioration du réseau routier, Investissement Québec, Société immobilière du Québec) and to certain government enterprises (e.g. Corporation d'hébergement du Québec).

In 2006-2007, the government's financing program should reach \$14 779 million, including \$5 955 million in pre-financing obtained over the last few months of the year to take advantage of particularly favourable conditions on financial markets.

The financing program is expected to amount to \$5 599 million in 2007-2008 and \$10 637 million in 2008-2009.

TABLE D.11

The government's financing program (millions of dollars)

	2006-2007 ^P	2007-2008 ^P	2008-2009 ^P
Consolidated Revenue Fund			
Net financial requirements (surplus) ¹	250	- 500	- 500
Repayment of borrowings	5 198	5 348	5 609
Change in cash position	- 2 684	- 5 955	—
Retirement plans sinking fund	4 481	4 956	3 528
Pre-financing	5 955	—	—
Sub-total	13 200	3 849	8 637
Financing Fund	1 579	1 750	2 000
Total	14 779	5 599	10 637

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

1 Excluding consolidated organizations.

2.2.2 Financement-Québec

Financement-Québec makes borrowings on financial markets to meet the needs of institutions in the health and social services and education networks. The borrowings of Financement-Québec are guaranteed by the Québec government.

In 2006-2007, borrowings by Financement-Québec should amount to \$2 529 million.

Financement-Québec's financing program is expected to total \$2 000 million in 2007-2008 and 2008-2009.

TABLE D.12

Financement-Québec's financing program

(millions of dollars)

	2006-2007 ^P	2007-2008 ^P	2008-2009 ^P
	2 529	2 000	2 000

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

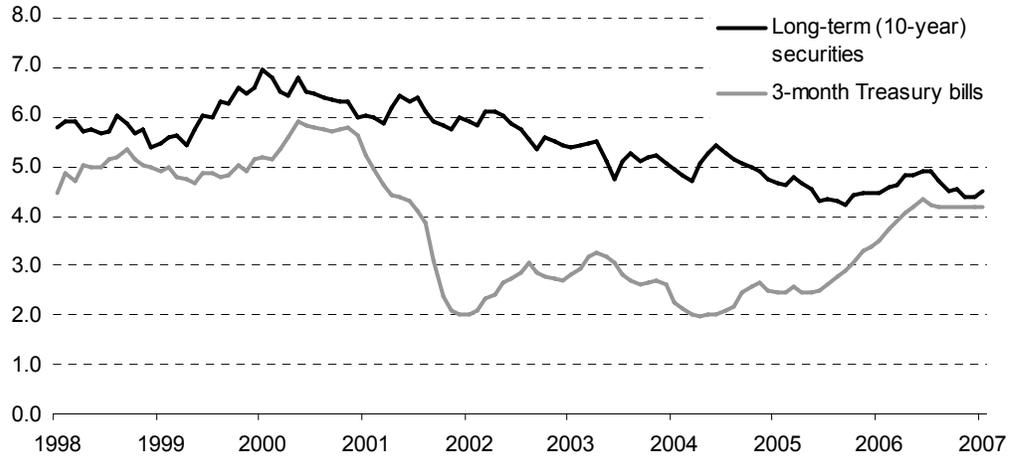
2.2.3 Yield

The following charts show the change in yield on 10-year bonds and 3-month Treasury bills, as well as the yield spread on long-term securities.

Over the past year, the spread between Québec long-term and short-term yields has declined significantly, reflecting the change in interest rates observed on financial markets. In addition, since the early 2000s, the yield on long-term (10-year) Québec securities has dropped from 7% to 5%, making it possible to refinance borrowings at better interest rates.

CHART D.6

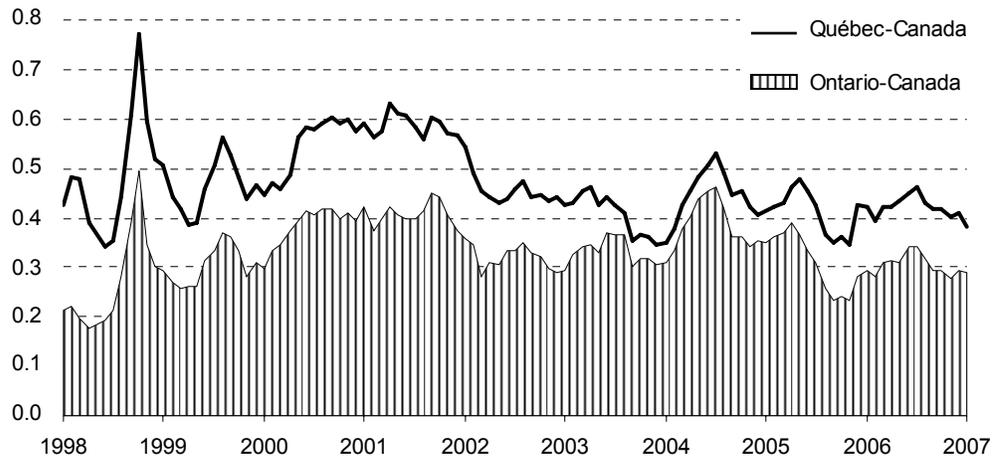
Yield on Québec securities
(percent)



Sources: PC-Bond and ministère des Finances.

CHART D.7

Yield spread on long-term (10-year) securities
(percent)



Source: PC-Bond.

3. DEBT MANAGEMENT

The government's debt management strategy aims to minimize the cost of the debt and limit the risk related to fluctuations in foreign exchange and interest rates.

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

Debt management enables the government to save money on debt service.

3.1 Structure of the debt by currency

As at March 31, 2007, the proportion of the government's total debt in Canadian dollars should amount to 93.3% and the proportion in foreign currency, 6.7%.

TABLE D.13

Structure of the total debt as at March 31, 2007^P

(millions of dollars)

Currency	Consolidated Revenue Fund		Consolidated organizations		Total		Net retirement plans liability	Less: Generations Fund	Total debt	
		%				%				%
Canadian dollar	75 136	89.7	12 618	87 754	91.0	32 554	- 575	119 733	93.3	
US dollar	351	0.4	—	351	0.4	—	—	351	0.3	
Euro	3 112	3.7	—	3 112	3.2	—	—	3 112	2.4	
Swiss franc	3 112	3.7	—	3 112	3.2	—	—	3 112	2.4	
Yen	2 074	2.5	—	2 074	2.2	—	—	2 074	1.6	
Sub-total	83 785	100.0	12 618	96 403	100.0	32 554	- 575	128 382	100.0	
Pre-financing	- 5 955		—	- 5 955		—	—	- 5 955		
Total	77 830		12 618	90 448		32 554	- 575	122 427		

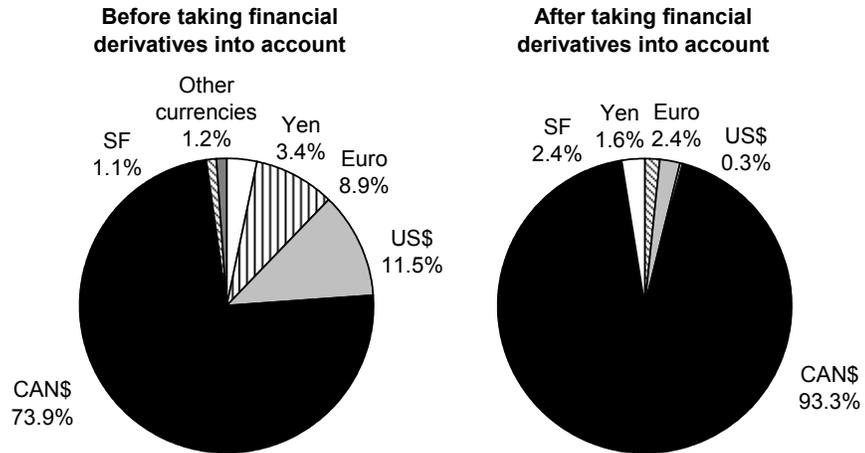
P: Preliminary results.

Note: The debt in foreign currency is expressed in the Canadian equivalent based on the exchange rates in effect on February 12, 2007.

Before financial derivatives are taken into account, the proportion of the total debt in foreign currency as at March 31, 2007 should be 26.1%. After financial derivatives are taken into account, the proportion will be 6.7%.

CHART D.8

Structure of the total debt by currency as at March 31, 2007^P



P: Preliminary results.

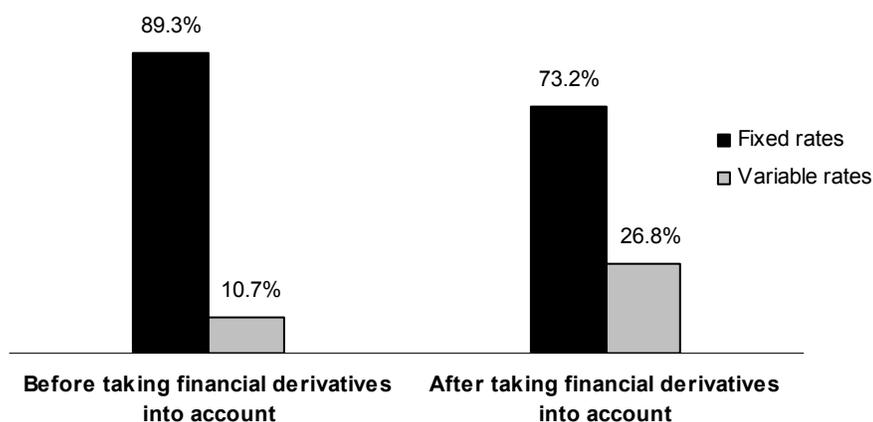
3.2 Structure of the debt by interest rate

The government diversifies its debt by keeping part of it at variable rates and part at fixed rates. Since short-term interest rates are generally lower than long-term rates, keeping part of the debt at variable rates makes it possible to achieve substantial savings on debt service.

Before financial derivatives are taken into account, the proportion of the total debt at variable rates should be 10.7% as at March 31, 2007. After financial derivatives are taken into account, the proportion will be 26.8%.

CHART D.9

Structure of the total debt by interest rate as at March 31, 2007^P



P: Preliminary results.

4. ADDITIONAL INFORMATION ON FINANCING TRANSACTIONS

TABLE D.14

Summary of consolidated financing transactions (millions of dollars)

	2006-2007 ^P			2007-2008 ^P	2008-2009 ^P
	March 2006 Budget	Preliminary results	Change		
Change in cash position					
Consolidated Revenue Fund	2 590	- 3 271	- 5 861	5 955	—
Consolidated organizations	—	123	123	—	—
Total change in cash position	2 590	- 3 148	- 5 738	5 955	—
Net borrowings					
Consolidated Revenue Fund					
New borrowings	4 702	13 200	8 498	3 849	8 637
Repayment of borrowings	- 4 805	- 5 198	- 393	- 5 348	- 5 609
	- 103	8 002	8 105	- 1 499	3 028
Consolidated organizations					
New borrowings	1 527	2 040 ¹	513	2 486	1 908
Repayment of borrowings	- 458	- 548	- 90	- 924	- 862
	1 069	1 492	423	1 562	1 046
Total net borrowings	966	9 494	8 528	63	4 074
Retirement plans sinking fund	- 2 987	- 4 481	- 1 494	- 4 956	- 3 528
Generations Fund	- 74	- 575	- 501	- 446	- 726
Total consolidated financing transactions	495	1 290	795	616	- 180

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Includes a \$513-million increase in temporary borrowings.

TABLE D.15

Gouvernement du Québec
Borrowings for the Consolidated Revenue Fund in 2006-2007^P

Amount in Canadian dollars ¹	Face value in foreign currency	Interest rate ²	Date of issue	Date of maturity	Price to investor	Yield to investor ³
(millions)		%			\$	%
142	€100	4.22 ⁴	April 3	2018-04-03	100.000	4.220
350 ⁵	—	Various	April 7	2056-12-01	100.084	4.829
346 ⁵	—	Various	April 11	2056-12-01	98.889	4.914
297	—	4.50	May 5	2016-12-01	96.390	4.942
551	—	5.75	May 10	2036-12-01	110.189	5.089
497 ⁵	—	Various	June 1	2056-12-01	99.289	4.831
294 ⁵	—	Various	June 7	2056-12-01	98.123	4.912
540	—	5.75	June 30	2036-12-01	107.918	5.227
106	—	4.50	August 22	2016-12-01	98.346	4.704
472	—	5.00	August 29	2038-12-01	102.278	4.859
110	US\$100	5.30	August 31	2016-08-31	99.740	5.334
457	—	4.50	September 18	2016-12-01	99.743	4.531
991 ⁵	—	6.35	September 21	2065-09-21	132.179	4.726
220 ⁵	—	6.35	September 25	2065-09-21	133.327	4.681
528	—	5.00	October 6	2038-12-01	105.683	4.657
15 ⁵	—	5.35	November 7	2025-06-01	109.266	4.602
27 ⁵	—	5.35	November 8	2025-06-01	108.899	4.630
22 ⁵	—	5.35	November 10	2025-06-01	108.090	4.692
1 702	US\$1 500	5.125	November 14	2016-11-14	99.598	5.177
129 ⁵	—	5.00	November 23	2051-09-21	107.657	4.595
325 ⁵	—	5.00	November 23	2051-09-21	108.121	4.572
215 ⁵	—	6.70	November 23	2062-09-21	143.107	4.561
285	300 SF	2.625 ⁴	December 21	2017-06-21	100.270	2.594
527	—	5.00	December 21	2038-12-01	105.446	4.670
500	—	Variable ⁶	December 21	2013-12-10	100.000	Variable
782	—	Variable ⁶	January 15	2013-12-10	100.057	Variable
497	—	4.50	January 29	2017-12-01	99.401	4.570
114	HK\$750	4.30 ⁶	February 2	2012-02-02	100.000	4.300
499	—	4.50	February 12	2017-12-01	99.757	4.528
181	200 SF	2.625 ⁴	February 15	2017-06-21	96.905	2.977
48	¥5 000	1.92	February 15	2017-02-15	100.000	1.920
960 ⁷	—	Various	Various	Various	Various	Various
7 ⁸	—	Various	Various	Various	Various	Various
450 ⁹	—	Various	Various	Various	Various	Various
14 ¹⁰	Various	Various	Various	Various	Various	Various
13 200						

P: Preliminary results.

Note: The Québec government has credit lines with various banks and financial institutions for a total of US\$3 500 million. None of these credit lines is being drawn upon.

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

2 Interest payable semi-annually except if another frequency is indicated in a note.

3 Yield to investor is determined on the basis of interest payable semi-annually.

4 Interest payable annually.

5 Private borrowings.

6 Interest payable quarterly.

7 Savings products issued by Épargne Placements Québec.

8 Borrowings from the Canada Pension Plan Investment Fund.

9 Immigrant Investor Program.

10 Amount received (disbursed) under interest rate and currency swap agreements.

TABLE D.16

Gouvernement du Québec
Borrowings for the Financing Fund in 2006-2007^P

Amount in Canadian dollars ¹	Face value in foreign currency	Interest rate ²	Date of Issue	Date of maturity	Price to Investor	Yield to Investor ³
(millions)		%			\$	%
A. Borrowings for consolidated organizations						
459	—	4.50	April 17	2016-12-01	97.092	4.853
185	—	4.50	May 5	2016-12-01	96.390	4.942
361	—	4.50	August 22	2016-12-01	98.346	4.704
40	—	5.00	August 29	2038-12-01	102.278	4.859
42	—	4.50	September 18	2016-12-01	99.743	4.531
200 ⁴	—	Variable ⁵	October 11	2016-10-11	100.000	Variable
40 ⁴	—	5.35	November 7	2025-06-01	109.266	4.602
200 ⁴	—	Variable ⁵	December 14	2017-05-14	100.000	Variable
Sub-total	1 527					
B. Borrowings for certain government enterprises						
27	—	4.50	April 17	2016-12-01	97.092	4.853
25	—	4.50	August 22	2016-12-01	98.346	4.704
Sub-total	52					
Total	1 579					

P: Preliminary results.

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

2 Interest payable semi-annually except if another frequency is indicated in a note.

3 Yield to investor is determined on the basis of interest payable semi-annually.

4 Private borrowings.

5 Interest payable quarterly.

TABLE D. 17

Borrowings by Financement-Québec in 2006-2007^P

Amount in Canadian dollars ¹	Face value in foreign currency	Interest rate ²	Date of issue	Date of maturity	Price to investor	Yield to investor ³
(millions)		%			\$	%
487	—	4.25	April 7	2014-03-01	97.370	4.651
600	—	Variable ⁴	June 9	2012-04-25	100.000	Variable
47	—	5.25	July 26	2034-06-01	102.091	5.108
195	—	5.25	September 29	2034-06-01	108.738	4.683
499	—	4.25	November 3	2014-03-01	99.733	4.292
220	—	Variable ⁴	January 26	2012-04-25	99.976	Variable
200 ⁵	—	Variable ⁴	February 9	2014-06-09	100.000	Variable
281	—	Variable ⁴	February 16	2013-09-16	100.000	Variable
2 529						

P: Preliminary results.

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

2 Interest payable semi-annually except if another frequency is indicated in a note.

3 Yield to investor is determined on the basis of interest payable semi-annually.

4 Interest payable quarterly.

5 Private borrowings.

TABLE D.18

Borrowings by Hydro-Québec in 2006¹

Amount in Canadian dollars ²	Face value in foreign currency	Interest rate ³	Date of issue	Date of maturity	Price to investor	Yield to investor ⁴
(millions)		%			\$	%
596	—	6.00	January 17	2040-02-15	119.246	4.841
590	—	6.00	February 3	2040-02-15	118.050	4.904
591	—	6.00	April 3	2040-02-15	118.236	4.892
575	—	6.00	April 18	2040-02-15	114.963	5.070
520	—	5.00	October 17	2045-02-15	104.078	4.767
533	—	5.00	November 14	2045-02-15	106.503	4.635
495 ⁵	Various	Various	Various	Various	Various	Various
3 900						

Note: Hydro-Québec has credit lines with various banks and financial institutions for a total of US\$2 000 million. None of these credit lines is being drawn upon.

1 Borrowings made from January 1 to December 31, 2006.

2 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

3 Interest payable semi-annually except if another frequency is indicated in a note.

4 Yield to investor is determined on the basis of interest payable semi-annually.

5 Amount received (disbursed) under interest rate and currency swap agreements.

Section E

Personal Income Tax Reduction and Sustainable Economic Development

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1. PERSONAL INCOME TAX REDUCTION

1.1 Personal income tax reduction of \$464 million

With the 2007-2008 Budget Speech, the government is announcing an income tax reduction of \$464 million over a full year. The reduction in taxes is enabled by the following changes:¹

- 7% increase in the taxable income thresholds defined in the tax table as of January 1, 2008;
- option to split retirement income between spouses;
- introduction of a refundable tax credit for education savings;
- increase in the tax credit for retirement income from \$1 000 to \$1 500;
- introduction of a refundable tax credit for people providing respite to informal caregivers;
- enhancement of the refundable tax credit for child care expenses;
- enhancement of the tax treatment for parents with children enrolled in post-secondary studies;
- increase in the rate of the tax credit for the treatment of infertility.

TABLE E.1

Impact of the personal income tax reduction in the 2007-2008 Budget (millions of dollars)

	Impact on	Impact on financial	
	tax burden	framework	
	Full year	2007-2008	2008-2009
7% increase in the taxable income thresholds defined in the tax table	- 250	- 50	- 250
Retirement income splitting	- 106	- 27	- 106
New refundable tax credit for education savings	- 41	- 29	- 41
Increase in the tax credit for retirement income from \$1 000 to \$1 500	- 37	- 10	- 70
New refundable tax credit for people providing respite to informal caregivers	- 10	- 2	- 5
Enhancement of the refundable tax credit for child care expenses	- 10	- 2	- 8
Enhancement of the tax treatment for parents with children enrolled in post-secondary studies	- 8	- 2	- 8
Increase in the rate of the refundable tax credit for the treatment of infertility from 30% to 50% (third treatment and over)	- 2	—	- 1
TOTAL	- 464	- 122	- 489

1 The changes to the personal income tax system are explained in greater detail in *Additional Information on the Budgetary Measures*, except for the measure relating to retirement income splitting, which was explained in *Information Bulletin 2006-6*.

The tax reduction announced in the 2007-2008 Budget is in addition to those provided for in the 2004-2005, 2005-2006 and 2006-2007 budgets. Including indexation of the tax system, the tax cuts granted to Québec taxpayers will stand at \$3.8 billion in 2008.

In the 2004-2005 Budget, the government announced that it was putting \$1.1 billion back into taxpayers' pockets, mainly through the following measures:

- Child Assistance payment;
- Work Premium;
- a single tax system.

The 2005-2006 Budget provided for an income tax reduction of \$372 million through, in particular:

- the introduction of the \$500 deduction for workers;
- the reform of support measures for persons with disabilities and informal caregivers.

The 2006-2007 Budget provided for an income tax reduction of \$382 million through, among other measures:

- the increase in the deduction for workers from \$500 to \$1 000;
- enhancement of the refundable tax credit for home-support services for seniors.

Indexation of the tax system from 2004 to 2008 eases the tax burden on Québec taxpayers by \$1.5 billion.

TABLE E.2

Taxpayer gain by income bracket – 2008

(millions of dollars)

Taxpayer's income	2004-2005 Budget	2005-2006 Budget	2006-2007 Budget	2007-2008 Budget	Indexation ¹	Total
Below \$15 000	384	15	40	11	87	537
\$15 000 to \$25 000	283	62	69	14	177	605
\$25 000 to \$50 000	273	166	153	126	580	1 298
\$50 000 to \$75 000	93	81	73	143	329	719
\$75 000 to \$100 000	24	27	26	85	162	324
\$100 000 and over	13	21	21	85	165	305
TOTAL	1 070	372	382	464	1 500	3 788

1 Indexation for 2004, 2005, 2006, 2007 and 2008.

Indexation of the tax system

In order to protect taxpayers' purchasing power against the effects of inflation, the Québec government indexes the personal income tax system. All taxable income thresholds defined in the tax table as well as most tax credits are indexed.

In 2008, the Québec government will index the tax system at a cost of \$355 million. The cumulative impact for the period 2004 to 2008 will be \$1.5 billion.

Impact of indexation of the personal income tax system – 2004-2008

	2004	2005	2006	2007	2008
Indexation rate (%)	2.00	1.43	2.43	2.03	2.00 ¹
Impact in millions of dollars	235	180	390	340	355
Cumulative impact in millions of dollars	235	415	805	1 145	1 500

1 Based on an assumed indexation rate of 2%. The real indexation rate for 2008 will be known in fall 2007.

In 2007, the indexation rate of the Québec tax system is 2.03%. Only five other provinces have indexed their tax system since 2004.

Rate of indexation of federal and provincial tax systems

(percentage)

	2004	2005	2006	2007
Federal ¹	3.3	1.7	2.2	2.2
Provinces				
Newfoundland and Labrador	—	—	—	—
Prince Edward Island	—	—	—	—
Nova Scotia	—	—	—	—
New Brunswick ¹	—	1.7	2.2	2.2
Québec ²	2.0	1.43	2.43	2.03
Ontario ³	2.9	1.9	2.2	2.1
Manitoba	—	—	—	—
Saskatchewan ¹	3.3	1.7	2.2	2.2
Alberta ³	6.0	1.3	1.9	3.6
British Columbia ³	2.6	1.8	2.1	1.9

Note: — means that the tax system was not indexed.

1 The indexation rate is calculated on the basis of Canada's consumer price index.

2 As of the 2005 taxation year, the indexation rate is based on Québec's consumer price index, minus alcohol and tobacco.

3 The indexation rate is calculated on the basis of the province's consumer price index.

1.1.1 Reduction in the tax burden differential

The personal income tax reductions contained in the last three budgets and the reduction announced in the present budget will narrow the difference in the tax burden between Québec and the other provinces.

In 2003, the average tax burden differential between Québec and the other provinces was \$2.2 billion. In 2008, the gap will be narrowed by 65% to \$770 million. Québec taxpayers will pay an average of \$211 more in income tax than in the other provinces.

Between 2003 and 2008, Québec will have climbed from 9th to 6th position in the provincial ranking of lowest tax burden in Canada.

TABLE E.3

**Personal income tax
Tax burden differential between Québec and the other provinces
determined by applying the other provinces' tax structure to Québec¹**

	2003	2008 ²	
	(\$M)	(\$M)	(\$ per taxpayer)
Differential Québec - other provinces³			
Alberta	4 433	3 544	971
Ontario	5 627	3 297	903
British Columbia	3 538	2 793	765
Saskatchewan	2 234	1 092	299
New Brunswick	1 526	503	138
Manitoba	937	- 341	- 93
Nova Scotia	689	- 408	- 112
Prince Edward Island	1 099	- 768	- 210
Newfoundland and Labrador	- 677	- 2 778	- 761
AVERAGE DIFFERENTIAL	2 156	770	211

1 Including health-care contributions and family assistance measures (e.g. family allowances and refundable tax credits).

2 Including the measures announced in Québec's 2007-2008 Budget and the budgets delivered by other provinces as at February 7, 2007.

3 The Québec tax abatement of 16.5% is subtracted from the tax burden differential.

1.2 7% increase in the taxable income thresholds defined in the tax table as of January 1, 2008

To continue delivering on the government's promise to reduce the tax burden on Québec taxpayers to the Canadian average, the 2007-2008 Budget Speech is announcing a 7% increase in the taxable income thresholds at which the rates defined in the personal income tax table begin to apply.

As of January 1, 2008, the taxable income thresholds in the tax table will be defined as follows:

- \$0 to \$32 000 for the first rate of 16%;
- \$32 000 to \$64 000 for the second rate of 20%;
- \$64 000 and over for the third rate of 24%.

TABLE E.4

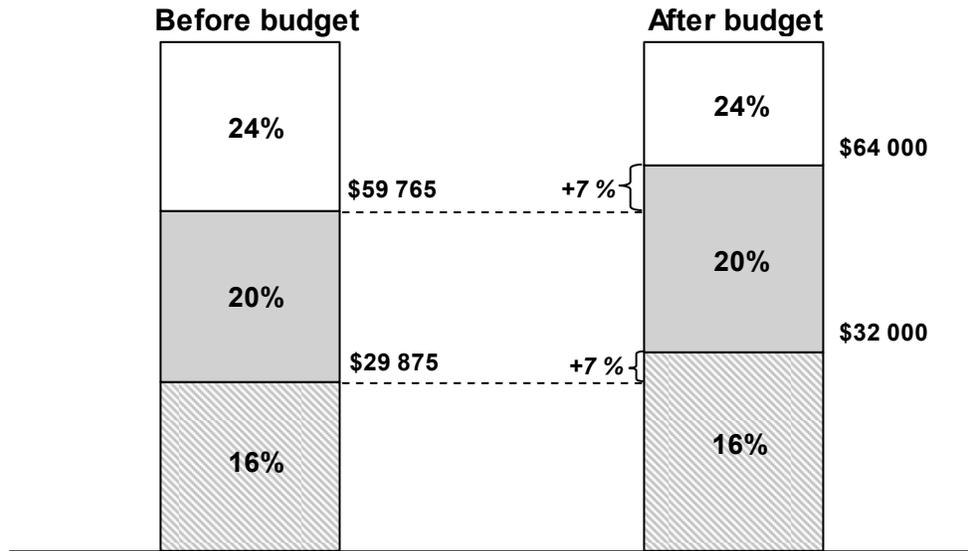
Changes to the tax table – 2008

Taxable income thresholds			
2007 taxation year	2008 taxation year		Tax rate
	Before budget¹	After budget	
\$0 to \$29 290	\$0 to \$29 875	\$0 to \$32 000	16%
\$29 290 to \$58 595	\$29 875 to \$59 765	\$32 000 to \$64 000	20%
\$58 595 and over	\$59 765 and over	\$64 000 and over	24%

1 Planned taxable income thresholds in the tax table, including an indexation rate of 2%.

CHART E.1

**7% increase in taxable income thresholds
in the tax table – as at January 1, 2008**



The 7% increase in the taxable income thresholds defined in the tax table will translate to a \$250 million tax cut for over 2.4 million taxpayers in 2008.

— These taxpayers will see their income tax reduced by up to \$254. Couples could see a tax cut of up to \$509.

TABLE E.5

Gain derived from the 7% increase in taxable income thresholds in the tax table by household type – 2008

(dollars)

Family Income	Couple with 2 children and 1 Income	Couple with 2 children and 2 incomes¹	Single-parent family	Person living alone
25 000	—	—	—	—
35 000	85	—	85	85
40 000	85	—	85	85
50 000	85	—	85	85
60 000	85	—	85	85
65 000	254	130	254	254
70 000	254	170	254	254
75 000	254	170	254	254
100 000	254	170	254	254
150 000	254	509	254	254

1 Each spouse earns 50% of the income.

1.2.1 Cumulative household gain

The tax reductions announced in the last four budget speeches are significant for households in all income brackets.

The disposable income of a couple with two children and one earned income has risen by:

- \$4 724 for a total family income of \$25 000;
- \$1 759 for a total family income of \$50 000;
- \$2 093 for a total family income of \$75 000.

TABLE E.6

Gain for a couple with two children and one earned income – 2008

(dollars)

Earned Income	2004-2005 Budget ¹			2005-2006 and 2006-2007 budgets ¹	2007-2008 Budget ¹		Gain
	Child Assistance ²	Work Premium	Single tax system ³	Deduction for workers	Increase in income thresholds in tax table	Indexation ⁴	
0	1 750	—	—	—	—	199	1 949
15 000	1 750	2 780	—	20	—	249	4 799
25 000	2 224	1 780	75	260	—	386	4 724
35 000	625	780	105	300	85	689	2 585
45 000	710	—	33	240	85	745	1 813
50 000	660	—	29	240	85	745	1 759
75 000	570	—	21	280	254	968	2 093
100 000	—	—	21	240	254	800	1 316
125 000	—	—	21	240	254	800	1 316

Note: Figures have been rounded off and the total may not correspond to the total indicated.

1 Not including indexation in the column "Indexation."

2 Impact of the Child Assistance payment less the non-refundable tax credits respecting children, the tax reduction in respect of families, and family allowances.

3 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of \$750 per year).

4 Indexation for 2004, 2005, 2006, 2007 and 2008.

A couple with two children and two earned incomes will see its disposable income grow by:

- \$4 774 for a total family income of \$25 000;
- \$1 855 for a total family income of \$50 000;
- \$2 281 for a total family income of \$75 000.

TABLE E.7

Gain for a couple with two children and two earned incomes – 2008
(dollars)

Earned income	2004-2005 Budget ¹			2005-2006 and 2006-2007 budgets ¹	2007-2008 Budget ¹	Indexation ⁴	Gain
	Child Assistance ²	Work Premium	Single tax system ³	Deduction for workers	Increase in income thresholds in tax table		
0	1 750	—	—	—	—	199	1 949
15 000	1 750	2 780	—	20	—	249	4 799
25 000	2 224	1 780	75	390	—	306	4 774
35 000	920	780	105	520	—	597	2 922
45 000	710	—	135	400	—	694	1 939
50 000	660	—	150	400	—	645	1 855
75 000	570	—	215	480	170	845	2 281
100 000	—	—	57	400	170	677	1 305
125 000	—	—	42	480	309	1 123	1 954
150 000	—	—	42	480	509	1 123	2 154

Notes: Figures have been rounded off and the total may not correspond to the total indicated.
Each spouse earns 50% of the income.

1 Not including indexation in the column "Indexation."

2 Impact of the Child Assistance payment less the non-refundable tax credits respecting children, the tax reduction in respect of families, and family allowances.

3 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of \$750 per year).

4 Indexation for 2004, 2005, 2006, 2007 and 2008.

A single-parent family with one child will see its disposable income go up by:

- \$3 149 for an income of \$20 000;
- \$1 756 for an income of \$35 000;
- \$1 401 for an income of \$50 000.

TABLE E.8

Gain for a single-parent family with one child – 2008

(dollars)

Earned income	2004-2005 Budget ¹			2005-2006 and 2006-2007 budgets ¹	2007-2008 Budget ¹		Gain
	Child Assistance ²	Work Premium	Single tax system ³	Deduction for workers	Increase in income thresholds in tax table	Indexation ⁴	
0	775	—	—	—	—	180	955
10 000	775	2 160	—	30	—	218	3 183
20 000	1 272	1 160	60	260	—	397	3 149
30 000	667	160	90	330	—	603	1 850
35 000	681	—	105	270	85	615	1 756
40 000	631	—	74	240	85	517	1 546
50 000	531	—	29	240	85	517	1 401
75 000	135	—	21	280	254	723	1 414
100 000	—	—	21	240	254	592	1 108
125 000	—	—	21	240	254	592	1 108

Note: Figures have been rounded off and the total may not correspond to the total indicated.

1 Note including indexation in the column "Indexation."

2 Impact of the Child Assistance payment less the non-refundable tax credits respecting children, the tax reduction in respect of families, and family allowances.

3 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of \$750 per year).

4 Indexation for 2004, 2005, 2006, 2007 and 2008.

A person living alone will see his disposable income increase by:

- \$426 for an income of \$20 000;
- \$802 for an income of \$35 000;
- \$1 023 for an income of \$75 000.

TABLE E.9

Gain for a person living alone – 2008

(dollars)

Earned Income	2004-2005 Budget ¹		2005-2006 and 2006-2007 budgets ¹		2007-2008 Budget ¹		Gain
	Work Premium	Single tax system ²	Deduction for workers		Increase in income thresholds in tax table	Indexation ³	
10 000	481	—	30		—	9	520
20 000	—	60	160		—	206	426
30 000	—	90	230		—	339	659
35 000	—	105	230		85	382	802
40 000	—	74	200		85	284	643
50 000	—	29	200		85	284	598
75 000	—	21	240		254	507	1 023
100 000	—	21	240		254	507	1 023
125 000	—	21	240		254	507	1 023
150 000	—	21	240		254	507	1 023

Note: Figures have been rounded off and the total may not correspond to the total indicated.

1 Note including indexation in the column "Indexation."

2 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of \$750 per year).

3 Indexation for 2004, 2005, 2006, 2007 and 2008.

1.3 Retirement income splitting

In December, Québec announced that it would be allowing couples the option to split retirement income as of the 2007 taxation year.

This measure will enable taxpayers who receive retirement income,² such as payments under a registered pension plan, amounts withdrawn from a registered retirement savings plan (RRSP) starting at age 65 and payments under a registered retirement income fund, to allocate up to 50% of this income to their spouse.

The definition of eligible income in Québec will be harmonized with the federal tax system, which also allows couples to split certain types of retirement income as of January 1, 2007.

Splitting retirement income reduces the amount of income tax payable by a household. For example:

- A couple with one retirement income of \$20 000 will pay \$287 less in income tax.
- A couple with two retirement incomes totalling \$70 000 will receive a tax cut of \$535.

TABLE E.10

Gain derived from retirement income splitting for a couple receiving eligible retirement income – 2008 (dollars)

Eligible retirement income	Couple with one retirement income ¹			Couple with two retirement incomes ^{1,2}		
	Income tax payable before splitting	Income tax payable after splitting	Gain	Income tax payable before splitting	Income tax payable after splitting	Gain
20 000	1 860	1 573	287	1 620	1 573	47
30 000	4 540	3 966	574	4 562	4 406	156
40 000	6 844	5 966	878	7 039	6 705	334
50 000	9 045	8 260	786	9 360	9 095	265
60 000	11 435	10 261	1 174	11 538	11 261	277
70 000	13 935	12 261	1 674	13 963	13 428	535

Note: Assuming that the amount of the individual retirement pensions received under the Québec Pension Plan is the lesser of \$10 298 and 5/12 of the eligible retirement income.

1 Not including retirement pensions received under the Québec Pension Plan, which may already be split.

2 One of the spouses receives 80% of the household income and the other, 20%.

- 2 The income-splitting measure does not apply to certain types of retirement income, including pensions received under the Québec Pension Plan, Old Age Security pensions, and sums withdrawn from an RRSP before the age of 65.

In 2007, close to 370 000 couples that declare eligible retirement income will enjoy a tax cut of \$106 million.

TABLE E.11

**Impact of retirement income splitting
by family income – 2007**

Household income	Number of households	Total impact (\$M)	Average impact (\$)
Below \$50 000	171 505	13	76
\$50 000 to \$75 000	99 326	42	420
\$75 000 to \$100 000	49 505	22	448
\$100 000 and over	49 343	29	589
TOTAL	369 679	106	286

1.4 Increase in the tax credit for retirement income from \$1 000 to \$1 500

The 2007-2008 Budget Speech is raising the maximum eligible retirement income used to determine the tax credit from \$1 000 to \$1 500 as of the 2007 taxation year.

The tax credit for retirement income is equal to 20% of the eligible retirement income received by an individual, including:

- life annuities paid under a pension plan;
- payments from a registered retirement savings plan.

The \$500 increase in the retirement income giving entitlement to the tax credit will translate to a maximum gain of \$100 for an elderly person living alone and \$200 for an elderly couple.

The amount of an individual's eligible retirement income is reduced on the basis of family income.³

TABLE E.12

Gain derived from the increase in eligible retirement income giving entitlement to the tax credit from \$1 000 to \$1 500 – 2007

(dollars)

Retirement income ²	Elderly person living alone			Elderly couple ¹		
	Tax credit before budget	Tax credit after budget	Gain	Tax credit before budget	Tax credit after budget	Gain
15 000	200	300	100	—	—	—
25 000	200	300	100	400	600	200
50 000	75	175	100	300	500	200
55 000	—	25	25	150	350	200
65 000	—	—	—	—	50	50

1 Couple with two retirement incomes, where each spouse receives 50% of the income.

2 Including retirement income other than Old Age Security benefits and the Guaranteed Income Supplement.

3 The tax credit is calculated as follows:
 $20\% \times [\text{eligible amount} - 15\% \times (\text{family income} - \$29\,290)]$;
 where the eligible amount is equal to the sum total of the amount for retirement income, the amount with respect to age and the amount for a person living alone.

Raising the maximum amount of eligible retirement income from \$1 000 to \$1 500 will give 356 000 Quebecers a tax cut of \$37 million.

TABLE E.13

Impact of the increase in the tax credit for retirement income from \$1 000 to \$1 500 by income – 2007

Taxpayer's income	Number of taxpayers	Impact (\$M)	Average impact (\$)
Below \$25 000	60 685	5.7	94
\$25 000 to \$50 000	216 997	22.3	103
\$50 000 to \$75 000	73 635	8.6	117
\$75 000 and over	4 689	0.4	85
TOTAL	356 006	37.0	104

1.5 New refundable tax credit for people providing respite to informal caregivers

The 2007-2008 Budget Speech is announcing the introduction of a new refundable tax credit, as of the 2007 taxation year, to recognize the contribution of people who provide volunteer respite to informal caregivers of people with disabilities.

The tax credit is not intended as remuneration. Rather, its purpose is to recognize the social act of support offered to informal caregivers as well as some of the expenses incurred by that act. The amount of the tax credit will be:

- a maximum of \$500 for a person providing volunteer respite to an informal caregiver;
- a maximum of \$1 000 for all of the people providing volunteer respite to the caregiver of the same care recipient.

People who offer volunteer respite care may claim the tax credit in their income tax return on the condition that they:

- provide the same caregiver with the equivalent of at least one day of free respite per week during a given year;
- receive an information slip from the caregiver attesting to the respite time provided and the level of the tax credit;
- are not a member of the care recipient's immediate family.

This measure will provide \$5 million in tax relief to an estimated 10 000 volunteers in 2007.

The measure is in addition to the other measures to facilitate home support for seniors or people in loss of autonomy, namely:

- the refundable tax credit for home-support services for seniors;
- the refundable tax credit for natural caregivers of adults.

TABLE E.14

**Refundable tax credits designed to facilitate home support
for seniors or people in loss of autonomy – 2007**

	Home-support services for seniors	Natural caregivers of adults	People providing respite to informal caregivers
Person who receives the refundable tax credit	Person aged 70 or over	Caregiver	Person who provides the equivalent of at least one day of respite per week during a given year
Amount of assistance paid per year	Maximum \$3 750	Maximum \$1 020 reduced on the basis of the income of the person helped (minimum \$561)	Maximum \$500 per volunteer and \$1 000 for all of the people providing volunteer respite for the same care recipient
Users	290 000	76 000	10 000
Tax benefit	\$194 million	\$50 million	\$5 million

1.6 New refundable tax credit for education savings

To encourage Québec families to save more for their children's post-secondary education, the 2007-2008 Budget Speech is announcing that contributions to a registered education savings plan (RESP) will henceforth give entitlement to a refundable education savings tax credit from the Québec government.

The tax credit is based on RESP contributions from parents, grandparents or anyone wishing to participate in a child's education. The tax assistance for education savings will equal 10% of the first \$2 000 in annual contributions. In the case of low- and middle-income families:

- the rate of the tax credit may increase from 10% to 20% on the first \$500 contributed yearly;
- the rate will remain at 10% for contributions over \$500, to a maximum of \$2 000.

Thus, for an annual contribution of \$2 000, the Québec government will add:

- \$200 (10%) for a family income of over \$74 357;
- \$225 (11.25%) for a family income of over \$37 178 to \$74 357;
- \$250 (12.5%) for a family income of \$37 178 or less.

The maximum lifetime tax credit granted for one child is \$3 600.

The tax credit will be paid into the beneficiary's RESP account, on top of the contribution. The investment income generated by the contributions and tax credit will accumulate sheltered from tax until the child begins post-secondary studies. The accumulated amounts will become taxable for the child once they have been received by the latter in the form of an education assistance payment.

TABLE E.15

Illustration of the assistance granted under the new refundable tax credit for education savings for an RESP annual contribution of \$2 000 – 2007
(dollars)

	Family income		
	\$37 178 ¹ or less	Over \$37 178 ¹ to \$74 357 ¹	Over \$74 357 ¹
Parental contribution to the RESP account	2 000	2 000	2 000
New Québec refundable tax credit for education savings added to the RESP account			
On the first \$500 contributed yearly			
– Amount of the tax credit	100	75	50
– %	20%	15%	10%
On the portion of annual contributions over \$500, to a maximum of \$2 000			
– Amount of the tax credit	150	150	150
– %	10%	10%	10%
Total tax credit			
– Amount of the tax credit	250	225	200
– %	12.5%	11.25%	10%
Contribution and Québec refundable tax credit paid into the RESP account	2 250	2 225	2 200

1 Amounts correspond to the income cutoffs for the Canada Education Savings Grant.

The Québec tax credit is in addition to the federal education assistance granted on annual RESP savings.

The new tax credit will benefit more than 300 000 children and represents a tax break of \$41 million over a full year. The new measure will apply to RESP contributions made after the day of the 2007-2008 Budget Speech.

Registered Education Savings Plan (RESP)

- The registered education savings plan is intended to help parents save for post-secondary education of the designated beneficiary (usually a child under 18 years of age).
- The annual contribution limit for an RESP is \$4 000. The lifetime limit is \$42 000.

Application procedures for the new Québec refundable tax credit for education savings

- The new Québec tax credit is in addition to the Canada Education Savings Grant (CESG) described below. The Québec plan is fully harmonized with the CESG, except for the amount of the grant.
- A parent who contributes \$2 000 a year to an RESP will receive a tax credit equal to:
 - 10% of the first \$500 in annual contributions, and may increase to 20% for low-income families;
 - 10% on all contributions over the first \$500, to a maximum of \$2 000.
- The maximum annual tax credit is reached with an RESP contribution of \$2 000.

Main parameters of the Québec refundable tax credit for education savings (RTCES) – 2007

	Family income		
	\$37 178 ¹ or less	Over \$37 178 ¹ to \$74 357 ¹	Over \$74 357 ¹
RTCES on the first \$500 contributed yearly to an RESP	Max. \$100 20%	Max. \$75 15%	Max. \$50 10%
RTCES on all RESP annual contributions over the first \$500, to a maximum of \$2 000	Max. \$150 10%	Max. \$150 10%	Max. \$150 10%
Maximum annual RTCES	\$250	\$225	\$200
Maximum lifetime RTCES	\$3 600	\$3 600	\$3 600

1 Amounts correspond to the income cutoffs for the Canada Education Savings Grant.

Canada Education Savings Grant application procedures

- For example, the CESG for a parent who contributes \$2 000 a year to an RESP is equal to:
 - 20% of the first \$500 in annual contributions, and may increase to 40% for low-income families;
 - 20% on all contributions over the first \$500, to a maximum of \$2 000.
- The maximum annual grant is reached with an RESP contribution of \$2 000.

Main parameters of the Canada Education Savings Grant¹ (CESG) –2007

	Family income		
	\$37 178 ² or less	Over \$37 178 ² to \$74 357 ²	Over \$74 357 ²
CESG on the first \$500 contributed yearly to an RESP	Max. \$200 40%	Max. \$150 30%	Max. \$100 20%
CESG on all RESP annual contributions over the first \$500, to a maximum of \$2 000	Max. \$300 20%	Max. \$300 20%	Max. \$300 20%
Maximum annual grant	\$500	\$450	\$400
Maximum lifetime grant	\$7 200	\$7 200	\$7 200

1 The federal government supplements the Canada Education Savings Grant with a learning bond.

2 Income cutoffs are indexed annually.

The yield on contributions and the Québec and federal education savings assistance accrue free of tax until it is received by the child in the form of an education assistance payment. With the exception of contributions, government assistance and the accrued yield are taxable only for the beneficiary at the time of withdrawal.

1.7 Enhancement of the tax treatment for parents with children enrolled in post-secondary studies

To ease the tax burden on parents who financially support their children's post-secondary education, the 2007-2008 Budget Speech is making significant changes to the tax assistance relative to education.

These changes will enhance and simplify the tax assistance provided to parents that have children engaged in vocational training or post-secondary studies.

More specifically, the 2007-2008 Budget Speech provides that:

- The portion of tuition and examination fees not used by the student to offset his taxes may be transferred to the parents.
- Parents will benefit from an enhancement of the tax credit for children under 18 engaged in vocational training or post-secondary studies.
- The portion of the amount for recognized essential needs not used by an adult student to reduce his taxes may be transferred to the parents.

☐ Transfer of tuition and examination fees to parents

Tuition and examination fees paid during a year give entitlement to a non-refundable tax credit in the calculation of income tax payable by students. The portion of tuition and examination fees not used to offset the amount of income tax payable by the student is deferrable to the following years. Since parents often pay all or part of their children's tuition fees, students may, as of the 2007 taxation year, transfer the unused portion of tuition and examination fees for the year to their parents so that they can reduce their income tax.

☐ Enhancement of the tax credit for parents of a child under 18 who is a student

The tax system grants parents a maximum tax credit of \$3 720 for children engaged in vocational training or post-secondary studies. The amount of the tax credit is reduced by the amount of the child's net income. The tax system will be amended as of the 2007 taxation year to reduce the tax credit by an amount equal to 80% of the child's net income, rather than 100%. In addition, scholarships and bursaries will no longer be considered in the calculation of the child's income for the purposes of reducing the tax credit granted to the parents. These changes will increase the value of the tax credit for parents.

□ Transfer to parents of the amount for recognized needs of a child over 18 who is a student

As of the 2007 taxation year, the tax credit claimed by parents for an adult child who is a student (\$6 650⁴) will be replaced by a transfer to parents of the unused portion of the amount of recognized essential needs for the child (\$6 650). The maximum amount for recognized essential needs that may be transferred by the child will be equal to the amount of the tax credit it replaces. In addition, scholarships and bursaries received by students will no longer reduce the amount of the tax credit that may be transferred to the parents. Consequently, the tax credit claimed by parents for adult children will be higher.

These changes represent \$8 million a year in tax relief for parents with dependent children engaged in vocational training or post-secondary studies.

TABLE E.16

Enhancement of the tax treatment for parents with children enrolled in post-secondary studies – 2007

Before 2007-2008 Budget	After 2007-2008 Budget
Transfer of tuition and examination fees to parents	
<ul style="list-style-type: none"> - Tuition and examination fees for the year not used by students may not be transferred to their parents or grandparents 	<ul style="list-style-type: none"> - Parents and grandparents may claim tuition and examination fees for the year not used by a student
Enhancement of the tax credit for parents of a child under 18 who is a student	
<ul style="list-style-type: none"> - Amount respecting children engaged in vocational training or post-secondary studies: maximum \$3 720 - Amount reduced at a rate of 100% of the child's income including scholarships and bursaries 	<ul style="list-style-type: none"> - No change - Amount reduced at a rate of 80% of the child's income not including scholarships and bursaries
Transfer to parents of the amount for recognized essential services of a child over 18 who is a student	
Tax credit for a child over 18 enrolled in post-secondary studies <ul style="list-style-type: none"> - Basic amount of \$2 930 - Amount respecting children engaged in vocational training or post-secondary studies: maximum \$3 720 - Total: \$6 650 - Total amount reduced at a rate of 100% of the child's net income including scholarships and bursaries 	<ul style="list-style-type: none"> - Parents may claim the portion of the amount for recognized essential needs not used by the student and not reduced by the amount of scholarships and bursaries: maximum \$6 650

4 Including the basic amount for adult children who are students (\$2 930) and the amount for children engaged in vocational and post-secondary studies (\$3 720).

For example, the gain for parents as a result of these measures is:

- \$240 for parents of a child under 18 who has an income of \$3 500 and tuition fees of \$500;
- \$599 for parents of a child over 18 who has an income of \$5 000 and tuition fees of \$2 000.

TABLEAU E.17

Gain for parents under the improved tax assistance relative to education – 2007
(dollars)

Student's income	Before 2007-2008 Budget			After 2007-2008 Budget			Subtotal	Gain
	Transfer of tuition fees	Tax credit respecting children ¹	Subtotal	Transfer of tuition fees	Tax credit respecting children ²	Transfer of the amount for recognized essential needs		
Parents with a child under 18 enrolled in post-secondary studies – tuition fees of \$500								
2 500	n/a	244	244	100	344	n/a	444	200
3 500	n/a	44	44	100	184	n/a	284	240
5 000	n/a	—	—	100	—	n/a	100	100
7 500	n/a	—	—	100	—	n/a	100	100
10 000	n/a	—	—	100	—	n/a	100	100
Parents with a child over 18 enrolled in post-secondary studies – tuition fees of \$2 000								
2 500	n/a	831	831	400	n/a	930	1 330	499
3 500	n/a	631	631	400	n/a	770	1 170	539
5 000	n/a	331	331	400	n/a	530	930	599
7 500	n/a	—	—	400	n/a	130	530	530
10 000	n/a	—	—	400	n/a	—	400	400

Note: Assuming the parents pay all of the student's tuition fees and the student transfers all unused amounts.

- 1 Including the basic amount for adult children who are students and the amount for children engaged in vocational training or post-secondary studies.
- 2 Amount for children engaged in vocational training or post-secondary studies.

1.8 Enhancement of the refundable tax credit for child care expenses

The 2007-2008 Budget Speech provides for the granting of the refundable tax credit for child care expenses regardless of earned income⁵ as of the 2007 taxation year. This change will substantially increase the financial assistance granted to families whose child care expenses exceed the household's lowest earned income. It will also greatly simplify calculation of the tax credit.

Thus, spouses who run a family business (e.g. a farm), where the business makes a profit and only one of the spouses reports earned income, will now be able to claim the tax credit even if the income of the spouse with the lowest earned income is below the incurred child care expenses. For example, the annual gain for a couple whose only earned income is a net business income of \$25 000 and whose child care expenses are \$7 500 will be \$5 250.

A single-parent family whose reported business income is less than its incurred child care expenses and the family has no other earned income will benefit from the full value of the tax credit.

The enhancement of the tax credit represents \$10 million in annual tax relief for Québec taxpayers.

TABLE E.18

Gain derived from the enhanced refundable tax credit for child care expenses¹ for families operating a business – 2007 (dollars)

Net business income	Couple where only one spouse reported net business income			Single-parent family		
	Before budget	After budget	Gain	Before budget	After budget	Gain
0	—	5 250	5 250	—	5 250	5 250
1 000	—	5 250	5 250	750	5 250	4 500
2 500	—	5 250	5 250	1 875	5 250	3 375
5 000	—	5 250	5 250	3 750	5 250	1 500
10 000	—	5 250	5 250	5 250	5 250	—
15 000	—	5 250	5 250	5 250	5 250	—
20 000	—	5 250	5 250	5 250	5 250	—
25 000	—	5 250	5 250	5 250	5 250	—

Note: Assuming families pay \$7 500 in child care expenses and have no other income besides net business income.

1 Child is under 7 years of age and does not have a severe and prolonged impairment in mental or physical functions.

5 Essentially, earned income includes gross employment income, net business income, scholarships, fellowships and bursaries, and certain government benefits (Employment Insurance benefits, Québec Parental Insurance Plan benefits, disability pensions under the Québec Pension Plan, etc.).

2. TARGETING SUSTAINABLE ECONOMIC DEVELOPMENT⁶

2.1 Strategy for the Development of Every Region

The government is introducing the Québec Strategy for the Development of Every Region to make the regions more autonomous and more prosperous.

The strategy defines a range of measures for every region, but particularly Montréal and Québec's capital. The measures reflect two approaches being adopted by the government.

- Additional resources are being offered to the regions and placed under their authority;
- The government is allocating additional resources to programs under its direct responsibility.

The government will allocate \$825 million over the next five years to measures aimed at giving the regions greater autonomy and ability to act in the area of economic development. The paper that accompanies the Budget Speech provides more detailed information on the directions and measures of the Strategy for the Development of Every Region.

⁶ The changes to the corporate tax system are explained in greater detail in *Additional Information on the Budgetary Measures*.

2.2 Retargeting tax assistance to resource regions

□ Gradual reduction in the tax holiday granted to manufacturing SMEs in resource regions

Four tax measures currently exist to support job creation, encourage economic diversification and strengthen the manufacturing fabric of the resource regions, more specifically second and third natural resource transformation activities:

- refundable tax credit of 30% for processing activities in resource regions;
- refundable tax credit of 30% for the Vallée de l'aluminium;
- refundable tax credit of 40% for Gaspésie and certain maritime regions of Québec;
- tax holiday of 75% for manufacturing SMEs in resource regions.

Briefly, the tax credits are granted in regard to the wages paid for jobs created by companies in a Québec resource region and will end on December 31, 2009. The tax assistance applies to new jobs directly related to the company's production process, which excludes such things as administrative duties.

The tax holiday consists of an exemption of 75% of income tax, the tax on capital and employer contributions to the Health Services Fund until December 31, 2010. The tax holiday may be claimed by any enterprise that qualifies as a "manufacturing SME in a resource region," which means:

- all of its activities are carried out in one or more establishments in a resource region;
- all of its activities consist mainly in carrying on a manufacturing or processing business;
- its paid-up capital is under \$30 million.

The cost of these four tax measures for 2006 is \$104 million.

TABLE E.19

Tax measures applying to businesses in resource regions – 2006

Tax measures	Eligible activities/businesses	Eligible territories	Cost (\$M)
Refundable tax credit for processing activities in resource regions			54
<ul style="list-style-type: none"> - 30% of wages paid to new employees - Up to December 31, 2009 	<ul style="list-style-type: none"> - Manufacturing or processing of finished or semi-finished products (including equipment) from wood, paper and cardboard, as well as of metals (except aluminum) and non-metallic minerals - Food processing, reclamation and recycling of waste and residue produced by natural resource exploitation or processing, fresh-water aquaculture, production of non-conventional energy, manufacturing of products from peat 	<ul style="list-style-type: none"> - Bas-Saint-Laurent - Saguenay-Lac-Saint-Jean - Mauricie - Abitibi-Témiscamingue - Côte-Nord - Nord-du-Québec - Gaspésie-Îles-de-la-Madeleine - Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac RCMs 	
Refundable tax credit for the Vallée de l'aluminium¹			5
<ul style="list-style-type: none"> - 30% of wages paid to new employees - Up to December 31, 2009 	<ul style="list-style-type: none"> - Manufacturing or processing of finished or semi-finished products from aluminum that has undergone primary processing 	<ul style="list-style-type: none"> - Saguenay-Lac-Saint-Jean 	
Refundable tax credit for Gaspésie and certain maritime regions of Québec¹			6
<ul style="list-style-type: none"> - 40% of wages paid to new employees - Up to December 31, 2009 - 40% of wages paid - Up to December 31, 2009 	<ul style="list-style-type: none"> - Transformation of marine products (fish and seafood) - Manufacturing of wind turbines and production of wind power - Mariculture (growing of marine products) - Manufacturing of finished or semi-finished products in the marine biotechnology field 	<ul style="list-style-type: none"> - Gaspésie-Îles-de-la-Madeleine, Côte-Nord and Matane RCM - Gaspésie-Îles-de-la-Madeleine and Matane RCM - Gaspésie-Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent 	
Tax holiday for manufacturing SMEs in remote resource regions²			39
<ul style="list-style-type: none"> - 75% of income tax, the tax on capital and employer contributions to the Health Services Fund - Up to December 31, 2010 	<ul style="list-style-type: none"> - All existing or new, incorporated manufacturing SMEs - SME: paid-up capital (assets) must be below \$30 million³ 	<ul style="list-style-type: none"> - Bas-Saint-Laurent - Saguenay-Lac-Saint-Jean - Mauricie: Mékinac RCM and agglomeration of La Tuque - Abitibi-Témiscamingue - Côte-Nord - Nord-du-Québec - Gaspésie-Îles-de-la-Madeleine - Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac RCMs 	
TOTAL			104

1 The activities covered by the tax credit are exclusive to these regions and are not eligible for the broader tax credit for processing activities in resource regions.

2 Contrary to the usual definition of resource regions, this measure does not apply to the southern part of the Mauricie administrative region.

3 A corporation may receive the full tax holiday if its paid-up capital (close to the value of assets), calculated on a consolidated basis, does not exceed \$20 million. Where the paid-up capital of a corporation is greater than \$20 million but less than \$30 million, the tax holiday it may claim is reduced linearly.

Source: Ministère des Finances du Québec.

■ **Refocusing tax assistance on the achievement of economic objectives**

The tax measures for businesses in resource regions are generous and reflect the government's important commitment to supporting specific regions that are grappling with large economic development gaps. Moreover, a number of regional stakeholders made the government aware of the fact that these tax measures can sometimes lead to undesirable inter-regional competition.

To date, the tax credits have provided considerable support for diversification in the resource regions, contributing to the creation of nearly 6 500 jobs related to second and third transformation of resources.

TABLE E.20

**Tax credits for the resource regions
Number of jobs created – 2006**

Tax credits	Eligible businesses¹	Jobs created	Tax expenditure² (\$M)	Tax assistance per job created (\$)	Average salary (\$)
Processing activities in the resource regions	603	5 318	54	10 154	33 846
Vallée de l'aluminium	70	489	5	10 225	34 101
Gaspésie and certain maritime regions	56	614	6	9 772	24 435
TOTAL	729	6 421	65	10 123	32 967

1 Total number of certificates issued by Investissement Québec to render businesses eligible in respect of their activities.

2 Amounts are drawn from *Tax Expenditures, 2006 Edition*, ministère des Finances du Québec.

Sources: Investissement Québec and ministère des Finances du Québec.

To receive the tax holiday for manufacturing SMEs in resource regions, which cost \$39 million in 2006, SMEs do not have to satisfy job creation or investment criteria. Rather, the tax holiday is based on the SME's sector of economic activity and its value is based primarily on the enterprise's financial results.

In this context, the government is taking concrete steps to refocus the tax assistance for resource regions on businesses' achievement of economic objectives, while striving to uphold its commitment to support manufacturing SMEs in resource regions for a period of 10 years.

The tax holiday is thus being maintained, but will be gradually reduced as of January 1, 2008. The exemption rate will decrease:

- from 75% to 50% on January 1, 2008;
- from 50% to 25% on January 1, 2009.

The tax holiday will end as scheduled on December 31, 2010.

The cost of the measure will be reduced by \$2 million in 2007-2008, \$18 million in 2008-2009 and \$33 million in 2009-2010.

2.3 Task force on the end of tax assistance for certain territories and economic sectors

Québec's tax system grants a number of tax benefits to companies established in specific geographical territories or operating in specific sectors of economic activity. The tax benefits are temporary, generally lasting for 10 years.

So as to identify the challenges inherent in the expiry of these tax measures, the government deems it worthwhile to take a closer look at the consequences of their expiry. For that purpose, a task force will be created to examine two types of tax assistance:

- the tax assistance granted to manufacturing businesses in resource regions, i.e. the three tax credits relating to second and third natural resource transformation activities (end in 2009) and the tax holiday for manufacturing SMEs (ends in 2010);
- the tax credits for new economy businesses set up in designated sites (e.g. Cité du multimédia, E-Commerce Place and new economy centres in the regions). These measures end between 2010 and 2013.

For 2006, the above measures represent a cost of \$104 million for resource regions and \$217 million for new economy businesses, or \$321 million out of a total \$1.8 billion in tax assistance granted for Québec as a whole.

The government has decided to create a task force to thoroughly examine the impact that the end of the tax measures for businesses in resource regions and the new economy has on Québec companies.

The task force will make recommendations to the government regarding the best directions to be adopted for the territories and economic sectors affected by the tax measures' expiry. Among other results, the work carried out by the task force should make it possible to:

- draw a portrait of these tax assistance measures;
- identify the measures' impact on recipient businesses and development of the territories and activity sectors concerned;
- examine the government support that other jurisdictions offer to their specific territories and sectors;
- where necessary, make recommendations regarding policies that need to be adopted to ensure the development of these territories and sectors of activity.

The mandate of the task force will be limited to the tax measures mentioned above.

2.4 \$840 million over five years to stimulate manufacturing investment

In order to stimulate manufacturing investment, the government will allocate over \$840 million more over five years to eliminate the capital tax paid on new manufacturing investment by companies, as well as the tax applied to their existing buildings and equipment:

- \$761 million to raise the rate of the capital tax credit for new investments in fabrication and processing equipment from 5% to 10% as well as extend it until December 31, 2012;
- \$45 million to extend, until December 31, 2012, the 15% capital tax credit for new investments in fabrication and processing equipment used in primary wood processing activities;
- \$34 million to enable 99% of farm and fishing corporations to stop paying the tax on capital.

This developmental action to eliminate the tax on capital in the manufacturing sector is aimed at encouraging companies to modernize their equipment. Companies will thus be in a position to increase their productivity and evolve in an increasingly competitive market.

TABLE E.21

Tax measures to stimulate investment

(millions of dollars)

	2007- 2008	2008- 2009	2009- 2010	2010- 2011	2011- 2012	Total
Capital tax credit						
- Increase in the rate of the capital tax credit from 5% to 10% and extension until December 31, 2012	65	164	171	175	186	761
- Extension of 15% capital tax credit for primary wood processing activities until December 31, 2012	—	—	5	20	20	45
Capital tax deduction						
- Increase in the amount of the deduction in the calculation of the tax on capital for a farm or fishing corporation to \$5 million	9	7	6	6	6	34
TOTAL	74	171	182	201	212	840

2.4.1 Rise in the rate of the capital tax credit from 5% to 10% and extension until December 31, 2012

Introduced in the 2005-2006 Budget Speech, the non-refundable capital tax credit for new investments in fabrication and processing equipment eases the capital tax burden on companies that invest in such equipment.

To better meet the needs of these companies by enabling them to carry out their projects without having to worry about the effect of this tax, the government is raising the rate of the capital tax credit from 5% to 10%.

Up until now, investments had to be made before January 1, 2008, in order to be eligible. To enable longer-term investment planning by companies, the government is extending the application period for the capital tax credit to December 31, 2012.

These enhancements will allow Québec manufacturing companies that reinvest to eliminate not only the tax on capital normally payable on new investments, but also the tax on capital applied to their existing buildings and equipment.

The credit will be applied against the tax on capital payable for the year during which investments are made. The unused portion of the tax credit can be carried over and applied to the tax on capital payable for future years.

As a result of this measure, most of Québec's 20 000 manufacturing companies, as well as new manufacturing companies that set up business in Québec, should no longer pay the tax on capital.

In fact, following the introduction of a \$1 million exemption in calculating the tax on capital, 210 000 SMEs, including 13 000 manufacturing companies, were exempted from paying this tax. The enhanced credit will eliminate the tax on capital paid by the other 7 000 manufacturing companies if they invest in Québec.

This additional government support directly encourages the upgrading of manufacturing equipment so as to increase the productivity of Québec businesses. In this way, the government is helping enhance the competitiveness of businesses that make manufacturing investments in Québec.

Raising the rate of the capital tax credit from 5% to 10% and extending it until December 31, 2012 will have a financial impact of \$761 million over the next five years.

Modernization of businesses: Illustration of the impacts and operation of the 10% capital tax credit

The 10% capital tax credit applies to the value of new acquisitions of manufacturing and processing equipment. It is applied against the tax on capital payable on all the activities of the company.

Raising the rate of the capital tax credit from 5% to 10% will eliminate the tax on capital for companies that invest in manufacturing and processing equipment.

This is particularly true for companies that carry out major upgrading projects. For example, a company with initial assets of \$300 million that makes \$150 million in eligible investments over two years will no longer pay the tax on capital for a period of at least 10 years.

Case 1 – Major modernization of a manufacturing company

(thousands of dollars)

Initial assets (buildings and equipment)	300 000	The capital tax credit enables the company to eliminate its tax on capital payable regarding all of its activities					
Eligible investments (manufacturing and processing equipment)	75 000	75 000					
Capital tax credit (10% on eligible investments)	7 500	7 500					
	2007	2008	2009	2010	2011	2012	Total
Taxable capital (paid-up capital)	375 000	450 000	450 000	450 000	450 000	450 000	
Rate of the tax on capital	0.49%	0.36%	0.29%	0.29%	0.29%	0.29%	
Tax on capital payable before credit	1 837	1 620	1 305	1 305	1 305	1 305	8 677
Capital tax credit	-1 837	-1 620	-1 305	-1 305	-1 305	-1 305	-8 677
Tax on capital payable	—	—	—	—	—	—	—
Reduction in the tax on capital	100%	100%	100%	100%	100%	100%	100%
<i>Carry-over of the balance of the tax credit</i>	5 663	11 543	10 238	8 933	7 628	6 323	

Recurring investments for the renewal of manufacturing equipment will also enable companies to eliminate their tax on capital. A company that makes annual eligible investments equal to 5% of the value of its initial assets should never again pay tax on capital.

Case 2 – Renewal of a manufacturing company's equipment

(thousands of dollars)

Initial assets (buildings and equipment)	20 000	The capital tax credit enables the company to eliminate its tax on capital payable regarding all of its activities					
Eligible investments (manufacturing and processing equipment)	1 000	1 000	1 000	1 000	1 000	1 000	
Capital tax credit (10% on eligible investments)	100	100	100	100	100	100	
	2007	2008	2009	2010	2011	2012	Total
Taxable capital (paid-up capital)	21 000	22 000	23 000	24 000	25 000	26 000	
Rate of the tax on capital	0.49%	0.36%	0.29%	0.29%	0.29%	0.29%	
Tax on capital payable before credit	103	79	67	70	73	75	467
Capital tax credit	-100	-79	-67	-70	-73	-75	-464
Tax on capital payable	3	—	—	—	—	—	3
Reduction in tax on capital	97%	100%	100%	100%	100%	100%	99%
<i>Carry-over of the balance of the tax credit</i>	—	21	54	84	111	136	

2.4.2 Extension of the 15% capital tax credit for primary wood processing activities

The assistance plan for the forest industry announced in the 2006-2007 Budget Speech raised the rate of the capital tax credit to 15% for acquisitions of manufacturing and processing equipment used in primary wood processing activities. To be eligible, investments had to be made before January 1, 2010.

This measure provides significant incentive to upgrade manufacturing equipment and thereby improve the productivity of forest mills in Québec.

Therefore, the same for Québec's manufacturing sector, the government is extending the application period for this credit until December 31, 2012, to enable longer-term investment planning by forest companies.

The extension will have a financial impact of \$45 million over the next five years.

2.4.3 Increase from \$400 000 to \$5 million in the deduction in the calculation of tax on capital payable by farm and fishing corporations

Agriculture and fishing are capital-intensive sectors of economic activity. However, they consist of a majority of small and medium-sized enterprises that must make numerous investments in order to turn a profit on their activities and support competition from large international companies. The worrisome economic situation in the agricultural sector even led the government to create the Commission on the future of Québec agriculture and agri-food. The Commission is expected to submit its report and recommendations no later than January 2008. In the meantime, the government wants to provide immediate support to farm and fishing corporations that have to invest by eliminating the tax on capital they pay.

To encourage investment by farm and fishing corporations, the government is therefore raising the amount of the deduction in the calculation of the tax on capital of these corporations from \$400 000 to \$5 million.

Added to the \$1 million capital tax exemption for SMEs, this measure will exempt 99% of farm and fishing corporations—over 7 000 corporations—from paying this tax. Through its action, the government is injecting \$9 million into the working capital of these corporations as of this year and \$6 million on a recurring basis at the end of the reduction in the tax on capital.

TABLE E.22

Impact of the increase from \$400 000 to \$5 million in the deduction in the calculation of tax on capital payable by farm and fishing corporations – 2007-2008

	Before budget		After budget		New exempted corporations	Financial impact (\$M)
	Number	%	Number	%		
Exempted corporations	4 789	67.6	7 012	99.0	2 223	- 9.0

2.4.4 Impact of the tax on capital reduction measures

Thanks to the action taken by the government in recent years, the competitiveness and effectiveness of the tax system as regards investment will continue to improve.

More specifically, by 2011-2012, the tax on capital will have been reduced by 65% for businesses as a whole and by 92% for the manufacturing sector.

Overall, the government will have cut the tax on capital by nearly \$1.4 billion.

TABLE E.23

Reduction in the tax on capital¹ – 2011-2012

Impact of measures

(millions of dollars)

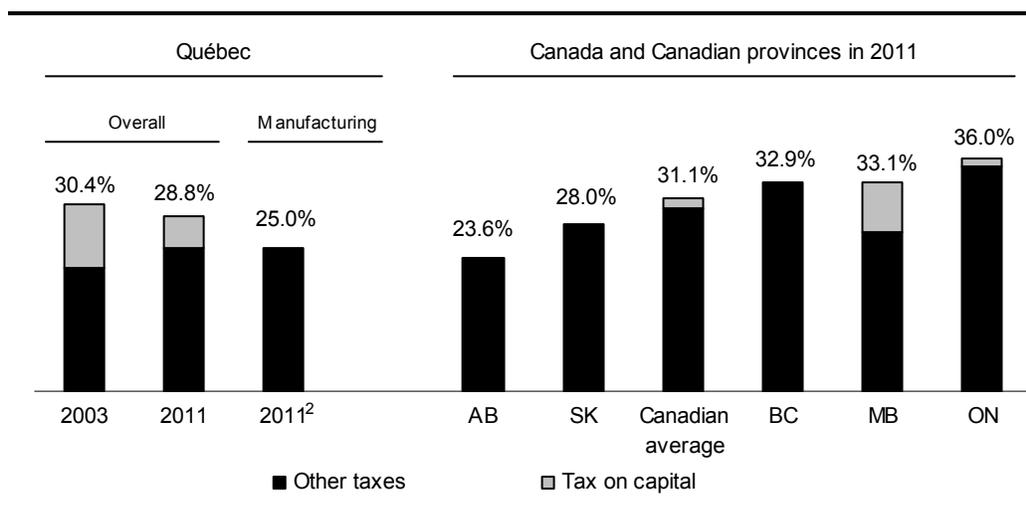
	Manufacturing sector	Other sectors	All sectors
Tax on capital payable before reduction measures (0.60%)	480	1 604	2 084
Tax on capital reduction measures			
– Elimination of the tax on capital for 210 000 SMEs	– 16	– 130	– 146
– Reduction of over 50% in the tax on capital (to 0.29%)	– 239	– 762	– 1 001
– Capital tax credit	– 187	– 19	– 206
– Deduction of \$5 million for farm and fishing corporations	—	– 6	– 6
Subtotal	– 442	– 917	– 1 359
Tax on capital payable after reduction measures	38	687	725
Reduction (%)	92	57	65

1 Private-sector enterprises.

Thanks to these capital tax reduction measures, Québec is now in an advantageous position in Canada in terms of the weight of taxation on each dollar invested, as measured by the marginal effective tax rate (METR). Thus, in 2011, for a manufacturing investment project eligible for the capital tax credit, the marginal effective tax rate (25.0%) will be comparable to that of Alberta (23.6%).

CHART E.2

Comparison of marginal effective tax rates (METR)¹ in Canada – Main Canadian provinces



1 METRs are aggregate indicators of the impact of the tax system on new investments: they represent the effect of all tax charges and rules affecting the return on capital invested.

2 Manufacturing investment project eligible for the capital tax credit.

Sources: Finance Canada and ministère des Finances du Québec.

Reducing the tax on capital in order to stimulate investment

The tax on capital impedes investment

The tax on capital is essentially a tax on the assets. It applies recurrently on the book value of a company's investments and accordingly increases the cost of investments and reduces their return. It raises the risk associated with an investment, as it is payable whether or not the company is profitable.

The tax on capital also hinders employment, especially in the manufacturing sector, because it can compromise investments that would improve the productivity of companies.

Because it impedes capital accumulation, the tax on capital affects the economy's potential growth more strongly than other taxes.

Concrete measures to reduce the tax on capital

The government takes various means of action to reduce the tax on capital and eliminate the tax on new investments:

- elimination of the tax on capital for 210 000 SMEs, i.e. 75% of businesses in Québec, through the introduction of a \$1 million exemption in calculating the tax on capital;
- reduction in the tax on capital by more than half by 2009;

Gradual reduction in the general rate of the tax on capital in Québec – 2005-2009

(percentage)

	2005	2006	2007	2008	2009
Rate of the tax on capital	0.6	0.525	0.49	0.36	0.29

Note: The reduction in the rate takes effect on January 1 of each year.

- implementation of a capital tax credit for new investments in fabrication and processing equipment, at a rate of 10% for all companies and 15% for the forest sector, so that companies that invest no longer have to pay the tax on capital.

Through these actions, the government has substantially reduced the tax on capital to a more competitive level with the longer-term aim of eliminating it completely for all companies.

3. FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES

Financial impact of fiscal and budgetary measures¹

2007-2008 Budget Speech

(millions of dollars)

	Financial impact for the government	
	2007-2008	2008-2009
A. MEASURES CONCERNING INDIVIDUALS		
Increase in the taxable income thresholds defined in the tax table as of January 1, 2008	- 50.0	- 250.0
Retirement income splitting	- 27.0	- 106.0
New refundable tax credit for education savings	- 29.0	- 41.0
Increase in the tax credit for retirement income from \$1 000 to \$1 500	- 10.0	- 70.0
New tax credit for people providing respite to informal caregivers	- 2.0	- 5.0
Enhancement of the refundable tax credit for child care expenses	- 2.0	- 8.0
Enhancement of the tax treatment for parents with children enrolled in post-secondary studies	- 2.0	- 8.0
Increase in the rate of the refundable tax credit for the treatment of infertility from 30% to 50% (third treatment and over)	—	- 1.0
Fund for the promotion of healthy lifestyle habits	- 20.0	- 20.0
Support for the Réseau de l'action bénévole du Québec	- 0.3	- 0.3
Action Strategy for the Elderly	- 5.0	- 5.0
Free medication for low-income seniors	- 4.5	- 6.0
Free medication for employment-assistance recipients	- 12.0	- 16.0
Funding for community stopover centres	- 3.0	- 3.0
Subtotal – Measures concerning individuals	- 166.8	- 539.3

	Financial Impact for the government	
	2007-2008	2008-2009
B. TARGETING SUSTAINABLE ECONOMIC DEVELOPMENT		
1. Strategy for the Development of Every Region		
Additional resources under the authority of the regions		
- Fonds de développement régional	- 55.0	- 55.0
- Support for the development of niches of excellence – ACCORD projects	- 10.0	- 12.0
- Improved entrepreneurship supported by regional CLDs	- 11.0	- 17.0
- Support for the development of the Capitale-Nationale region	- 5.0	- 5.0
- Support for the economic development of Montréal	- 17.0	- 18.0
- Funding for regional natural resource and land commissions	- 9.0	- 9.0
Additional resources allocated to government programs for the regions		
- Support for investment and business productivity	- 14.0	- 15.0
- Support for the mining sector	- 7.0	- 7.0
- Support for farming and fisheries	- 5.0	- 5.0
- Tourism in the regions	- 5.0	—
Subtotal	- 138.0	- 143.0
2. Stimulating Investment		
Increase in the rate of the capital tax credit for new investments in fabrication and processing equipment from 5% to 10% and extension until December 31, 2012	- 65.0	- 164.0
Extension of the 15% capital tax credit for primary wood processing activities ² until December 31, 2012	—	—
Increase in the deduction in the calculation of tax on capital of farm and fishing corporations from \$400 000 to \$5 million	- 9.0	- 7.0
Subtotal	- 74.0	- 171.0
Subtotal – Targeting sustainable economic development	- 212.0	- 314.0

	Financial impact for the government	
	2007-2008	2008-2009
C. PROMOTING CULTURE		
Québec film funding	– 10.0	– 10.0
Assistance for museums	– 5.0	– 5.0
Placements Culture	– 3.0	—
Public libraries	– 2.0	– 2.0
Streamlining of the tax credit for Québec film and television production	– 0.5	– 1.0
Community media	– 1.0	—
Subtotal – Promoting culture	– 21.5	– 18.0
D. OTHER MEASURES		
Québec's contribution to an agreement on the regionalization of the deficit of the Montréal metro	– 11.0	– 11.0
Increase from \$1 000 to \$2 000 in the refund of the QST paid in respect of the purchase of a hybrid vehicle	—	– 1.0
Québec street gang intervention plan	– 3.0	– 4.0
Ad hoc grant to the Kativik Regional Government	– 0.5	—
Fighting tax evasion	– 10.0	– 10.0
Gradual reduction in the tax holiday granted to enterprises in resource regions as of January 1, 2008	2.0	18.0
Subtotal – Other measures	– 22.5	– 8.0
TOTAL IMPACT	– 422.8	– 879.3

- 1 Most of these measures are presented in *Additional Information on the Budgetary Measures 2007-2008*, in the Strategy for the Development of Every Region or in the Action Strategy for the Elderly.
- 2 Measure whose impacts have already been provided for in the financial frameworks until December 31, 2009.

Section F

Report on the Application of the *Balanced Budget Act*

- 1. REQUIREMENTS OF THE ACT..... F.3**
- 2. COMPLIANCE WITH THE REQUIREMENTS OF THE ACT F.5**

1. REQUIREMENTS OF THE ACT

The *Balanced Budget Act* was adopted unanimously by the National Assembly of Québec on December 19, 1996.

This Act has since been amended on a few occasions in order to adapt it to the new budgetary context. It underwent major amendments in 2001 after the *Act to establish a budgetary surplus reserve fund* was adopted, and it was amended again in 2006 to take into account the *Act to reduce the debt and establish the Generations Fund*.

Essentially, the *Balanced Budget Act* stipulates that:

- the government must table a balanced budget;
- if the government records an overrun of less than \$1 billion in relation to the authorized deficit or the budgetary balance in a fiscal year, it must achieve a surplus equivalent to that overrun in the next fiscal year;
- the government may incur overruns of \$1 billion or more for a period of over one year as a result of a disaster having a major impact on the budget, a significant deterioration of economic conditions or a change in federal transfer payment programs to Québec. The government must offset these overruns over a maximum period of five years.

In addition, under section 15¹ of the Act, the Minister of Finance is required to report in the Budget Speech on the application of the Act.

¹ The first paragraph of section 15 stipulates that "the Minister shall report to the National Assembly in the Budget Speech on the objectives pursued by this Act, on the achievement of those objectives and on the variance recorded, if any".

2. COMPLIANCE WITH THE REQUIREMENTS OF THE ACT

The government achieved surpluses in certain years in relation to the objectives set by the Act.

Under section 9¹ of the Act, deficits may be incurred up to the amount of surpluses accumulated.

As shown in the following table, accumulated surpluses were revised to \$192 million at the end of fiscal 2005-2006, given the surplus of \$37 million achieved that year.

In 2006-2007, the anticipated surplus of \$17 million will increase accumulated surpluses to \$209 million.

TABLE F.1

Surpluses accumulated from 1996-1997 to 2006-2007 under the *Balanced Budget Act*

(millions of dollars)

Fiscal year	Deficits provided for by the Act	Budgetary balance disclosed in the public accounts for the fiscal years concerned	Surpluses (overruns)	Accumulated surpluses, end of year
1996-1997	- 3 275	- 3 217	58	58
1997-1998	- 2 200	- 2 192	8	66
1998-1999	- 1 200	126	1 326	1 392
1999-2000	—	30	30	1 422
2000-2001	—	427	427	1 849
2001-2002	—	22	22	1 871
2002-2003	—	- 694	- 694	1 177
2003-2004	—	- 358	- 358	819
2004-2005	—	- 664	- 664	155
2005-2006	—	37	37	192
2006-2007 ^P	—	17	17	209

P: Preliminary results following the allocation of \$500 million to the budgetary reserve.

¹ Section 9 stipulates that "if the Government achieves a surplus in a fiscal year, it may incur overruns in subsequent fiscal years up to the amount of that surplus".

Section G

Report on the Application of the Act to *reduce the debt and establish the Generations Fund*

- 1. REQUIREMENTS OF THE ACT.....G.3**
- 2. COMPLIANCE WITH THE REQUIREMENTS OF THE ACTG.5**

1. REQUIREMENTS OF THE ACT

The *Act to reduce the debt and establish the Generations Fund* was adopted on June 15, 2006.

The aim of the Act is to reduce the government's debt burden. To that end, it created the Generations Fund which, under section 3, is made up of sums derived from seven revenue sources dedicated exclusively to repaying the debt. These sources are:

- water-power royalties that will be paid by Hydro-Québec and private producers of hydro-electricity;
- a portion of Hydro-Québec's earnings on the sale of electricity outside Québec from its new production capacities;
- royalties on harnessed water;
- the sale of assets;
- gifts, legacies and other contributions received by the Minister of Finance;
- unclaimed property of the Public Curator;
- income generated by the investment of the sums making up the fund.

The Act also allows the government to order that a part, which it establishes, of any sums it collects or receives and over which Parliament has the power of appropriation, is to be paid directly into the Generations Fund.

The sums making up the fund are managed by the Caisse de dépôt et placement du Québec.

Section 1 of the Act sets the government's debt reduction objectives. Specifically, the Act provides for the reduction of the debt as a percentage of GDP to less than:

- 38% no later than March 31, 2013;
- 32% no later than March 31, 2020;
- 25% no later than March 31, 2026.

Section 11 of the Act stipulates that the Minister of Finance must report to the National Assembly, in the Budget Speech, on the sums making up the fund and on any sums used to repay the government's debt.

2. COMPLIANCE WITH THE REQUIREMENTS OF THE ACT

In the Budget Speech of March 23, 2006, the government estimated that the income of the Generations Fund would amount to \$74 million for the period from January 1 to March 31, 2007.

When the *Update on Québec's Economic and Financial Situation* was published in fall 2006, the government announced an additional deposit of \$500 million in the Generations Fund. This deposit stems from the gain arising from Hydro-Québec's sale of its interest in Transelec Chile.

Accordingly, the balance of the fund will reach \$575 million as at March 31, 2007. It is currently forecast that the balance will total \$1 021 million as at March 31, 2008, and \$1 747 million as at March 31, 2009.

TABLE G.1

Generations Fund (millions of dollars)

	March 2006 Budget		February 2007 Budget ^P		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
BALANCE, BEGINNING OF YEAR				575	1 021
DEDICATED REVENUES					
Water-power royalties					
Hydro-Québec	64	- 4	60	325	535
Private producers	9	0	9	49	80
	73	- 4	69	374	615
Unclaimed property	0	5	5	20	20
Deposit arising from the sale of Hydro-Québec's interest in Transelec Chile ¹	0	500	500	0	0
Investment income	1	0	1	52	91
Total	74	501	575	446	726
BALANCE, END OF YEAR	74	501	575	1 021	1 747

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 Under section 4 of the Act.

Section H

Additional Information Historical Data

ADDITIONAL INFORMATION..... H.3

- Summary of consolidated budgetary and financial transactions H.3
- Revenue by source H.4
- Expenditure by department..... H.5
- Consolidated non-budgetary transactions H.6
- Consolidated financing transactions H.8

HISTORICAL DATA..... H.9

- Consolidated Revenue Fund H.9
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- Consolidated organizations..... H.11
- Generations Fund H.12
- Summary of consolidated budgetary transactions..... H.13
- Summary of consolidated non-budgetary transactions H.14
- Change in total debt H.15
- Change in net debt and accumulated deficits..... H.16
- Change in debt service..... H.17

ADDITIONAL INFORMATION

TABLE H.1

Summary of consolidated budgetary and financial transactions¹

(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007 ^P
BUDGETARY TRANSACTIONS OF THE CONSOLIDATED REVENUE FUND				
Own-source revenue	42 278 ²	44 381	45 744	48 533
Federal transfers ³	9 370	9 229	9 969	10 956
Total	51 648	53 610	55 713	59 489
Program spending	- 45 339	- 47 656	- 49 230	- 51 519
Debt service	- 6 655	- 6 853	- 6 875	- 6 990
Total	- 51 994	- 54 509	- 56 105	- 58 509
NET RESULTS OF CONSOLIDATED ORGANIZATIONS				
	346	235	429	37
Exceptional losses of the SGF	- 358	—	—	—
Deposit in the Generations Fund ⁴	—	—	—	- 500
Allocation to the budgetary reserve	—	—	—	- 500
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT				
	- 358	- 664	37	17
Net results of the Generations Fund	—	—	—	575
CONSOLIDATED BUDGETARY BALANCE				
	- 358	- 664	37	592
CONSOLIDATED NON-BUDGETARY TRANSACTIONS				
Investments, loans and advances	- 1 125	- 979	- 1 182	- 1 672
Capital expenditures	- 1 019	- 1 083	- 1 166	- 1 342
Retirement plans	2 219	2 134	2 310	2 405
Other accounts	- 1 183	174	- 208	- 1 273
CONSOLIDATED NON-BUDGETARY REQUIREMENTS				
	- 1 108	246	- 246	- 1 882
CONSOLIDATED NET FINANCIAL REQUIREMENTS				
	- 1 466	- 418	- 209	- 1 290
CONSOLIDATED FINANCING TRANSACTIONS				
Change in cash position	2 316	- 831	49	- 3 148
Net borrowings	1 514	5 378	4 390	9 494
Retirement plans sinking fund ⁵	- 2 364	- 4 129	- 4 230	- 4 481
Generations Fund	—	—	—	- 575
TOTAL CONSOLIDATED FINANCING TRANSACTIONS				
	1 466	418	209	1 290

P: Preliminary results.

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

2 Before the exceptional losses of the Société générale de financement du Québec.

3 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

4 Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

5 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

TABLE H.2

Consolidated Revenue Fund Revenue by source

(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007 ^P
OWN-SOURCE REVENUE				
Income and property taxes				
Personal income tax	15 715	16 324	16 450	18 028
Contributions to the Health Services Fund	4 649	4 874	5 047	5 115
Corporate taxes	3 892	4 253	4 786	4 663
	24 256	25 451	26 283	27 806
Consumption taxes				
Retail sales	8 658	9 241	9 614	9 994
Fuel	1 685	1 711	1 657	1 676
Tobacco	889	901	752	681
Alcoholic beverages	409	403	415	423
	11 641	12 256	12 438	12 774
Duties and permits				
Motor vehicles	707	713	725	745
Natural resources	108	238	210	42
Other	206	209	203	168
	1 021	1 160	1 138	955
Miscellaneous				
Sales of goods and services	399	371	383	381
Interest	317	355	463	488
Fines, forfeitures and recoveries	471	442	485	446
	1 187	1 168	1 331	1 275
Revenue from government enterprises				
Société des alcools du Québec	571	546	657	702
Loto-Québec	1 393	1 511	1 537	1 372
Hydro-Québec	2 049	2 140 ¹	2 323	3 614 ²
Other	160	149 ¹	37	35
	4 173 ³	4 346	4 554	5 723
Total	42 278³	44 381	45 744	48 533
FEDERAL TRANSFERS⁴				
Equalization	4 065	5 221	4 798	5 539
Canada Health and Social Transfer	4 266	—	—	—
Health transfers	—	2 422	3 185	3 634
Transfers for post-secondary education and other social programs	—	926	1 034	1 060
Other programs	1 039	660	952	723
Total	9 370	9 229	9 969	10 956
TOTAL REVENUE	51 648	53 610	55 713	59 489

P: Preliminary results.

1 The exceptional gain of \$265 million realized by Hydro-Québec in 2004-2005 on the sale of its interest in Noverco inc. was reclassified under "Other".

2 Including profits of over \$900 million made by Hydro-Québec on the sale of its interests in certain corporations, including Transelec Chile.

3 Before the exceptional losses of the Société générale de financement du Québec.

4 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

TABLE H.3

Consolidated Revenue Fund Expenditure by department

(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007 ^P
PROGRAM SPENDING¹				
Affaires municipales et Régions	1 538	1 623	1 753	1 847
Agriculture, Pêcheries et Alimentation	661	661	658	683
Assemblée nationale	97	96	99	100
Conseil du trésor et Administration gouvernementale ²	412	499	467	875
Conseil exécutif	195	241	232	265
Culture et Communications	512	524	535	590
Développement durable, Environnement et Parcs	223	208	196	190
Développement économique, Innovation et Exportation	534	544	690	697
Éducation, Loisir et Sport ²	11 568	11 875	12 281	12 828
Emploi et Solidarité sociale	4 195	4 110	4 038	4 088
Famille, Aînés et Condition féminine	1 464	1 522	1 611	1 733
Finances (excluding debt service)	85	91	84	155
Immigration et Communautés culturelles	130	120	116	106
Justice	597	632	653	631
Personnes désignées par l'Assemblée nationale	93	58	58	62
Relations internationales	111	102	102	99
Ressources naturelles et Faune	418	363	399	390
Revenu	749	933	1 023	996
Santé et Services sociaux ²	19 026	20 582	21 164	22 266
Sécurité publique	932	941	942	937
Services gouvernementaux	38	40	96	77
Tourisme	146	144	159	139
Transports	1 550	1 673	1 813	1 963
Travail	65	74	61	31
Sub-total	45 339	47 656	49 230	51 748
Anticipated lapsed appropriations	—	—	—	- 150
Deferred appropriations	—	—	—	- 79
Total	45 339	47 656	49 230	51 519
DEBT SERVICE				
Direct debt service	3 913	4 066	4 044	4 396
Interest ascribed to the retirement plans	2 742	2 787	2 831	2 594
Total	6 655	6 853	6 875	6 990
TOTAL EXPENDITURE	51 994	54 509	56 105	58 509

P: Preliminary results.

1 Certain data were reclassified for consistency with those of the 2007-2008 Budget structure.

2 The funds set aside for pay equity were reclassified in each department.

TABLE H.4

Consolidated non-budgetary transactions (millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007 ^P
INVESTMENTS, LOANS AND ADVANCES				
Consolidated Revenue Fund				
Government enterprises				
Shares and investments				
Société Innovatech du Grand Montréal	—	80	29	—
Société Innovatech Québec et Chaudière-Appalaches	- 2	—	—	—
Société Innovatech Sud du Québec	—	- 1	- 2	—
Société Innovatech Régions ressources	- 9	- 2	—	—
Other	285	—	—	- 10
	274	77	27	- 10
Change in the equity value of investments	- 786	- 940	- 1 234	- 1 307
Loans and advances				
IQ FIER Inc.	—	—	- 45	- 42
Other	—	—	—	- 8
	—	—	- 45	- 50
Total government enterprises	- 512	- 863	- 1 252	- 1 367
Individuals, corporations and others	19	69	- 232	70
Municipalities and municipal bodies	5	2	1	2
	- 488	- 792	- 1 483	- 1 295
Consolidated organizations	- 637	- 187	301	- 377
Total	- 1 125	- 979	- 1 182	- 1 672
CAPITAL EXPENDITURES				
Consolidated Revenue Fund				
Net investments	- 159	- 178	- 160	- 304
Amortizations	200	217	215	226
	41	39	55	- 78
Consolidated organizations	- 1 060	- 1 122	- 1 221	- 1 264
Total	- 1 019	- 1 083	- 1 166	- 1 342

P: Preliminary results.

TABLE H.4 (CONT.)

Consolidated non-budgetary transactions
(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007 ^P
RETIREMENT PLANS				
Contributions by the government as employer				
RREGOP and PPMP ¹				
Cost of credited service ²	1 269	1 263	1 219	1 371
Amortization of actuarial losses	155	155	264	265
Other plans ¹				
Cost of credited service ²	123	107	91	71
Amortization of actuarial losses	71	71	108	108
Total government contribution	1 618	1 596	1 682	1 815
Contributions by independent employers	5	4	6	6
Participants' contributions	146	98	78	78
Total contributions	151	102	84	84
Benefits, repayments and administrative expenses	- 3 154	- 3 278	- 3 517	- 3 569
Interest on actuarial obligation	3 604	3 714	4 061	4 075
Total	2 219	2 134	2 310	2 405
OTHER ACCOUNTS				
Consolidated Revenue Fund	- 1 220	56	- 364	- 1 262
Consolidated organizations	37	118	156	- 11
Total	- 1 183	174	- 208	- 1 273
TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS	- 1 108	246	- 246	- 1 882

P: Preliminary results.

1 The 2007-2008 Budget Plan reclassifies certain data pertaining to contributions by independent employers to RREGOP and the PPMP for 2003-2004 and 2004-2005.

2 Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE H.5

Consolidated financing transactions¹
(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007^P
CHANGE IN CASH POSITION				
Consolidated Revenue Fund	2 284	- 814	- 22	- 3 271
Consolidated organizations	32	- 17	71	123
Total	2 316	- 831	49	- 3 148
NET BORROWINGS				
Consolidated Revenue Fund				
New borrowings	5 030	10 216	10 256	13 200
Repayment of borrowings	- 4 798	- 5 811	- 6 130	- 5 198
	232	4 405	4 126	8 002
Consolidated organizations				
New borrowings	2 516	2 188	1 313	2 040
Repayment of borrowings	- 1 234	- 1 215	- 1 049	- 548
	1 282	973	264	1 492
Total	1 514	5 378	4 390	9 494
RETIREMENT PLANS SINKING FUND²	- 2 364	- 4 129	- 4 230	- 4 481
GENERATIONS FUND				- 575
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	1 466	418	209	1 290

P: Preliminary results.

1 A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

2 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

HISTORICAL DATA

TABLE H.6

**Budgetary transactions
Consolidated Revenue Fund**^{1,2}

(millions of dollars)

	Own-source revenue ³	Federal transfers ⁴	Total revenue	Program spending	Debt service	Total expenditure
Before reform of government accounting						
1970-1971	2 672	1 094	3 766	- 3 714	- 197	- 3 911
1971-1972	3 110	1 293	4 403	- 4 548	- 210	- 4 758
1972-1973	3 672	1 261	4 933	- 5 038	- 242	- 5 280
1973-1974	4 279	1 376	5 655	- 6 026	- 288	- 6 314
1974-1975	5 271	1 871	7 142	- 7 288	- 296	- 7 584
1975-1976	6 006	2 222	8 228	- 8 811	- 368	- 9 179
1976-1977	7 020	2 520	9 540	- 10 260	- 456	- 10 716
1977-1978	7 867	3 088	10 955	- 11 053	- 606	- 11 659
1978-1979	8 382	3 268	11 650	- 12 331	- 817	- 13 148
1979-1980	9 295	3 754	13 049	- 14 479	- 970	- 15 449
1980-1981	10 578	3 894	14 472	- 16 571	- 1 382	- 17 953
1981-1982	13 269	4 473	17 742	- 18 413	- 1 950	- 20 363
1982-1983	14 385	5 172	19 557	- 19 720	- 2 300	- 22 020
1983-1984	15 414	6 227	21 641	- 21 294	- 2 511	- 23 805
1984-1985	15 829	6 236	22 065	- 22 926	- 3 012	- 25 938
1985-1986	17 795	6 178	23 973	- 24 092	- 3 354	- 27 446
1986-1987	19 525	5 828	25 353	- 24 769	- 3 556	- 28 325
1987-1988	21 992	6 117	28 109	- 26 830	- 3 675	- 30 505
1988-1989	23 366	6 386	29 752	- 27 654	- 3 802	- 31 456
1989-1990	24 359	6 674	31 033	- 28 782	- 4 015	- 32 797
1990-1991	26 073	6 972	33 045	- 31 583	- 4 437	- 36 020
1991-1992	27 720	6 747	34 467	- 34 102	- 4 666	- 38 768
1992-1993	27 561	7 764	35 325	- 35 599	- 4 756	- 40 355
1993-1994	28 165	7 762	35 927	- 35 534	- 5 316	- 40 850
1994-1995	28 815	7 494	36 309	- 36 248	- 5 882	- 42 130
1995-1996	30 000	8 126	38 126	- 36 039	- 6 034	- 42 073
1996-1997	30 522	6 704	37 226	- 34 583	- 5 855	- 40 438
After reform of government accounting						
1997-1998	33 604	5 656	39 260	- 34 690	- 6 765	- 41 455
1998-1999	35 982	7 813	43 795	- 37 052	- 6 573	- 43 625
1999-2000	38 346	6 064	44 410	- 37 850	- 6 752	- 44 602
2000-2001	40 335	7 895	48 230	- 40 165	- 6 972	- 47 137
2001-2002	38 440 ⁵	8 885	47 325 ⁵	- 41 888	- 6 687	- 48 575
2002-2003	40 409 ⁵	8 932	49 341 ⁵	- 43 865	- 6 583	- 50 448
2003-2004	41 920 ⁵	9 370	51 290 ⁵	- 45 339	- 6 655	- 51 994
2004-2005	44 381	9 229	53 610	- 47 656	- 6 853	- 54 509
2005-2006	45 744	9 969	55 713	- 49 230	- 6 875	- 56 105
2006-2007 ^P	48 533	10 956	59 489	- 51 519	- 6 990	- 58 509
2007-2008 ^P	48 021	12 241	60 262	- 53 594	- 7 229	- 60 823
2008-2009 ^P	49 209	11 848	61 057	- 55 178	- 7 170	- 62 348

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

2 Data for the Consolidated Revenue Fund exclude the revenue and expenditure of specified purpose accounts, consolidated organizations and the Generations Fund presented in tables H.7, H.8 and H.9 respectively.

3 Own-source revenue of the Consolidated Revenue Fund includes revenue from government enterprises.

4 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

5 Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. \$91 million in 2001-2002, \$339 million in 2002-2003 and \$358 million in 2003-2004.

TABLE H.7

Budgetary transactions
Specified purpose accounts¹
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	92	487	579	- 579	0	- 579	0
1998-1999	80	221	301	- 301	0	- 301	0
1999-2000	102	196	298	- 298	0	- 298	0
2000-2001	123	174	297	- 297	0	- 297	0
2001-2002	155	171	326	- 326	0	- 326	0
2002-2003	199	150	349	- 349	0	- 349	0
2003-2004	172	186	358	- 358	0	- 358	0
2004-2005	170	132	302	- 302	0	- 302	0
2005-2006	176	480	656	- 656	0	- 656	0
2006-2007 ^P	248	362	610	- 610	0	- 610	0
2007-2008 ^P	258	311	569	- 569	0	- 569	0
2008-2009 ^P	268	250	518	- 518	0	- 518	0

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

TABLE H.8

Budgetary transactions
Consolidated organizations¹
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	1 391	318	1 709	- 1 094	- 577	- 1 671	38
1998-1999	1 680	258	1 938	- 1 368	- 614	- 1 982	- 44
1999-2000	1 850	270	2 120	- 1 300	- 621	- 1 921	199
2000-2001	1 851	250	2 101	- 1 183	- 634	- 1 817	284
2001-2002	1 940	420	2 360	- 1 464	- 574	- 2 038	322
2002-2003	2 160	375	2 535	- 1 607	- 549	- 2 156	379
2003-2004	2 318	564	2 882	- 1 950	- 586	- 2 536	346
2004-2005	2 395	578	2 973	- 2 142	- 596	- 2 738	235
2005-2006	2 976	673	3 649	- 2 536	- 684	- 3 220	429
2006-2007 ^P	2 508	818	3 326	- 2 569	- 720	- 3 289	37
2007-2008 ^P	2 886	917	3 803	- 2 973	- 769	- 3 742	61
2008-2009 ^P	2 998	793	3 791	- 2 632	- 863	- 3 495	296

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

TABLE H.9

Generations Fund

(millions of dollars)

	Dedicated revenues				Investment income	Net results
	Water-power royalties		Unclaimed property	Other		
	Hydro-Québec	Private producers				
Before reform of government accounting						
1970-1971						
1971-1972						
1972-1973						
1973-1974						
1974-1975						
1975-1976						
1976-1977						
1977-1978						
1978-1979						
1979-1980						
1980-1981						
1981-1982						
1982-1983						
1983-1984						
1984-1985						
1985-1986						
1986-1987						
1987-1988						
1988-1989						
1989-1990						
1990-1991						
1991-1992						
1992-1993						
1993-1994						
1994-1995						
1995-1996						
1996-1997						
After reform of government accounting						
1997-1998						
1998-1999						
1999-2000						
2000-2001						
2001-2002						
2002-2003						
2003-2004						
2004-2005						
2005-2006						
2006-2007 ^P	60	9	5	500 ¹	1	575
2007-2008 ^P	325	49	20		52	446
2008-2009 ^P	535	80	20		91	726

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 Deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

TABLE H.10

Summary of consolidated budgetary transactions ¹
(millions of dollars)

	Own-source revenue	Federal transfers ²	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Deposits in the Generations Fund	Budgetary reserve	Shortfall to be absorbed	Surplus (deficit)	Net results of the Generations Fund	Consolidated budgetary balance
Before reform of government accounting												
1970-1971	2 672	1 094	3 766	- 3 714	- 197	- 3 911				- 145		- 145
1971-1972	3 110	1 293	4 403	- 4 548	- 210	- 4 758				- 355		- 355
1972-1973	3 672	1 261	4 933	- 5 038	- 242	- 5 280				- 347		- 347
1973-1974	4 279	1 376	5 655	- 6 026	- 288	- 6 314				- 659		- 659
1974-1975	5 271	1 871	7 142	- 7 288	- 296	- 7 584				- 442		- 442
1975-1976	6 006	2 222	8 228	- 8 811	- 368	- 9 179				- 951		- 951
1976-1977	7 020	2 520	9 540	- 10 260	- 456	- 10 716				- 1 176		- 1 176
1977-1978	7 867	3 088	10 955	- 11 053	- 606	- 11 659				- 704		- 704
1978-1979	8 382	3 268	11 650	- 12 331	- 817	- 13 148				- 1 498		- 1 498
1979-1980	9 295	3 754	13 049	- 14 479	- 970	- 15 449				- 2 400		- 2 400
1980-1981	10 578	3 894	14 472	- 16 571	- 1 382	- 17 953				- 3 481		- 3 481
1981-1982	13 269	4 473	17 742	- 18 413	- 1 950	- 20 363				- 2 621		- 2 621
1982-1983	14 385	5 172	19 557	- 19 720	- 2 300	- 22 020				- 2 463		- 2 463
1983-1984	15 414	6 227	21 641	- 21 294	- 2 511	- 23 805				- 2 164		- 2 164
1984-1985	15 829	6 236	22 065	- 22 926	- 3 012	- 25 938				- 3 873		- 3 873
1985-1986	17 795	6 178	23 973	- 24 092	- 3 354	- 27 446				- 3 473		- 3 473
1986-1987	19 525	5 828	25 353	- 24 769	- 3 556	- 28 325				- 2 972		- 2 972
1987-1988	21 992	6 117	28 109	- 26 830	- 3 675	- 30 505				- 2 396		- 2 396
1988-1989	23 366	6 386	29 752	- 27 654	- 3 802	- 31 456				- 1 704		- 1 704
1989-1990	24 359	6 674	31 033	- 28 782	- 4 015	- 32 797				- 1 764		- 1 764
1990-1991	26 073	6 972	33 045	- 31 583	- 4 437	- 36 020				- 2 975		- 2 975
1991-1992	27 720	6 747	34 467	- 34 102	- 4 666	- 38 768				- 4 301		- 4 301
1992-1993	27 561	7 764	35 325	- 35 599	- 4 756	- 40 355				- 5 030		- 5 030
1993-1994	28 165	7 762	35 927	- 35 534	- 5 316	- 40 850				- 4 923		- 4 923
1994-1995	28 815	7 494	36 309	- 36 248	- 5 882	- 42 130				- 5 821		- 5 821
1995-1996	30 000	8 126	38 126	- 36 039	- 6 034	- 42 073				- 3 947		- 3 947
1996-1997	30 522	6 704	37 226	- 34 583	- 5 855	- 40 438				- 3 212		- 3 212
After reform of government accounting												
1997-1998	35 087	6 461	41 548	- 36 363	- 7 342	- 43 705				- 2 157		- 2 157
1998-1999	37 742	8 292	46 034	- 38 721	- 7 187	- 45 908				126		126
1999-2000	40 298	6 530	46 828	- 39 448	- 7 373	- 46 821				7		7
2000-2001	42 309	8 319	50 628	- 41 645	- 7 606	- 49 251		- 950		427		427
2001-2002	40 535 ³	9 476	50 011 ³	- 43 678	- 7 261	- 50 939		950		22		22
2002-2003	42 768 ³	9 457	52 225 ³	- 45 821	- 7 132	- 52 953				- 728		- 728
2003-2004	44 410 ³	10 120	54 530 ³	- 47 647	- 7 241	- 54 888				- 358		- 358
2004-2005	46 946	9 939	56 885	- 50 100	- 7 449	- 57 549				- 664		- 664
2005-2006	48 896	11 122	60 018	- 52 422	- 7 559	- 59 981				37		37
2006-2007 ^P	51 289	12 136	63 425	- 54 698	- 7 710	- 62 408	- 500	- 500		17	575	592
2007-2008 ^P	51 165	13 469	64 634	- 57 136	- 7 998	- 65 134		500		0	446	446
2008-2009 ^P	52 475	12 891	65 366	- 58 328	- 8 033	- 66 361			995	0	726	726

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

2 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

3 Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. \$91 million in 2001-2002, \$339 million in 2002-2003 and \$358 million in 2003-2004.

TABLE H.11

Summary of consolidated non-budgetary transactions¹
(millions of dollars)

	Consolidated non-budgetary transactions					Net financial surplus (requirements)	
	Consolidated budgetary balance	Investments, loans and advances	Capital expenditures	Retirement plans	Other accounts		Excess amount (shortfall)
Before reform of government accounting							
1970-1971	- 145	- 73		2	26	- 45	- 190
1971-1972	- 355	- 63		1	113	51	- 304
1972-1973	- 347	- 53		- 1	18	- 36	- 383
1973-1974	- 659	- 122		25	459	362	- 297
1974-1975	- 442	- 146		104	319	277	- 165
1975-1976	- 951	- 186		109	622	545	- 406
1976-1977	- 1 176	- 183		187	- 161	- 157	- 1 333
1977-1978	- 704	- 229		265	- 488	- 452	- 1 156
1978-1979	- 1 498	- 189		316	119	246	- 1 252
1979-1980	- 2 400	- 188		683	551	1 046	- 1 354
1980-1981	- 3 481	- 56		822	416	1 182	- 2 299
1981-1982	- 2 621	- 586		1 007	71	492	- 2 129
1982-1983	- 2 463	- 761		1 051	- 40	250	- 2 213
1983-1984	- 2 164	- 672		1 057	- 436	- 51	- 2 215
1984-1985	- 3 873	- 167		1 183	887	1 903	- 1 970
1985-1986	- 3 473	40		1 269	493	1 802	- 1 671
1986-1987	- 2 972	- 380		1 355	260	1 235	- 1 737
1987-1988	- 2 396	- 680		2 203	- 493	1 030	- 1 366
1988-1989	- 1 704	- 670		1 634	- 265	699	- 1 005
1989-1990	- 1 764	- 516		1 164	300	948	- 816
1990-1991	- 2 975	- 458		1 874	77	1 493	- 1 482
1991-1992	- 4 301	- 411		1 916	141	1 646	- 2 655
1992-1993	- 5 030	- 490		1 525	82	1 117	- 3 913
1993-1994	- 4 923	- 623		1 668	52	1 097	- 3 826
1994-1995	- 5 821	- 1 142		1 509	578	945	- 4 876
1995-1996	- 3 947	- 287		1 701	- 415	999	- 2 948
1996-1997	- 3 212	- 792		1 928	- 60	1 076	- 2 136
After reform of government accounting							
1997-1998	- 2 157	- 1 315	- 209	1 888	109	473	- 1 684
1998-1999	126	- 1 402	- 217	1 020	996	397	523
1999-2000	7	- 2 006	- 359	1 740	1 328	703	710
2000-2001	427	- 1 632	- 473	1 793	- 631	- 943	- 516
2001-2002	22	- 1 142	- 995	2 089	- 589	- 637	- 615
2002-2003	- 728	- 1 651	- 1 482	2 007	217	- 909	- 1 637
2003-2004	- 358	- 1 125	- 1 019	2 219	- 1 183	- 1 108	- 1 466
2004-2005	- 664	- 979	- 1 083	2 134	174	246	- 418
2005-2006	37	- 1 182	- 1 166	2 310	- 208	- 246	- 209
2006-2007 ^P	592	- 1 672	- 1 342	2 405	- 1 273	- 1 882	- 1 290
2007-2008 ^P	446	- 1 692	- 1 954	2 119	465	- 1 062	- 616
2008-2009 ^P	726	- 1 841	- 1 404	2 093	606	- 546	180

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

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

TABLE H.12

Change in total debt

	Consolidated direct debt ^{1, 2}		Retirement plans						Less: Generations Fund	Total debt ²	
			Retirement plans liability		Less: retirement plans sinking fund		Net retirement plans liability				
			\$M	As a % of GDP	\$M	As a % of GDP	\$M	As a % of GDP			
Before reform of government accounting											
1970-1971	2 478	10.9								2 478	10.9
1971-1972	2 920	11.9								2 920	11.9
1972-1973	3 309	12.0								3 309	12.0
1973-1974	3 679	11.8								3 679	11.8
1974-1975	4 030	11.0					67	0.2		4 097	11.2
1975-1976	4 955	12.0					179	0.4		5 134	12.4
1976-1977	6 035	12.5					354	0.7		6 389	13.2
1977-1978	7 111	13.4					620	1.2		7 731	14.6
1978-1979	8 325	14.1					915	1.6		9 240	15.7
1979-1980	9 472	14.4					1 598	2.4		11 070	16.8
1980-1981	12 247	16.8					2 420	3.3		14 667	20.1
1981-1982	14 184	17.6					3 428	4.3		17 612	21.9
1982-1983	16 485	19.3					4 489	5.3		20 974	24.6
1983-1984	18 880	20.6					5 545	6.0		24 425	26.6
1984-1985	21 216	21.2					6 729	6.7		27 945	27.9
1985-1986	23 633	22.0					7 998	7.4		31 631	29.4
1986-1987	25 606	21.9					9 353	8.0		34 959	29.9
1987-1988	26 819	20.9					10 883	8.5		37 702	29.4
1988-1989	27 091	19.2					12 597	8.9		39 688	28.1
1989-1990	27 699	18.7					14 320	9.6		42 019	28.3
1990-1991	29 637	19.3					16 227	10.6		45 864	29.9
1991-1992	33 106	21.3					18 143	11.7		51 249	33.0
1992-1993	39 231	24.8					19 668	12.4		58 899	37.2
1993-1994	45 160	27.8	21 337	13.1	- 854	- 0.5	20 483	12.6		65 643	40.4
1994-1995	52 468	30.8	22 846	13.4	- 849	- 0.5	21 997	12.9		74 465	43.7
1995-1996	52 886	29.8	24 547	13.8	- 923	- 0.5	23 624	13.3		76 510	43.1
1996-1997	52 625	29.2	26 475	14.7	- 1 014	- 0.6	25 461	14.1		78 086	43.3
After reform of government accounting											
1997-1998	57 947	30.7	41 617	22.1	- 1 179	- 0.6	40 438	21.5		98 385	52.2
1998-1999	60 685	30.9	42 637	21.7	- 2 209	- 1.1	40 428	20.6		101 113	51.5
1999-2000	62 783	29.7	44 377	21.1	- 5 040	- 2.4	39 337	18.7		102 120	48.4
2000-2001	65 737	29.2	46 170	20.5	- 7 059	- 3.1	39 111	17.4		104 848	46.6
2001-2002	69 115	29.9	48 259	20.8	- 10 199	- 4.4	38 060	16.4		107 175	46.3
2002-2003	72 916	30.2	50 266	20.8	- 11 840	- 4.9	38 426	15.9		111 342	46.1
2003-2004	76 444	30.5	52 485	21.0	- 14 204	- 5.7	38 281	15.3		114 725	45.8
2004-2005	80 310	30.5	54 619	20.8	- 18 333	- 7.0	36 286	13.8		116 596	44.3
2005-2006	83 672	30.5	57 193	20.9	- 22 563	- 8.2	34 630	12.7		118 302	43.2
2006-2007 ^P	90 448	31.8	59 598	21.0	- 27 044	- 9.5	32 554	11.5	- 575	122 427	43.1
2007-2008 ^P	96 710	32.5	61 717	20.8	- 32 000	- 10.8	29 717	10.0	- 1 021	125 406	42.3
2008-2009 ^P	101 027	33.0	63 810	20.8	- 35 528	- 11.6	28 282	9.2	- 1 747	127 562	41.6

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 Excluding deferred foreign exchange gains or losses.

2 Excluding pre-financing.

TABLE H.13

Change in net debt and accumulated deficits

	Financial assets net of other liabilities ¹														
	Total debt ²		Including pre-financing			Less: pre-financing		Excluding pre-financing		Net debt		Capital expenditures		Debt representing accumulated deficits ³	
	\$M	As a % of GDP	\$M	\$M	\$M	\$M	As a % of GDP	\$M	As a % of GDP	\$M	As a % of GDP	\$M	As a % of GDP	\$M	As a % of GDP
Before reform of government accounting															
1970-1971	2 478	10.9	188		188	2 290	10.1			2 290		2 290		10.1	
1971-1972	2 920	11.9	275		275	2 645	10.8			2 645		2 645		10.8	
1972-1973	3 309	12.0	317		317	2 992	10.9			2 992		2 992		10.9	
1973-1974	3 679	11.8	28		28	3 651	11.7			3 651		3 651		11.7	
1974-1975	4 097	11.2	4		4	4 093	11.2			4 093		4 093		11.2	
1975-1976	5 134	12.4	90		90	5 044	12.2			5 044		5 044		12.2	
1976-1977	6 389	13.2	36		36	6 353	13.2			6 353		6 353		13.2	
1977-1978	7 731	14.6	673		673	7 058	13.3			7 058		7 058		13.3	
1978-1979	9 240	15.7	780		780	8 460	14.4			8 460		8 460		14.4	
1979-1980	11 070	16.8	234		234	10 836	16.5			10 836		10 836		16.5	
1980-1981	14 667	20.1	341		341	14 326	19.6			14 326		14 326		19.6	
1981-1982	17 612	21.9	5 043		5 043	12 569	15.6			12 569		12 569		15.6	
1982-1983	20 974	24.6	5 936		5 936	15 038	17.6			15 038		15 038		17.6	
1983-1984	24 425	26.6	7 127		7 127	17 298	18.8			17 298		17 298		18.8	
1984-1985	27 945	27.9	6 490		6 490	21 455	21.4			21 455		21 455		21.4	
1985-1986	31 631	29.4	5 896		5 896	25 735	24.0			25 735		25 735		24.0	
1986-1987	34 959	29.9	6 243		6 243	28 716	24.5			28 716		28 716		24.5	
1987-1988	37 702	29.4	6 587		6 587	31 115	24.2			31 115		31 115		24.2	
1988-1989	39 688	28.1	6 869		6 869	32 819	23.3			32 819		32 819		23.3	
1989-1990	42 019	28.3	7 436		7 436	34 583	23.3			34 583		34 583		23.3	
1990-1991	45 864	29.9	8 306		8 306	37 558	24.5			37 558		37 558		24.5	
1991-1992	51 249	33.0	9 364		9 364	41 885	27.0			41 885		41 885		27.0	
1992-1993	58 899	37.2	11 985		11 985	46 914	29.6			46 914		46 914		29.6	
1993-1994	65 643	40.4	13 806		13 806	51 837	32.0			51 837		51 837		32.0	
1994-1995	74 465	43.7	16 788		16 788	57 677	33.8			57 677		57 677		33.8	
1995-1996	76 510	43.1	14 886		14 886	61 624	34.8			61 624		61 624		34.8	
1996-1997	78 086	43.3	13 253		13 253	64 833	35.9			64 833		64 833		35.9	
After reform of government accounting															
1997-1998	98 385	52.2	9 788	—	9 788	88 597	47.0		6 016	3.2		82 581		43.8	
1998-1999	101 113	51.5	15 134	2 831	12 303	88 810	45.3		6 233	3.2		82 577		42.1	
1999-2000	102 120	48.4	13 464	506	12 958	89 162	42.3		6 693	3.2		82 469		39.1	
2000-2001	104 848	46.6	17 165 ⁴	1 475	15 690	89 158	39.6		7 166	3.2		81 992 ⁴		36.5	
2001-2002	107 175	46.3	15 557	1 154	14 403	92 772	40.1		8 234	3.6		84 538		36.5	
2002-2003	111 342	46.1	19 873	4 132	15 741	95 601	39.6		9 716	4.0		85 885		35.6	
2003-2004	114 725	45.8	19 548	1 848	17 700	97 025	38.7		10 735	4.3		86 290		34.4	
2004-2005	116 596	44.3	20 216	2 662	17 554	99 042	37.7		11 818	4.5		87 224		33.2	
2005-2006	118 302	43.2	16 303	2 684	13 619	104 683	38.3		12 984	4.7		91 699 ⁵		33.5	
2006-2007 ^P	122 427	43.1	22 374 ⁶	5 955	16 419	106 008	37.3		14 326	5.0		91 682 ⁶		32.3	
2007-2008 ^P	125 406	42.3	17 444	—	17 444	107 962	36.4		16 280	5.5		91 682		30.9	
2008-2009 ^P	127 562	41.6	18 196	—	18 196	109 366	35.7		17 684	5.8		91 682		29.9	

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 Including deferred foreign exchange gains or losses.

2 Excluding pre-financing.

3 Including various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.

4 Including \$950 million placed in reserve.

5 The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

6 Including \$500 million placed in reserve.

TABLE H.14

Change in debt service

	Consolidated Revenue Fund	Interest ascribed to the retirement plans ¹	Consolidated organizations	Total debt service	As a % of budgetary revenue
	\$M	\$M	\$M	\$M	
Before reform of government accounting					
1970-1971	197			197	5.2
1971-1972	210			210	4.8
1972-1973	242			242	4.9
1973-1974	288			288	5.1
1974-1975	296			296	4.1
1975-1976	368			368	4.5
1976-1977	456			456	4.8
1977-1978	606			606	5.5
1978-1979	763	54		817	7.0
1979-1980	882	88		970	7.4
1980-1981	1 217	165		1 382	9.5
1981-1982	1 686	264		1 950	11.0
1982-1983	1 921	379		2 300	11.8
1983-1984	2 031	480		2 511	11.6
1984-1985	2 414	598		3 012	13.7
1985-1986	2 648	706		3 354	14.0
1986-1987	2 754	802		3 556	14.0
1987-1988	2 751	924		3 675	13.1
1988-1989	2 665	1 137		3 802	12.8
1989-1990	2 829	1 186		4 015	12.9
1990-1991	3 026	1 411		4 437	13.4
1991-1992	3 222	1 444		4 666	13.5
1992-1993	3 475	1 281		4 756	13.5
1993-1994	3 750	1 566		5 316	14.8
1994-1995	4 333	1 549		5 882	16.2
1995-1996	4 287	1 747		6 034	15.8
1996-1997	3 906	1 949		5 855	15.7
After reform of government accounting					
1997-1998	3 800	2 965	577	7 342	17.7
1998-1999	4 159	2 414	614	7 187	15.6
1999-2000	4 120	2 632	621	7 373	15.7
2000-2001	4 378	2 594	634	7 606	15.0
2001-2002	3 970	2 717	574	7 261	14.5
2002-2003	3 935	2 648	549	7 132	13.7
2003-2004	3 913	2 742	586	7 241	13.3
2004-2005	4 066	2 787	596	7 449	13.1
2005-2006	4 044	2 831	684	7 559	12.6
2006-2007 ^P	4 396	2 594	720	7 710	12.2
2007-2008 ^P	4 991	2 238	769	7 998	12.4
2008-2009 ^P	5 088	2 082	863	8 033	12.3

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the retirement plans sinking fund.