Budget Plan

March 19, 2009

BUDGET

2009
2010

Finances
Québec

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2009-2010 Budget
Budget Plan

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Budget Plan

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The Government's Economic and Fiscal Policy Directions

HIGHLIGHTS

The financial crisis has grown to the point of drawing the global economy into recession, prompting a major revision of economic growth forecasts.

The government's strategy:

- first, continue efforts to support the economy in order to weather the recession and prepare for economic recovery;
- restore fiscal balance once recovery is well under way.

❑ The economy in recession

Québec has been drawn into a recession in 2009. A 1.2% decline in economic activity is now anticipated.

1.9% growth recovery in 2010 and a return to job creation.

❑ A deficit position as of 2009-2010

Taking into account the most recent economic growth adjustments, the financial framework shows:

- a balanced budget is maintained in 2008-2009;
- a budget deficit of $3.9 billion in 2009-2010 and $3.8 billion in 2010-2011.

The government maintains its payments to the Generations Fund.

- $715 million in 2009-2010.

❑ Supporting the economy first

In total, for 2009 and 2010:

- the new measures in the Budget, combined with the recent initiatives as a whole, raise the additional cash resources injected into the economy by the Québec government to $15 billion, that is, 4.9% of GDP;
- 60 000 jobs created or retained through the action taken by the government;

Initiatives for weathering the recession

- Additional cash resources and capitalization of businesses: $1.1 billion;
- Worker training: $487 million;
- Reduction of the tax burden of businesses to stimulate investment: $87 million;
- Forest development: $66 million.

Preparing for economic recovery

— Assistance for technology firms: $950 million;

— Environmental protection and green technologies: $104 million;

— Northern Québec and gas exploration: $100 million.

❑ Ensuring social development

— Maintenance of spending growth at 4.5%: an extra $1 billion for health, education and the government's other missions;

— Investment in housing and social development: $277 million;

— Support for families and seniors: $68 million.

❑ Preparing now to restore fiscal balance

With the tabling of this Budget, the government is announcing the implementation of a plan to restore fiscal balance aimed at eliminating the deficit by 2013-2014.

Four initiatives are being put forward to gradually eliminate the deficit:

— the establishment of annual program spending growth of 3.2%, as of 2010-2011, a rate compatible with economic growth and taxpayers' ability to pay;

— the stepping up of efforts to counter tax evasion and avoidance;

— the indexing of all non-indexed user fees as of January 1, 2011, with the exception of rates for childcare services. In that regard, the government is tabling a policy for the funding of public services and creating the Road Infrastructure and Public Transit Fund;

— an increase in the Québec sales tax from 7.5% to 8.5% on January 1, 2011.

This plan will enable the government to renew with the fiscal policy directions that have guided its action in recent years:

— the maintenance of fiscal balance;

— spending growth at the same rate as growth in collective wealth;

— commitment to future generations to reduce the debt load.

INTRODUCTION

In fall 2008, a major financial crisis broke out in the United States. It rapidly became a global financial crisis, then an economic recession affecting every country on the planet. Québec was not affected right away by the global recession, because of the characteristics of its economy, but also because of the initiatives taken by the government, in particular the implementation of the Québec Infrastructures Plan.

The recession has now hit the Québec economy, and the government intends to continue to fully play its role in order to limit the adverse effects of the crisis and facilitate recovery.

The tabling of the 2009-2010 Budget is the government's opportunity to use the fiscal tools at its disposal to achieve a threefold goal.

— First, play a stabilizing role by supporting the economy and jobs, in particular through a massive reinvestment in infrastructure and additional support for businesses to help them weather the crisis, even at the price of substantial deficits.

— Second, prepare for economic recovery by implementing a bold plan to ensure sustainable and social development in Québec so that it becomes a world leader in clean energy, green technology and the industries of tomorrow in a new, developing economic space.

— Third, initiate a return to fiscal balance, beginning today, by implementing a plan to put public finances in order by 2013-2014. The plan is necessary if structural deficits and tough decisions like the ones that had to be taken in the late 1990s are to be avoided.

In this way, the government is signalling its firm intention to support citizens and businesses in order to weather the recession and ensure economic recovery, while now charting the course toward restoring sound public finances.

1. THE BUDGETARY AND FINANCIAL POSITION

The rapid deterioration in the economic situation worldwide began to be felt more strongly in Québec at the end of the last quarter of 2008.

- The tipping of the global economy into recession prompted a major revision of economic growth forecasts compared with the outlook presented in conjunction with the 2008-2009 Budget Speech.
- In light of this situation, the government will first step up its efforts to support the economy and ensure recovery, even at the price of substantial deficits.
- Moreover, the adverse effects of the crisis on the government's financial position require the immediate implementation of a plan to restore fiscal balance.

1.1 Québec drawn into recession

When it tabled the 2008-2009 Budget, the government had forecast 1.5% growth in economic activity in 2008 and 2.0% growth in 2009—forecasts comparable to those of the main private-sector forecasters.

The scale of the financial-cum-economic crisis has forced the government to considerably rethink its otherwise legitimate vision for growth in economic activity.

- In 2008, economic growth was ultimately 0.8%—the level anticipated last fall.
- However, given the deterioration of the economic situation in the United States and elsewhere, the Québec economy is in recession in 2009. A 1.2% decline in economic activity is anticipated—a drop of 3.2 percentage points over last year's forecast.
- Not until 2010 should the Québec economy begin to gradually recover, with a real gross domestic product increase of 1.9% in 2010 and an average annual increase of 2.5% from 2011 to 2013.

TABLE A.1

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

	2008	2009	2010
2009-2010 Budget	0.8	– 1.2	1.9
Update – Fall 2008	0.8	0.6	1.8
2008-2009 Budget	1.5	2.0	2.2

Source: Ministère des Finances du Québec.

1.2 Impact of the recession on the government's budgetary position

The global economic recession and its repercussions on Québec's economic growth cause a significant deterioration in the government's budgetary position.

❑ A deficit position as of 2009-2010

Taking into account the most recent economic growth adjustments, the financial framework shows that:

— despite spending that exceeds revenues in 2008-2009, fiscal balance is maintained with $2 billion from the budgetary reserve;

— the budget deficit in 2009-2010 will be $3.9 billion despite the use of the $295-million balance in the reserve;

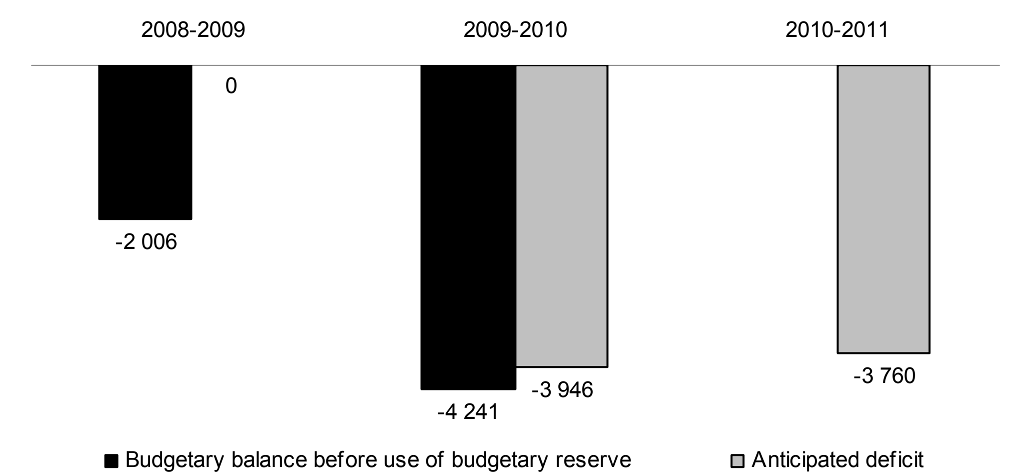
— a deficit of $3.8 billion is anticipated for 2010-2011, after the plan to restore fiscal balance is taken into account.

Despite the recession and the substantial deterioration in public finances, the government reiterates its commitment to reduce the debt load and, consequently, will continue to make annual payments of dedicated revenues to the Generations Fund.

— In 2009-2010, $715 million will be paid into the fund.

CHART A.1

A deficit position as of 2009-2010
(millions of dollars)



❑ Shortfalls attributable to four factors

The significant deterioration in the financial framework for the next two years, compared with the 2008-2009 Budget, is essentially explained by four factors.

- A much weaker than anticipated economic growth outlook, resulting in an annual $2.5-billion decline in government revenues for 2009-2010 and 2010-2011.
  - Whereas, last November, the most recent economic data pointed to a $123-million increase in own-source revenue for 2008-2009, the sudden deterioration in economic conditions in late 2008 and early 2009 caused a $673-million drop in anticipated revenues. Since the previous budget, economic adjustments have reduced government revenues by a total of $550 million for 2008-2009.
- The funding of measures to support the economy, in the amount of $826 million in 2009-2010 and $607 million in 2010-2011.
- The maintenance of program spending growth at 4.5% for 2009-2010, at an additional cost of $1 billion.
- The federal government's changes to the equalization program, which cut the revenues initially forecast by $75 million in 2009-2010 and $695 million in 2010-2011.

TABLE A.2

Total adjustments since the 2008-2009 Budget

(millions of dollars)

	2008-2009			2009-2010	2010-2011
	Adjustment as at Nov. 4, 08	Change	Adjustments since the Budget		
BALANCE IN THE 2008-2009 BUDGET	**0**	**0**	**0**	**0**	**– 143**
Drop in revenues					
Economic slowdown	123	– 673	– 550	– 2 507	– 2 422
Equalization	—	—	—	– 75	– 695
	123	**– 673**	**– 550**	**– 2 582**	**– 3 117**
Increase in spending					
Increase in the spending objective	– 240	– 163	– 403	– 1 051	– 1 151
Measures to support the economy[1]	– 81	– 34	– 115	– 826	– 607
Debt service	191	127	318	915	336
	– 130	**– 70**	**– 200**	**– 962**	**– 1 422**
Additional amount taken from the reserve	– 166	802	636	– 152	—
Impact of the plan to restore fiscal balance					1 065
Other factors	173	– 59	114	– 250	– 143
BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**0**	**0**	**0**	**– 3 946**	**– 3 760**

1 Including tax expenditures.

2. THE GOVERNMENT'S STRATEGY: SUPPORT THE ECONOMY FIRST, RESTORE FISCAL BALANCE LATER

The government's strategy for dealing with the recession is aimed first at mitigating the impact of the recession on employment by implementing additional measures to support the economy, which will make it possible to:

- weather the recession;
- ensure and accelerate economic recovery.

Only once Québec is well on its way to economic recovery will the government bring in the measures necessary to eliminate the deficit.

2.1 The government's priority: support the economy and facilitate recovery

A government cannot prevent a recession on its own. However, it does have the means necessary to play a stabilizing role in order to mitigate the impact of an economic slowdown and accelerate the recovery process. In fact, experience with past recessions has shown that the government must do so, even if it means going into budget deficit.

Indeed, that is the tack taken by all governments of developed nations, and Québec is no exception.

Given that the economic outlook has been turned on its head in recent months, the government is announcing additional measures to support jobs, further stimulate the economy and pave the way for renewed growth. These measures are in addition to the initiatives undertaken in recent months, in order to round out and accentuate their effects.

2.1.1 The economic action plan

Today, the deeper than anticipated deterioration in the economy moves the government to redouble its efforts to support the economy. Accordingly, the government is announcing the immediate implementation of new measures to pursue its efforts to stimulate the economy and prepare for recovery. These measures are in line with two main thrusts:

- an action plan to support jobs and stimulate the economy;
- a vision for preparing for economic recovery.

The cost of the measures in the 2009-2010 Budget, the initiatives introduced since the 2008-2009 Budget and the reduction in the tax on capital on January 1, 2009 and 2010 will total $2.4 billion for the next two years.

- Through the action taken by the Québec government, which also includes investments in the Québec Infrastructures Plan, $15 billion in cash resources—the equivalent of 4.9% of GDP—will be injected into the Québec economy in 2009 and 2010.

TABLE A.3

Financial impact of the economic action plan
(millions of dollars)

	2009-10	2010-11	Total over two years	Injection of cash resources into the economy in 2009 and 2010
MEASURES TO SUPPORT THE ECONOMY				
2009-2010 Budget				
Measures in the 2009-2010 Budget	– 242	– 237	– 479	3 192
Additional investments in government corporations	—	—	—	190
Subtotal – 2009-2010 Budget	**– 242**	**– 237**	**– 479**	**3 381**
Previous announcements				
Economic statement of January 14, 2009	– 291	– 75	– 366	2 721
Measures announced on December 19, 2008[1]	—	—	—	40
Update on Québec's Economic and Financial Situation, November 4, 2008[2]	– 293	– 295	– 588	1 459
Enhancement of the 2007-2012 Québec Infrastructures Plan[3]	—	—	—	6 450
Subtotal – Announcements since the 2008-2009 Budget	**– 826**	**– 607**	**– 1 433**	**14 051**
Elimination of the tax on capital: impact of the rate reductions of January 1, 2009 and 2010[4]	– 299	– 673	– 972	972
TOTAL OF GOVERNMENT ACTION	**– 1 125**	**– 1 280**	**– 2 405**	**15 023**

Note: The amounts have been rounded off, so they may not add up to the total indicated.
1 This corresponds to the impact of the 25% reduction in minimum withdrawals from registered retirement income funds (RRIFs) in 2008, the cost of which is charged to the 2008-2009 fiscal year.
2 Excluding the cost of Québec proposals that required harmonization with the federal tax system, but that were not accepted by the federal government.
3 The cost will be funded under the program spending objective.
4 According to the stipulated timetable for the elimination of the tax on capital by January 1, 2011.

❑ A vision for preparing for economic recovery

In addition to providing for short-term action to support workers and businesses throughout the crisis, the 2009-2010 Budget prepares for economic recovery through the implementation of a bold plan to make Québec a world leader in clean energy, green technology and the industries of tomorrow in a new, developing economic space.

That is the backdrop against which the government is announcing today new initiatives of a nature to guide Québec toward sustainable economic development that will tap, in particular, the immense potential of its natural resources.

❑ Ensuring social development

Economic development has meaning only if it comes with social progress. Accordingly, improving the quality of life has been central to the government's action since 2003.

In that regard, this Budget confirms the government's determination to continue its efforts to help Quebecers, especially in these difficult times. The government is therefore announcing today a series of measures that, in particular, will provide more assistance to Québec families, improve the quality of life of our seniors and facilitate access to affordable housing.

Taken together, the new initiatives in the 2009-2010 Budget will enable the injection of another $3.4 billion into the Québec economy in 2009 and 2010.

❑ The economic action plan

In the short term, the economic stimulation initiatives for weathering the recession are aimed at:

- increasing the cash resources and capitalization of businesses;
- assisting workers in their efforts to acquire training and find employment;
- supporting forest development;
- easing the tax burden of businesses.

In addition, the government is moving now to support economic recovery and shape the Québec of tomorrow by banking on:

- the development of northern Québec;
- the development of our gas resources;
- environmental protection and the development of green technologies.

❑ Social development

To support families and the well-being of Quebecers, the government intends to:

- maintain spending growth at 4.5%: an extra $1 billion for health, education and the government's other missions;
- provide more support for families;
- improve the quality of life of seniors;
- invest in housing and social development.

TABLE A.4

Overview of the fiscal and budgetary measures in the 2009-2010 Budget

(millions of dollars)

	Cost to the government			Injection of cash resources into the economy in 2009 and 2010[1]	Population affected
	2009-10	2010-11	Total		
MEASURES IN THE 2009-2010 BUDGET[2]					
1. ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS					
Measures to increase the cash resources and capitalization of businesses					
– Creation of a $500-million emergency fund for the recovery of businesses[3]	12.5	12.5	**25.0**	500.0	
– New stock savings plan II to foster the capitalization of public companies	18.0	30.0	**48.0**	165.0	
– Fostering the growth of Fondaction	13.1	22.5	**35.6**	70.0	
– $60-million increase in the envelope of the FIER-Régions[2]	3.0	3.0	**6.0**	90.0	
– Improvement of the Renfort program in favour of the forest and tourism sectors	40.0	20.0	**60.0**	200.0	
– Deferral of repayment of the loan envelope of local investment funds	—	—	—	25.0	
Subtotal	**86.6**	**88.0**	**174.6**	**1 050.0**	
Employment Pact: increase from $1.0 billion to $1.5 billion[4]					
– Additional support to develop people's potential	155.4	188.3	**343.7**	336.2	117 450 individuals
– Additional support to promote training	55.6	44.2	**99.8**	138.1	21 800 businesses
– Additional support to value work	11.4	0.9	**12.3**	12.3	
Subtotal	**222.4**	**233.4**	**455.8**	**486.6**	
Support for forest development					
– Improvement of the Silvicultural Investment Program	22.0	—	**22.0**	22.0	
– Financing for the production of seedlings	25.6	—	**25.6**	25.6	
– Other measures to support forest development	11.5	6.5	**18.0**	18.0	
Subtotal	**59.1**	**6.5**	**65.6**	**65.6**	

	Cost to the government			Injection of cash resources into the economy in 2009 and 2010[1]	Population affected
	2009-10	2010-11	Total		
Reduction of the corporate tax burden to stimulate investment					
– Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000	13.0	15.0	**28.0**	28.0	5 900 businesses
– Extension of accelerated depreciation for manufacturing and processing equipment	—	—	—	—	15 000 businesses
– 100% accelerated depreciation for computer hardware	18.0	41.0	**59.0**	59.0	70 000 businesses
Subtotal	**31.0**	**56.0**	**87.0**	**87.0**	
Improvements to certain tax credits for culture	**1.5**	**2.6**	**4.1**	**4.1**	100 businesses
TOTAL — ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS	**400.6**	**386.5**	**787.1**	**1 693.3**	
2. PREPARING QUÉBEC FOR ECONOMIC RECOVERY					
Northern Québec: a new site of sustainable development					
– Preserving the environment and promoting the value of northern Québec's natural heritage	1.6	1.8	**3.4**	3.4	250 businesses
– Improving infrastructure in northern Québec	1.1	4.2	**5.3**	85.5	
Subtotal	**2.7**	**6.0**	**8.7**	**88.9**	
Stimulating gas exploration in Québec					
– Five-year royalty holiday for gas development	0.8	3.0	**3.8**	3.8	
– SGF support in the development of Québec's gas exploration industry	—	—	—	—	
– Program for the acquisition of geoscientific knowledge	2.0	2.0	**4.0**	4.0	
– Strategic environmental assessment program	1.5	1.5	**3.0**	3.0	
Subtotal	**4.3**	**6.5**	**10.8**	**10.8**	
Supporting our technology firms					
– $125 million to create seed funds[3]	2.5	2.5	**5.0**	125.0	50 businesses
– $825 million for the financing of venture capital funds[3]	10.0	10.0	**20.0**	825.0	175 businesses
– Introduction of a tax holiday encouraging the commercialization of intellectual property	—	0.4	**0.4**	0.4	200 businesses
Subtotal	**12.5**	**12.9**	**25.4**	**950.4**	

	Cost to the government			Injection of cash resources into the economy in 2009 et 2010[1]	Population affected
	2009-10	2010-11	Total		
Québec, a leader in environmental protection and environmental technologies					
– Development of green energy technologies	4.0	4.0	**8.0**	8.0	
– New refundable tax credit for new green vehicles	2.3	3.3	**5.6**	5.6	19 000 acquirers
– Financial assistance program for capital assets related to bioenergy production	—	—	—	—	
– Acceleration of public dam modernization	0.1	0.7	**0.8**	62.0	
– Expansion of the national park system in southern Québec	1.8	3.6	**5.4**	27.0	
– Resiting snowmobile trails outside the Monts-Valin and Mont-Tremblant Québec national parks	0.4	1.0	**1.4**	1.4	
Subtotal	**8.6**	**12.6**	**21.2**	**104.0**	
TOTAL — PREPARING QUÉBEC FOR ECONOMIC RECOVERY	**28.1**	**38.0**	**66.1**	**1 154.1**	
3. **SUPPORTING FAMILIES AND THE WELL-BEING OF QUEBECERS**					
Supporting families	**27.0**	**27.0**	**54.0**	**54.0**	100 000 families
Improving the quality of life of seniors	**5.3**	**5.4**	**10.7**	**13.9**	1 200 households
Investments of $370 million in housing construction and renovation	**14.7**	**28.4**	**43.1**	**266.0**	30 170 households
Investments for social development	**9.5**	**1.0**	**10.5**	**10.5**	
TOTAL — SUPPORTING FAMILIES AND THE WELL-BEING OF QUEBECERS	**56.5**	**61.8**	**118.3**	**344.4**	
SUBTOTAL – 2009-2010 BUDGET MEASURES	**485.2**	**486.3**	**971.5**	**3 191.8**	
ADDITIONAL INVESTMENTS BY LOTO-QUÉBEC AND THE SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC	—	—	—	**189.5**	
TOTAL OF 2009-2010 BUDGET MEASURES TO SUPPORT EMPLOYMENT AND PREPARE FOR ECONOMIC RECOVERY	**485.2**	**486.3**	**971.5**	**3 381.3**	

1 Including, as applicable, the contributions of partners, namely, the private sector and the other levels of government.
2 These measures are presented in sections E and F of the 2009-2010 Budget Plan.
3 The cost to the government represents the impact on servicing the debt.
4 Including the portion funded by the federal government, which will be paid into the Fonds de développement du marché du travail.

2.1.2 Maintaining government spending growth

The economic stimulation measures also take another form—the maintenance of program spending growth for 2009-2010 at the same level as in 2008-2009, at the very time the economy is going into recession.

With this initiative, the government is providing direct support to economic activity and employment, despite the decrease in government revenues.

- The government therefore announces that it is authorizing 4.5% program spending growth during the 2009-2010 fiscal year.
- This increase in spending over the provision made in the 2008-2009 financial framework represents an injection of $1 billion into the economy.

2.1.3 An action that stimulates the economy

The new measures announced today, combined with the Québec government's recent initiatives as a whole and those announced by the federal government, will enable the Québec economy to weather the crisis and better position itself to benefit from the recovery. In 2009 and 2010:

- Québec's real GDP will be 1.5 percentage points higher than it would have been without the governments' support measures. This assistance will come primarily from public infrastructure spending by the governments and Hydro-Québec, as well as from the support measures for businesses and individuals;
- 60 000 jobs will be created or retained through government action.

TABLE A.5

Impact of the government stimulation measures on the economy and employment in 2009 and 2010

Impact on real GDP (%)	1.5
Impact on employment (units)	60 000

Source: Ministère des Finances du Québec.

❑ An effort comparable to that of the other governments

The impact of government action to support the economy and kick-start growth in Québec compares favourably with the anticipated benefits of the measures put in place in Canada and the United States.

— Excluding assistance for the financial sector, which is the responsibility of federal governments, the Québec government's effort to support economic activity is considerable and on a par with that of the other governments.

Thus, for 2009 and 2010, additional cash resources will be injected:

— in Québec, $15.0 billion by the Québec government, that is, 4.9% of GDP;

— in Canada, $64.6 billion by the federal government, that is, 4.1% of GDP;

— in the United States, US$675.0 billion by the federal government, that is, 4.8% of GDP.

TABLE A.6

Government action in support of the economy in 2009 and 2010

	2009		2010		Total	
	$billion	As a % of GDP	$billion	As a % of GDP	$billion	As a % of GDP
Québec	8.1	2.7	7.0	2.2	15.0	4.9
Canada	42.3	2.7	22.3	1.4	64.6	4.1
United States[1]	274.0	2.0	401.0	2.8	675.0	4.8

Note: Includes the fiscal and budgetary measures, infrastructure investments and cash resources injected to support the economy, excluding financial sector assistance.
1 Amounts are in U.S. dollars.
Sources: Ministère des Finances du Québec, Department of Finance Canada – Budget 2009, Congressional Budget Office, U.S. Treasury.

❑ A budgetary impact similar to that of other jurisdictions

From a budgetary standpoint, the deterioration in economic conditions, combined with the cost of recovery plans, causes most countries to go into budget deficit.

A comparison with other jurisdictions shows that Québec is faced with the same public finance challenges and that most governments have forecasted budgetary shortfalls in 2009 and 2010.

TABLE A.7

Anticipated budget deficits[1]
(as a percentage of GDP)

	2009	2010
Canada – federal government	– 2.2	– 1.8
Québec – Québec government	– 1.3	– 1.2
Other jurisdictions		
Denmark	– 0.3	– 1.5
New Zealand	– 0.6	– 1.6
Sweden	– 1.3	– 1.4
Netherlands	– 1.4	– 2.7
Germany	– 2.9	– 4.2
France	– 5.6	– 5.2
United Kingdom	– 8.8	– 9.6
Ireland	– 11.0	– 13.0
United States	– 12.3	– 8.0

1 The deficits for public administrations as a whole (federal, provincial and local), except for Canada, the United States and Québec.
Sources: European Commission (EcoFin), OECD Economic Outlook, Consensus Forecast, budget documents of various countries.

2.2 Preparing now to restore fiscal balance

With the tabling of the 2009-2010 Budget, the government is announcing the implementation of a plan to restore fiscal balance for the purpose of eliminating the deficits by 2013-2014.

2.2.1 A growing deficit that requires action

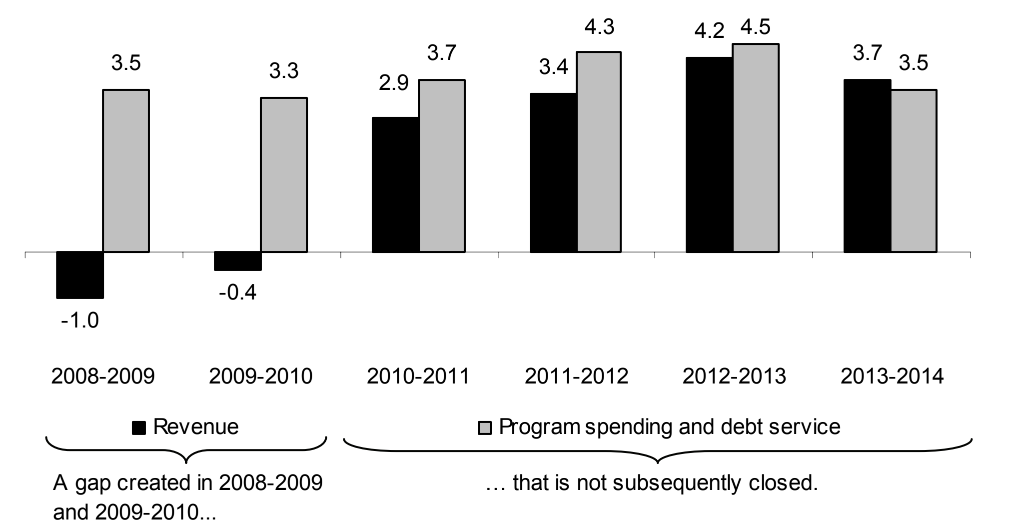
As projected in the government's financial framework, the gap at the end of the recession between higher spending growth compared with revenue growth will be closed only gradually, thus leaving a significant shortfall that must be made up in order to restore structural balance to public finances.

— In 2008-2009 and 2009-2010, government revenues decline, whereas spending is maintained to support the economy.

— As of 2010-2011, when economic recovery kicks in, spending will continue to rise at a steady rate, whereas revenues, affected in particular by the federal changes to the equalization program, will increase at too slow a rate to narrow the gap created during the recession.

CHART A.2

Growth in budgetary revenues and expenditures[1] from 2008-2009 to 2013-2014
(as a percentage)



1 Budgetary expenditures include program spending as well as debt servicing.

❑ Without recovery measures: persistent deficits

Without revenue or expenditure recovery measures to restore fiscal balance, the government's financial framework will slide into a persistent structural deficit position. That is why the government must immediately provide for a plan to restore fiscal balance, whereby the deficit will be gradually eliminated and balance achieved in 2013-2014.

TABLE A.8

Financial framework of the 2009-2010 Budget, after the plan to restore fiscal balance

(millions of dollars)

	Preliminary	Forecasts		Projections		
	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Budgetary revenue						
Total own-source revenue	48 555	47 371	49 127	51 487	53 948	56 295
% change	*– 1.8*	*– 2.4*	*3.7*	*4.8*	*4.8*	*4.4*
Federal transfers	13 924	14 841	14 890	14 702	15 031	15 270
% change	*2.2*	*6.6*	*0.3*	*– 1.3*	*2.2*	*1.6*
Total budgetary revenue	**62 479**	**62 212**	**64 017**	**66 189**	**68 979**	**71 565**
% change	***– 1.0***	***– 0.4***	***2.9***	***3.4***	***4.2***	***3.7***
Budgetary expenditure						
Program spending	– 57 400	– 59 989	– 61 879	– 63 829	– 65 840	– 67 915
% change	*4.7*	*4.5*	*3.2*	*3.2*	*3.2*	*3.2*
Debt service	– 6 589	– 6 104	– 6 646	– 7 663	– 8 876	– 9 439
% change	*– 6.2*	*– 7.4*	*8.9*	*15.3*	*15.8*	*6.3*
Total budgetary expenditure	**– 63 989**	**– 66 093**	**– 68 525**	**– 71 492**	**– 74 716**	**– 77 354**
% change	***3.5***	***3.3***	***3.7***	***4.3***	***4.5***	***3.5***
Net results of consolidated entities	**205**	**355**	**563**	**688**	**748**	**873**
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	**– 1 305**	**– 3 526**	**– 3 945**	**– 4 615**	**– 4 989**	**– 4 916**
Deposit of dedicated revenues in the Generations Fund	– 569	– 715	– 880	– 957	– 1 038	– 1 126
BUDGETARY BALANCE BEFORE USE OF BUDGETARY RESERVE	**– 1 874**	**– 4 241**	**– 4 825**	**– 5 572**	**– 6 027**	**– 6 042**
Deposit in the Generations Fund[1]	– 132					
Use of the budgetary reserve	2 006	295				
BUDGETARY BALANCE BEFORE PLAN TO RESTORE FISCAL BALANCE	**0**	**– 3 946**	**– 4 825**	**– 5 572**	**– 6 027**	**– 6 042**
Impact of the plan to restore fiscal balance			1 065	2 933	4 759	6 130
BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**0**	**– 3 946**	**– 3 760**	**– 2 639**	**– 1 268**	**88**

1 Deposit from the budgetary reserve.

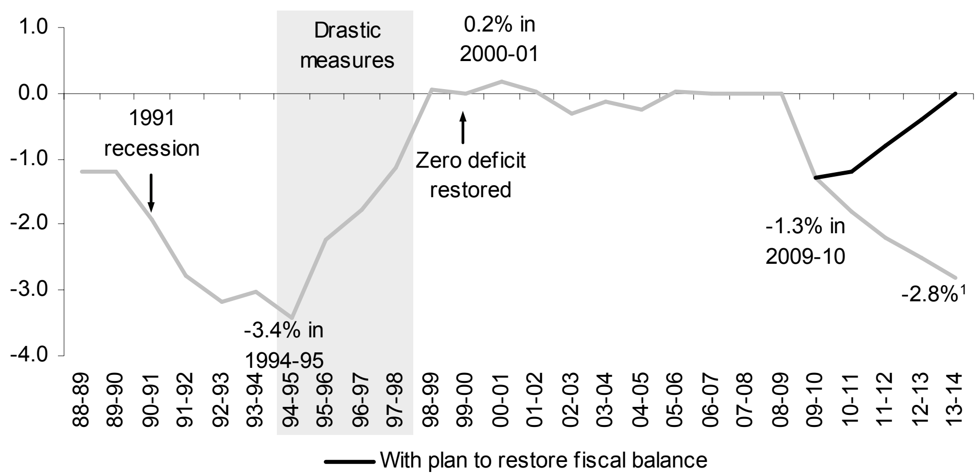
❑ Planning to restore fiscal balance so as not to revisit the past

Québec has been faced before with a situation analagous to the one we may experience at the end of this recession. In the early 1990s, the drop in economic activity plunged Québec into rising deficits. Drastic measures had to be taken to pull Québec out of the deficit spiral, resulting in a deterioration in the quality of public services, particularly in the health and education sectors.

Everything must be done to ensure that Québec is not confronted with such a situation again.

CHART A.3

Change in the Québec government's budgetary balance from 1988-1989 to 2013-2014
(as a percentage of GDP)



1 Based on program spending growth of 4.6% a year, that is, average growth in the last six years.

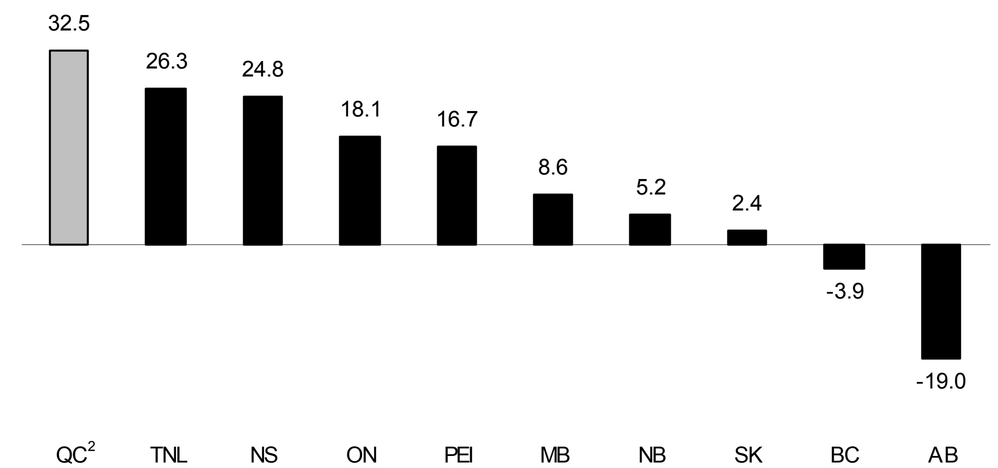
❑ A debt that leaves no option but to restore balance

The significant, successive deficits posted from the late 1970s to the mid-1990s led to a considerable run-up in the public debt. Because of the deficits that accumulated in the past, Québec still has today the highest debt burden of the Canadian provinces.

That situation leaves no option but to restore sound public finances.

CHART A.4

Debt representing accumulated deficits[1] as at March 31, 2008
(as a percentage of GDP)



1 A negative entry means that the government has an accumulated surplus.
2 After taking into account the budgetary reserve.
Sources: Ministère des Finances du Québec, the governments' public accounts and Statistics Canada.

❑ Suspension of the effects of the *Balanced Budget Act*

Given the size of the anticipated budget deficits in the coming years, compliance with the *Balanced Budget Act*[1] cannot be considered without jeopardizing the funding of public services.

The government will table a bill to amend the *Balanced Budget Act* so as to be able to present a budget deficit in 2009-2010 and 2010-2011 that it will not have to offset through surpluses in subsequent years.

Also, the *Balanced Budget Act* will be amended to enable the government to gradually pay off its budget deficit once economic recovery is under way. To that end, the bill will provide for provisions authorizing decreasing budget deficits that will not have to be subsequently offset.

1 R.S.Q., c.E-12.00001.

❑ Maintenance of payments to the Generations Fund

Since the Generations Fund was created in June 2006, the government has made a determined effort to pay down Québec's debt.

To that end, the government makes payments of dedicated revenues, the bulk of which consists of water-power royalties from Hydro-Québec and private producers of hydroelectric electricity, earmarked specifically for debt reduction.

Despite the recession and the significant deterioration in public finances, the government is maintaining the annual payments of dedicated revenues to the Generations Fund, rather than suspending them temporarily. In addition to confirming the government's commitment to reducing the debt load, this decision is doubly justified.

- First, temporarily suspending payments would have no effect on the government's debt. On the one hand, suspending payments would reduce the deficit but, on the other, would decrease accordingly the amounts dedicated to paying down the debt.
- Second, temporarily suspending payments would temporarily create more leeway that could be used for new spending and, consequently, would compound accordingly the effort required to restore fiscal balance when the time comes to resume making payments to the Generations Fund.

2.2.2 A return to fiscal balance by 2013-2014

The Budget tabled today aims to achieve fiscal balance by 2013-2014 through the implementation of a plan to restore fiscal balance.

The plan aims to gradually reduce the deficit as of 2010-2011. In that regard, four initiatives are being put forward:

- the establishment of annual program spending growth of 3.2%, as of 2010-2011, a rate compatible with economic growth and taxpayers' ability to pay;
- the stepping up of efforts to counter tax evasion and avoidance;
- the indexing of all non-indexed user fees as of January 1, 2011, with the exception of rates for childcare services. In that regard, the government is tabling a policy for the funding of public services and creating the Road Infrastructure and Public Transit Fund;
- an increase in the Québec sales tax from 7.5% to 8.5% on January 1, 2011.

Other measures will have to be identified to bring the deficit down to zero again.

TABLE A.9

Plan to restore fiscal balance
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13	2013-14
BUDGETARY BALANCE WITH MAINTENANCE OF PROGRAM SPENDING GROWTH AT 3.2%	**– 3 946**	**– 4 825**	**– 5 572**	**– 6 027**	**– 6 042**
Revenue measures					
Stepping up of efforts by Revenu Québec to counter tax evasion and avoidance	0	200	300	600	900
Indexing of all non-indexed user fees as of January 1, 2011[1]	0	15	75	135	195
Increase in the Québec sales tax rate from 7.5% to 8.5% as of January 1, 2011[2]	0	400	1 215	1 215	1 265
Subtotal of revenue measures	**0**	**615**	**1 590**	**1 950**	**2 360**
Other revenue or expenditure measures to be identified	0	450	1 343	2 809	3 770
TOTAL OF MEASURES	**0**	**1 065**	**2 933**	**4 759**	**6 130**
BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**– 3 946**	**– 3 760**	**– 2 639**	**– 1 268**	**88**

1 With the exception of rates for childcare services.
2 Taking into account offsetting for low- or middle-income households.

❑ A gradual approach

The proposed approach for implementing the plan consists in:

— first supporting economic growth, by keeping government spending in the economy and funding new measures to support the economy and employment;

— postponing all debt reduction efforts until recovery is well under way;

— targeting program spending in initial debt reduction efforts, by establishing its growth to 3.2% a year as of 2010-2011;

— waiting until January 1, 2011 to implement the main revenue measures.

❑ Targeted measures

The government has chosen to target three revenue measures in order to offset the budget shortfall. These initiatives are aimed not only at increasing government revenues, but also at meeting specific objectives.

Apart from the substantial effort that will be put into maintaining spending growth on a par with the economy and taxpayers' ability to pay, the government intends to restore fiscal balance by introducing targeted revenue measures aimed at ensuring that all taxpayers pay their fair share of income tax and consumption taxes, obtaining a larger contribution from users of public services and soliciting a collective effort from consumers.

❑ Implementation of the plan

■ In 2009 and 2010, first support the economy and facilitate recovery

In 2009 and 2010, the government intends to concentrate its efforts to support the economy and employment by postponing the bulk of the recovery measures until 2011. Thus, the plan provides for:

— maintaining program spending growth at the current level of 4.5% in 2009-2010 and establishing it at 3.2% a year as of 2010-2011;

— funding the implementation of new measures to support the economy and employment that will enable $3.4 billion in additional cash resources to be injected into the economy;

— stepping up Revenu Québec's tax evasion and avoidance efforts.

■ From 2011 to 2013, restore balance once recovery is well under way

As of 2011, once recovery is well under way, the government intends to continue its strong management by maintaining 3.2% program spending growth and applying revenue recovery measures. In that regard, the government seeks to:

— pursue its efforts to counter tax evasion and avoidance;

— initiate annual indexing of all non-indexed user fees;[2]

— increase the Québec sales tax rate from 7.5% to 8.5%.

2 With the exception of rates for childcare services.

❑ Additional measures to be identified

Additional, recurring revenue or expenditure measures of $4 billion must be identified in order to offset the budget shortfall by 2013-2014.

In that regard, the Québec government will continue talks with the federal government, with a view to its granting Québec's requests, in particular as regards the reinstatement of the equalization program implemented in 2007 on the basis of the recommendations in the O'Brien report.

2.2.3 Restoring sound public finances

Once the deficit has been eliminated and balance restored, the government's plan aims to reconnect with the fiscal policy directions that have guided its action in recent years.

❑ A reminder of the main fiscal policy directions

In recent years, the government's fiscal policy has focused on five main directions:

- the maintenance of fiscal balance;
- spending growth on a par with our collective wealth;
- a commitment to future generations to reduce the debt load;
- the maintenance of a competitive tax system essential to wealth creation;
- a massive reinvestment in the modernization of our infrastructures.

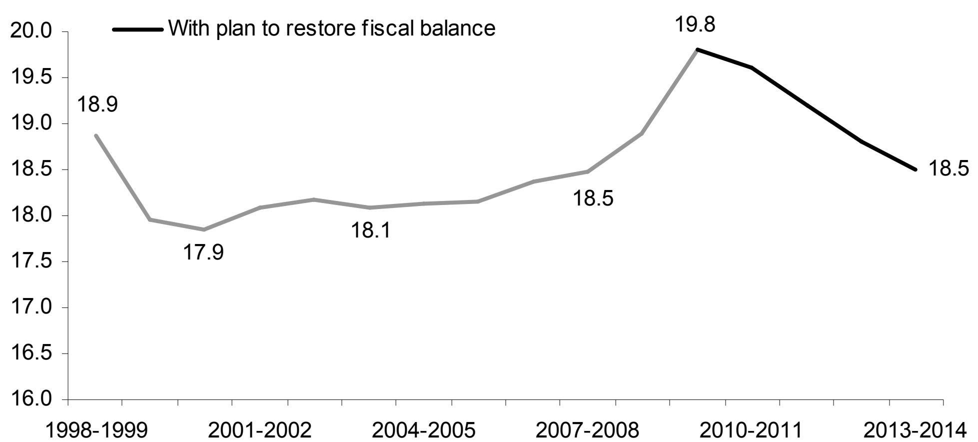
■ Program spending growth compatible with our ability to pay

The plan to restore fiscal balance aims to make program spending growth compatible with our ability to pay.

The implementation of the plan should enable the ratio of program spending as a percentage of GDP to be reduced to 18.5% in 2013-2014, the same level as before the recession.

CHART A.5

Program spending
(as a percentage of GDP)



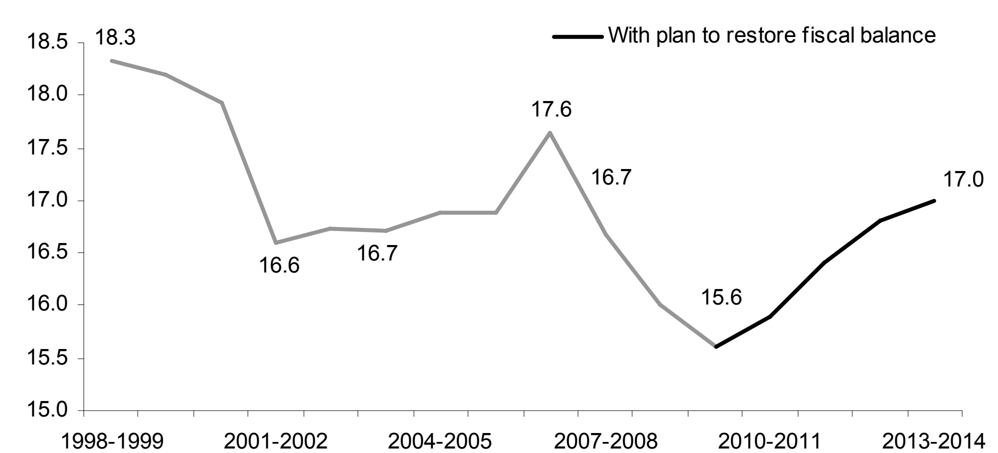
■ Sufficient revenues to fund public services

The plan to restore fiscal balance should enable the Québec government to recover sufficient revenues to fund public services without unduly hurting tax competitiveness, investment or wealth creation.

The implementation of the plan should enable the ratio of own-source revenue as a percentage of GDP to reach 17%, the pre-recession level.

CHART A.6

Own-source revenue
(as a percentage of GDP)



■ Pursuing efforts to reduce debt load

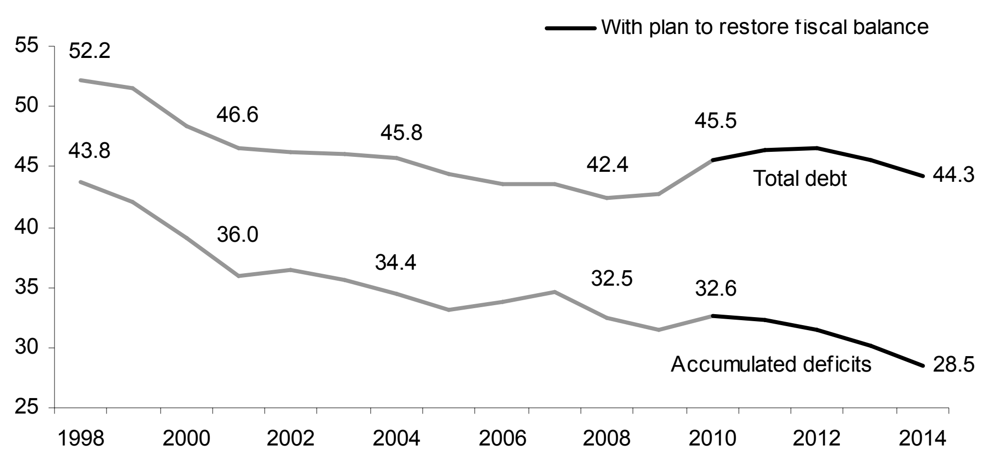
The implementation of the plan to restore fiscal balance will enable the government to limit the impact of the recession on Québec's debt and continue its efforts to reduce the debt load once economic recovery is well under way.

However, due to the deficits anticipated for the coming years, the debt load as a percentage of GDP should temporarily increase despite the maintenance of payments to the Generations Fund.

Thus, following a temporary increase, the government's total debt as a percentage of GDP is expected to be reduced to 44.3% in 2014 and the cumulative deficits to be reduced to 28.5% of GDP within five years.

CHART A.7

Government's total debt[1] and debt representing accumulated deficits[2] as at March 31
(as a percentage of GDP)



1 Total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund*.
2 Debt representing accumulated deficits, after taking into account the budgetary reserve.

As in the case of the amendments to be made to the *Balanced Budget Act*, the government will review, once recovery is well under way, the debt load reduction targets provided for in the *Act to reduce the debt and establish the Generations Fund*.[3]

3 R.S.Q., c.R-2.2.0.1.

3. A TARGETED EFFORT TO PUT PUBLIC FINANCES IN ORDER

In the plan to restore fiscal balance, the government is announcing three measures aimed respectively at:

— ensuring greater fairness through stepped-up efforts to counter tax evasion and avoidance;

— obtaining a larger contribution from users of public services, by indexing all non-indexed user fees;[4]

— offsetting part of the budget shortfall through a collective effort, namely, an increase from 7.5% to 8.5% in the Québec sales tax rate.

3.1 Ensuring that we all do our part

When it comes to funding public services, the most important thing is to ensure that we all pay our fair share. Sooner or later, revenue lost through tax evasion and avoidance must be collected from other taxpayers.

❑ Substantial losses

According to preliminary estimates, at the end of 2008-2009, Revenu Québec will have collected $41 billion in income tax and consumption taxes on behalf of the government. The effort put into fighting tax evasion accounts for a portion of that amount.

— According to various studies, the underground economy in Québec represents between 3% and 5.7% of GDP—the equivalent of over $10 billion in economic activity. This reality results in major tax losses for the government.

— These estimates do not take into account such stratagems as capital gains concealment, fraudulent input tax refund (ITR) claims and aggressive tax planning. These operations undermine the integrity and fairness of the tax system.

4 *Supra*, note 2.

In that regard, the ministère des Finances tabled early this year a working paper on aggressive tax planning,[5] which presents the means the government is considering taking, like several OECD countries, to prevent recourse to such practices. It is worth pointing out that, in recent years, efforts by the tax authorities to put an end to certain aggressive tax planning schemes and certain legislative interpretation disputes prevented the loss of approximately $500 million in revenue.

It is therefore essential that further effort be devoted to enabling the government and, consequently, society as a whole, to collect the revenues necessary to fund public services. It is a matter of fairness, which is particularly crucial at a time when the prospect of budget deficits ultimately threatens the very access to these services.

❑ More resources for better tax auditing

To recover lost revenue, Revenu Québec must be able to increase prevention and carry out more tax audits.

Revenu Québec already engages in regular audit activities and has specific programs to fight tax evasion and avoidance. Adding resources will encourage more taxpayers to comply with tax rules, thereby promoting self-assessment, the cornerstone of the tax system.

The development of electronic communications and the sophistication of evasion and avoidance stratagems represent an additional tax auditing challenge. Revenu Québec must therefore be able to count on cutting-edge resources more than ever.

Accordingly, the government will ensure that Revenu Québec has the staff required to step up its tax recovery efforts and thereby fully carry out its mission.

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5 *Aggressive Tax Planning*, a working paper, ministère des Finances du Québec, January 2009.

❑ Improving taxpayer service

The government will also ensure that Revenu Québec is able to bring its computer systems up to standard, in order improve service delivery. The development of electronic services and interactive means of communication is intended to make it easier for taxpayers to meet their tax obligations.

Moreover, these investments will lead to productivity gains that will ultimately cut costs.

❑ Supporting action by Revenu Québec

For these reasons, the government must grant Revenu Québec resources on a cost-benefit basis, so as to ensure that tax auditing efforts are maintained and the recovery of amounts owing is stepped up.

The objective is to establish clear targets for Revenu Québec, make the organization accountable for its performance and, in return, provide it with the means necessary to achieve the objectives set.

❑ The targets established

As part of the plan to restore fiscal balance, the government has established the following targets:

- the various measures to counter tax evasion and avoidance must make it possible to increase revenues by $200 million as of 2010-2011;
- the gains made through fairer collection of income tax and consumption taxes should increase rapidly. The government has established targets of $300 million for 2011-2012, $600 million for 2012-2013 and $900 million for 2013-2014.

These targets will be confirmed in an agreement formally entered into with Revenu Québec. The agreement will also provide for the additional means that will be entrusted to Revenu Québec for achieving the targets. Revenu Québec will be accountable for its performance.

3.2 Policy for the funding of public services

With the plan to restore fiscal balance, the government is tabling a policy for the funding of public services.

In 2008, the Task Force on Fees for Public Services submitted to the government a set of recommendations concerning such a policy, further to an in-depth analysis of the current method of setting fees. Without following through on all of the recommendations, the government is announcing three initiatives that should reach consensus among Quebecers.

— First, all user fees not subject to an annual indexation mechanism, with the exception of rates for reduced-contribution childcare services, will be indexed annually at the same rate applicable to the personal income tax system. This will make it possible to avoid the many perverse effects, identified in the task force's report, associated with fee freezes.

— Second, the government is tabling a policy for the funding of public services to ensure their sustainability while meeting the fairness and accessibility criteria that take into account the precarious situation of low-income households in addition to promoting the transparency and accountability of the fee-setting process.

— Third, the government is announcing a broader mandate for the Fonds de conservation et d'amélioration du réseau routier, whose objective will be to ensure the funding of road and public transit infrastructure out of dedicated revenues, in compliance with the beneficiary-payer principle.

❑ Fee indexing

Currently, $3 billion in revenue from user fees paid for services provided by government departments and agencies is not indexed. Annual indexation of these fees, for inflation, would generate $60 million in revenue over a full year as of the first year.

The government is announcing that all user fees that are not adjusted annually, with the exception of rates for reduced-contribution childcare services, will be indexed each year, at the same rate applicable to the personal income tax system.[6]

A bill to that effect will be tabled in 2009, in order to begin indexing government fees as of January 1, 2011.

TABLE A.10

Examples of non-indexed user fees

	Fee ($)	Date of previous adjustment
Agriculture, pêcherie et alimentation		
– Routine bacteriological testing of milk	7.50	2007
Transport		
– Driver's licence	16.00/year	1997
– Fees to obtain or renew a roadside advertising licence – 1 year	50.00	1989
Urgences-santé		
– Basic cost of ambulance transportation	125.00	1997
Services Québec		
– Certificate issued for a birth, marriage, civil union, death or name change – usual treatment	15.00	1996

Source: Compiled by the ministère des Finances du Québec.

6 The indexation rate is based on the average annual change in the Québec consumer price index (excluding alcohol and tobacco), published by Statistics Canada for the 12-month period ending on September 30. For 2009, the rate is 2.36%.

❑ Tabling of the policy for the funding of public services

The government's user fee practices are in need of improvement:

— the portion of the cost of services provided by government departments and agencies that is funded by user fees varies greatly and is even sometimes difficult to determine;

— in most cases, user fees are not commensurate with the actual cost of the service provided;

— over half of the fees charged by government departments, and a significant number of those charged by agencies, are not indexed or adjusted. This increasingly widens the gap between the cost of services and the fees paid for them.

The policy for the funding of public services tabled by the government provides for a five-step approach for government departments and agencies:

— establishing the method of funding of public goods and services, be it through user fees or general revenues, in particular income tax and consumption taxes;

— determining the cost of services that are or could be fee-based;

— setting the amount of the fee and indexing it annually, within the regulatory and legislative framework in place, based on the self-financing target established;

— applying the amounts paid by users to the funding of fee-based services;

— reporting on their user fee practices.

The new user fee practices will contribute to greater knowledge of the cost of services and improved sharing of service funding on the basis of the fairness and accessibility criteria for low-income households.

❑ Creation of the Road Infrastructure and Public Transit Fund

The Québec government has prioritized the rehabilitation of its road infrastructure and the development of public transit.

Québec's road infrastructure is aging and in need of major rehabilitation, which means very high repair and restoration costs.

In addition, following the publication of the Québec Public Transit Policy in 2006, the government set itself the objective of increasing public transit use by 8% by 2012, through the modernization and development of infrastructure and equipment. Increased use of public transit as an alternative to taking the car will reduce congestion and greenhouse gas emissions, thereby combating climate change.

■ Significant investments under way

In recent years, the Québec government has announced significant investments in the road network and public transit.

In the last Québec Infrastructures Plan, presented in January 2009, the government announced investments of $18.8 billion in transportation by 2013.

- Investments of $16.2 billion will make it possible to reduce the defect rate of road surfaces and continue repair work on bridges and overpasses, in addition to funding new initiatives.
- Investments of $2.6 billion will be made in public transit. As a result, infrastructure and equipment will be modernized and developed.

■ Ensuring the link between revenues and expenditures

Currently, spending to improve and develop the road and public transit network is funded through the income tax and consumption taxes levied by the Québec government, as in the case of spending on health, education and the government's other missions. Although motorists make contributions, the amounts are not applied directly to the funding of road and public transit infrastructure.

TABLE A.11

Québec government revenues and expenditures in the transportation sector from 2009-2010 to 2011-2012
(millions of dollars)

	2009-2010	2010-2011	2011-2012
Revenues paid into the Consolidated Revenue Fund			
Specific tax on fuel[1]	1 636	1 682	1 721
Licence fees and registration duties[2]	755	767	794
Subtotal – Revenues	**2 391**	**2 449**	**2 515**
Expenditures			
Road investments[3]	– 1 469	– 1 828	– 2 131
Public transit[4]	– 330	– 430	– 522
Subtotal – Expenditures	**– 1 799**	**– 2 258**	**– 2 653**
DIFFERENCE BETWEEN REVENUES AND EXPENDITURES	**592**	**191**	**– 138**

1 Excluding the tax on aviation gasoline and the tax on locomotive diesel fuel.
2 Excluding revenues from additional registration duties on vehicles with large-displacement engines, intended for the Société de financement des infrastructures locales, and the portion of duty revenues paid to the Société de l'assurance automobile du Québec for roadside inspections.
3 Expenditures regarding infrastructure depreciation, debt service costs, non-capitalizable expenditures and assistance for local road network capital assets.
4 Includes the operation of municipal and inter-municipal organizations, capital assets and servicing the debt of transport agencies.
Sources: Ministère des Transports du Québec and ministère des Finances du Québec.

■ Fonds de conservation et d'amélioration du réseau routier: an expanded role

To better establish the link between transport-related revenue and spending growth, the government is proposing to expand the role of the Fonds de conservation et d'amélioration du réseau routier (FCARR). Created in 1996-1997 and funded through government spending, the FCARR currently serves to ensure the improvement, rehabilitation and development of the road network.

As of 2010-2011, the FCARR, which will henceforward be called the Road Infrastructure and Public Transit Fund, will serve to make funding available not only for road infrastructure, but also for public transit infrastructure.

In accordance with the beneficiary-payer principle, as defined in the policy for the funding of public services, dedicated revenues—in particular the specific fuel tax and licence fees and registration duties—will be deposited in the Road Infrastructure and Public Transit Fund.

— Regarding these revenues, the financial burden for a road user takes into account the user's use of the road network and the resulting deterioration.

— The proceeds from the indexing of licence fees and registration duties as of January 1, 2011, evaluated at $15 million over a full year, will also be deposited in the fund.

Since the specific fuel tax must reflect not only road use, but also the environmental impact of fuel consumption and traffic congestion, the government deems it relevant to allocate these revenues to the fund, which will henceforth finance public transit infrastructure in addition to the road network infrastructure.

Public transit benefits road users, through its impact on traffic flow, as well as society as a whole, through its impact on air quality. Moreover, public transit makes it possible to provide a cheaper transportation alternative, which benefits low-income households, among others.

Changes in the fund's dedicated revenues could be directly linked to future road and public transit infrastructure investment needs. The government will also be able to supply the fund with other tax revenues, through the payment of subsidies.

To enable Quebecers to be fully informed of the amount of revenue in the fund and its use, the government will provide for an accountability process through the fund's financial statements. The other provisions of the fund will be determined by the government at a later date.

3.3 Increase in the Québec sales tax rate from 7.5% to 8.5% as of January 1, 2011

As part of the plan to restore fiscal balance, the government is announcing that it will raise the Québec sales tax rate from 7.5% to 8.5% on January 1, 2011.

❑ Offsetting for low- and middle-income households

The government is also announcing that an offset measure will be simultaneously introduced to mitigate the impact of the increase for low- and middle-income households.

In that regard, as of the 2011 taxation year, the refundable Québec sales tax credit will be increased by $150 for a couple, $125 for a person living alone and $75 in the other cases.[7]

— Thus, the increase in the sales tax rate will have no impact on the financial situation of low-income households. In the case of middle-income households, the sales tax increase will be greatly mitigated.

❑ Taxing consumption, preferable to taxing income

Restoring fiscal balance will require a collective fiscal effort. In that regard, most experts agree on the advantages of consumption taxes, such as the Québec sales tax, over income tax.

— Through consumption taxes, all consumers contribute to the funding of public services.

— The amount of tax ultimately paid varies with consumption, and thus with income. Taxpayers with a high income and substantial expenses contribute more.

— Effective means have been put in place to protect people with lower incomes who receive the refundable sales tax credit.

— Contrary to income tax, a consumption tax, like the one applied in Québec, does not discourage work effort and is not a disincentive to save.

— A consumption tax, applied in Québec, does not apply to products sold abroad, whereas income tax affects the export prices one way or another. Consumption tax therefore does not harm the competitiveness of our economy. It does not penalize businesses.

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7 For the 2009 taxation year, the refundable sales tax credit may reach $356 for a couple, $299 for a person living alone and $178 in the other cases. It is reduced when family income exceeds $30 345.

❑ An increase that will not hurt economic activity

The increase, which the government is announcing now but which will not take effect until January 1, 2011, will not hurt economic activity.

— The applicable Québec sales tax rate will remain comparable to the sales tax rate in the other provinces.

— It will not be an undue burden on Quebecers' consumption.

— The Québec sales tax increase will not take effect until almost 20 months from now. The various economic players will therefore have the time to adapt to the increase.

❑ Anticipated revenues of $1.2 billion

The increase in the Québec sales tax rate will generate additional revenues of around $1.2 billion a year, taking into account the cost of the increase in the refundable Québec sales tax credit and the resulting additional indexation.

TABLE A.12

Return on an increase from 7.5% to 8.5% in the Québec sales tax on January 1, 2011
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Increase in Québec sales tax revenues	400	1 500	1 550	1 600
Offsetting for low- and middle-income households				
– Increase in the refundable Québec sales tax credit[1]	—	– 250	– 250	– 250
– Additional indexing of the personal income tax system and the last resort financial assistance system	—	– 35	– 85	– 85
NET RETURN	**400**	**1 215**	**1 215**	**1 265**

1 Basic amount: + $75; amount for a spouse: + $75; additional amount for a person living alone: + $50. Thus, as of 2011, the tax credit will be increased by $150 for a couple, $125 for a person living alone and $75 in other cases.

CONCLUSION

The financial and economic crisis that has affected most countries for the past several months raises major challenges for governments, which are grappling with a sharp decline in economic activity and a significant deterioration of public finances.

Faced with the same challenges, the Québec government is adopting a strategy to deal with the recession that consists in using all means at its disposal to achieve its economic and fiscal objectives.

— The government must first take the action necessary to mitigate the effects of the crisis on people and businesses, by implementing additional measures to support the economy and employment. Through these measures, it will be possible to weather the recession.

— Then, the government must prepare for economic recovery and lay the foundation for sustainable and social development that will tap the immense potential of the Québec economy, particularly with regard to environmental protection, clean energy, green technology and natural gas, the cleanest fossil fuel.

— Finally, the government must provide now for restoring fiscal balance if it wishes to avoid sliding back into chronic deficit and having to take the difficult decisions that had to be taken in the 1990s to get out of deficit. The plan announced in the present Budget will make it possible to return to sound public finances once economic recovery is well under way.

The tabling of the 2009-2010 Budget is therefore the opportunity for the government to show its desire to do everything it can to support the population during the recession, prepare for the future and, at the right time, pick up where it left off with public finances.

Section B

The Québec Economy: Recent Developments and Outlook for 2009 and 2010

HIGHLIGHTS

The global financial crisis intensified in fall 2008 to the point of preventing most advanced economies from functioning properly. Thus, as in the rest of the world, the economic outlook for Québec has rapidly gotten bleaker in recent months.

The global economy is now in a recession. Although a recovery is expected in 2010, the associated risks remain high.

❑ World

In 2009, the world economy is expected to post its worst performance since the Great Depression with a 0.5% contraction in real GDP.

The U.S. economy is in a deep recession, with real GDP expected to contract by 2.7% in 2009 and job losses, to total 3.7 million in 2009, driving a steep increase in the unemployment rate, to 9.4% in 2010.

❑ Québec

The Québec economy is being dragged into a recession in 2009 by the downturn in the U.S. economy.

— Québec exports are expected to fall by 8.3%.

— We anticipate a 1.2% contraction in real GDP and a loss of 62 900 jobs. The unemployment rate will climb to 8.9%.

The Québec economy should start growing again in 2010, driven by Québec government action, federal government measures and an upturn in U.S. demand.

❑ Government Measures

Most governments have introduced major economic stimulus measures to combat the financial crisis.

— The United States adopted ambitious measures totalling US$675 billion, or 4.8% of GDP, in 2009 and 2010.

— Canada has also introduced new measures in 2009.

The Québec economy will weather the crisis with the help of increased spending on public infrastructure. The initiatives recently taken by governments should increase Québec's output by 1.5% and support 60 000 jobs in 2009 and 2010.

INTRODUCTION

This section presents the economic forecasts underpinning the 2009-2010 Budget.

Global economic prospects have gotten bleaker since fall 2008 due to significant intensification of the financial crisis and its rapid spread to economic activity. The worsening financial crisis drove a decline in household and business confidence, a drop in commodity prices and a downturn in world trade. The speed and severity of the deterioration left most experts confounded.

With a 0.5% contraction in real gross domestic product (GDP) forecast for 2009, the global economy is expected to go through the worst crisis since the Great Depression of the 1930s.

To pull the global economy out of the recession entered at the end of 2008, eliminate the credit squeeze and make sure the financial system functions properly, several central banks cut their benchmark rates to historic lows and injected massive amounts of liquidity into the economy.

— The Bank of Canada lowered its overnight rate target from 3.0% in September 2008 to 0.5% in March 2009. It also had to provide more liquidity, raising the amount of liquidity provided by the bank to a high of $41 billion in December 2008.

— In the United States, the overnight federal funds target rate fell from 2.0% in September 2008 to a target range of 0% to 0.25% in December 2008 and the projected assistance to shore up the financial system is upward of US$8 trillion.

TABLE B.1

Economic prospects
(percentage change)

	Real GDP			Nominal GDP		
	2008	**2009**	**2010**	**2008**	**2009**	**2010**
Québec	0.8	– 1.2	1.9	2.4	– 0.1	3.9
2008-2009 Budget	1.5	2.0	2.2	3.2	3.5	3.9
Canada	0.5	– 1.6	2.1	4.4	– 3.3	5.5
2008-2009 Budget	1.6	2.2	2.6	4.3	3.7	4.3
United States	1.1	– 2.7	1.5	3.3	– 0.6	3.1
2008-2009 Budget	0.8	1.8	3.1	2.7	3.2	4.7

Source: Ministère des Finances du Québec.

In addition, the majority of governments have announced major economic stimulus plans. These actions, coupled with the recent drop in commodity prices, especially the price of oil, should gradually stimulate economic growth and employment and, thereby, enable a global economic recovery starting in 2010.

The projected decline in real GDP of 1.6% in Canada and 2.7% in the United States in 2009 will have a significant effect on Québec exports, as 50% of the Québec economy relies on export markets.

The significant erosion of confidence among economic agents will weigh on consumer spending and investment in Québec in 2009. Consequently, growth in domestic demand will be insufficient to offset lower foreign demand for Québec-made goods and services and will drive a 1.2% drop in real GDP.

The actions taken by the Québec government to support the economy and employment, added to the measures taken by the federal government, will help mitigate the downturn in economic activity in 2009 and spur a recovery in 2010.

The combined impact of personal and corporate tax cuts, massive investment in public infrastructure, and support measures for workers and businesses will contribute 1.5 percentage points to Québec's GDP in 2009 and 2010. These measures will save or create 60 000 jobs in Québec.

As elsewhere in the world, economic activity is expected to pick up in Québec in 2010. Québec's real GDP is expected to grow by 1.9% in 2010 followed by average growth of 2.5% from 2011 to 2013, including the economic impact of the government's plan to restore fiscal balance.

However, the anticipated global recovery is clouded by uncertainties. More specifically, it may take longer than anticipated for the financial crisis to end and the U.S. economy to recover, which in turn could delay or weaken an economic revival in Canada and Québec.

1. GLOBAL ECONOMIC SITUATION

1.1 A global recession

The financial crisis has intensified so quickly over the past few months that it is preventing advanced economies from functioning properly. It is a crisis of historic proportions and has weakened industrialized countries' banking systems, paralyzing trade and the free movement of liquidity in the global economy.

The sudden tightening of credit, the fall in confidence among economic agents and the concomitant decline in world trade led to rapid deterioration in global economic activity in the fourth quarter of 2008, taking most experts by surprise.

Economic prospects quickly got bleaker as a result of this situation. The private-sector economic growth forecast for 2009 was slashed for every part of the world. Between September 2008 and March 2009, the private-sector forecast was lowered by:

— 3.5 percentage points, to – 2.6%, in the euro area;

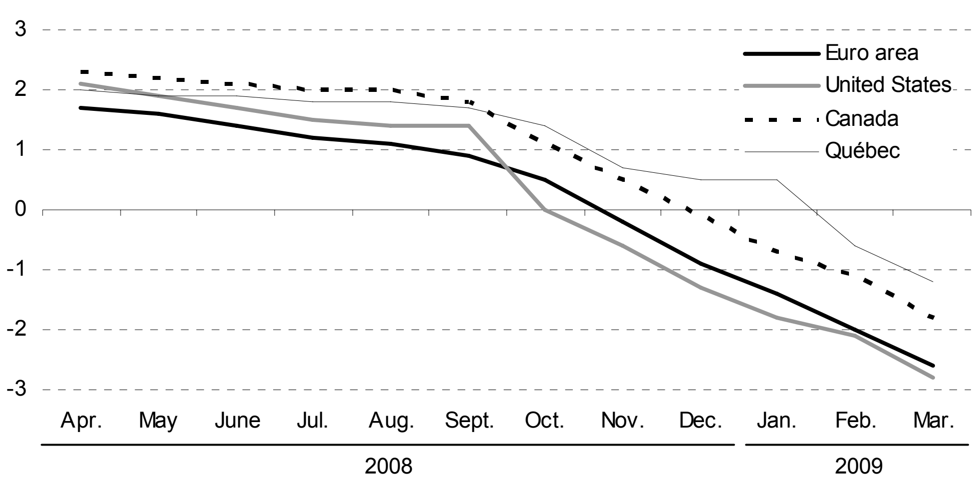
— 4.2 percentage points, to – 2.8%, in the United States;

— 3.6 percentage points, to – 1.8%, in Canada;

— 2.9 percentage points, to – 1.2%, in Québec.

CHART B.1

Evolution of past-year private-sector economic forecasts for 2009
(real GDP, percentage change)



Sources: Consensus Economics Inc. and ministère des Finances du Québec.

This sudden and deep deterioration in the global economy is hitting advanced economies and also strongly impacting emerging ones. As a result, the projections for the world economy for 2009 have been sharply revised downward.

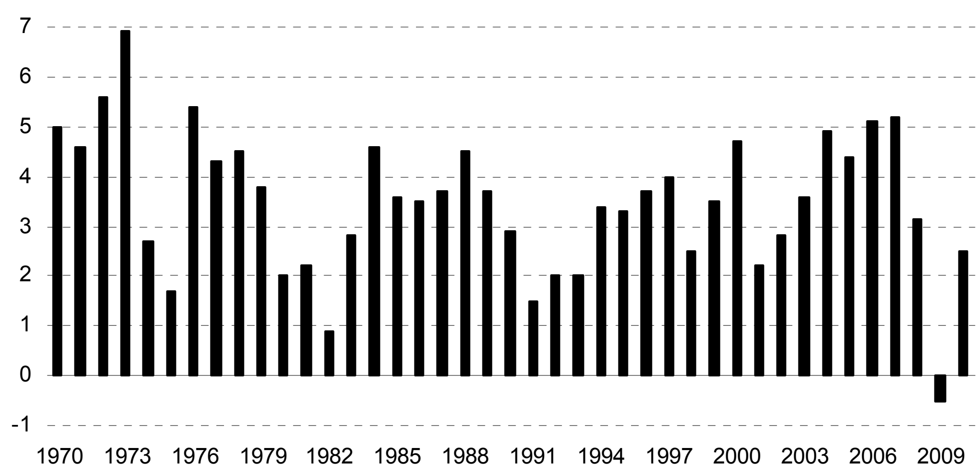
The global economy entered a recession in late 2008 and real GDP is expected to contract by 0.5% in 2009. The world economy is thus going through the worst crisis since the Great Depression.

Gradual improvement in the financial system and the numerous budgetary support measures introduced by governments should permit a recovery in the global economy in 2010, with an expected growth rate of 2.5%. This recovery assumes that:

- financing conditions will return to normal in 2010, improving access to credit for households and businesses and thereby restoring their confidence;
- the numerous monetary and fiscal stimulus measures adopted around the world will revitalize domestic demand sufficiently for economic activity and employment to start posting positive growth again.

CHART B.2

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



1 On the basis of purchasing-power parity.
Sources: International Monetary Fund, IHS Global Insight and ministère des Finances du Québec.

1.2 Fast and sharp deterioration in the world economy

Global economic activity deteriorated as fast and as sharply as it did due to intensification of the financial crisis, plummeting household and business confidence and the decline in world trade.

❑ Worsening financial crisis taking a toll on the economy

The financial crisis, which was triggered in August 2007, suddenly worsened in fall 2008 following the bankruptcy of the investment bank Lehman Brothers and the deterioration of the balance sheets of global financial institutions.

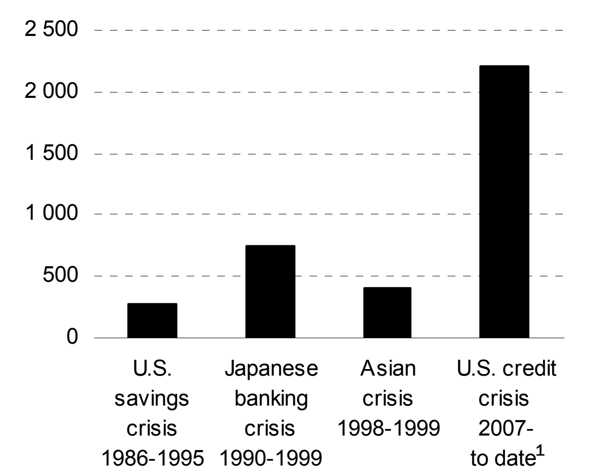
— The International Monetary Fund (IMF) estimated the total losses by financial institutions worldwide caused by the U.S. credit crisis at US$2.2 trillion, which is four to ten times higher than the losses posted during previous financial crises.

The sudden meltdown of the global financial system caused financial institutions to lose trust in each other, paralyzing interbank lending and limiting bank access to credit markets.

Canadian banks, however, are recognized as being sound and have kept up their lending to Canadian households and businesses, making credit more accessible than in other countries.

CHART B.3

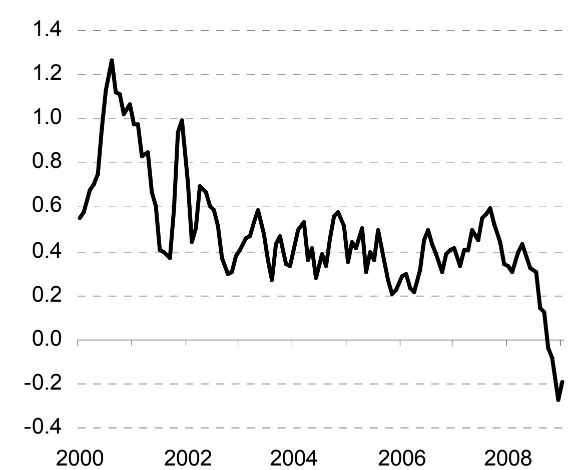
Comparison of financial crises
(looses in billions of U.S. dollars)



1 Estimated losses.
Source: International Monetary Fund.

CHART B.4

Consumer credit in the United States
(monthly percentage change)



Source: U.S. Federal Reserve.

Faced with a shortage of liquidity or anticipating major financing problems, American and international banks swiftly reduced their lending, prompting a fast and severe credit squeeze for households and businesses. In the United States, consumer credit has been dropping since August 2008.

This climate is in sharp contrast to what previously existed since 1991, notably in the United States, where U.S. consumers could readily obtain increases and extensions in credit from banks. With their debt levels being higher than ever before, U.S. consumers found themselves in a more precarious financial position than Canadian households when the crisis hit.

Since fall 2008, the tightening of bank credit and drop in consumption have in turn each fuelled:

- significant revenue losses for many businesses and, consequently, job cuts;
- further contraction of real estate markets globally;
- a weakening of world trade.

The world economy will continue to be strongly affected in 2009 by the negative impacts of the financial crisis and simultaneous entry into recession of advanced economies. The financial sector and auto industry, in particular, have posted unprecedented losses.

This environment has forced government authorities in several countries to take massive action since last year to boost the financial system and economic activity. An overview of the various bailout plans is presented in the box on page B.11. The actions taken by governments have driven sharp increases in public deficits around the world. In the United States, the fiscal deficit for 2009 is projected at 12.3% of GDP, the highest level since the Second World War.

These actions should stabilize the financial system in 2010, a necessary condition for economic recovery.

Financial Bailout Plans

The rapid and dramatic worsening of the financial crisis in fall 2008 and its adverse effects on the economy forced government authorities worldwide to take strong, coordinated action to facilitate circulation of credit, prevent banking institutions from going bankrupt and increase their capital and liquidity where needed.

Even though the Canadian banking system is known around the world for being sound, the federal government introduced major measures to support the financial sector and ensure that Canadian households and firms continue to have adequate access to credit.

The following government action was taken to restore the normal functioning of the financial system:

- In order to increase banking institutions' liquidity, central banks lowered their target rates and temporarily restructured their balance sheets to include various classes of securities held by the institutions in return for new liquidity.
- To enable institutions having suffered the biggest losses to restore their balance sheets without having to reduce their lending, governments purchased a share of their capital stock.
- In light of the lower demand for mortgage-backed securities, authorities supported their purchase. The United States extended its support to short-term debt obligations and consumer-credit-backed securities.
- With a view to reassuring investors, authorities guaranteed loans made to banks. In the United States, the Obama administration also announced the creation of a public-private fund to purchase toxic assets, i.e. assets that are worthless or cannot be sold.

Authorities have already spent considerable sums in the context of these measures and have shown a willingness to take further action if needed.

- The U.S. Treasury and Federal Reserve spent over US$2.3 trillion at the end of 2008 to support the financial sector through measures worth upward of $6 trillion. In addition:
  - the Obama administration announced additional measures, at a potential cost of US$2 275 billion, raising the amount earmarked to support the financial system to over $8 275 billion, or nearly 60.0% of GDP.
- The Government of Canada will spend up to $200 billion (12.5% of GDP) on existing and new measures to support Canadian financial institutions and enable them to continue providing adequate access to credit for businesses and consumers.
- Most European countries have also introduced measures to provide access to financing and ensure that financial markets are stable and function properly.

Principal measures taken to tackle the crisis in credit markets

	Traditional monetary instruments		Crisis management instruments			
	Liquidity injections	Interest rates cuts	Bank loans or debt guaranties	Real estate bonds purchases	Capital injections	Toxic-assets resolution measures
Canada	✓	✓	✓	✓		
United States	✓	✓	✓	✓	✓	✓
United Kingdom	✓	✓	✓	✓	✓	✓
France[1]	✓	✓	✓		✓	

1 Traditional monetary measures were taken by the European Central Bank.
Sources: Organisation for Economic Co-operation and Development and ministère des Finances du Québec.

❑ Confidence of economic agents at an all-time low

The sharp deterioration in the economic climate dragged household and business confidence down to all-time lows in several parts of the world.

— OECD consumer and business confidence indicators dropped to record lows in early 2009.

Economic agents' concern fuelled a decline in consumer spending as well as a sharp drop in investment.

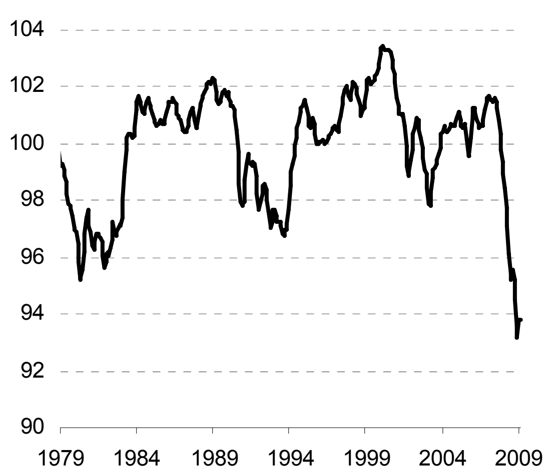
Lower consumer confidence levels also translated into a higher savings rate, with households waiting until economic uncertainties subside before they start spending again.

For their part, businesses are adjusting to the bleaker economic environment and lower profit levels by shedding jobs and cutting down on investment.

An upturn in the real estate market and financial system, coupled with the strong government action, is expected to revive household and business confidence and, thereby, drive the economic recovery in 2010.

CHART B.5

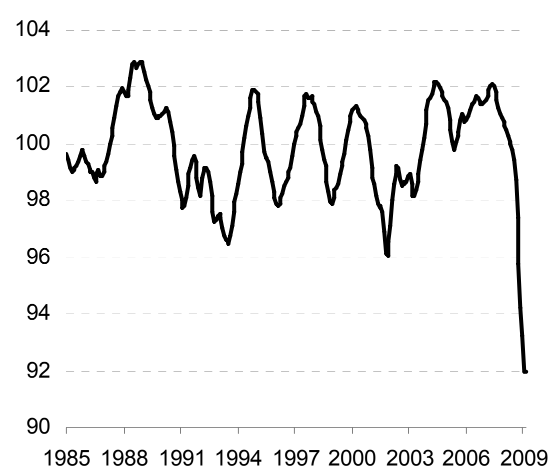
Consumer confidence indicator for the OECD zone
(index)



Source: Datastream.

CHART B.6

Manufacturer confidence indicator for the OECD zone
(index)



Source: Datastream.

❑ Decline in world trade

The sharp drop in global demand and the credit crisis led to a steep drop in trade. According to the World Bank, world merchandise exports are expected to fall by 2.1% in real terms in 2009, the first decline since 1982. In particular:

— the slowdown in demand for imports from advanced economies is decelerating growth in world exports;

— because of the tight credit conditions, firms are facing a shortage of liquidity to finance trade credits, which is hurting merchandise trade given that over 90.0% of business transactions require some form of credit.

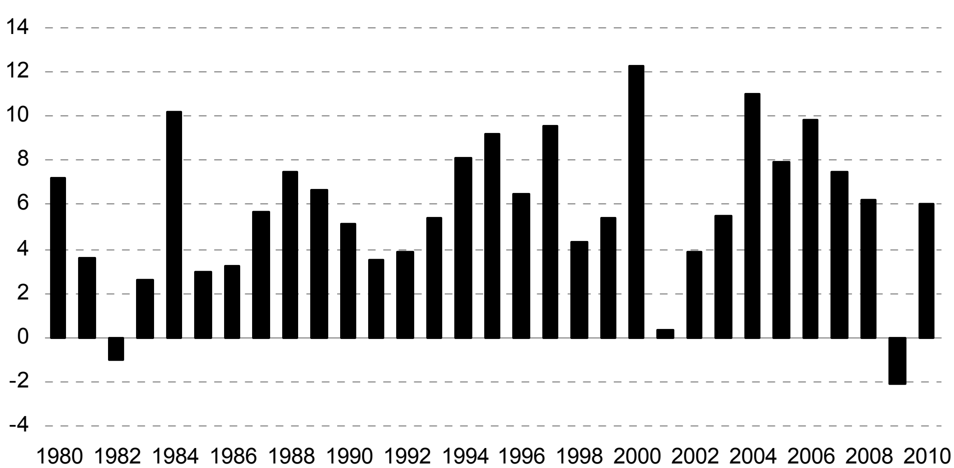
This situation is especially problematic considering that international trade is a major factor in economic growth.

— World trade has historically driven economic growth, with total annual world merchandise exports rising by 6.0% on average between 1980 and 2008, exceeding the annual rate of world GDP growth, which reached 3.3% over the same period.

The positive impacts of economic stimulus measures and the gradual ending of the financial crisis will revive demand in several countries, notably the United States. International trade is expected to begin growing again in 2010, resulting in a 6.0% increase in world merchandise exports.

CHART B.7

Total world merchandise exports
(real percentage change)



Source: World Bank.

❑ Drop in commodity prices

The rapid weakening of global economic prospects has caused a free fall in commodity prices since mid-2008.

— After peaking at US$145 a barrel in July 2008, the price of oil plummeted 70.0% to US$39 a barrel on average in February 2009. The price should hover around US$40 in 2009 and US$55 in 2010.

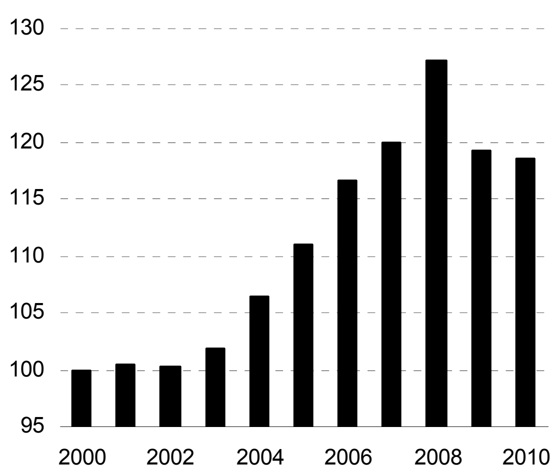
— Notwithstanding a jump of 6.1% in 2008, the biggest increase since 1981, the prices of non oil industrial commodities fell rapidly at the end of the year and will remain weak until the recovery of global demand is well under way.

The decline in commodity prices will contribute to the economic recovery by helping check inflationary tensions, enhancing household's purchasing power and reducing business costs.

CHART B.8

Price of industrial non oil commodities

(U.S. dollars, index)

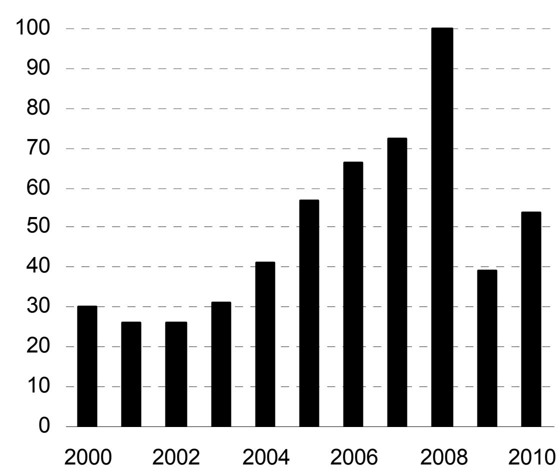


Sources: IHS Global Insight and ministère des Finances du Québec

CHART B.9

Barrel price of crude oil
West Texas Intermediate

(U.S. dollars)



Sources: Bloomberg and ministère des Finances du Québec.

1.3 Record monetary and fiscal stimuli

Central banks and governments have taken strong action since fall 2008 to restore the flow of liquidity in the financial system. Their actions should limit the decline in global economic activity during 2009 and foster an upturn in 2010.

❑ Major steps by monetary authorities

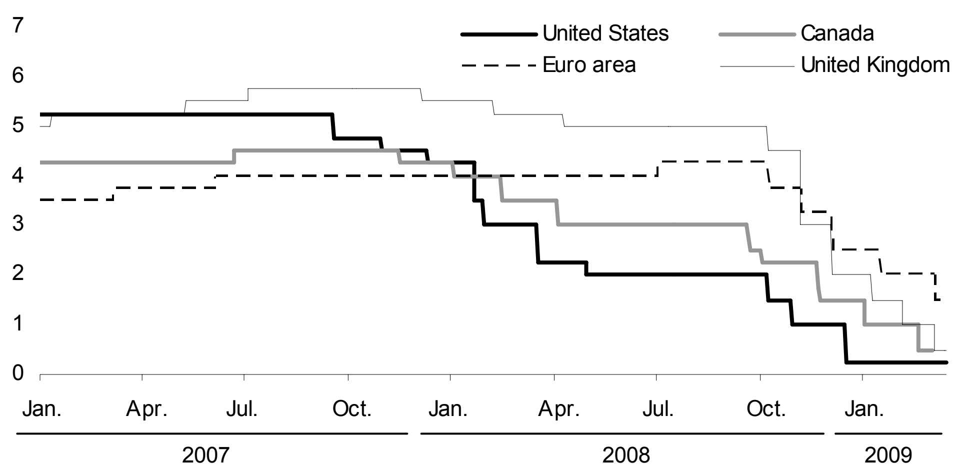
To offset the credit squeeze, support the financial system and revive economic activity, several central banks have eased credit conditions and adopted a series of measures with an immediate impact. These measures include the injection of massive amounts of liquidity and purchasing several classes of securities held by banking institutions.

Central banks have also slashed their key interest rates, to record lows in several cases. The rate cuts, the full impact of which will be felt in 18 to 24 months, provide further support for economic growth. Between September 2008 and March 2009, the overnight interest rate fell from:

- 2.0% to a target range of 0% to 0.25% in the United States;
- 3.0% to 0.5% in Canada;
- 4.25% to 1.5% in the euro area;
- 5.0% to 0.5% in the United Kingdom.

CHART B.10

Key interest rates in certain parts of the world
(percent)



Source: Datastream.

❑ Introduction of vast fiscal stimulus plans

In the last few months, a number of governments have announced major fiscal stimulus plans to boost their country's economic activity. According to the IMF, the fiscal plans introduced by the G-20 countries will have totalled 3.3% of GDP, on average, from 2008 to 2010. The economic stimulus measures taken by governments in Québec and elsewhere are discussed in greater detail in Subsection 4 of this section.

1.4 Recovery expected in 2010

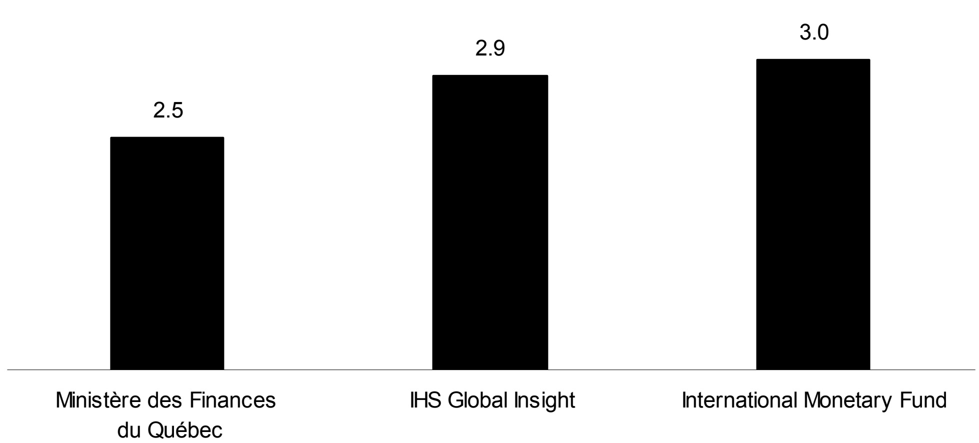
The majority of experts predict a rebound in the world economy in 2010. The forecast growth rate of between 2.5% and 3.0% will be driven by:

- concerted action by governments to stimulate domestic demand and employment;
- the steps taken by monetary authorities to stabilize the financial system;
- lower energy prices, which will increase households' purchasing power and reduce costs for businesses.

Furthermore, the upturn in economic activity in the United States should have positive effects worldwide, notably thanks to the revival of trade, with the United States purchasing close to 14% of the goods offered on foreign markets.

CHART B.11

World economic growth for 2010[1,2]
(real GDP, percentage change)



1 Forecast dates: ministère des Finances du Québec: March 2009; IHS Global Insight: February 15, 2009; International Monetary Fund: January 28, 2009.
2 Based on purchasing-power parity.

❑ Global economic recovery clouded by uncertainties

A number of uncertainties cloud over the global economic recovery. Although several major steps have already been taken to limit the magnitude of the current financial crisis, several conditions are needed to create a context conducive to a recovery in 2010. They include:

— stabilization of the financial system, including cleaning up toxic loans and recapitalizing financial institutions;

— stabilization of the U.S. real estate market;

— swift introduction of stimulus measures to revive economic activity in all countries.

There are still major risks associated with the expected economic recovery. For example, despite all of the measures taken by public authorities, financial markets may remain worried longer than expected. It may take longer for real estate markets, especially in the U.S., to stabilize.

In this context, an economic recovery may take longer than experts predict.

Furthermore, the majority of governments will have to eliminate the major deficits incurred to revive the economy, which may entail increasing the tax burden or reducing budgetary expenditures. Thus, government efforts to put public finances in order could limit global economic growth in the medium term.

2. THE ECONOMIC SITUATION IN QUÉBEC

2.1 Québec dragged into recession

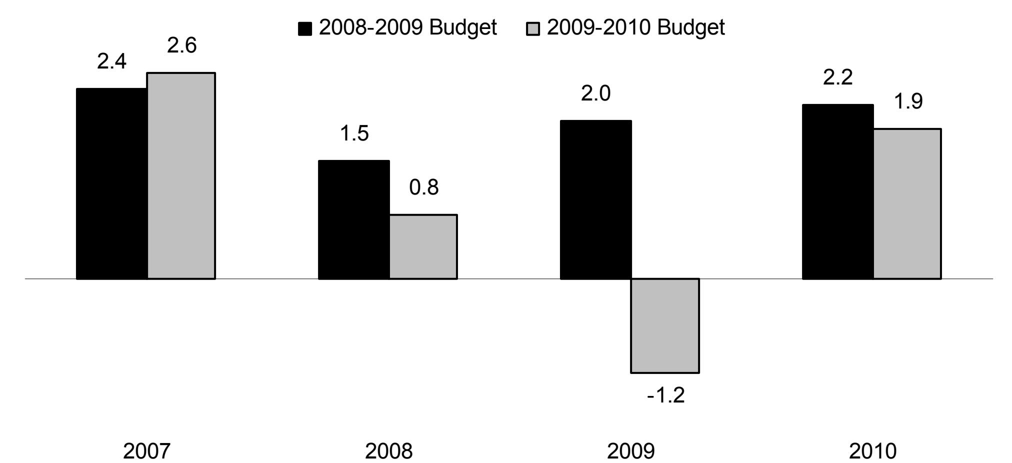
Like everywhere else, the economic outlook for Québec has quickly gotten gloomier in recent months, with the economy being dragged into recession by the worsening U.S. economy.

Overall, the recession in Québec will result in 62 900 lost jobs and a 1.2% contraction in real GDP in 2009. This is a downward revision of 3.2 percentage points from the real GDP forecast in the 2008-2009 Budget. The expected growth rate for 2008 is 0.8%, a downward revision of 0.7 percentage point from the preliminary estimate.

Fuelled by the recent initiatives of the Québec government, the measures adopted by the federal government and the upturn in U.S. demand, economic activity is expected to intensify in Québec in 2010, growing by 1.9%. This recovery is expected to create 29 500 jobs.

CHART B.12

Economic growth in Québec
(real GDP, percentage change)



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

❑ Growth in domestic demand insufficient to offset the impact of net export decline

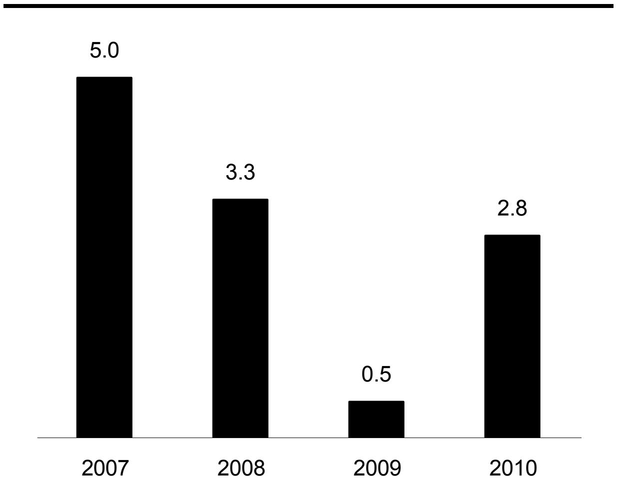
The expansion of domestic demand in Québec in 2009 will be insufficient to offset the decline in net exports.

After contributing 3.3 percentage points to economic growth in 2008, domestic demand growth will add just 0.5 percentage point to the growth rate in 2009 owing to lower household spending, the decline in residential investment and the drop in business nonresidential investment. Domestic demand will pick up in 2010 thanks to the positive impact of government action, the U.S. recovery and restored household and business confidence, boosting economic growth by 2.8 percentage points.

Net exports, which account for export and import trends, will shave 1.6 percentage points off real GDP growth in 2009. Net exports' contribution to economic growth will be less negative in 2010 (– 0.9%) owing to a recovery in exports.

CHART B.13

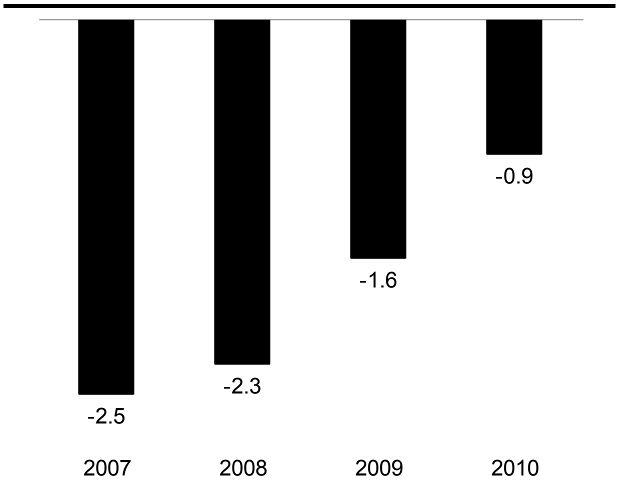
Contribution of domestic demand to Québec's economic growth[1]
(as a percentage of real GDP)



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

CHART B.14

Contribution of net exports to Québec's economic growth
(as a percentage of real GDP)



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

❑ Québec economy tied to U.S. market

Québec's economy is tightly integrated with the U.S. economy, with nearly 75.0% of its international exports, or the equivalent of 23.0% of its GDP, shipped to the United States.

Due to this tight integration, economic cycles in Québec have changed in lockstep with economic cycles in the United States for the past 30 years. In 2008, the worsening U.S. economy dragged on Québec's international exports, although the robust domestic economy mitigated the negative impact on Québec exports.

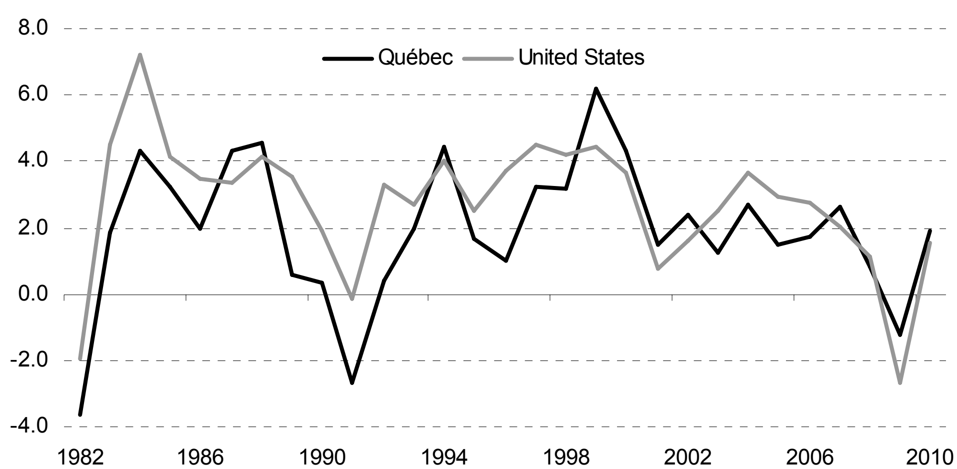
❑ Recession less severe in Québec

The recession should be less severe in Québec than in the United States owing to the better financial position of Québec households, as illustrated in the box on page B.38, the relatively low share of the auto industry in the economy, a residential sector that should withstand the current crisis better than in the United States, and a sounder banking system.

Moreover, the downturn in Québec's economic growth in 2009 is not expected to be as sharp as during the recessions of 1982 and 1991, when real GDP fell by 3.6% and 2.7% respectively.

CHART B.15

Synchronization of economic cycles in Québec and the United States
(real GDP, percentage change)



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

Change in Québec economy in 2008, by industrial sector

During the first 11 months of 2008, total industrial production in Québec[1] grew by 1.3%, a slightly higher rate than for Canada as whole (0.7%). Industrial production sustained economic activity in Québec (+2.2%) and Canada (+2.3%), but goods production declined less in Québec (– 0.9%) than in Canada (– 2.6%).

Although trends were relatively similar overall, the economic situation affected some sectors quite differently Québec and Canada.

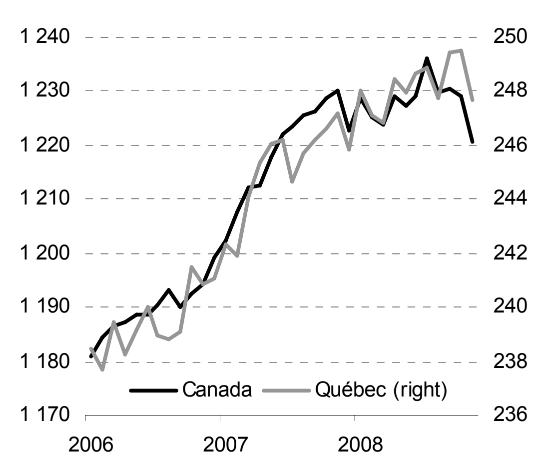
- The downturn in the global economy affected the Canadian manufacturing sector (– 4.6%) more than the Québec manufacturing sector (– 3.0%).
- Canadian production of automobiles (– 21.0%) and automobile parts (– 19.5%) fell sharply, in pace with the troubled U.S. auto industry. In contrast to the manufacturing sector, the Québec aeronautics industry grew for the second year in a row (+13.5%).
- In Canada, oil and natural gas extraction posted a 5.2% decline owing to lower world energy prices, whereas in Québec, electricity production rose by 1.2%.
- Construction was stronger in Québec (+3.5%) than in Canada (+2.3%).

In Québec, the dropping of orders in numerous sectors, the drop in commodity prices in the second half of 2008 and lower world trade will limit output by goods-producing industries in 2009. In particular:

- manufacturing activities are expected to slide for the second consecutive year;
- however, public investment will sustain nonresidential construction.

Output by industry in Québec and Canada

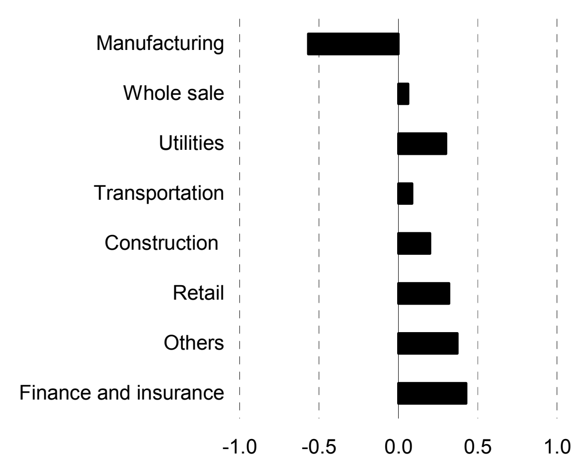
(billions of 2002 dollars)



Sources: Statistics Canada and Institut de la statistique du Québec.

Sector-based contribution to Québec's economic growth in 2008

(as a percentage of GDP by industry)



Source: Institut de la statistique du Québec.

[1] First 11 months of 2008 compared with the same period in 2007. Note that the GDP by industry differs from the GDP according to economic accounts in that the latter includes the value of subsidies and the value of taxes on final products.

2.2 Export decline in 2008 and 2009

In 2008, Québec's international exports fell by 3.4% as a result of deterioration of the global economy and lower U.S. demand.

However, not all industrial sectors were affected in the same way.

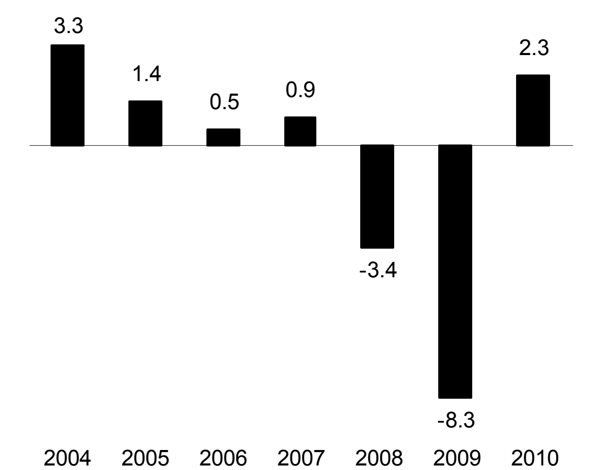
- The building and transportation materials sectors were affected by the sharp drop in U.S. demand in these sectors.
- The petroleum by-products sector benefited from lower oil prices.
- Québec is not nearly as affected as Ontario by the hardships in the automotive sector or as the rest of Canada by the troubled oil and gas sector.

The projected downturn in the U.S. economy induced a 8.3% drop in international exports in 2009, the biggest in 25 years. Exports are expected to pick up in 2010, with a forecast growth of 2.3% driven by an economic recovery in the United States and the rest of the world.

CHART B.16

International exports by Québec

(real percentage change)

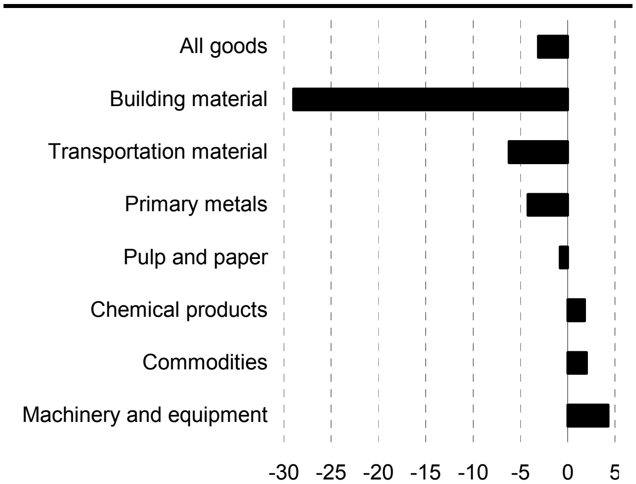


Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

GRAPHIQUE B.17

International exports of certain merchandise by Québec, 2008

(real percentage change)



Source: Institut de la statistique du Québec, on a Customs basis.

2.3 Slower household spending

Dropping consumer confidence and job losses will slow household spending growth this year as well as next year. After climbing by 3.8% in 2008, household consumption is expected to grow by just 1.2% in 2009 and 2.2% in 2010.

— The Québec consumer confidence index fell 12.6 points in 2008, to 80.8 points on average, the lowest level since 1996.

A number of factors will nevertheless help boost personal household spending. Among others:

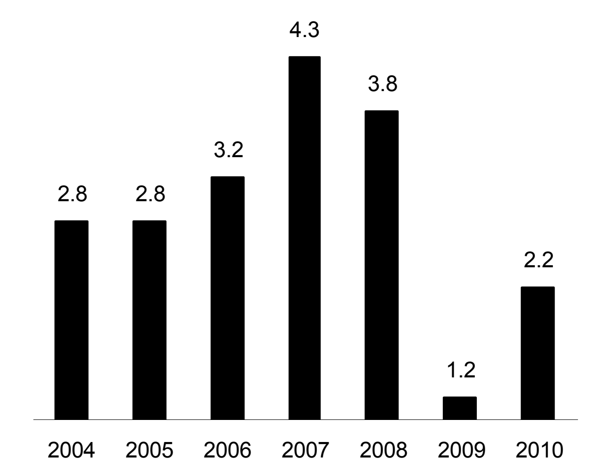
— government tax cuts and lower energy prices will drive an increase in household purchasing power;

— low interest rates will reduce the financial load on households;

— an upturn in job creation in 2010 is expected to help revive consumer spending.

CHART B.18

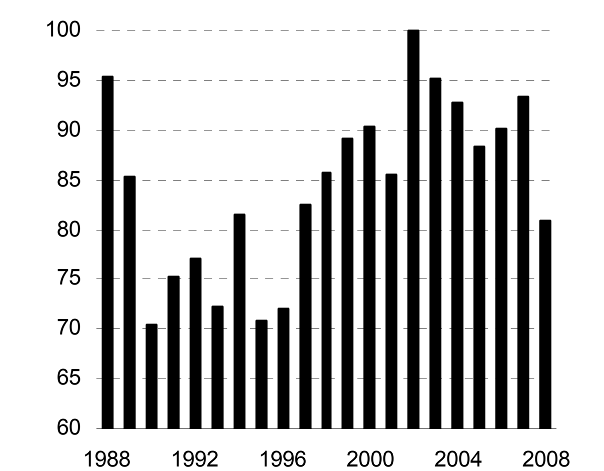
Personal household spending
(real percentage change)



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

CHART B.19

Québec consumer confidence
(index, 2002 = 100)



Source: Conference Board.

❑ Downturn in residential investment

The Québec real estate market continued to perform well in 2008, with 47 900 housing starts, a similar level to the one seen in the previous three years and a much higher level than in the late 1990s, when an average of 24 500 units per year were built.

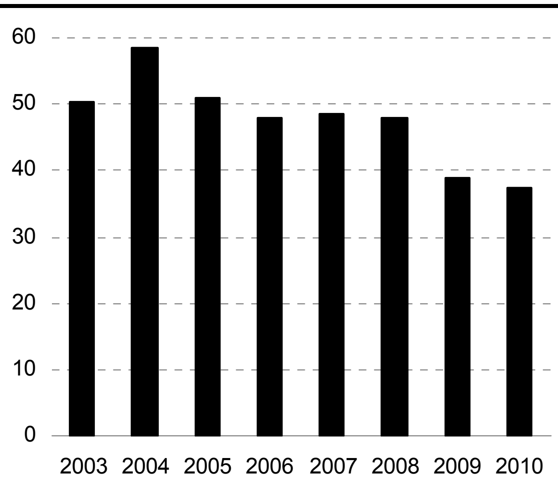
However, the decline in the labour market is expected to cause a downturn in housing starts in 2009 and again in 2010. As well, the sustained increase in property prices in recent years, which made new dwellings less accessible, will limit growth in housing starts. The number of housing starts is expected to stand at 38 800 units in 2009 and 37 300 units in 2010, a decline of 14.8% and 6.2% respectively.

The drop in housing starts will not be as steep in Québec as in the United States. They will have fallen by 79% in the United States between 2005 and 2009, compared with 20.0% in Québec. The drop in real estate prices in Québec is also not expected to be as steep as in the United States, because there are fewer mortgage defaults in Québec and the Québec market has not experienced the same excesses as south of the border.

In 2009, the downturn in residential investment will be attenuated by the Québec and federal tax credits on renovation spending. Residential investment is expected to drop by 0.9% in 2009 and 3.7% in 2010.

CHART B.20

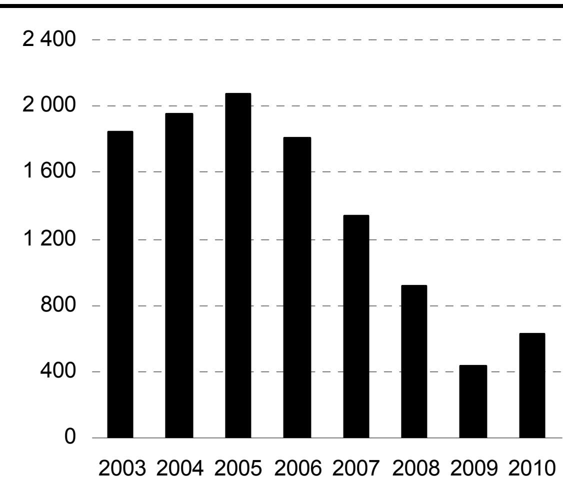
Housing starts in Québec
(thousands of units)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART B.21

Housing starts in the United States
(thousands of units)



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

2.4 Governments filling in for businesses in supporting investment

Nonresidential investment by Québec firms and governments stood at $41.9 billion in 2008. These investments, which include new projects, the continuation of existing projects and spending in the course of companies' normal activities, contribute to the growth in Québec's economic output capacity, economic activity and job creation.

In 2009, the anticipated decline in business investment will be offset by the increase in government investments. After expanding by 9.4% in 2008, the value of total nonresidential investment will rise by just 0.6% in 2009. This rate is consistent with the results published by Statistics Canada in February 2009 and presented in the box on page B.28. The forecasted economic recovery in 2010 should fuel a 3.7% upturn in nonresidential investments.

TABLE B.2

Nonresidential investment in Québec
(nominal percentage change)

	2008	2009	2010
Total investment	**9.4**	**0.6**	**3.7**
2008-2009 Budget	10.6	7.8	3.9
Public and private business investment	4.5	– 3.6	2.5
2008-2009 Budget	6.8	8.0	3.7
Government investments	22.7	10.5	6.3
2008-2009 Budget	20.9	7.3	4.4

Note: The government sector includes departments, agencies and the health and education networks of the various levels of government.

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

❑ Public and private business investment

Under the current economic conditions – low household demand, declining corporate profits and tighter financing conditions – private-sector businesses are putting off their investment projects.

However, the Québec economy can rely on the investment projects of government enterprises such as Hydro-Québec to support domestic demand and compensate for the drop in private investment, which is nevertheless expected to fall by 9.1%, according to Statistics Canada.

Total nonresidential investment by Québec businesses is expected to drop 3.6% from $29.3 billion in 2008 to $28.3 billion in 2009. The economic recovery in 2010 should enable 2.5% growth in business investment by the private and public sectors.

❑ Government investments

Investments by departments and institutions from the three levels of government are expected to grow by $1.3 billion in 2009, an increase of 10.5% following an expansion of 22.7% in 2008. Thus, the value of government investments should reach $13.9 billion, twice the level in 2002.

In 2010, growth in government investments is expected to reach 6.3%. Overall, government investment growth for 2008 to 2010 will have been revised upward in one year, reflecting the increase in public investment in infrastructure by the Québec government and the new investments announced by the federal government.

Investment intentions in Québec in 2009, according to Statistics Canada

On February 25 of this year, Statistics Canada released its annual survey of private and public investment intentions in Canada and the provinces. Data are based on a sample survey of 28 000 businesses and governments conducted between October 2008 and the end of January 2009.

According to the survey, total investment intentions are expected to stagnate in Québec in 2009 (0.0%), after climbing 8.9% in 2008. Investment intentions in Canada and Ontario are down by 5.4% and 1.6%, respectively, in 2009. Total investments for 2008 and 2009 are expected to have increased by 8.9% in Québec, compared with a slight drop in Ontario (– 0.8%) and Canada (– 0.4%).

Residential investment

Residential investment was up 2.8% in Québec in 2008. In 2009, it will increase by 0.6% in Québec, compared with a 1.8% decline in Canada.

Private-sector nonresidential investment

After climbing by 1.5% in 2008, business nonresidential investment is expected to fall by 9.1% in Québec in 2009, compared with an expected drop of 13.1% in Canada.

- Investment intentions in Québec are down sharply in the following sectors: mining (– 38.1%), trade (– 11.1%) and finance and insurance (-9.9%).
- In Canada, planned spending in mining and oil and gas extraction is down by 26.4%.

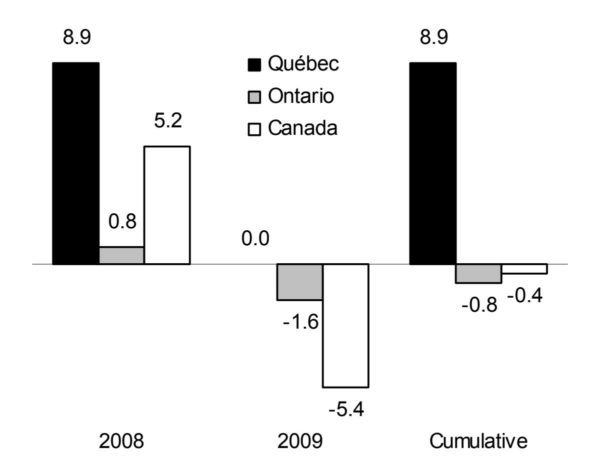
Nonresidential investment by public administrations and enterprises

In 2009, public spending on nonresidential construction will make up for the decrease in private-sector nonresidential investment. According to Statistics Canada, investment by public administrations will increase by 11.2% in 2009 in Québec. Thanks to Québec infrastructures plan, the federal government's stimulus plan and the planned spending by Hydro-Québec, public-sector investment is expected to remain high in Québec over the coming years.

Private and public business investment[1]

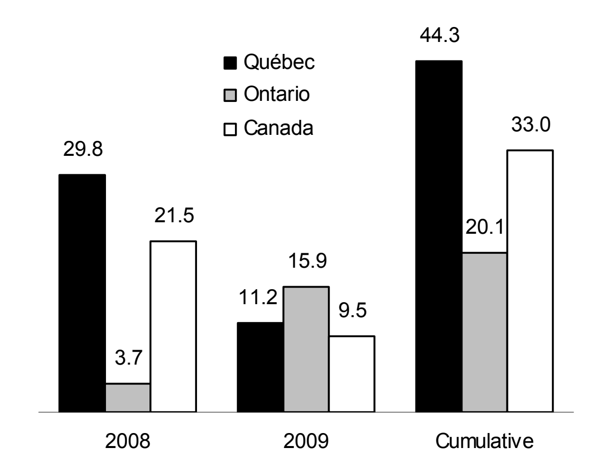
After growing by 5.7% in 2008, private and public business investment in Québec is expected to fall by 4.0% in 2009, compared with a forecast 10.2% decline in Canada.

Total investment
(percentage change)



Source: Statistics Canada.

Public-sector nonresidential investment
(percentage change)



Source: Statistics Canada.

1 Ministère des Finances du Québec estimates based on the Statistics Canada survey.

2.5 Worsening labour market

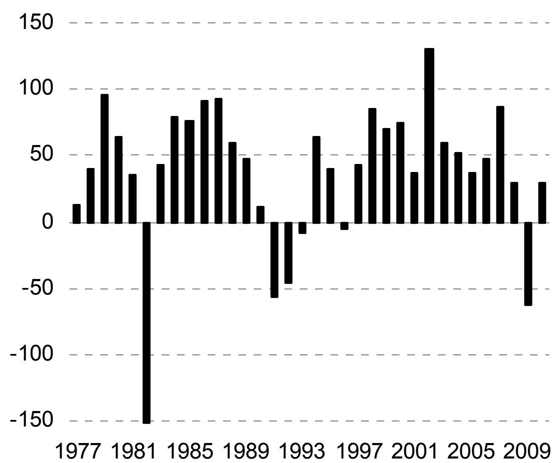
The drop in economic activity is expected to result in a loss of 62 900 jobs in 2009. In 2008, Québec created 30 000 jobs, mostly in construction, professional services, health care and tourism. The revival of economic activity will improve the outlook for the labour market; 29 500 jobs should be created in 2010.

Jobs losses should not be as deep in 2009 compared with previous recessions, when over 150 000 jobs were lost 1982 and more than 100 000 between 1991 and 1993.

In this context, the unemployment rate is expected to climb from 7.2% in 2008 to 8.9% in 2009 and to 9.1% in 2010. These rates are far lower than those seen during the major slowdowns in 1983 (14.2%) and 1993 (13.2%).

CHART B.22

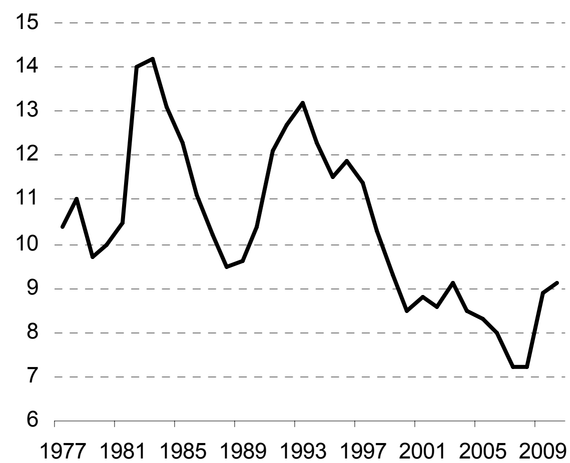
Job creation in Québec
(thousands)



Sources: Statistics Canada and ministère des Finances du Québec.

GRAPHIQUE B.23

Unemployment rate in Québec
(percent)



Sources: Statistics Canada and ministère des Finances du Québec.

2.6 Change in nominal GDP

After rising by 2.4% in 2008, nominal GDP, on which growth in government revenue depends, will fall by 0.1% in 2009, a downward revision of 3.6 percentage points from the 2008-2009 Budget.

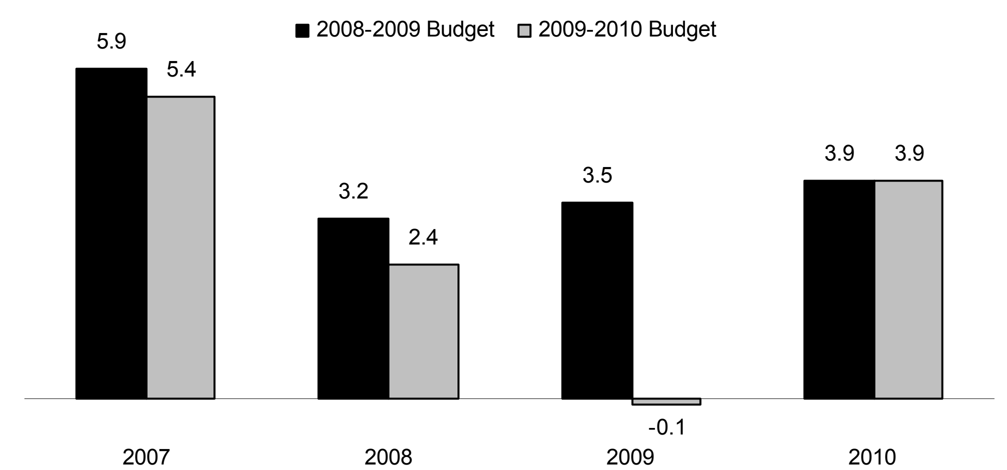
Overall, the forecast 1.2% decline in real GDP will barely be offset by a 1.1% increase in prices.

— The weak growth in prices in the economy as a whole is attributable, in particular, to the drop in global demand for commodities, which will lead to a decrease in the value of Québec exports and thereby contribute to limited growth in nominal GDP.

In 2010, the economic recovery will translate into a 3.9% growth in Québec nominal GDP.

CHART B.24

Change in nominal GDP in Québec
(percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

2.7 Comparison with the private sector

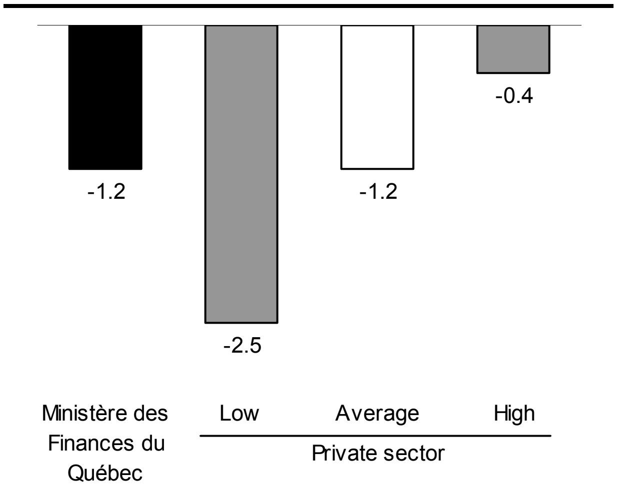
The ministère des Finances du Québec's predicted 1.2% contraction of economic output in 2009 is identical to the average contractions forecast by the private sector.

— However, the wide gap between private-sector forecasts in 2009, which range from – 2.5% to – 0.4%, reflects the uncertain economic prospects.

The ministère des Finances du Québec expects the economy to grow by 1.9% in 2010, which is slightly lower than the average growth rate of 2.2% projected by the private sector.

CHART B.25

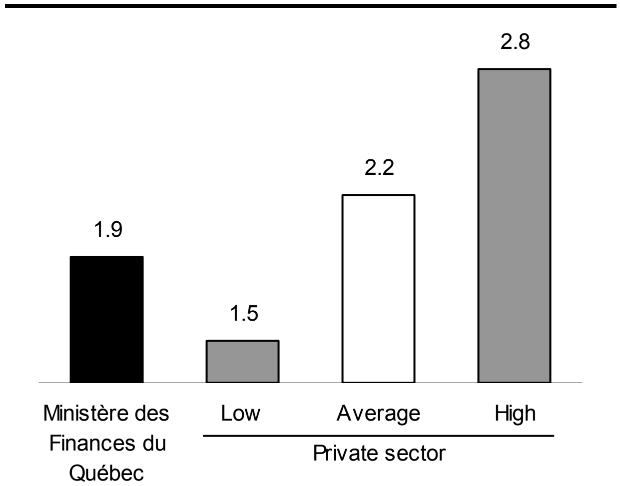
Economic growth in 2009, Québec
(real GDP, percentage change)



Note: March 12, 2009, statement of the ministère des Finances du Québec that contains the forecasts of 10 private-sector institutions made between January 30 and March 12, 2009.
Source: Ministère des Finances du Québec.

CHART B.26

Economic growth in 2010, Québec
(real GDP, percentage change)



Note: March 12, 2009, statement of the ministère des Finances du Québec that contains the forecasts of 10 private-sector institutions made between January 30 and March 12, 2009.
Source: Ministère des Finances du Québec.

TABLE B.3

Detailed economic outlook for Québec
(percentage change, except where otherwise indicated)

	2008	2009	2010
Outlook			
Real gross domestic product	0.8	– 1.2	1.9
– 2008-2009 Budget	1.5	2.0	2.2
Gross domestic product	2.4	– 0.1	3.9
– 2008-2009 Budget	3.2	3.5	3.9
Components of GDP (in real terms)			
Consumption	3.8	1.2	2.2
– 2008-2009 Budget	3.1	2.2	1.9
Business nonresidential investment	2.6	– 8.4	6.4
– 2008-2009 Budget	7.4	5.5	3.1
International exports	– 3.4	– 8.3	2.3
– 2008-2009 Budget	– 0.6	3.3	4.8
International imports	1.7	– 2.3	4.1
– 2008-2009 Budget	5.4	3.9	4.0
Other economic indicators			
Nominal consumption	5.1	1.6	3.9
– 2008-2009 Budget	4.3	3.8	3.4
Housing starts (thousands)	47.9	38.8	37.3
– 2008-2009 Budget	44.6	38.5	38.5
Personal income	3.5	1.1	2.6
– 2008-2009 Budget	3.1	3.2	3.3
Wages and salaries	2.9	0.5	3.0
– 2008-2009 Budget	2.9	3.2	3.3
Corporate profits	4.4	– 15.3	9.7
– 2008-2009 Budget	2.6	2.8	6,6
Consumer prices	2.1	0.4	2.0
– 2008-2009 Budget	1.4	1.8	1.7
Labour market			
Job creation (thousands)	30.0	– 62.9	29.5
– 2008-2009 Budget	45.0	34.2	35.8
Unemployment rate (%)	7.2	8.9	9.1
– 2008-2009 Budget	7.0	6.9	6.7

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

2.8 Five-year economic outlook

The average forecasts of the ministère des Finances du Québec for nominal and real GDP growth for the period 2009 to 2013 are similar to those of private-sector forecasters.

— The ministère des Finances du Québec expects nominal GDP to grow by 3.5% between 2009 and 2013. This is identical to the growth rate as forecast by the private sector.

— The ministère des Finances du Québec forecasts 1.6% growth in real GDP over the same period, which is slightly lower than the private-sector forecast of 1.8% growth.

The economic outlook contained in this budget takes into account the plan for restoring fiscal balance, which provides for the elimination of deficits by 2013-2014.

TABLE B.4

Economic outlook for Québec compared with private-sector forecasts
(percentage change)

	2008	2009	2010	2011	2012	2013	Average 2009-2013
Nominal GDP							
Ministère des Finances du Québec	2.4	– 0.1	3.9	4.5	4.5	4.5	3.5
Average private-sector forecast[1]	3.1	– 0.4	3.8	4.9	4.7	4.3	3.5
Real GDP							
Ministère des Finances du Québec	0.8	– 1.2	1.9	2.6	2.5	2.4	1.6
Average private-sector forecast[1]	0.6	– 1.2	2.2	2.8	2.7	2.3	1.8
Price increases							
Ministère des Finances du Québec	1.5	1.1	1.9	1.2	2.0	2.1	1.8
Average private-sector forecast[1]	2.5	0.8	1.6	2.1	2.0	2.0	1.7

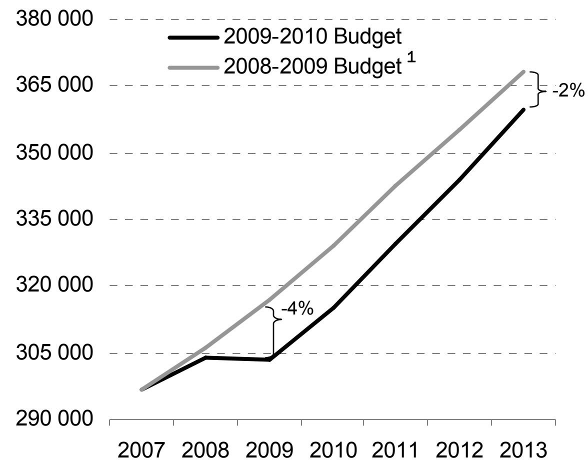
1 March 12, 2009, statement of the ministère des Finances du Québec that contains the forecasts of 10 private-sector institutions made between January 30 and March 12, 2009.
Source: Ministère des Finances du Québec.

The impact of the 2009 recession on Québec's nominal GDP growth will have been only partially absorbed by the time the five-year forecast period ends in 2013, when nominal GDP will be 2.0% below the rate forecast in the 2008-2009 Budget.

— Given that the Québec economy is tightly integrated with the U.S. market, it will continue to suffer the effects of the continued troubles in the U.S. economy.

CHART B.27

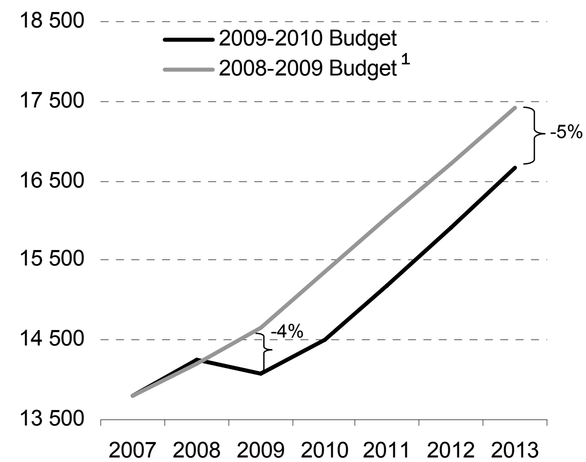
Nominal GDP in Québec
(millions of dollars)



1 Data have been adjusted to account for historical revisions.
Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

CHART B.28

Nominal GDP in the United States
(billions of U.S. dollars)



1 Data have been adjusted to account for historical revisions.
Sources: IHS Global Insight and ministère des Finances du Québec.

3. SITUATION OF QUÉBEC'S ECONOMIC PARTNERS

The global economic meltdown in fall 2008 affected Québec's economic partners. The outlook for 2009 points to a deep, worldwide recession. Canada and the United States can expect to see an economic recovery in 2010, whereas the economies of several European countries and Japan will continue to struggle.

3.1 Situation in Canada

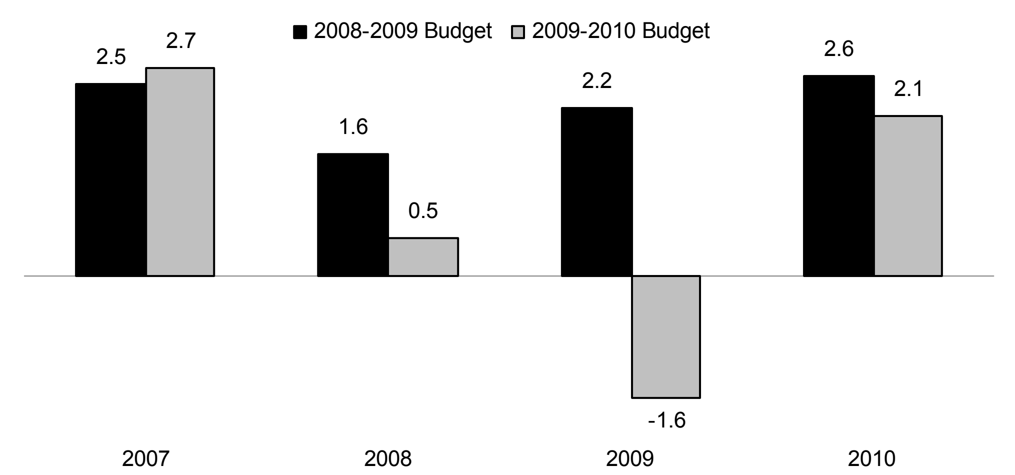
Heavily shaken by the U.S. recession, Canada's economy shrank in the fourth quarter of 2008, posting a 3.4% annualized decrease in real GDP. With Canada having entered a recession in late 2008, real GDP is expected to fall by 1.6% and 263 000 jobs will likely be lost in 2009.

More specifically, falling energy prices will be a drag on investments in western Canada and the lower U.S. demand for certain goods, such as automobiles, will harm Ontario's manufacturing sector.

In 2010, the Canadian economy will gain from the measures taken by governments to boost employment and investment, monetary easing by the Bank of Canada and the economic upturn in the U.S. Real GDP is thus expected to grow by 2.1% and more than 140 000 jobs should be created.

CHART B.29

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

❑ Export decline

The recession in the United States is having dramatic repercussions on Canadian exports, particularly in the automotive and energy sectors.

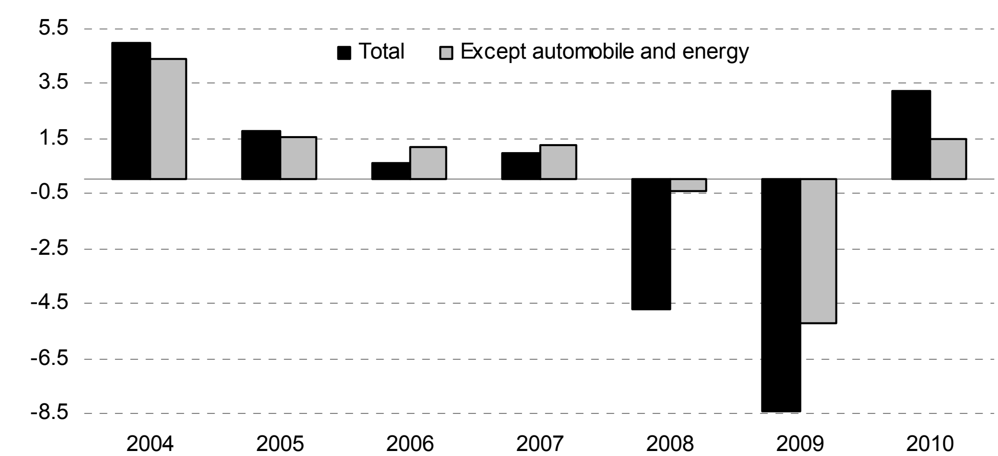
— In January and February 2009, automobile sales in the United States fell below an annual rate of 10 million vehicles for the first time since 1982, resulting in drastic production cuts in both the United States and Canada.

— As well, the decline in foreign demand and commodity prices, particularly the price of oil, which began in August 2008 has contributed to lower production and investment in the mining and petroleum sectors.

Exports are expected to slide 8.4% in real terms in 2009, pummelled by a decrease of 26.6% in the automotive sector and 2.0% in the energy sector. These two struggling sectors account for 32.0% of Canadian exports, but just 5.0% of Québec exports.

CHART B.30

Canadian exports
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

❑ Sluggish domestic demand

Household consumption and spending growth decelerated in 2008 and is expected to slow even further in 2009 owing to anticipated job losses and sinking household confidence.

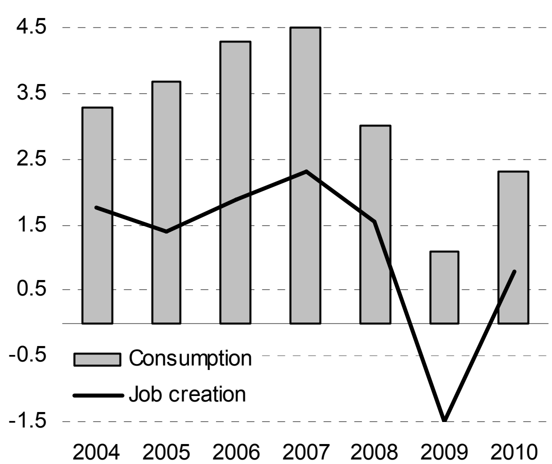
Following a rate of 3.0% in 2008, growth in consumption will slow to 1.1% in 2009 and then pick up again in 2010 to reach 2.3% with renewed job creation.

— Note that Canadian households remain in a better financial position than U.S. households, as illustrated in the box on page B.38.

Furthermore, reduced output and weak price growth in 2009 are expected to cause firms to delay some of their investment projects, notably in the energy sector, driving a 10.9% drop in nonresidential investment. Investment is expected to grow by 3.0% in 2010 when the economy rebounds.

CHART B.31

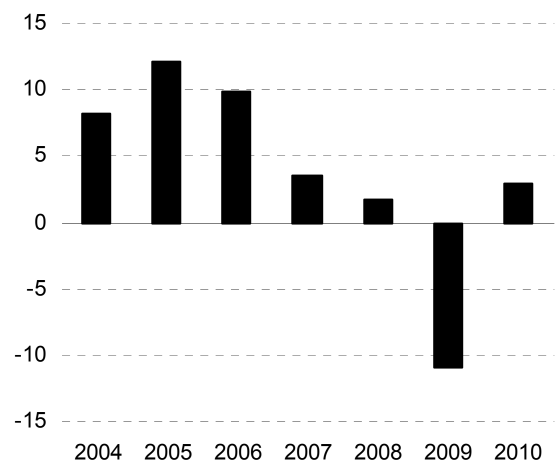
Job creation and consumer spending in Canada
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART B.32

Nonresidential investment in Canada
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

Financial situation of Canadian and U.S. households

The current financial crisis and recession, entailing a credit squeeze and job losses, are having major economic impacts, notably for households. Canadian households, however, are better prepared for weathering this difficult period than are U.S. households. On the one hand, they have lower debt levels and, on the other, they are better able to meet their financial obligations.

By way of illustration, this box describes three measurements used to assess household finances: the debt-to-income ratio, the debt-to-assets ratio and the debt service ratio.

Debt-to-income ratio

In recent years, the total debt-to-income ratio[1] has risen both in Canada and the United States, but Canadians are carrying a far lower debt load than Americans, as shown in the chart below. In 2008, the total debt-to-income ratio was 1.0 in Canada and 1.4 in the United States.

Debt-to-assets ratio

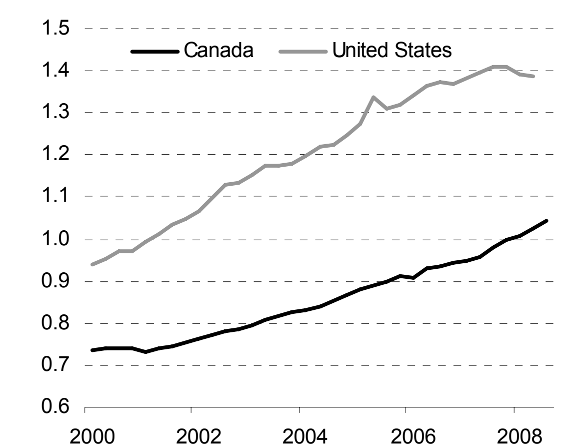
The debt-to-assets ratio rose more in the United States than in Canada, with Americans having borrowed heavily to purchase real estate assets that are now losing value. This ratio climbed from 17% in both countries in 2000 to nearly 19% in Canada and 24% in the United States in the third quarter of 2008.

Debt service ratio[2]

Even if the household debt level has increased in Canada over the last few years just like in the United States, it is not weighing as heavily on Canadian households and they are currently assuming their financial obligations more easily than their American counterparts.

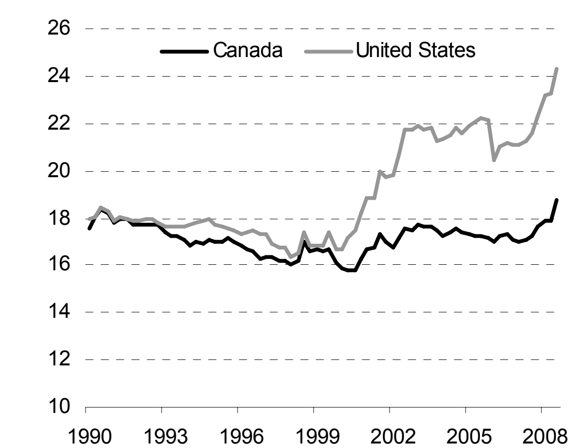
– In Canada, the debt service ratio in the fourth quarter of 2008 was lower than the average ratio of 8.2% seen from 1990 to 2008, whereas in the United States, it was higher in the third quarter of 2008 than the average ratio of 12.6% for the same period.

Total debt-to-income ratio
(including individual businesses)



Sources: Statistics Canada and Flow of Funds Account.

Debt-to-assets ratio
(percent)



Sources: Statistics Canada and Flow of Funds Account.

1 The ratio is calculated based on total income rather than personal disposable income to account for tax discrepancies between the two countries. Taxes are higher In Canada, but essential services are either free or affordable. Disposable income therefore does not represent the same spending possibilities in the two countries. Calculating the ratio of total debt to total income provides a better comparison. Also, in Canada, households include individuals and individual businesses. Thus, for a more accurate comparison, individual businesses must be included in U.S. households when calculating debt-to-income and debt-to-assets ratios.

2 The debt service ratio cannot be directly compared between the two countries because of the different methods used. Therefore, it is preferable to compare the trends in each country's ratio in relation to the historic average.

❑ Canadian financial markets

The worsening financial crisis and tighter credit conditions led the Bank of Canada to continue easing monetary conditions by cutting its benchmark overnight lending rate from 3.0% in September 2008 to a record low of 0.5% in March 2009. It also provided more liquidity to the financial system, reaching a high of $41 billion in December 2008, to ease the pressure on the money market.

The Bank of Canada is expected to gradually reduce monetary easing starting in 2010. The benchmark overnight rate is expected to rise from an average of 0.6% in 2009 to 1.0% in 2010.

In addition, strong investor demand for less-risky securities dragged the Government of Canada 10-year bond rate to a low of 3.6% on average in 2008, compared with 4.3% in 2007. The prevailing uncertainties in 2009 will put further pressure on the demand for fixed-income securities and raise the 10-year bond rate to 2.9% in 2009.

Moreover, after remaining near parity during the first half of the 2008, the Canadian dollar fell below 80 cents U.S. in late October due primarily to the sharp drop in commodity prices and global economic slowdown. The Canadian dollar is expected to remain just above 80 cents U.S. in 2009 and then appreciate in 2010 with the economic recovery, which will drive commodity prices up.

TABLE B.5

Canadian financial markets
(percent, except where otherwise indicated)

	2008	2009	2010
Benchmark overnight lending rate	3.0	0.6	1.0
– 2008-2009 Budget	3.6	4.1	4.3
3-month Treasury bills	2.4	0.6	1.2
– 2008-2009 Budget	3.5	4.2	4.2
Government of Canada 10-year bonds	3.6	2.9	3.7
– 2008-2009 Budget	4.1	4.6	4.9
Canadian dollar (in cents U.S.)	93.3	82.4	91.6
– 2008-2009 Budget	99.0	95.5	95.0

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

3.2 Deep recession in United States

The U.S. economy officially entered a recession in December 2007 following the major real estate correction, which put financial institutions in a fragile state and suddenly limited access to credit for households and businesses. These conditions worsened in fall 2008 and rapidly spread to the other sectors of the U.S. economy.

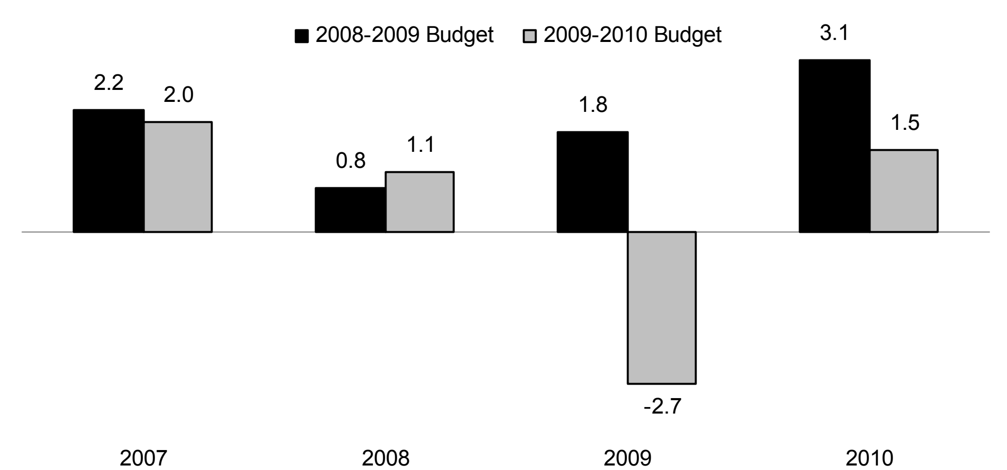
The current recession in the United States will be the longest since the 1930s. Its duration stems from a number of new vicious circles arising from the severe real estate and financial crises underway. Households have watched the value of their investments plummet with falling housing prices and plunging stock markets. This loss of wealth, coupled with tight credit conditions, has led to a decline in consumption, investment and employment, aggravating problems in the real estate and financial sectors.

After edging up 1.1% in 2008, U.S. real GDP is expected to contract by 2.7% in 2009 due to the drop in consumption, investment and global demand for U.S. exports. This is a downward revision of 4.5 percentage points from the forecast in the 2008-2009 Budget.

The numerous economic recovery measures taken by governments are expected to result in real GDP growth of 1.5% in 2010.

CHART B.33

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



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

❑ Continuing real estate correction in 2009

The current real estate correction in the United States is the sharpest of the post-war period, with an unequalled 26.4% drop in housing prices since they peaked in 2006.

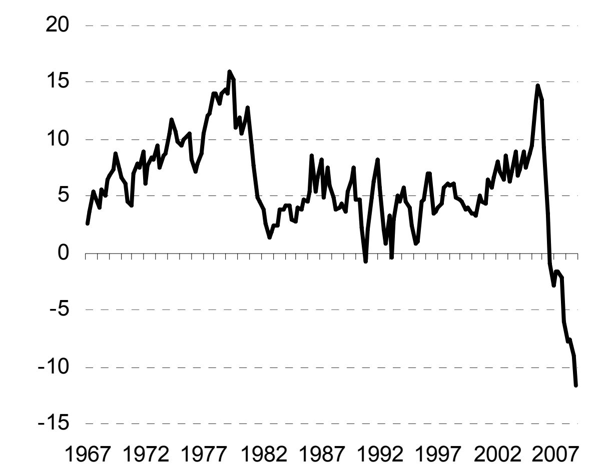
Despite the sharp fall in residential investment and decline in housing starts in 2007 and 2008, the real estate market remains unbalanced, with housing demand still being lower than supply, pushing up the inventory of homes for sale.

— At the end of 2008, it took an average of over twelve months to sell a new home, compared with an average of six months historically.

The current economic environment is such that the inventory of new homes for sale cannot be quickly absorbed, with credit being hard to obtain and the ownership rate at a peak. Residential investment will recover when balance is restored to the real estate market, in early 2010. Thus, residential investment is expected to drop by 25.9% in 2009, after sliding 20.7% in 2008, and then grow by 4.9% in 2010.

CHART B.34

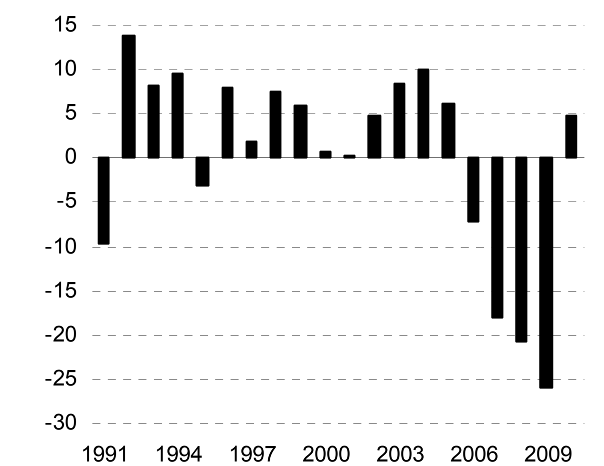
Median price for existing single-family homes
(annual percentage change)



Source: Datastream.

CHART B.35

Real residential investment in the United States
(percentage change)



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

❑ Drop in consumption and employment in 2009

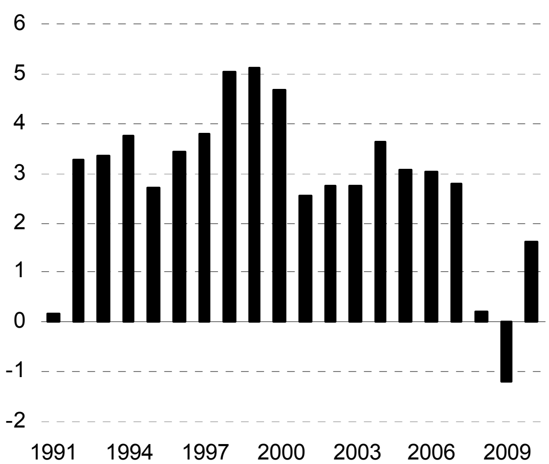
Trouble obtaining financing and a loss of revenues led businesses to shed nearly 3 million jobs in 2008, causing the unemployment rate to jump from 4.9% in January 2008 to 7.2% in December 2008, the highest level since 1992. Faced with the rising unemployment rate and a decrease in their net wealth,[1] U.S. households, carrying too much debt, sought to rebuild their savings by consuming less, which only made things harder for businesses.

The financial situation of households will remain fragile in 2009. The job market will continue to erode and further losses of wealth can be expected with the continued real estate correction. The unemployment rate will climb to 8.6% in 2009 and 9.4% in 2010, the highest level since 1983. Moreover, total job losses are expected to reach 3.7 million in 2009. Given this context, household consumption will dip 1.2% in 2009 after growing by just 0.2% in 2008. To offset the plunge in net wealth and make up for the uncertain job market, U.S. households will continue to save more, raising the savings rate from 1.8% in 2008 to 5.1% in 2009.

Furthermore, businesses are expected to reduce their investment levels by 15.5% in 2009 and 1.7% in 2010 owing to their lower profitability, tight financing conditions and surplus productive capacity.

CHART B.36

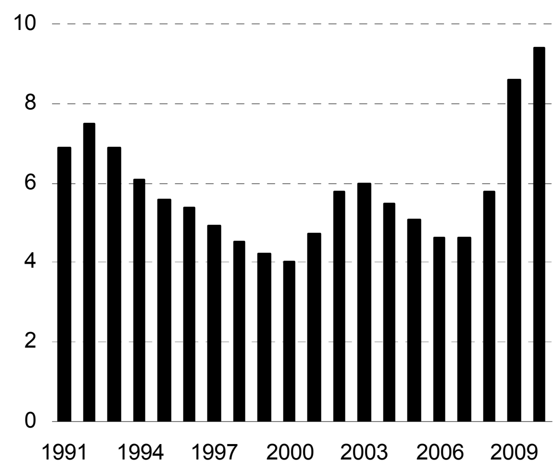
Consumption in the United States
(real percentage change)



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

CHART B.37

Unemployment rate in the United States
(percent)



Source: IHS Global Insight and ministère des Finances du Québec.

1 Net wealth is defined as the value of assets less liabilities or debts.

❑ Authorities take more action

To revive economic activity, the U.S. Treasury Department and Federal Reserve introduced major measures to get credit moving again and stimulate the economy.

■ Credit stimulation and support for the banking sector

In fall 2008, the U.S. Federal Reserve reacted vigorously to offset the negative impact of tighter credit conditions by lowering the federal funds target rate by nearly 200 basis points to a target band of 0% to 0.25%.

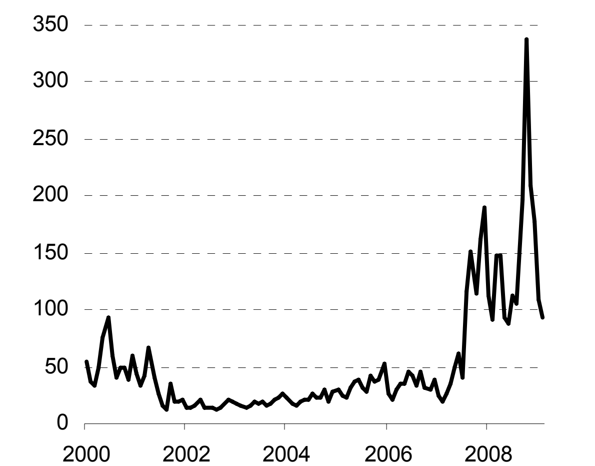
Innovative measures were also implemented in an effort to rebuild the capital of financial institutions, restore the flow of credit between banks and supply the debt securities market. The measures succeeded in partially restoring credit flows between banks and lowering the required rate of return on short-term securities and mortgages. However, because credit risks are higher during a recession, the yield spreads on corporate securities remain high. Given the strong action taken by U.S. authorities, this situation should ease sometime during 2009.

The federal funds target rate is expect to increase gradually starting in 2010, once there are clear signs of a lasting economic recovery.

CHART B.38

Yield spread in the interbank market

(3-month LIBOR rate less 3-month Treasury bills, in basis points)



Source: IHS Global Insight.

CHART B.39

Yield spread between Treasury bonds and corporate bonds

(AAA corporations less 10-year Treasury bonds, in basis points)

Source: U.S. Federal Reserve.

- **Most ambitious economic stimulus plan since the Great Depression**

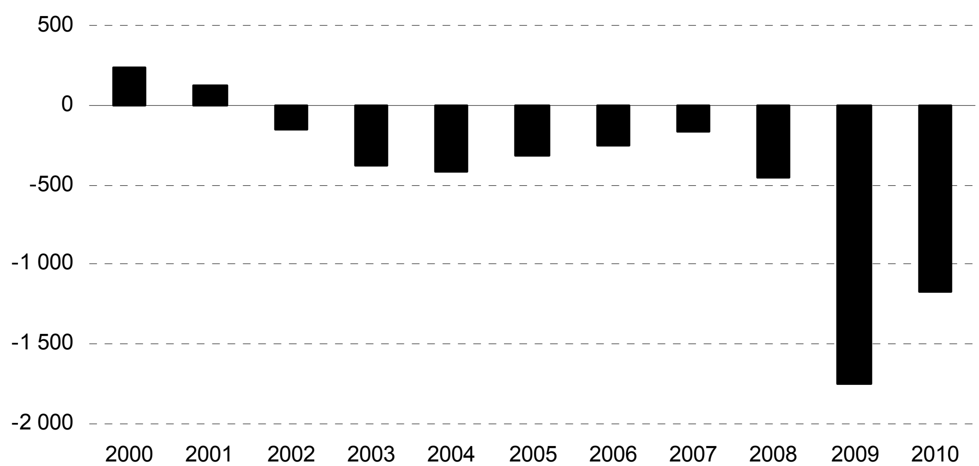
In February 2009, President Obama signed the most ambitious economic stimulus plan since the Great Depression. The US$787 billion plan aims to maintain or create 3.5 million jobs by the end of 2010 and stimulate consumption and investment.

The plan focuses on supporting households by cutting taxes, increasing infrastructure spending with the aim of raising employment and output. The details of the plan are presented in Subsection 4 of this section.

With the plan's adoption, the federal deficit will greatly expand in 2009 and 2010. In 2009, the deficit is expected to reach US$1 752 billion, or 12.3% of GDP, due to lower revenues and higher spending under the stimulus plans and social programs during the recession period. The deficit increase will raise the public debt from 37.2% of GDP for financial year 2008 to 48.8% of GDP for financial year 2009, an increase of more than 10.0% in one year.

CHART B.40

U.S. fiscal deficit
(billions of U.S. dollars)



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

❑ Decline in U.S. imports

U.S. imports fell in 2008 due to the worsening financial crisis and weakening U.S. domestic demand. This increased the speed at which the negative effects of the financial crisis spread to the global economy, with U.S. imports accounting for 14.0% of worldwide imports. Sagging U.S. imports have dragged down several economies, including the European Union, Japan, China, Canada and Québec.

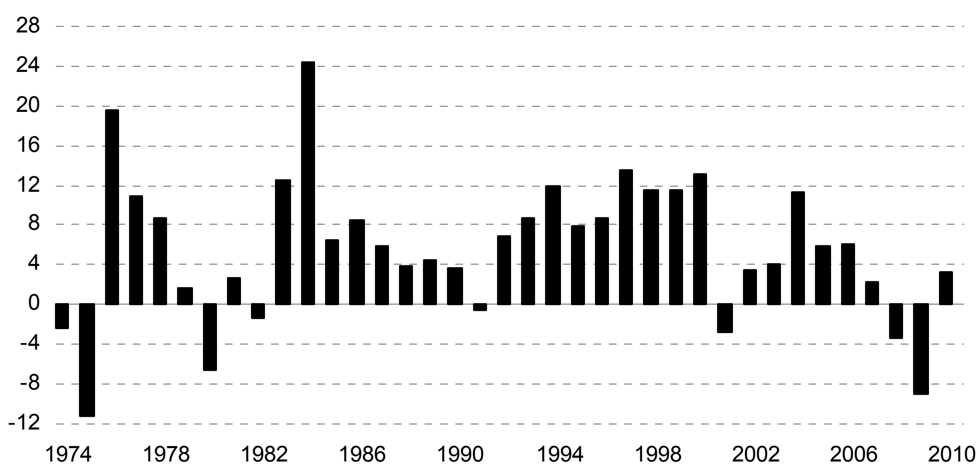
After dipping by 3.4% in 2008, real U.S. imports of goods and services are expected to fall by another 8.9% in 2009, the biggest decline since 1975. They will pick up in 2010, growing by a modest 3.2%.

The rapid deterioration in the global economic environment in 2008 also affected U.S. exports. After posting an increase of 6.1% in 2008 thanks to sharp growth in the first half of the year, real exports are expected to fall by 7.4% in 2009 and then by 0.1% in 2010. They will decrease in 2009 owing to an appreciation of the U.S. dollar, with investors preferring U.S. currency in this period of uncertainty.

All in all, this rebalancing of world trade will be positive for the U.S. trade deficit, temporarily bringing it down to below 3.0% of GDP in 2009 and 2010.

CHART B.41

U.S. imports growth
(real percentage change)



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

3.3 Situation overseas

❑ All advanced economies hit by the recession

The global economic slowdown will intensify in all regions of the world in 2009, particularly in advanced economies, which will see their real GDP contract by 2.6% in 2009. The United Kingdom, the euro area and Japan will suffer sharp drops in their real GDP. Advanced economies are expected to recover gradually in 2010, growing at a rate of 1.0%.

Emerging and developing economies will also decelerate, seeing their real GDP growth rate slow from 6.0% in 2008 to 2.2% in 2009 and 4.4% in 2010.

TABLE B.6

Economic growth in certain regions of the world
(real GDP, percentage change)

	Weight in world GDP[1]	2008	2009	2010
Advanced economies[1]	54.2	0.9	– 2.6	1.0
Euro area	16.1	0.8	– 2.4	0.1
United Kingdom	3.3	0.7	– 3.1	0.0
Japan	6.6	– 0.6	– 3.3	1.0
Emerging and developing economies[1]	45.8	6.0	2.2	4.4
China	10.8	9.0	5.9	7.0

1 Based on purchasing-power parity.
Sources: IHS Global Insight and ministère des Finances du Québec.

■ Euro area

The tighter financing conditions, export decline and eroding household and business confidence will hit euro-area economies hard in 2009. The recession that took root in the third quarter of 2008 is expected to continue this year, fuelling a 2.4% drop in real GDP in 2009 and economic stagnation in 2010 (+0.1%).

— The recession will be accompanied by a sharp increase in the unemployment rate, jumping from 7.5% in 2008 to 8.7% in 2009 and 9.5% in 2010.

Over the next two years, economic activity will be supported primarily by the recovery plans and public spending by governments.

■ The United Kingdom

The United Kingdom will be one of the European countries hardest hit by the recession in 2009 owing to its huge financial sector, strong real estate correction and high household debt. After edging up 0.7% in 2008, real GDP is expected to contract by 3.1% in 2009 and then stagnate in 2010 (0.0%).

■ Japan

The Japanese economy is now in recession after growing for a few years. In late 2008, the economy shrank at the fastest pace in 35 years, driven primarily by the external sector. Weak global demand and the sharp increase in the yen have made Japanese exporters less competitive.

Sluggish domestic demand is also contributing to the current recession in Japan. Consumer confidence levels are at historic lows amid job losses and wage cuts. Real GDP is thus expected to shrink by 3.3% in 2009 after falling by 0.6% in 2008. A rebound is expected in 2010, spurring 1.0% growth in the economy.

■ China

China is currently suffering a major economic slowdown due to the dramatic drop in demand for the products it exports, which contribute over 35% to the country's GDP. Chinese exports are expected to decline, in real terms, by 7.4% in 2009.

To make up for the economic activity lost through the export decline, Chinese authorities introduced ambitious measures in November 2008 to boost domestic demand, notably through massive support for investment.

The government is striving to expand personal household spending, which accounted for only 38.0% of China's GDP in 2008, a much lower share than that of advanced economies. However, a poor social safety net and less-developed banking system are causing the Chinese to continue saving rather than spend.

Consequently, China's economy will slow from 9.0% growth in 2008 to 5.9% in 2009, the lowest rate since 1990, and then rebound to post 7.0% growth in 2010.

4. Positive effects of government measures

The majority of the governments of advanced economies have introduced major economic stimulus measures to counter the effects of the financial crisis and revive their economy.

The Québec government has also taken major steps to support production, investments and employment. Relative to the size of the economy, the scope of the measures taken by Québec is comparable to that of the measures taken by the governments of Canada and the United States.[2]

4.1 Measures adopted by G-20 governments

According to the IMF, the leaders of the world's 20 largest advanced and emerging economies (G-20) have adopted or are about to adopt economic stimulus measures totalling 3.3% of their GDP from 2008 to 2010.

— In Canada, the measures will have reached 5.9% of GDP from 2008 to 2010, 5.9% in the United States and 3.5% in Germany.

TABLE B.7

Government economic stimulus measures- 2008 to 2010
(as a percentage of GDP)

	2008	2009	2010	TOTAL
G-20 countries	0.5	1.5	1.3	3.3
Canada[1]	0.8	3.2	1.9	5.9
United States[2]	1.1	2.0	2.8	5.9
Germany	0.0	1.5	2.0	3.5
Japan	0.4	1.4	0.4	2.2
United Kingdom	0.2	1.4	– 0.1	1.5
Québec[3]	1.5	3.3	2.8	7.6

1 Including the measures in the action plan announced in the 2009 federal budget and the 2007 economic statement.
2 Including President Bush's 2008 stimulus plan, President Obama's 2009 stimulus plan and assistance to the residential and automobile sectors.
3 Including 2009-2010 Budget measures, additional infrastructure investments since 2008 and measures from previous budgets having an impact starting in 2008.
Sources: International Monetary Fund, Congressional Budget Office, Department of Finance Canada and ministère des Finances du Québec.

2 Not including the assistance measures taken for the financial sector in all jurisdictions, which fall under the purview of federal governments.

Governments will support the economy through measures that will have short-term effects.

— Around half of the governments have opted for substantial personal income and corporate tax cuts, while a third have announced indirect tax cuts.

— Also, a number of countries have decided to enhance certain transfer measures, such as employment insurance.

— Lastly, some countries have opted for targeted measures to support specific strategic or vulnerable sectors of their economy.

Other measures, with a more structuring effect, will impact the economy over the longer term.

— Three quarters of countries have opted for measures that substantially increase infrastructure spending.

— Other spending measures include investment in the health and education sector and in the development of environment-friendly technologies.

Two thirds of the actions taken by the G-20 governments to stimulate the economy consists of spending measures and the other third, fiscal measures.

These actions to boost the world economy will take governments into major fiscal deficits. In 2009, Canada will face a deficit representing 2.2% of GDP, Germany, 2.9%, the United Kingdom, 8.8%, and the United States, 12.3%.

Fiscal stimulus to reflate the economy

Faced with the rapid and dramatic deterioration in economic activity, several countries swiftly adopted ambitious action plans to revive the economy, even at the expense of going to major deficit.

Canada

The fiscal stimulus measures in the economic action plan announced in the 2009 federal budget will cost $52.9 billion from 2008 to 2010 (3.4% of GDP) and consist primarily of infrastructure spending, tax cuts, business assistance and job training. These measures are in addition to the extra $13 billion in business financing assistance and the tax relief announced in the 2007 economic statement.

United States

U.S. authorities have introduced two economic stimulus plans. A US$168 billion plan adopted in February 2008 primarily consists of fiscal stimulus measures targeting consumers and businesses. In February 2009, a US$787 billion was adopted with the aim of saving or creating 3.5 million jobs by the end of 2010 and boosting consumption and investments. The plan contains fiscal stimulus measures worth US$300 billion and $500 billion in government spending. The spending is targeted at infrastructure projects, expansion of social programs and the current operations of individual states.

European Union

In October 2008, the European Commission announced a two-year economic recovery plan worth 200 billion euros (1.5% of the EU's GDP) for a maximum period of two years. The plan proposes a combination of public spending and tax cuts to bolster demand, save jobs and restore consumer and business confidence.

- Under the plan, EU member states would contribute 170 billion euros (1.2% of GDP) to finance the most suitable measures for their economy.
- To date, several EU states, including Germany and the United Kingdom, have adopted a recovery plan.

Japan

Japan has announced three economic recovery plans since mid-2008. They contain fiscal measures thus far worth a total of 12 trillion yen (2.0% of GDP). A fiscal deficit representing 4.0% of GDP is expected in 2009.

Government deficits
(as a percentage of GDP)

	2008	2009	2010
Canada	– 0.1	– 2.2	– 1.8
United States	– 3.2	– 12.3	– 8.0
Germany	– 0.1	– 2.9	– 4.2
Japan	– 2.6	– 4.0	n.a.
United Kingdom	– 4.6	– 8.8	– 9.6

Sources: Department of Finance Canada, Office of Management and Budget, European Commission and Ministry of Finance Japan.

4.2 Measures taken to support the Québec economy

The Québec government has made a vast effort to support and revive the economy through the measures taken in this budget and all of its recent initiatives. All told, the government will have injected $15 billion (4.9% of GDP) into Québec's economy in 2009 and 2010.

The measures taken consist of, among others:

- massive investment in infrastructure;
- support for business investment and financing;
- support for job training.

These measures are in addition to previous ones taken as of 2008 that will have an $8.2 billion impact on the economy from 2009 to 2010. The measures taken by the federal government, notably those announced in its 2009 budget, and increased investment by Hydro-Québec will also have significant impacts.

❑ Québec government

In addition to the measures announced in this budget, the government has taken a number of major steps to support the economy in 2009 and 2010. It reduced personal income tax by a $950 million in 2008, eliminated the capital tax for manufacturing companies and implemented a plan to eliminate this tax for all other businesses by January 1, 2011. It has also earmarked $41.8 billion for investment in public infrastructure for the next five years.

These measures, combined with the measures announced in this budget, will have totalled 7.6% of GDP from 2008 to 2010. The economic support measures taken by Québec are comparable in scope to those announced by the Canadian and U.S. governments, which represent 5.9% of GDP in both countries.

TABLE B.8

Cash injections by the Québec government

(millions of dollars)

	2008	2009	2010	TOTAL
Measures in the 2009-2010 Budget and recently announced				
Measures in the 2009-2010 Budget				
– Infrastructure	—	131	232	363
– Measures concerning individuals	—	266	412	678
– Measures concerning businesses	—	1 161	1 179	2 340
Announced on January 14, 2009				
– Acceleration of Québec Infrastructures Plan[1]	—	1 034	407	1 441
– Measures concerning individuals	—	250	0	250
– Measures concerning businesses	—	760	270	1 030
November 4, 2008, Update				
– Measures concerning individuals	—	211	248	459
– Measures concerning businesses	—	500	500	1 000
December 19, 2008, measure	—	40	—	40
Québec Infrastructures Plan in 2009 and 2010[2]	—	3 405	3 045	6 450
Elimination of the tax on capital[3]	—	299	673	972
Subtotal	—	**8 057**	**6 966**	**15 023**
Impact on GDP (%)	—	2.7	2.2	4.9
Other elements having an impact in 2008, 2009 and 2010[4]				
– Québec Infrastructures Plan in 2008[2]	2 726	—	—	2 726
– Measures concerning individuals	1 366	1 380	1 457	4 203
– Measures concerning businesses	405	471	382	1 258
Subtotal	**4 497**	**9 908**	**8 806**	**23 210**
Impact on GDP (%)	1.5	3.3	2.8	7.6
Investments by Hydro-Québec[5]	356	1 360	1 658	3 374
TOTAL	**4 853**	**11 268**	**10 463**	**26 584**
Impact on GDP (%)	1.6	3.7	3.3	8.6

1 Québec Infrastructures Plan 2008-2013.
2 Québec Infrastructures Plan 2007-2012.
3 Impact of rate cuts on January 1, 2009 and 2010.
4 Including previous budgets that will have an impact starting in 2008.
5 Increase over 2007.
Source: Ministère des Finances du Québec.

■ Planned investments by Hydro-Québec

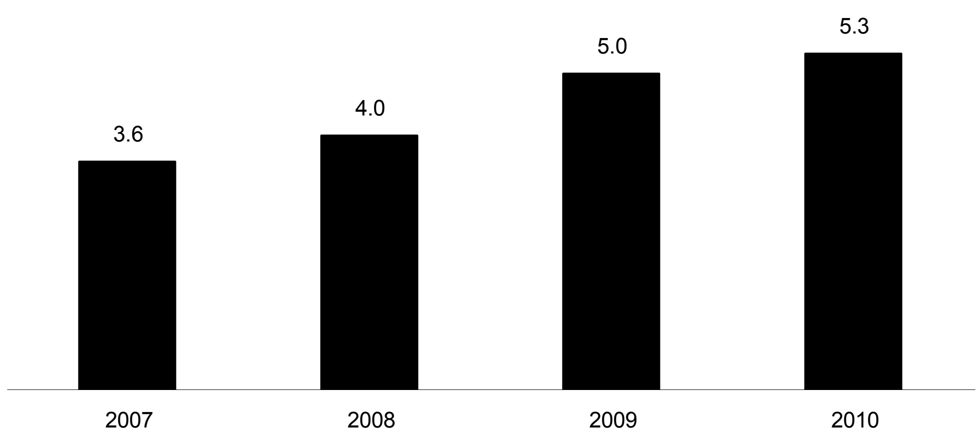
Major investments to be made by Hydro-Québec in the coming years will also help revive the Québec economy. These investments will total:

- $5.0 billion in 2009;
- $5.3 billion in 2010.

Hydro-Québec's planned investments are explained in greater detail in Appendix 2 of Section C of this document.

CHART B.42

Planned investments by Hydro-Québec
(billion of dollars)



■ Federal government measures

The last federal budget announced more tax relief measures as well as infrastructure spending.

The federal government also introduced tax relief measures in 2008, which will continue to benefit Quebecers in 2009 and 2010. These measures reduce personal income tax by $900 million and cut the GST by one percentage point, representing a permanent tax cut of $1.3 billion for Québec.

4.3 Impacts of the measures on the Québec economy

The combined actions of the Québec government, Hydro-Québec and the federal governments to support the economy will have a major impact on Québec's economic activity: [3]

- by adding 2.1 percentage points to real GDP in 2008
- by adding 1.5 percentage points in 2009;
- by maintaining this effort in 2010.

Overall, Québec's real GDP will be 3.6 percentage points higher than it would have been in 2009 and 2010 without the government support measures.

Government actions will also save or create close to 60 000 jobs in Québec in 2009 and 2010, adding to the 80 000 jobs sustained in 2008.

They will also make it easier for many families to get through the crisis.

TABLE B.9

Economic impacts of government stimulus measures - Québec

	2008	2009	2010
Impacts on real GDP[1] (%)	2.1	1.5	—[1]
– Cumulative	2.1	3.6	3.6
Impacts on employment (units)	80 000	60 000	—[1]
– Cumulative	80 000	140 000	140 000

1 Corresponds to a continuing effort.
Source: Ministère des Finances du Québec.

[3] Corresponds to the impact of the stimulus measures previously mentioned, not accounting for cash available for business financing and leakages in the economy through imports and household saving. This impact incorporates a multiplier effect of 1.3.

The government support measures will stimulate household as well as business demand, thereby expanding real GDP growth by:

— 1.3 percentage points through consumer spending;

— 1.3 percentage points through government investment;

— 0.9 percentage point through business investment.

TABLE B.10

Impacts of government actions on economic growth in Québec from 2008 to 2010
(contribution to economic growth in percentage points)

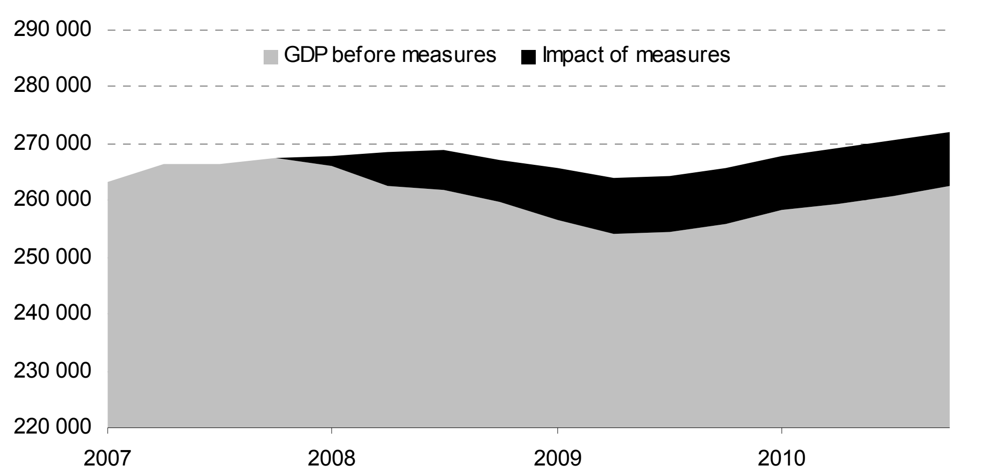
	2008	2009	2010	TOTAL
Personal household spending	1.0	0.2	0.1	1.3
Residential investment		0.2	– 0.1	0.1
Government nonresidential investment	0.8	0.6	– 0.1	1.3
Business nonresidential investment	0.3	0.5	0.1	0.9
TOTAL	2.1	1.5	0.0	3.6

Source: Ministère des Finances du Québec.

Thus, government economic support measures and Hydro-Québec investments will significantly ease the downturn in the economy in 2008 and 2009, while maintaining a high level of activity in 2010. In 2010, the level of these actions will be similar to that in 2009.

CHART B.43

Québec's real GDP before and after measures
(millions of dollars)



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

❑ Economic benefits of various measures

The governments' actions will have a major impact on the economy in both the short and long terms. In the short term, they will carry households and businesses through the recession in good standing, and in the long term, they will provide the Québec economy with more productive human and physical capital.

The tax cuts granted by the governments will help increase household disposal income, boosting consumer demand. The increase in consumption will improve the financial health of businesses by expanding sales, which in turn will drive growth in employment and investments.

Corporate tax reductions and assistance programs, such as loan guarantees, will enable businesses to survive the crisis by helping them meet their financial obligations. In so doing, the programs will save thousands of jobs and enable continued private-sector investment.

Government spending on infrastructure will have short and long-term effects. In the short term, infrastructure spending will sustain employment and, consequently, household income. Investment in infrastructure will foster a more skilled labour force, enhancing the human capital of Québec workers.

In the long term, better performing infrastructure will boost Québec's productive capacity and create an environment in which firms are more inclined to invest. The increased human and physical capital will have structuring effects by creating a more productive economy.

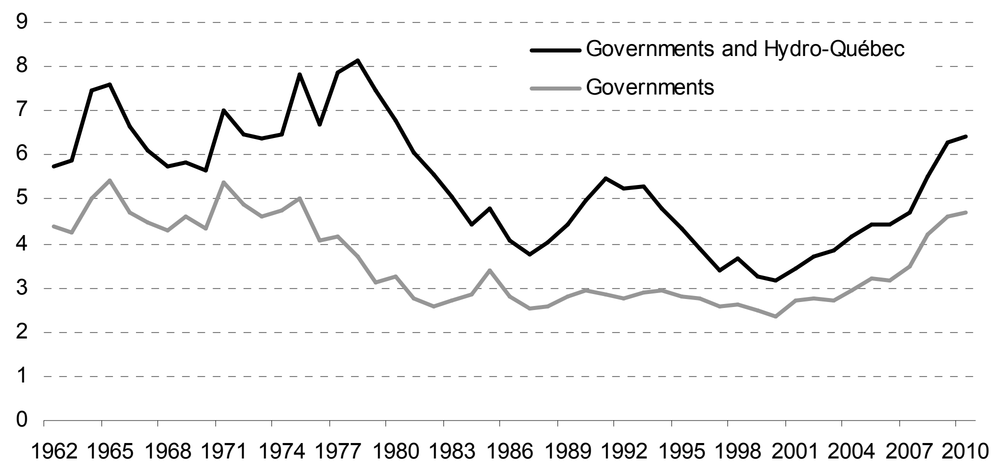
- Improving the transportation system will make for more efficient movement of people and goods.
- Upgrading the health and education network will provide Quebecers with quality services.
- Increasing business investment will make businesses more competitive and better able to expand in Québec.

Infrastructure spending

Public investments in Québec, including those by the Québec infrastructure plan, Hydro-Québec, municipalities and the federal government, will reach 6.4% of GDP in 2010, a level not seen for over 25 years.

CHART B.44

Investments in Québec by governments and Hydro-Québec
(as a percentage of GDP)



Sources: Statistics Canada and ministère des Finances du Québec.

In fact, the forecast average investment by the government of $13.3 billion from 2008-2009 to 2010-2011 under the Québec infrastructure plan and by Hydro-Québec will sustain 100 000 jobs in Québec, or 2.6% of total employment.

— The increase in public spending by the Québec government and Hydro-Québec will sustain 40 000 more jobs than before.

TABLE B.11

Jobs sustained by Québec government and Hydro-Québec investments

	Average annual value of investments ($MM)	Average annual number of jobs[1] (units)
2003-2004 to 2007-2008	7.3	60 000
2008-2009 to 2010-2011	13.3	100 000
Increase between the two periods	6.0	40 000

1 Estimates of the ministère des Finances du Québec based on the intersectoral model of the Institut de la Statistique du Québec.

Section C

The Government's Financial Framework

INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2008-2009 and the government's budgetary and financial stance for 2009-2010 and 2010-2011.

The information provided concerns:

- consolidated financial and budgetary transactions for the period from 2008-2009 to 2010-2011, including the impact of the various measures announced in the present Budget;
- the change in revenue and expenditure, as well as adjustments made since last year's Budget;
- the government's main expenditure items, capital expenditures, non-budgetary transactions and net financial requirements.

All of the financial results presented incorporate the measures announced in the November 4, 2008 *Update on Québec's Economic and Financial Situation* and the January 14, 2009 Economic Statement. Section A also contains five-year financial forecasts, up to 2013-2014.

1. THE ECONOMIC SLOWDOWN: MAJOR REPERCUSSIONS ON PUBLIC FINANCES

The financial crisis that has prevailed for over a year now and the repercussions it is having on Québec's economic growth pose major challenges in the realm of public finances. The rapid downturn in economic conditions in late 2008 and early 2009 has caused the government's financial framework to deteriorate significantly.

Therefore, the 2009-2010 Budget forecasts that a balanced budget will be achieved in 2008-2009 by using $2 billion from the $2.3-billion budgetary reserve.

A budgetary deficit of $3.9 billion is forecast for 2009-2010 and of $3.8 billion for 2010-2011.

— In 2009-2010, the deficit stems essentially from the impact of the deterioration of the economic situation on own-source revenue, the increase in the program spending objective and the cost of economic support measures.

— In 2010-2011, the deficit arises from, among other things, changes made by the federal government to the equalization program, for which the estimated shortfall is $695 million. It also takes into account the $1 065-million impact of the plan to restore fiscal balance.

TABLE C.1

Summary of consolidated budgetary transactions – 2009-2010 Budget
(millions of dollars)

	Actual results	Preliminary	Forecast	
	2007-2008	2008-2009	2009-2010	2010-2011
Budgetary revenue	**63 093**	**62 479**	**62 212**	**64 017**
% change	***4.0***	***– 1.0***	***– 0.4***	***2.9***
Budgetary expenditure	**– 61 847**	**– 63 989**	**– 66 093**	**– 68 525**
% change	***5.2***	***3.5***	***3.3***	***3.7***
Net results of consolidated entities	**404**	**205**	**355**	**563**
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	**1 650**	**– 1 305**	**– 3 526**	**– 3 945**
Deposit of dedicated revenues in the Generations Fund	– 449	– 569	– 715	– 880
BUDGETARY BALANCE BEFORE BUDGETARY RESERVE AND IMPACT OF THE PLAN TO RESTORE FISCAL BALANCE	**1 201**	**– 1 874**	**– 4 241**	**– 4 825**
Deposit in the Generations Fund from the budgetary reserve	– 200	– 132	—	—
Use of the budgetary reserve	– 1 001	2 006	295	—
Impact of the plan to restore fiscal balance			—	1 065
BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**0**	**0**	**– 3 946**	**– 3 760**

❑ Budgetary reserve

Substantial budget surpluses were generated in 2006-2007 and 2007-2008, making it possible to accumulate $2.3 billion in the budgetary reserve. Use of this reserve is now making it possible to achieve a balanced budget in 2008-2009.

— In 2008-2009, the government will use $2 billion of the sums accumulated in the budgetary reserve, or $636 million more than forecast in the last Budget, to counter the impact of the economic slowdown and maintain a balanced budget.

— The balance of the reserve, i.e. $295 million, will be used in 2009-2010 to reduce the anticipated budgetary deficit.

TABLE C.2

Use of budgetary reserve[1]
(millions of dollars)

	2006-2007	2007-2008	2008-2009P	2009-2010P
2008-2009 Budget	1 300	517[2]	– 1 370	– 447
Change	—	484	– 636[3]	152
2009-2010 Budget	**1 300**	**1 001**	**– 2 006**	**– 295**
BALANCE OF THE BUDGETARY RESERVE, END OF YEAR	**1 300**	**2 301**	**295**	**0**

P: Preliminary results for 2008-2009 and forecasts for 2009-2010.
1 Except in the case of the balance of the budgetary reserve, a positive entry indicates an allocation to the reserve and a negative entry, a use of the reserve.
2 Including an amount of $200 million deposited in the Generations Fund from the budgetary reserve.
3 Including an amount of $132 million deposited in the Generations Fund from the budgetary reserve.

❑ A balanced budget in 2008-2009

The present Budget confirms that a balanced budget will be achieved in 2008-2009.

Overall, the pressure exerted on the financial framework as a result of the greater-than-anticipated deterioration of the economic situation requires, among other things, increased use of the budgetary reserve as well as use of the contingency reserve[1] in order to maintain a balanced budget.

TABLE C.3

Summary of consolidated budgetary transactions in 2008-2009
(millions of dollars)

	March 2008 Budget	Adjustments	March 2009 Budget[P]
Budgetary revenue			
Own-source revenue excluding government enterprises	44 292	– 471	43 821
Revenue from government enterprises	4 625	109	4 734
Total own-source revenue	48 917	– 362	48 555
Federal transfers	14 063	– 139	13 924
Total	**62 980**	**– 501**	**62 479**
Budgetary expenditure			
Program spending	– 56 948	– 452	– 57 400
Debt service	– 6 907	318	– 6 589
Total	**– 63 855**	**– 134**	**– 63 989**
Net results of consolidated entities	447	– 242	205
Contingency reserve	– 200	200	—
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	**– 628**	**– 677**	**– 1 305**
Deposit of dedicated revenues in the Generations Fund	– 742	173	– 569
BUDGETARY BALANCE BEFORE BUDGETARY RESERVE	**– 1 370**	**– 504**	**– 1 874**
Deposit in the Generations Fund from the budgetary reserve	—	– 132	– 132
Use of the budgetary reserve	1 370	636	2 006
BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**0**	**0**	**0**

P: Preliminary results for 2008-2009.

1 When the Economic Statement was published on January 14, 2009, the government was planning to use the contingency reserve in 2009-2010 to finance new economic support measures. Because of the rapid deterioration of the economy in early 2009, the government is obliged to use the contingency reserve as of this year in order to achieve a balanced budget.

Since the March 2008 Budget, a number of factors have enabled the government to offset the shortfall stemming from the economic slowdown. These factors are:

— savings of $318 million on debt service due to lower-than-expected interest rates;

— an increase of $109 million in revenue from government enterprises, mainly on account of Hydro-Québec's higher-than-anticipated profits;

— use of the $200-million contingency reserve;

— increased use, in the amount of $636 million, of the budgetary reserve.

These positive contributions have made it possible for the government to:

— offset losses of $471 million in own-source revenue caused by the effects of the economic slowdown, which reduced revenue from corporate taxes by almost 18%;

— increase program spending by $452 million, including $115 million for the allowance for doubtful accounts of Revenu Québec;

— finance the additional deficits of certain consolidated entities for $242 million, including $56 million for La Financière agricole du Québec, whose deficit should reach $371 million in 2008-2009, and $39 million for institutions of the health[2] and education networks;

— offset a $139-million downward revision in federal transfers;

— deposit $132 million in the Generations Fund, an amount equal to the gain made on sales of Société immobilière du Québec assets in 2008.

Taking into account the aforementioned program spending increase, program spending growth in 2008-2009 amounts to 4.7%.

2 The expression "health network" always refers to the health and social services network.

❑ Budgetary deficit in 2009-2010 and 2010-2011

In 2009-2010, the budgetary deficit will amount to $3.9 billion following the use of the reserve's $295-million balance. In 2010-2011, the deficit is expected to be $3.8 billion.

TABLE C.4

Total adjustments since the 2008-2009 Budget[F]
(millions of dollars)

	2009-2010	2010-2011
BALANCE IN THE 2008-2009 BUDGET	**0**	**– 143**
Decrease in revenue		
Economic slowdown	– 2 507	– 2 422
Equalization	– 75	– 695
	– 2 582	**– 3 117**
Increase in spending		
Increase in program spending objective	– 1 051	– 1 151
Economic support measures[1]	– 826	– 607
Debt service savings	915	336
	– 962	**– 1 422**
Use of the reserve	– 152	—
Impact of the plan to restore balance	—	1 065
Other factors	– 250	– 143
BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**– 3 946**	**– 3 760**

F: Forecasts.
1 Including tax expenditures.

- **2009-2010: deficit of $3.9 billion**

Compared with the March 2008 Budget, the deficit can be explained primarily by:

- the decline in revenue caused by the economic slowdown, which lowers own-source revenue by $2.5 billion;
- the $1-billion increase in the program spending objective, which brings the spending growth rate to 4.5%;
- the cost of new measures taken to support the economy and maintain employment, which represents $826 million.

These factors are partly offset by the $915-million downward adjustment in debt service.

- **2010-2011: deficit of $3.8 billion**

Apart from the recurrence of the factors identified in 2009-2010, the deficit in 2010-2011 is due to changes made by the federal government to the equalization program that lower revenue by an estimated $695 million.

Furthermore, the $1 065-million impact of the plan to restore fiscal balance reduces the deficit.

2. UPDATING OF THE FINANCIAL FRAMEWORK

This section explains the adjustments made to the financial framework for 2008-2009 since the last Budget and presents the main factors affecting growth in the government's revenue and expenditure for subsequent years.

2.1 Budgetary revenue

The government's budgetary revenue should total $62.2 billion in 2009-2010, i.e. $47.4 billion in own-source revenue and $14.8 billion in federal transfers. Budgetary revenue should fall by 0.4% in 2009-2010 and climb by 2.9% in 2010-2011.

TABLE C.5

Consolidated Revenue Fund
Change in budgetary revenue
(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	Adjustments	2008-2009	2009-2010	2010-2011
Own-source revenue					
Own-source revenue excluding government enterprises	44 292	– 471	43 821	42 612	44 314
% change	*0.1*		*– 1.4*	*– 2.8*	*4.0*
Government enterprises	4 625	109	4 734	4 759	4 813
% change	*– 8.5*		*– 5.8*	*0.5*	*1.1*
Total	**48 917**	**– 362**	**48 555**	**47 371**	**49 127**
% change	***– 0.8***		***– 1.8***	***– 2.4***	***3.7***
Federal transfers	14 063	– 139	13 924	14 841	14 890
% change	*3.2*		*2.2*	*6.6*	*0.3*
Budgetary revenue	**62 980**	**– 501**	**62 479**	**62 212**	**64 017**
% change	***0.1***		***– 1.0***	***– 0.4***	***2.9***

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

2.1.1 Own-source revenue excluding government enterprises

❑ Downward adjustments in 2008-2009

Preliminary results for fiscal 2008-2009 show that own-source revenue, excluding the profits of government enterprises, is adjusted downward by $471 million compared with the March 2008 Budget and posts a decline of 1.4% compared with the previous year.

As for tax receipts, a major trend shift was observed in 2008-2009. During the first half of the year, such receipts were higher than forecast in the last Budget. However, this trend was reversed in late 2008 and even accentuated in early 2009, reflecting a sudden deterioration in the economic situation, particularly with regard to corporate taxes.

TABLE C.6

Consolidated Revenue Fund
Summary of adjustments in own-source revenue excluding government enterprises in 2008-2009
(millions of dollars)

	Adjustments announced on November 4, 2008[1]	Adjustments since November 4, 2008			Adjustments since March 2008 Budget
		November and December	January to March	Total	
Economic slowdown	123	– 240	– 433	– 673	– 550
Economic support measures affecting revenue	– 32	0	– 34	– 34	– 66
Other adjustment factors	115	0	30	30	145
TOTAL	**206**	**– 240**	**– 437**	**– 677**	**– 471**

1 *Update on Québec's Economic and Financial Situation*, November 2008.

❑ Adjustments in own-source revenue by source

Revenue from corporate taxes is revised downward by $619 million in 2008-2009, leading to a 17.6% drop in revenue from this source compared with the previous year. This substantial adjustment is due essentially to the economic slowdown.

— First, the downward revision of corporate profits as of the last quarter of 2008 has resulted in lower-than-expected tax receipts.

— Second, businesses are claiming more refunds than anticipated owing to the fact that they are incurring losses or are reporting lower-than-expected taxable income, which requires that they be refunded instalment overpayments.

Overall, revenue from personal income tax is revised upward by $23 million. Essentially, the downward adjustment in employment and wages in late 2008-2009 was more than offset by higher tax receipts early in the fiscal year.

Contributions to the Health Services Fund are adjusted downward by $18 million, in accordance with the negative adjustment of salaries and wages late in the year.

TABLE C.7

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

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	**Adjustments**	**2008-2009**	**2009-2010**	**2010-2011**
Corporate taxes	4 591	– 619	3 972	3 266	3 268
% change	*– 4.4*		*– 17.6*	*– 17.8*	*0.1*
Personal income tax	18 200	23	18 223	18 203	19 256
% change	*– 0.4*		*– 2.3*	*– 0.1*	*5.8*
Health Services Fund	5 594	– 18	5 576	5 597	5 808
% change	*3.2*		*3.2*	*0.4*	*3.8*
Consumption taxes	13 544	– 52	13 492	13 184	13 569
% change	*2.3*		*4.1*	*– 2.3*	*2.9*
Other revenues	2 363	195	2 558	2 362	2 413
% change	*– 5.4*		*– 1.8*	*– 7.7*	*2.2*
Own-source revenue excluding government enterprises	**44 292**	**– 471**	**43 821**	**42 612**	**44 314**
% change	***0.1***		***– 1.4***	***– 2.8***	***4.0***

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

Consumption tax revenue is adjusted downward by $52 million on account of two main factors.

- High fuel prices, primarily during the first two quarters of 2008-2009, helped to reduce consumption as well as revenue from the tax applicable to fuel products. Revenue from fuel was down $75 million.
- However, this adjustment is partly offset by revenue from the Québec sales tax, which is up $27 million. Higher-than-forecast tax revenue early in the year was only partly offset by the decrease in Québec sales tax revenue stemming from weaker household consumption in the last two quarters of 2008-2009.

Other revenues have been adjusted upward by $195 million compared with the forecast in the last Budget owing essentially to the recording of an amount of $115 million in regard to the payment of compensation by tobacco manufacturers following the settlement of lawsuits pertaining to tobacco smuggling activities that took place in the early 1990s.

❑ A decline in own-source revenue in 2009-2010 because of the recession

Own-source revenue, excluding that from government enterprises, will fall by 2.8% in 2009-2010 because of the impact of the economic recession anticipated that year and the additional cost of the fiscal measures announced in this and previous budgets.

— It is anticipated that nominal GDP, which reflects the change in the government's main tax bases, will decrease by 0.1%. In addition, revenue growth will be reduced by over 2.0% that year on account of the economic support measures.

In 2010-2011, own-source revenue, excluding that of government enterprises, will grow by 4.0%, a rate similar to the increase in nominal GDP, i.e. 3.9%.

■ Change in revenue by source

Revenue from corporate taxes will continue to fall in 2009-2010. Essentially, three factors explain the anticipated decline of 17.8%.

— First, corporate profits are expected to decrease by 15.3% in 2009.

— In addition, the accumulation of losses by corporations will allow them to continue claiming larger refunds in 2009-2010. Indeed, businesses can clain refunds, particularly by applying losses for the current year against their tax payable for the three previous years. This is one of the factors that contributes to the volatility of revenue from this source during a recession.

— Lastly, the decline in revenue in 2009-2010 also stems from the additional reductions in the tax burden of businesses announced in this and previous budgets, particularly through:

  - the gradual elimination of the tax on capital;
  - the introduction of an investment tax credit in all regions of Québec;
  - the increase from $400 000 to $500 000 in the limit for the application of the reduced tax rate for small businesses.

In 2010-2011, revenue from corporate taxes will rise slightly, i.e. by 0.1%. Indeed, growth in profits as of 2010 will lead to a gradual increase in taxable income and revenue from this source. However, losses accumulated by businesses will continue to curb growth in revenue from this source.

Personal income tax, the principal source of government revenue, will fall by a slight 0.1% in 2009-2010, to $18.2 billion.

— This reflects first and foremost the impact of the measures announced since the last Budget in order to stimulate the economy. Indeed, the $250 million granted to individuals for the refundable tax credit for home improvement and renovation is applicable to the 2009 taxation year and will reduce by an equivalent amount revenue from this source in 2009-2010.

— Considering the impact of this measure, the change in personal income tax is compatible with the weak growth of 0.5% in salaries and wages.

In 2010-2011, growth in revenue from personal income tax should be 5.8%, while the progression in salaries and wages will amount to 3.0%.

— Excluding the impact of the refundable tax credit for home improvement and renovation, which ends on December 31, 2009, revenue from personal income tax would instead climb by 4.4%, an increase compatible with the growth in salaries and wages, taking into account the progressive nature of the tax system.

Contributions to the Health Services Fund should rise by only 0.4% in 2009-2010 and 3.8% in 2010-2011, in accordance with the anticipated growth in salaries and wages.

In 2009-2010, consumption taxes will decline by 2.3% owing basically to an expected 2.8% drop in revenue from the Québec sales tax. This decrease reflects the anticipated slowing of growth in household spending in 2009, as well as the reduction in the number of housing starts, whose value accounts for a large share of the QST tax base.

In 2010-2011, consumption taxes are expected to climb by 2.9%. This growth rate, which is less than that of household consumption, reflects in particular the drop in housing starts in 2010.

❑ Change in revenue compatible with that of the economy

Overall, growth in own-source revenue, excluding government enterprises, is expected to be similar to nominal economic growth for the next two years, once the financial impact of fiscal measures is eliminated. For example, in 2009-2010, fiscal measures will curtail revenue growth by more than 2.0 percentage points which explains, for the most part, the difference between the change in revenue and the change in nominal GDP.

TABLE C.8

Consolidated Revenue Fund
Change in own-source revenue on a comparable basis[P]
(millions of dollars)

	2008-2009	2009-2010	2010-2011
Own-source revenue excluding government enterprises	**43 821**	**42 612**	**44 314**
% change	***– 1.4***	***– 2.8***	***4.0***
Less:			
2009-2010 Budget measures			
– Personal income tax reduction		– 61	– 84
– Corporate tax reduction		– 35	– 63
– Other fiscal measures		74	72
Measures announced since the 2008-2009 Budget			
– Economic Statement of January 14, 2009	0	– 260	– 20
– Measures announced on December 19, 2008[1]	– 40	0	0
– *Update on Québec's Economic and Financial Situation* of November 4, 2008[2]	– 26	– 176	– 179
Measures announced in previous budgets			
– Personal income tax reduction	– 1 366	– 1 380	– 1 457
– Corporate tax reduction	– 405	– 770	– 1 055
– Other fiscal measures[3]	2	45	42
Other factors[4]	– 52	– 508	– 462
Subtotal	**– 1 887**	**– 3 071**	**– 3 206**
Revenue before measures	**45 708**	**45 683**	**47 520**
% change		***– 0.1***	***4.0***
Growth rate of nominal GDP in %[5]		**– 0.1**	**3.9**
Elasticity[6]		**1.0**	**1.0**

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 Corresponds to the impact of the 25% reduction in minimum withdrawals from Registered Retirement Income Funds (RRIFs) in 2008, the cost of which is applied against the 2008-2009 fiscal year.
2 Excluding the cost of Québec proposals that had to be harmonized with the federal tax system but were not adopted by the federal government.
3 Including the impact on the revenue of the following funds: Fonds du patrimoine minier, Fonds pour le développement des enfants de moins de 5 ans en situation de pauvreté and Fonds pour le développement de services de répit et d'accompagnement des aidants naturels.
4 Includes, notably, the agreement concluded with tobacco manufacturers and the agreement on a new fiscal and financial partnership with the municipalities.
5 For the calendar year ending three months before the end of the fiscal year.
6 Elasticity between growth in revenue on a comparable basis and growth in gross domestic product. For example, an elasticity rate of 1.0 means that 1% growth in GDP results in 1% growth in own-source revenue.

Sensitivity of own-source revenue to economic fluctuations

Generally speaking, a downward adjustment of 1% in nominal GDP leads to a decrease of about $500 million in own-source revenue, with a margin of error of roughly $50 million. This sensitivity rule implies that there is an adjustment of each of the tax bases that is proportional to the adjustment in nominal GDP, which is defined as the market value of all goods and services produced in a particular geographic area over a given period of time.

– In actual fact, a change in nominal GDP rarely entails a proportional adjustment of each of the tax bases. However, the sensitivity rule provides a good estimate of the significance and extent of the adjustment in own-source revenue.

For example, the forecast in this Budget revises own-source revenue in 2009-2010 by more than $3.1 billion compared with last year's Budget.

– Essentially, this revision is due to the downward adjustment of nominal GDP in 2009, compared with what was originally announced. Indeed, the adjustment to the economic outlook reduces the forecast for own-source revenue in 2009-2010 by $2.5 billion.

  ▪ Accordingly, nominal GDP in 2009 will be 4.4% less than anticipated last year if the impact of the adjustment in nominal GDP in 2008 and 2009 is taken into account.

  ▪ Based on the sensitivity rule, a $2.2-billion downward adjustment should be expected. Therefore, the adjustment of own-source revenue corresponds, for the most part, to the impact measured by the sensitivity rule.

– The balance of the adjustment results from the cost of new measures to support the economy and from other factors.

Illustration of the impact of the revised economic scenario on own-source revenue
(millions of dollars)

	2008-2009	2009-2010
Cumulative adjustment of nominal GDP growth[1] since the March 2008 Budget	– 0.8%	– 4.4%[2]
Anticipated impact of the revised economic scenario on own-source revenue	– 400	– 2 200
Projected impact of the economic slowdown on own-source revenue	– 550	– 2 507

1 For the calendar year ending three months before the end of the fiscal year.
2 Includes adjustments of – 0.8% and – 3.6% in nominal GDP in 2008 and 2009 respectively.

2.1.2 Revenue from government enterprises

❑ Upward adjustment in 2008-2009

The profits of government enterprises are adjusted upward by $109 million for 2008-2009. This adjustment is due mainly to a $363-million increase in Hydro-Québec's profits, generated for the most part by growth in net sales of electricity outside Québec. This increase is offset by a $291-million decline in the profits of other government enterprises compared with the forecast in the 2008-2009 Budget, of which a difference of $260 million can be attributed to allowances for losses at the Société générale de financement du Québec.

TABLE C.9

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

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	**Adjustments**	**2008-2009**	**2009-2010**	**2010-2011**
Hydro-Québec	2 500	363	2 863	2 700	2 700
Loto-Québec	1 295	25	1 320	1 295	1 295
Société des alcools du Québec	785	12	797	800	830
Other	45	– 291	– 246	– 36	– 12
Revenue from government enterprises	**4 625**	**109**	**4 734**	**4 759**	**4 813**
% change	***– 8.5***		***– 5.8***	***0.5***	***1.1***

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

❑ Outlook for 2009-2010 and 2010-2011

Revenue from government enterprises for 2009-2010 is estimated at nearly \$4.8 billion. Such revenue will remain at roughly the same level in 2010-2011.

The profits of government enterprises over the next two years will be fairly stable compared with those of 2008-2009. It should be noted, however, that Hydro-Québec forecasts a decline of \$163 million in its profits in 2009-2010 and 2010-2011 compared with those anticipated for 2008-2009.

2.1.3 Revenues from federal transfers

In 2008-2009, federal transfer revenues should reach $13.9 billion, or $139 million less than forecast in the March 2008 Budget. This adjustment can be explained by two main factors.

First, the value of the special Québec abatement was revised upward because of the taking into account of the most recent fiscal data. It should be noted that the value of the special Québec abatement (16.5% of basic federal personal income tax collected in Québec) reduces by an equivalent amount Québec's revenues from federal transfers.

Second, the taking into account of the population data of the 2006 census, which have been final since last fall, reduced federal transfers to Québec for health, post-secondary education and other social programs, since these transfers are allocated among the provinces on a per capita basis.

For 2009-2010 and 2010-2011, federal transfer revenues are expected to amount to $14.8 billion and $14.9 billion respectively.

TABLE C.10

Consolidated Revenue Fund
Change in federal transfer revenues[1]
(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	Adjustments	2008-2009	2009-2010	2010-2011
Equalization	8 028	0	8 028	8 355	8 469
% change	*12.1*		*12.1*	*4.1*	*1.4*
Health transfers	3 833	– 92	3 741	4 137	4 253
% change	*– 2.3*		*– 4.7*	*10.6*	*2.8*
Transfers for post-secondary education and other social programs	1 320	– 53	1 267	1 413	1 406
% change	*– 12.9*		*– 16.4*	*11.5*	*– 0.5*
Other programs	882	6	888	936	762
% change	*– 14.0*		*– 13.6*	*5.4*	*– 18.6*
Federal transfers	**14 063**	**– 139**	**13 924**	**14 841**	**14 890**
% change	***3.2***		***2.2***	***6.6***	***0.3***

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 These results concern the federal transfer revenues of the Consolidated Revenue Fund. The federal transfer revenues of non-budget-funded bodies and special funds are presented in section 2.5.1. Section 2.5.4 presents federal transfer revenues in respect of specified purpose accounts for 2008-2009.

On November 3, 2008, the federal government announced that it was changing the equalization program, in particular so as to limit its growth to that of Canada's nominal GDP. At the same time, the federal government announced that Québec's equalization entitlements for 2009-2010 would be $8 355 million, which is $75 million less than the equalization revenue anticipated in the March 2008 Budget.

For 2010-2011 and subsequent years, the federal government has not provided the provinces with any information on the effects of the changes to the equalization program. However, Québec estimates that these changes will have major impacts. Compared with the March 2008 Budget, the negative impacts of the changes are estimated at $695 million in 2010-2011 and over $1 billion per year thereafter.

In 2009-2010, health transfers and transfers for post-secondary education and other social programs are expected to grow by 10.6% and 11.5%, respectively, notably because of the tax relief announced in the 2009 federal budget and the economic slowdown that will reduce the value of the special Québec abatement, which is subtracted in part from these transfers. A reduction in the value of the special Québec abatement increases federal transfer revenues by an equivalent amount.

2.2 Budgetary expenditure

In 2009-2010, budgetary expenditure will reach $66.1 billion, an increase of 3.3% compared with 2008-2009.

— Program spending will total $60 billion and show an increase of 4.5%. Debt service, for its part, will amount to $6.1 billion.

The government plans to limit program spending growth for 2010-2011 to 3.2%. Taking into account the forecast for the change in debt service, total growth in budgetary expenditure will be 3.7%.

TABLE C.11

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

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	**Adjustments**	**2008-2009**	**2009-2010**	**2010-2011**
Program spending	56 948	452	57 400	59 989	61 879
% change	*4.2*		*4.7*	*4.5*	*3.2*
Debt service	6 907	– 318	6 589	6 104	6 646
% change	*– 1.4*		*– 6.2*	*– 7.4*	*8.9*
Budgetary expenditure	**63 855**	**134**	**63 989**	**66 093**	**68 525**
% change	***3.6***		***3.5***	***3.3***	***3.7***
Nominal GDP growth rate in %[1]	3.2		2.4	– 0.1	3.9
Inflation rate in Québec in %[1]	1.4		2.1	0.4	2.0

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 For the calendar year ending three months before the end of the fiscal year.

2.2.1 Adjustments to program spending in 2008-2009

Program spending in 2008-2009 stands at $57.4 billion, an increase of 4.7% compared with 2007-2008. This represents an upward revision of $452 million relative to the target of $56.9 billion set in the last Budget.

This adjustment can be explained mainly by:

— the increase in the allowance for doubtful accounts, because of the rise in assessments made by Revenu Québec in recent years;

— costs associated with the harmonization of the accounting method for capital expenditures of the health and education networks;

— the cost of the elections held in December 2008;

— additional financing of $1 billion for businesses, mainly small- and medium-sized enterprises (SMEs) (Renfort program);

— full indexing of last resort assistance benefits.

TABLE C.12

Program spending adjustments in 2008-2009
(millions of dollars)

PROGRAM SPENDING OBJECTIVE PRESENTED IN THE 2008-2009 BUDGET	**56 948**
Adjustments	
Increase in the allowance for doubtful accounts	115
Harmonization of the accounting method for capital expenditures of the health and education networks	100
2008 Québec elections	77
Renfort program	41
Full indexing of last resort assistance benefits	8
Other factors	111
Subtotal	**452**
REVISED PROGRAM SPENDING	**57 400**

Source: Secrétariat du Conseil du trésor.

2.2.2 Maintaining spending in 2009-2010 to support the economy

The current economic slowdown requires that the government take concrete steps to support the economy and employment.

To mitigate the effects of the slowdown, program spending growth for 2009-2010 is being revised and raised from 3.0% to 4.5% compared with the previous Budget, including the cost of the measures contained in the present Budget.

- The government will inject additional funds of over $900 million into Québec's economy in 2009-2010, i.e. $752 million for budget-funded public services and $192 million for the measures announced in this Budget.
- Other spending increases were announced in the *Update on Québec's Economic and Financial Situation*, for a total of $416 million in 2009-2010.

In all, program spending will be raised by $1.4 billion in 2009-2010 and 2010-2011 compared with the data presented in March 2008.

In 2010-2011, when the economy recovers, program spending growth will be rolled back to 3.2%, or the same rate as that forecast in last year's Budget.

TABLE C.13

Change in program spending

(millions of dollars)

	2009-2010	2010-2011
PROGRAM SPENDING OBJECTIVE IN THE 2008-2009 BUDGET	**58 629**	**60 478**
% change	***3.0***	***3.2***
ADJUSTMENTS		
2009-2010 Budget		
Increase in program spending to mitigate the effects of the economic slowdown	752	810
2009-2010 Budget measures		
– Additional immediate actions to support businesses and workers	128	58
– Preparing Québec for economic recovery	12	19
– Additional support for Quebecers	30	35
– New initiatives to fight tax evasion	22	22
Subtotal	192	134
Total increases in the 2009-2010 Budget	**944**	**944**
Increases announced in the *Update on Québec's Economic and Financial Situation*		
– Support measures for individuals and businesses	117	116
– Recurrence of 2008-2009 increases	299	341
Subtotal	**416**	**457**
TOTAL ADJUSTMENTS	**1 360**	**1 401**
PROGRAM SPENDING OBJECTIVE IN THE 2009-2010 BUDGET	**59 989**	**61 879**
% change	***4.5***	***3.2***

2.2.3 The government's priorities in 2009-2010

Program spending will climb from $57 400 million in 2008-2009 to $59 989 million in 2009-2010, an increase of $2 589 million, or 4.5%.

Despite the current economic slowdown, the government will continue to invest in its fundamental missions, including health and education.

Spending on health and education accounts for 75% of the rise in program spending in 2009-2010.

TABLE C.14

Growth in program spending in 2009-2010P
(millions of dollars)

			Growth	
	2008-2009	**2009-2010**	$M	%
Santé et Services sociaux	25 417.1	26 872.4	1 455.3	5.7
Éducation, Loisir et Sport	13 940.8	14 431.0	490.2	3.5
Transports	2 347.0	2 770.9	423.9	18.1
Famille et Aînés	1 947.2	2 066.5	119.3	6.1
Other departments	13 747.7	13 848.1	100.4	0.7
TOTAL	**57 399.8**	**59 988.9**	**2 589.1**	**4.5**

P: Preliminary results for 2008-2009 and forecasts for 2009-2010.
Source: Secrétariat du Conseil du trésor.

❑ Health: 5.7% increase in 2009-2010

The budget allocated to health and social services is being raised by $1 455 million, or 5.7%, in 2009-2010. This increase, which accounts for 56.2% of the total growth in program spending, will make it possible to cover needs related to health services aimed at dealing with, among other things, population ageing and certain widespread social problems.

❑ Education: 3.5% budget increase

The budget of the ministère de l'Éducation, du Loisir et du Sport is also being increased by a substantial 3.5%, or an additional $490 million. This increase accounts for 18.9% of total program spending growth. Overall, the education budget will make it possible to maintain the quality of educational services and to pursue actions undertaken in recent years, particularly in regard to disabled students or students with adjustment or learning difficulties.

❑ Other departments

The program spending budget of other departments is being raised by 3.6%, or $644 million, in 2009-2010. This increase will make it possible to continue supporting the government's other priorities, particularly:

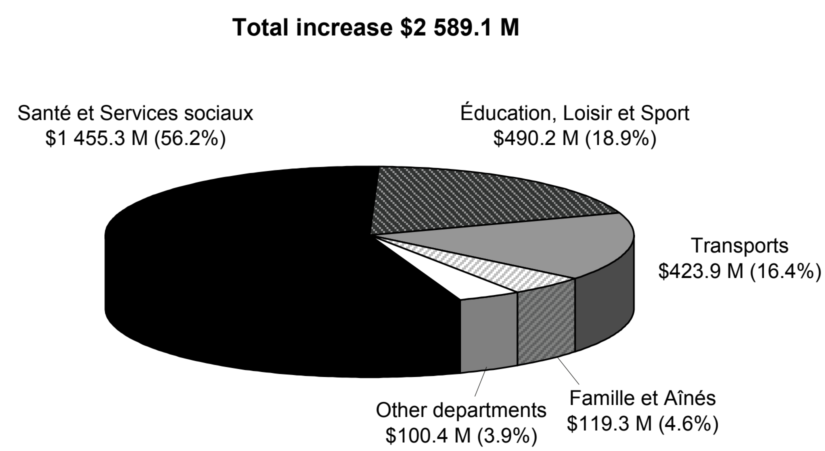
— $424 million for the ministère des Transports, a climb of 18.1% generated notably by the rise in costs associated with investment in public infrastructures;

— $119 million for the ministère de la Famille et des Aînés, an increase of 6.1% reflecting, among other things, the growth in the number of daycare spaces;

— $100 million for other departments, whose expenditure budget shows a 0.7% increase compared with the previous year.

CHART C.1

Breakdown of program spending growth in 2009-2010F
(millions of dollars and percent)



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

2.2.4 Importance of government spending in the economy

The forecast for program spending in 2009-2010 reflects the government's determination to do everything possible to get through the economic slowdown.

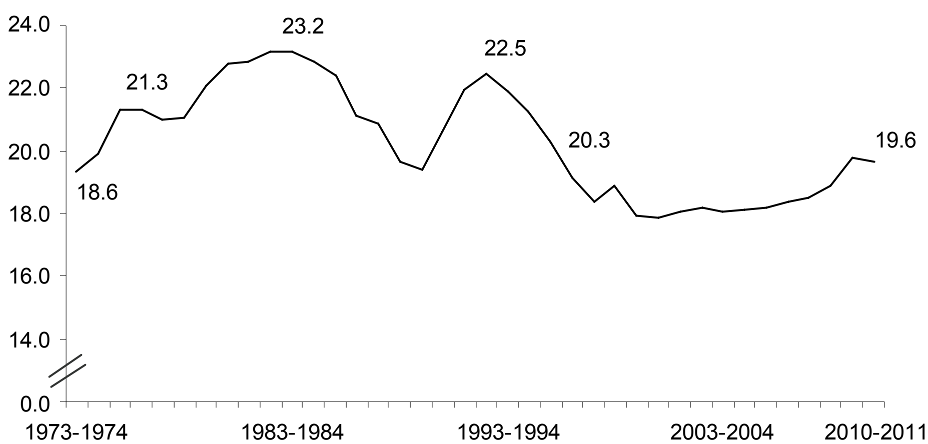
Because of the increase in program spending and the weak growth of GDP in 2009, the weight of program spending in the economy will climb to 19.8% in 2009-2010, the highest level since 1995-1996.

When the economy recovers, the government plans to stay the course of disciplined spending management and, between now and 2013-2014, gradually bring the weight of spending in the economy down to a rate equal to that observed prior to the economic recession.

— In 2010-2011, the rate will fall 0.2 percentage points, to 19.6%.

CHART C.2

Program spending
(as a percentage of GDP)



Note: Preliminary results for 2008-2009 and forecasts for subsequent years.

2.2.5 Debt service

In 2008-2009, debt service should amount to nearly $6.6 billion, i.e. $4.4 billion for direct debt service, $2.1 billion for interest ascribed to the retirement plans and $19 million for employee future benefits.

Overall, debt service is revised downward by $318 million compared with the March 2008 Budget. This adjustment is due mainly to the fact that interest rates were lower than anticipated.

Debt service should fall by 6.2% in 2008-2009 and 7.4% in 2009-2010. It is expected to climb by 8.9% in 2010-2011. This variance can be attributed esssentially to the change in interest rates.

TABLE C.15

Consolidated Revenue Fund
Change in debt service
(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	**Adjustments**	**2008-2009**	**2009-2010**	**2010-2011**
Direct debt service	– 4 718	297	– 4 421	– 3 760	– 4 016
Interest ascribed to the retirement plans	– 2 171	22	– 2 149	– 2 344	– 2 636
Employee future benefits[1]	– 18	– 1	– 19	0	6
Debt service	**– 6 907**	**318**	**– 6 589**	**– 6 104**	**– 6 646**
% change	***– 1.4***		***– 6.2***	***– 7.4***	***8.9***

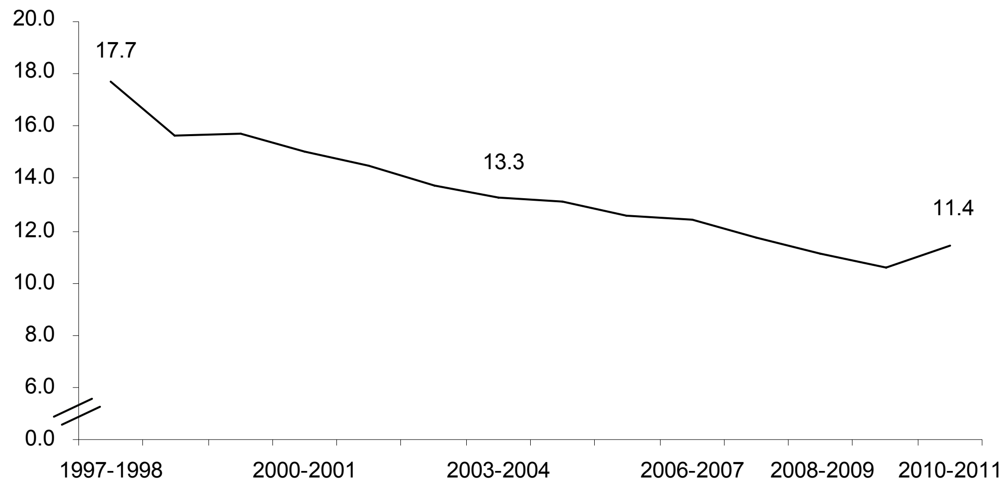
P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 Including interest on the survivor's pension plan and interest on the obligation relating to accumulated sick leave.

❑ A smaller proportion of revenue is being devoted to servicing the debt

The share of budgetary revenue devoted to debt service, which includes the debt service of the Consolidated Revenue Fund and that of consolidated entities, should stand at 11.4% in 2010-2011, compared with 17.7% in 1997-1998.

CHART C.3

Consolidated debt service
(as a percentage of budgetary revenue)



Note: Preliminary results for 2008-2009 and forecasts for subsequent years.

2.3 Boosting investment to modernize infrastructures

The economic and financial difficulties currently affecting industrialized countries as a whole require immediate action to support businesses and workers that are hardest hit.

To that end, the government is injecting $8.3 billion over two years in order to renovate, modernize and develop Québec's public infrastructures. These additional investments will help to revitalize the economy, support numerous jobs and build a stronger, more modern Québec.

TABLE C.16

Plan to support jobs and economic recovery – Infrastructures
(millions of dollars)

	Investments as of 2009 to support jobs and the economy			Subsequent years	Total
	2009-2010	2010-2011	Subtotal		
2009-2010 Budget					
2009-2010 Budget measures	81	92	173	951	1 124
Additional investments by government corporations	50	140	190	156	346
Subtotal	**131**	**232**	**363**	**1 107**	**1 470**
Québec Infrastructures Plan					
Acceleration announced on January 14, 2009	1 034[1]	407	1 441	2 643	4 084
2007-2012 Québec Infrastructures Plan[2]	3 404	3 045	6 449	3 477	9 926
Subtotal	**4 438**	**3 452**	**7 890**	**6 120**	**14 010**
INJECTION OF LIQUID ASSETS INTO THE ECONOMY	**4 569**	**3 684**	**8 253**	**7 227**	**15 480**

1 Acceleration of investments under the 2008-2013 Québec Infrastructures Plan. The acceleration for 2008-2009 will be realized as of the first quarter of 2009.
2 Amount of additional investments compared with 2007-2008.

In addition to the investments already announced, the 2009-2010 Budget provides for new projects totalling $1.5 billion, of which $363 million will be disbursed in 2009-2010 and 2010-2011.

Furthermore, additional investments of $7.9 billion will be made over the next two years under the Québec Infrastructures Plan:

— $1.4 billion because of the acceleration announced last January 14;

— $6.4 billion in additional investments compared with 2007-2008, following the implementation of the plan adopted in fall 2007.

❑ 2009-2010 Budget: $1.5 billion in new public investments to support the economy and employment

To further support the economy and employment, the government is announcing new intiatives totalling almost $1.5 billion:

- $670 million for developing Québec's North:
  - $438 million for improvement work on Highway 389 between Baie-Comeau and the Labrador border;
  - $130 million for extending Highway 167 to the Otish Mountains;
  - $102 million for launching an airport infrastructure repair program for northern Québec;
- $254 million for fostering sustainable development:
  - $204 million for accelerating implementation of the plan to modernize the management of public dams;
  - $50 million for expanding the national park network in southern Québec;
- $200 million for building 3 000 social housing units under the AccèsLogis Québec program;
- $346 million for modernizing the assets of Loto-Québec and the Société de l'assurance automobile du Québec:
  - $306 million for renovating the Casino de Montréal;
  - $40 million for expanding the head office of the Société de l'assurance automobile du Québec.

TABLE C.17

New investment projects for supporting the economy and employment
(millions of dollars)

Plan Nord infrastructures	670
Measures to foster sustainable development	254
Social housing units	200
New initiatives of the Société de l'assurance automobile du Québec and Loto-Québec	346
TOTAL NEW INVESTMENTS ANNOUNCED IN THE 2009-2010 BUDGET	**1 470**

Added to these measures are investments under the financial assistance program for infrastructures for biological conversion of organic material, aimed at developing green energy.

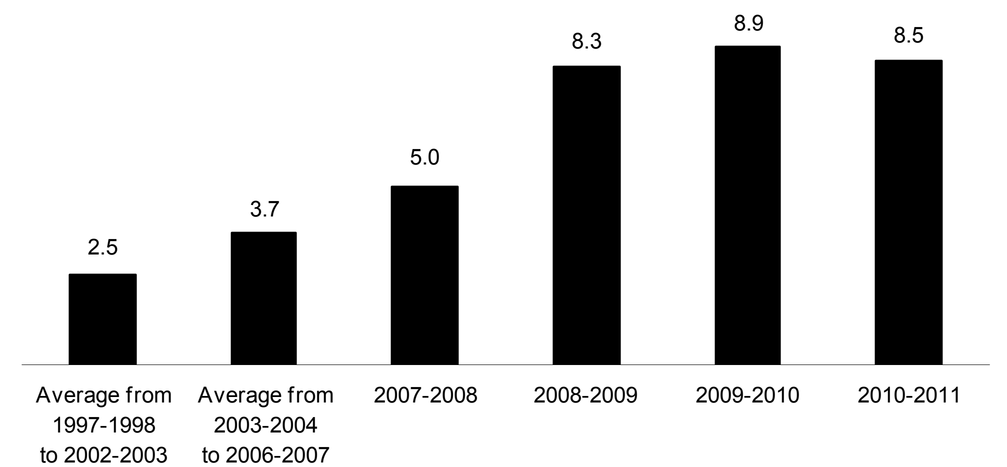
2.4 Accelerating investment to support the economy and employment in Québec

The Québec government is stepping up the pace of its investments in order to support the economy and employment in Québec during the economic crisis.

In 2009-2010 and 2010-2011, infrastructure investments will reach an average of nearly $9 billion per year, a level not seen since the early 1980s.

CHART C.4

Investments by the Québec government[1]
(billions of dollars)



1 Excluding investments made by departments and budget-funded bodies and by special funds other than the Fonds de conservation et d'amélioration du réseau routier.

The 2008-2013 Québec Infrastructures Plan and the investment projects of government enterprises are described in the appendices to this section.

2.5 Consolidated entities

The government's financial forecasts must take into account all financial transactions related to activities under its control.

Accordingly, in addition to the financial transactions of departments, budget-funded bodies and government enterprises, which are included in the financial transactions of the Consolidated Revenue Fund, the government's reporting entity also encompasses consolidated entities whose financial transactions must also be taken into account in the government's financial forecasts.

These consolidated entities are grouped as follows:

— non-budget-funded bodies and special funds;

— the Generations Fund;

— the health and education networks.

The financial forecasts for the health and education networks are presented in the Budget for the second year in a row, following the government's adoption of the recommendations of the Task Force on Government Accounting in December 2007.

At that time, the government changed its accounting policies, in accordance with generally accepted accounting principles (GAAP), in order to include public health and social services institutions, school boards and CEGEPs as well as the Université du Québec and its branches in its reporting entity.

2.5.1 Non-budget-funded bodies and special funds

Non-budget-funded bodies and special funds include more than 100 government entities whose mission is to sell goods and services or fund government programs. For instance:

- the Fonds de conservation et d'amélioration du réseau routier finances investments for maintaining and developing Québec roads;
- La Financière agricole du Québec is responsible for administering farm insurance programs and other financial support programs for agricultural producers.

For fiscal 2008-2009, the net results of non-budget-funded bodies and special funds show a deficit of $175 million, a deterioration of $30 million compared with the results forecast in the March 2008 Budget.

For 2009-2010 and 2010-2011, the net results of non-budget-funded bodies and special funds are expected to show deficits of $240 million and $111 million respectively. These deficits can be attributed mainly to La Financière agricole du Québec, whose deficit is expected to be more than $350 million in 2009-2010.

TABLE C.18

Non-budget-funded bodies and special funds
Summary of budgetary transactions
(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	**Adjustments**	**2008-2009**	**2009-2010**	**2010-2011**
Own-source revenue	4 319	– 702	3 617	3 819	3 911
Federal transfers	1 115	– 144	971	1 315	997
Subtotal	**5 434**	**– 846**	**4 588**	**5 134**	**4 908**
Expenditure excluding debt service	– 3 749	– 16	– 3 765	– 4 196	– 3 634
Debt service	– 1 830	832	– 998	– 1 178	– 1 385
Subtotal	**– 5 579**	**816**	**– 4 763**	**– 5 374**	**– 5 019**
NET RESULTS	**– 145**	**– 30**	**– 175**	**– 240**	**– 111**

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

2.5.2 Generations Fund

Deposits in the Generations Fund should reach $701 million for 2008-2009. This amount includes the additional deposit of $132 million from the budgetary reserve, which corresponds to profits made on the sale of immovables by the Société immobilière du Québec in March 2008.

For 2009-2010 and 2010-2011, total deposits in the Generations Fund are expected to amount to $715 million and $880 million respectively. As a result, $3.5 billion will have been accumulated in the Generations Fund as at March 31, 2011. Section I presents the results of and change in the Generations Fund in greater detail.

TABLE C.19

Deposits in the Generations Fund
(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	Adjustments	2008-2009	2009-2010	2010-2011
Dedicated revenues					
Water-power royalties	625	—	625	647	678
Unclaimed property	15	– 15	0	—	—
Investment income	102	– 158	– 56	68	202
Subtotal	**742**	**– 173**	**569**	**715**	**880**
Deposit from the budgetary reserve[1]	—	132	132	—	—
TOTAL	**742**	**– 41**	**701**	**715**	**880**

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 An amount of $132 million stemming from the sale of Société immobilière du Québec assets was deposited in the Generations Fund from the budgetary reserve.

2.5.3 Health and education networks

With the implementation of the recommendations of the Task Force on Government Accounting in December 2007, the government added 210 entities of the health and social services network and 130 entities of the education network to its financial forecasts.

These entities consist of 18 health and social services agencies, 192 public health and social services institutions, 72 school boards and 48 CEGEPs, as well as the Université du Québec and its nine branches.

In the 2008-2009 Budget, the government provided for an amount of $150 million to cover any deficits incurred by institutions in the two networks in 2008-2009. The present Budget is revising this amount upward by $39 million, to $189 million.

For 2009-2010 and 2010-2011, the government is providing for amounts of $120 million and $206 million respectively to cover any overruns that might be incurred in the networks, particularly because of the effects of harmonizing their accounting policies with generally accepted accounting principles.

In addition, work is still ongoing with the ministère de la Santé et des Services sociaux and the ministère de l'Éducation, du Loisir et du Sport to finalize the implementation of a monitoring and budgetary control process for the networks. Once this work is complete, it will be possible to rigorously monitor the results of all network entities with a view to making them subject, in the near future, to a budgetary process similar to that applied for non-budget-funded bodies and special funds. In particular, this process provides for:

- tabling of detailed financial forecasts for preparing the government's financial framework;
- monitoring of actual data for the government's *Monthly Report on Financial Transactions*.

Lastly, the government is taking advantage of this Budget to reiterate its determination to eliminate operating deficits in the health network. For this purpose, steps will be taken with the ministère de la Santé et des Services sociaux to introduce a plan aimed at restoring fiscal balance to the annual results of all health network institutions between now and the end of 2011-2012.

2.5.4 Statement of consolidated operations

For the purposes of the Budget documents, the results of consolidated entities are presented on a net basis.[3] However, to reconcile the Budget documents and the Public Accounts, the revenue and expenditure of consolidated entities[4] and the specified purpose accounts must be added to the revenue and expenditure of the Consolidated Revenue Fund.

The following table shows, for fiscal 2008-2009, the statement of consolidated operations harmonizing the Budget data with those of the Public Accounts. The deficit for the purposes of the Public Accounts will amount to $1 305 million in 2008-2009.

TABLE C.20

Consolidated financial framework
(millions of dollars)

	2007-2008 Public Accounts	2008-2009P			
	Consolidated levels	Consolidated Revenue Fund	Consolidated entities	Specified purpose accounts	Consolidated levels
Revenue					
Own-source revenue	54 011	48 555	4 186	245	52 986
Federal transfers	14 733	13 924	971	316	15 211
Total revenue	**68 744**	**62 479**	**5 157**	**561**	**68 197**
Expenditure					
Expenditure excluding debt service	– 59 030	– 57 400	– 3 954	– 561	– 61 915
Debt service	– 8 064	– 6 589	– 998	—	– 7 587
Total expenditure	**– 67 094**	**– 63 989**	**– 4 952**	**– 561**	**– 69 502**
TOTAL	**1 650**	**– 1 510**	**205**	**0**	**– 1 305[1]**

P: Preliminary.
1 Deficit for the purposes of the Public Accounts.

3 Net results represent the difference between the revenue and expenditure of consolidated entities.

4 After eliminating transactions between related entities.

3. Non-budgetary transactions

The government's consolidated net financial requirements stem from its budgetary and non-budgetary transactions. They represent the amount of liquid assets needed for the government's operating and investment activities for a given fiscal year.

Non-budgetary transactions are aimed at presenting budgetary transactions on a cash basis and investments made by the government. For example, an increase in capital expenditures requires an outflow of funds but does not have an immediate impact on budgetary transactions. In addition, an increase in the retirement plans liability caused by, among other things, the government's expenditure as an employer does not entail an outflow of funds in the short term, but has an impact on the government's budgetary transactions.

Non-budgetary transactions are presented by agregates:

- investments, loans and advances;
- capital expenditures;
- net investments in the networks;
- retirement plans;[5]
- other accounts.

[5] Including employee future benefits.

3.1 Summary of non-budgetary transactions

Consolidated non-budgetary transactions consist of the non-budgetary transactions of the Consolidated Revenue Fund and those of consolidated entities. For 2008-2009, consolidated non-budgetary requirements amount to $695 million, or $779 million less than forecast in the March 2008 Budget.

For 2009-2010 and 2010-2011, consolidated non-budgetary requirements amount to $3.0 billion and $4.7 billion respectively.

TABLE C.21

Summary of consolidated non-budgetary transactions[1]
(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	Adjustments	2008-2009	2009-2010	2010-2011
Consolidated Revenue Fund					
Investments, loans and advances	– 18	147	129	– 1 119	– 1 161
Capital expenditures	– 140	13	– 127	– 179	– 164
Retirement plans	2 398	– 98	2 300	2 490	2 205
Other accounts	– 935	569	– 366	– 406	– 137
Total	**1 305**	**631**	**1 936**	**786**	**743**
Consolidated entities					
Investments, loans and advances	– 382	236	– 146	– 226	– 409
Capital expenditures	– 1 794	– 484	– 2 278	– 3 125	– 3 193
Net investments in the networks	– 1 030	215	– 815	– 1 004	– 2 291
Other accounts	427	181	608	526	440
Total	**– 2 779**	**148**	**– 2 631**	**– 3 829**	**– 5 453**
Consolidated non-budgetary transactions					
Investments, loans and advances	– 400	383	– 17	– 1 345	– 1 570
Capital expenditures	– 1 934	– 471	– 2 405	– 3 304	– 3 357
Net investments in the networks	– 1 030	215	– 815	– 1 004	– 2 291
Retirement plans	2 398	– 98	2 300	2 490	2 205
Other accounts	– 508	750	242	120	303
TOTAL CONSOLIDATED NON-BUDGETARY REQUIREMENTS	**– 1 474**	**779**	**– 695**	**– 3 043**	**– 4 710**

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

❑ Investments, loans and advances

Consolidated financial requirements for investments, loans and advances for 2008-2009 amount to $17 million. The forecasts for 2009-2010 and 2010-2011 stand at $1.3 billion and $1.6 billion respectively.

For 2008-2009, investments, loans and advances of the Consolidated Revenue Fund show a financial surplus of $129 million, or $147 million more than forecast in last year's Budget. Furthermore, in 2009-2010 and 2010-2011, financial requirements will amount to roughly $1.1 billion per year. This increase is due to, among other things, capital funding of $625 million that will be granted to the Société générale de financement du Québec in 2009-2010 for implementing the assistance program for high-performance industries that are experiencing financial difficulties because of the economic situation.

With regard to consolidated entities, the financial requirements of $146 million for 2008-2009 arise mainly from investments, loans and advances attributable to Investissement Québec and the Green Fund.

TABLE C.22

Consolidated non-budgetary transactions for investments, loans and advances[1]
(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	Adjustments	2008-2009	2009-2010	2010-2011
Consolidated Revenue Fund	– 18	147	129	– 1 119	– 1 161
Consolidated entities	– 382	236	– 146	– 226	– 409
CONSOLIDATED NON-BUDGETARY TRANSACTIONS	**– 400**	**383**	**– 17**	**– 1 345**	**– 1 570**

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

❑ Capital expenditures

For 2008-2009, consolidated investments in fixed assets amount to $3.8 billion. Taking into account a depreciation expense of $1.4 billion for these capital expenditures, the financial requirements associated with them total $2.4 billion.

TABLE C.23

Reconciliation of 2008-2009 capital investments and financial requirements[P, 1]
(millions of dollars)

	Level of investment	Depreciation	Financial requirements (capital expenditures)
Departments and organizations	– 382	255	– 127
Non-budget-funded bodies and special funds	– 3 460	1 182	– 2 278
TOTAL	**– 3 842**	**1 437**	**– 2 405**

P: Preliminary results.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

These financial requirements are explained largely by investments of $2.8 billion in road infrastructures financed by the Fonds de conservation et d'amélioration du réseau routier, which take into account the investment acceleration provided for in the 2008-2013 Québec Infrastructures Plan and presented in the Economic Statement of January 14, 2009. These additional investments in the road network also explain the increase in financial requirements for 2009-2010 and 2010-2011.

❑ Net investments in the networks

The financial requirements related to net investments in the networks amount to $815 million for 2008-2009, $1 billion for 2009-2010 and $2.3 billion for 2010-2011.

Network funding comes for the most part from Financement-Québec and the Corporation d'hébergement du Québec.

❑ Retirement plans

For 2008-2009, the balance of non-budgetary transactions in regard to the retirement plans is $2.3 billion, which reduces the government's financing needs.

In 2009-2010 and 2010-2011, the retirement plans should help to reduce financing needs by $2.5 billion and $2.2 billion respectively.

❑ Other accounts

Financial requirements of other accounts consist of a series of changes in assets and liabilities such as accounts receivable and accounts payable.

Consolidated financial surpluses for other accounts amount to $242 million in 2008-2009. In 2009-2010 and 2010-2011, they will total $120 million and $303 million respectively.

4. CONSOLIDATED NET FINANCIAL REQUIREMENTS

Overall, net financial requirements represent the liquid assets the government needs in a given fiscal year to finance the budgetary balance and non-budgetary transactions.

As a whole, consolidated net financial requirements stand at $126 million in 2008-2009, $6.3 billion in 2009-2010 and $7.6 billion in 2010-2011.

- The net financial surpluses of the Consolidated Revenue Fund amount to $2.3 billion in 2008-2009. Net financial requirements of $2.8 billion and $3.0 billion are expected for 2009-2010 and 2010-2011 respectively. These variations mainly reflect the change in the deficits forecast for the coming years and the depletion of the budgetary reserve.
- The net financial requirements of non-budget-funded bodies and special funds will total $3.1 billion in 2008-2009, $4.2 billion in 2009-2010 and $5.5 billion in 2010-2011. These requirements stem primarily from two sources:
  - investments by the Fonds de conservation et d'amélioration du réseau routier;
  - investments by Financement-Québec and the Corporation d’hébergement du Québec in the health and education networks.
- Deposits in the Generations Fund will amount to $701 million in 2008-2009, $715 million in 2009-2010 and $880 million in 2010-2011.

TABLE C.24

Consolidated net financial requirements[1]

(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	Adjustments	2008-2009	2009-2010	2010-2011
Budgetary balance for the purposes of the *Balanced Budget Act*	0	0	0	– 3 946	– 3 760
Deposits of dedicated revenues in the Generations Fund	742	– 173	569	715	880
Consolidated budgetary balance	**742**	**– 173**	**569**	**– 3 231**	**– 2 880**
Consolidated non-budgetary requirements	– 1 474	779	– 695	– 3 043	– 4 710
Consolidated net financial requirements	**– 732**	**606**	**– 126**	**– 6 274**	**– 7 590**
Including:					
Consolidated Revenue Fund	1 600	700	2 300	– 2 800	– 3 000
Non-budget-funded bodies and special funds	– 3 074	– 53	– 3 127	– 4 189	– 5 470
Deposit in the Generations Fund	742	– 41	701[2]	715	880

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.
2 Including the deposit of $132 million from the budgetary reserve.

APPENDIX 1: INVESTMENTS OF $50.6 BILLION IN THE QUÉBEC INFRASTRUCTURES PLAN

The government acted swiftly to support the economy and employment in Québec by raising public infrastructure investments by $4.1 billion on January 14, 2009. This measure brings the budget for the Québec Infrastructures Plan to $41.8 billion for the 2008-2013 period.

The federal government and the municipalities are also taking part in implementing some of the projects under this plan. In this regard, the Québec government and the federal government signed the Canada-Québec Infrastructure Framework Agreement on September 3, 2008. Further investments of close to $4 billion will be added to those of the Québec Infrastructures Plan between now and 2014.

Thanks to the Québec Infrastructures Plan, investments of $50.6 billion will be injected into the economy, including the contribution of $4.6 billion from the federal government and that of $4.2 billion from the municipalities.

TABLE C.25

Infrastructure investments
(billions of dollars)

2007-2012 Québec Infrastructures Plan announced on October 11, 2007	37.7
– Intensification of public investments to counter the economic slowdown, announced on January 14, 2009	4.1
2008-2013 QUÉBEC INFRASTRUCTURES PLAN	**41.8**
Contribution of partners in projects planned under the Québec Infrastructures Plan	
– Federal government's share further, notably, to the Canada-Québec Infrastructure Framework Agreement	4.6
– Municipalities' share	4.2
TOTAL INVESTMENTS 2008-2013	**50.6**

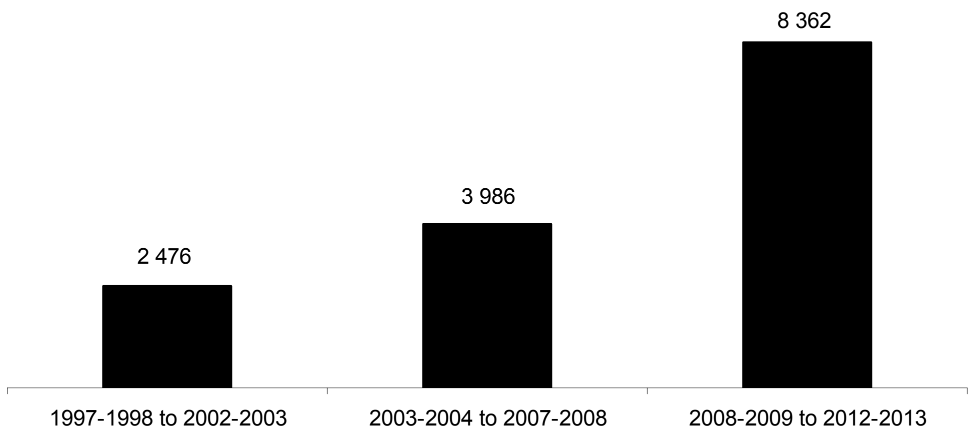
❑ Average annual investments under the Québec Infrastructures Plan

Average annual investments under the Québec Infrastructures Plan will reach almost $8.4 billion over the period from 2008-2009 to 2012-2013.

— This is $4 billion more on average than the level of the previous five years and more than three times that of 10 years ago.

CHART C.5

Change in average annual investments under the Québec Infrastructures Plan
(millions of dollars)



❑ Major investments in all sectors

Major investments will be made in the coming years to maintain, improve and develop infrastructures:

— $19.2 billion for transportation infrastructures, including roads, public transit and ferries;

— $8.8 billion for health infrastructures, including in particular hopitals and residential and long-term care centres;

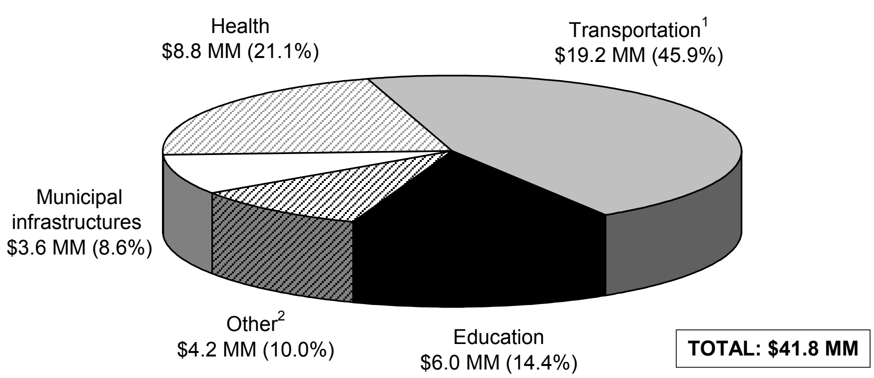
— $6 billion for education infrastuctures including universities, CEGEPSs and school boards;

— $3.6 billion for municipal infrastructures, including those financed by the Société de financement des infrastructures locales du Québec;

— $4.2 billion for other sectors, including cultural facilities, public housing, research infrastructures, court houses and public security facilities.

CHART C.6

2008-2013 Québec Infrastructures Plan Investments by sector
(billions of dollars and percent)



1 Including the road network ($16.2 MM), public transit ($2.6 MM) and maritime infrastructures ($0.4 MM).
2 Including cultural facilities, public housing, research infrastructures, court houses and public security facilities.

■ Road network

The road network is one of the government's priorities in regard to infrastructures. Owing to the ageing of road infrastructures, the government was obliged to adopt an ambitious rehabilitation and modernization plan starting in 2007.

— The government has set itself the objective of bringing the road network into line with the best road infrastructures in the United States.

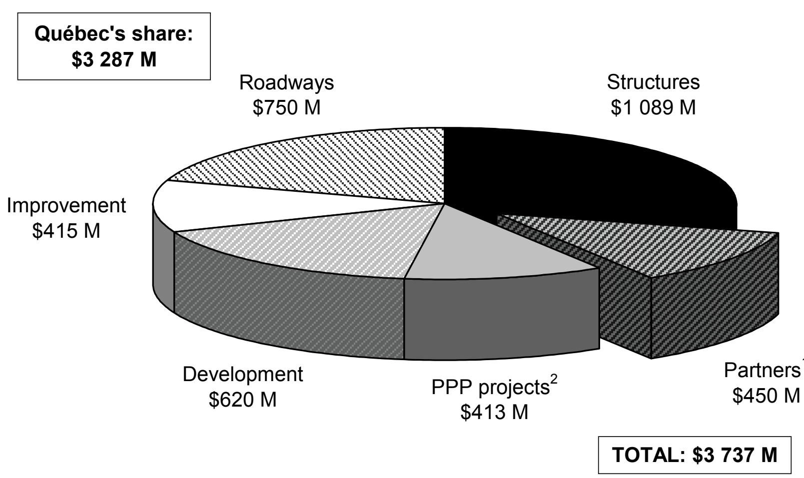
— With the contribution of partners, this plan will make it possible to accelerate the repair of Québec's road network so that by 2022, 83% of its roads and 80% of its structures will have been brought up to par and will thus comply with the highest quality standards in North America.

In 2009-2010, the government will step up the pace of its investments, bringing the sums invested that year to nearly $3.3 billion.

— Coupled with the $450-million contribution of the partners involved in implementing major road projects, road network investments will total $3.7 billion.

CHART C.7

Breakdown road work in 2009-2010
(millions of dollars)



1 Federal, municipal and other partners.
2 Projects carried out under public-private partnerships for highways 25 and 30.

Public transit

The Québec Infrastructures Plan, made public on January 14, 2009, provides for investments of $2.6 billion in public transit for the period from 2008-2009 to 2012-2013.

— Added to these investments are those of the Société de financement des infrastructures locales du Québec and the Green Fund for implementing programs to improve public transit services.

Health

Investments of $8.8 billion will be made in health over the period from 2008-2009 to 2012-2013. In addition to carrying out maintenance work on assets for health and social services institutions, the government will implement upgrading and replacement projects.

The investments in health also target the renovation of emergency wards and radiation oncology and cardiology units as well as the addition of 1 000 beds in residential and long-term care centres (CHSLDs).

Education

Investments of $6 billion will be made in education over the period from 2008-2009 to 2012-2013. Initiatives are aimed at carrying out work to maintain assets, renovate buildings and purchase equipment.

Culture

Investments in culture will amount to close to $1.2 billion for the period from 2008-2009 to 2012-2013.

These investments are aimed at undertaking the construction of the Montréal Symphony Orchestra's new concert hall, to be carried out by a public-private partnership, the expansion of the Musée national des beaux-arts du Québec and the Montréal Museum of Fine Arts as well as the completion of the Quartier des spectacles de Montréal.

The investments allocated under the reading and book policy will remain at the level of $15 million per year.

Municipal infrastructures

Investments in municipal infrastructures will reach more than $3.6 billion for the the 2008-2013 period. The government plans to invest an average of $725 million per year.

These investments are intended to help municipalities complete the bringing of their drinking water treatment and waste water purification facilities up to standard. They include $600 million to carry out work on facilities in Baie-Comeau, Laval, Montréal, Shawinigan and Thetford Mines.

The Société de financement des infrastructures locales du Québec will contribute $371 million to finance these investments in 2009-2010.

Public housing

The government will allocate over $1.2 billion to public housing for the 2008-2009 to 2012-2013 period. Close to $675 million is being set aside to complete the delivery of the 24 000 housing units[6] provided for under the AccèsLogis Québec and Affordable Housing Québec programs.

— Over $90 million per year is being provided to modernize and carry out major renovation work on low-rental housing units.

[6] Added to this are the 3 000 housing units announced in this Budget. Investments of $200 million will be included when the next Québec Infrastructures Plan is updated.

■ Research infrastructures

In the framework of the Québec Research and Innovation Strategy,[7] the government plans to support research infrastructure investments in order to ensure that Québec remains competitive internationally.

Investments of $920 million are provided for research infrastructures under the 2008-2013 Québec Infrastructures Plan. These investments are aimed at supporting the research assistance program and projects co-funded with the Canada Foundation for Innovation.

■ Justice and public security

The Société immobilière du Québec will make investments of nearly $1 billion in the justice and public security sector.

TABLE C.26

Investments under the 2008-2013 Québec Infrastructures Plan by type of investment and by sector

(Contribution of Québec, millions of dollars)

	Asset maintenance						
Sector	**Regular budget**	**Absorption of maintenance deficit over 15 years**	**Subtotal**	**Improvement and replacement**	**Subtotal**	**Project completion**	**2008-2013 Québec Infrastructures Plan**
Road network	8 378.0	2 070.0	10 448.0	1 336.8	11 784.8	4 366.5	16 151.3
Public transit	973.7	514.0	1 487.7	665.6	2 153.3	485.5	2 638.8
Maritime infrastructures	—	—	—	350.0	350.0	—	350.0
Health	4 325.4	1 051.8	5 377.2	2 127.2	7 504.4	1 277.5	8 781.9
Education	4 345.5	1 167.9	5 513.4	471.7	5 985.1	56.0	6 041.1
Culture	629.6	234.2	863.8	148.0	1 011.8	170.2	1 182.0
Municipal infrastructures	1 785.6	1 603.9	3 389.5[1]	40.0	3 429.5	200.0	3 629.5
Public housing	260.1	223.0	483.1	115.4	598.5	559.2	1 157.7
Research	17.4	—	17.4	100.0	117.4	802.2	919.6
Justice and public security	291.1	—	291.1	665.1	956.2	—	956.2
TOTAL	**21 006.4**	**6 864.8**	**27 871.2**	**6 019.8**	**33 891.0**	**7 917.1**	**41 808.1**

1 Including an envelope of $1.2 MM to bring drinking water purification and sewage treatment facilities of municipalities included under the "Improvement and replacement" heading of the 2007-2012 Québec Infrastructures Plan up to standard.

7 *An Innovative, Prosperous Québec*, 2008.

TABLE C.27

Investments under the 2008-2013 Québec Infrastructures Plan by sector

(Contribution of Québec, millions of dollars)

Sector	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Road network	2 002.9	2 257.2	2 396.3	2 593.1	2 535.3	11 784.8
Public transit	542.3	567.9	537.0	343.6	162.5	2 153.3
Maritime infrastructures	—	15.4	24.0	148.5	162.1	350.0
Health	1 378.3	1 475.3	1 350.1	1 583.3	1 717.4	7 504.4
Education	1 300.7	1 278.6	1 119.3	1 133.4	1 153.1	5 985.1
Culture	191.5	235.9	259.1	155.8	169.5	1 011.8
Municipal infrastructures	542.1	738.6	647.7	748.8	752.3	3 429.5
Public housing	92.8	94.7	128.9	143.7	138.4	598.5
Research	4.0	3.7	3.6	3.0	103.1	117.4
Justice and public security	165.4	265.6	218.3	225.2	81.7	956.2
Subtotal	**6 220.0**	**6 932.9**	**6 684.3**	**7 078.4**	**6 975.4**	**33 891.0**
Project completion	**2 035.5**	**2 004.4**	**1 782.3**	**1 338.3**	**756.6**	**7 917.1**
2008-2013 QUÉBEC INFRASTRUCTURES PLAN	**8 255.5**	**8 937.3**	**8 466.6**	**8 416.7**	**7 732.0**	**41 808.1**

TABLE C.28

2008-2013 Québec Infrastructures Plan

(Contribution of Québec, millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
2007-2012 Québec Infrastructures Plan	7 740.4	8 418.9	8 059.5	7 447.9	6 057.0	37 723.7
Acceleration announced on January 14, 2009	515.1[1]	518.4	407.1	968.8	1 675.0	4 084.4[2]
2008-2013 Québec Infrastructures Plan	**8 255.5**	**8 937.3**	**8 466.6**	**8 416.7**	**7 732.0**	**41 808.1**

1 This amount will be realized as of the first quarter of 2009.
2 Acceleration announced on January 14, 2009.
Note: Compared with the 2007-2008 level of investment under the 2007-2012 Québec Infrastructures Plan, the additional investments amount to $3 404.6 M in 2009-2010, $3 045.2 M in 2010-2011, $2 433.6 M in 2011-2012 and $1 042.7 M in 2012-2013, for a total of $9 926.1 M.

APPENDIX 2: INVESTMENT PROJECTS BY GOVERNMENT ENTERPRISES

Certain government enterprises will make substantial investments in the coming years that will contribute to Québec's economic recovery. In 2009-2010, investments by these corporations will increase by over $1 billion compared with 2008-2009. They will rise again in 2010-2011 to the unprecedented level of $5.5 billion, or $1.3 billion more than in fiscal 2008-2009.

❑ Hydro-Québec

Hydro-Québec alone will boost its investments by $1 billion in 2009-2010 and $1.3 billion in 2010-2011 compared with 2008-2009.

For example, the La Romaine hydroelectric project, which will begin in 2009 and continue until 2020, and the Eastmain-1-A/Rupert and La Sarcelle project, which will be completed in 2012, rank first and third respectively among the largest infrastructure projects in Canada and will help to secure Québec's energy wealth over the long term.

The Eastmain-1-A/Rupert and La Sarcelle project alone will generate investments of $1.3 billion in 2009 and $921 million in 2010. As for the la Romaine project, it will really get underway in 2010 with expenditures estimated at $0.5 billion.

At the same time, renovation work on the Gentilly power station will generate economic spinoffs of $352 million and $414 million in 2009 and 2010 respectively.

Hydro-Québec's other projects will also have significant spinoffs in Québec. Overall, they are estimated at close to $3.2 billion in 2010 and almost $3.5 billion in 2011.

❑ Loto-Québec and the Société des alcools du Québec

Loto-Québec and the Société des alcools du Québec will also boost their investments through various projects.

Loto-Québec's investments will reach $184 million in 2009-2010 compared with $166 million in 2008-2009. Of that amount, $41.5 million will be devoted to renovating the Casino de Montréal. In 2010-2011, Loto-Québec will invest an additional $110 million in this renovation project, out of total investments of $155 million.

The Société des alcools du Québec, for its part, will also increase its investments in 2009-2010 through expenditures of $56 million, allocated mainly to deploying its network of outlets and to implementing computer resource projects, compared with total investments of $37 million in 2008-2009. The Société plans to invest $45 million in 2010-2011.

TABLE C.29

Projected investment by government enterprises
(millions of dollars)

	2008-2009	2009-2010	2010-2011
HYDRO-QUÉBEC[1]			
Major projects			
Eastmain-1-A/Rupert and La Sarcelle	997.0	1 331.0	921.0
Gentilly-2 – repair project	127.0	352.0	414.0
La Romaine complex	59.0	121.0	496.0
Chute-Allard and Rapides-des-Cœurs	228.0	53.0	—
Transmission integration – Wind turbines (990 MW and 2000 MW)	95.0	166.0	235.0
Interconnection with Ontario	249.0	251.0	46.0
Global Energy Efficiency Plan (GEEP)	236.0	303.0	342.0
Subtotal major projects	**1 990.0**	**2 577.0**	**2 454.0**
Other projects	2 002.0	2 419.0	2 840.0
Total Hydro-Québec	**3 992.0**	**4 996.0**	**5 294.0**
LOTO-QUÉBEC			
Casino de Montréal	—	41.5	110.0
Other projects	166.2[2]	142.3	45.0
Total Loto-Québec	**166.2**	**183.8**	**155.0**
SOCIÉTÉ DES ALCOOLS DU QUÉBEC			
Outlet network	11.0	17.0	—
Other projects	26.3	39.0	45.0[3]
Total Société des alcools du Québec	**37.3**	**56.0**	**45.0**
TOTAL INVESTMENTS	**4 195.5**	**5 235.8**	**5 494.0**

1 For the fiscal year ending December 31.
2 This amount includes $47 million for improvement work on casinos as a whole, including nearly $8 million for expanding the Casino de Charlevoix and $13 million for building the casino in Mont-Tremblant.
3 The breakdown between outlet deployment and other projects remains to be determined for fiscal 2010-2011.

Section D

Debt, Financing and Debt Management

1. DEBT

Several concepts of debt can be used to measure a government's indebtedness.

This section details the components of the debt concepts used by the Québec government and compares the indebtedness of the Canadian provinces.

The following table shows the Québec government's debt according to the main debt concepts used.

TABLE D.1

Debt of the Québec government as at March 31
(millions of dollars)

	2008	2009P	2010P	2011P
GROSS DEBT	**148 015**	**151 447**	**160 273**	**170 180**
As a % of GDP	*49.9*	*49.9*	*52.8*	*54.0*
Less: Financial assets, net of other liabilities	– 23 697	– 22 415	– 23 287	– 24 610
Less: Non-financial assets	– 30 147	– 33 556	– 37 984	– 43 688
DEBT REPRESENTING ACCUMULATED DEFICITS IN ACCORDANCE WITH THE PUBLIC ACCOUNTS[1, 2]	**94 171**	**95 476**	**99 002**	**101 882**
As a % of GDP	*31.7*	*31.4*	*32.6*	*32.3*
Plus: Balance of the budgetary reserve	2 301	295	—	—
DEBT REPRESENTING ACCUMULATED DEFICITS AFTER TAKING INTO ACCOUNT THE BUDGETARY RESERVE[2]	**96 472**	**95 771**	**99 002**	**101 882**
As a % of GDP	***32.5***	***31.5***	***32.6***	***32.3***

P: Preliminary results for 2009 and forecasts for subsequent years.
1 Before taking into account the budgetary reserve.
2 Including the impact of the plan to restore fiscal balance.

1.1 Gross debt

The government's gross debt is the sum of the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability, minus the balance of the Generations Fund.

Preliminary results show that, as at March 31, 2009, the gross debt should amount to $151 447 million, or 49.9% of GDP. As at March 31, 2011, the gross debt is expected to be $170 180 million, or 54% of GDP.

TABLE D.2

Gross debt as at March 31
(millions of dollars)

	2008	2009P	2010P	2011P
Direct debt of the Consolidated Revenue Fund[1]	82 315	86 941	92 020	97 172
Debt of consolidated entities	35 774	37 924	42 113	47 583
Consolidated direct debt[2]	118 089	124 865	134 133	144 755
Plus: Net retirement plans liability	30 426	28 391	28 720	28 941
Plus: Net employee future benefits liability	733	125	69	13
Less: Generations Fund	– 1 233	– 1 934	– 2 649	– 3 529
GROSS DEBT	**148 015**	**151 447**	**160 273**	**170 180**
As a % of GDP	***49.9***	***49.9***	***52.8***	***54.0***

P: Preliminary results for 2009 and forecasts for subsequent years.
1 Excluding pre-financing.
2 The consolidated direct debt reflects all of the government's financial requirements that give rise to borrowings on financial markets.

The consolidated direct debt consists of the direct debt of the Consolidated Revenue Fund and the direct debt of entities whose results are consolidated line by line with those of the government. The main consolidated entities are Financement-Québec, the Fonds de conservation et d'amélioration du réseau routier, the Corporation d'hébergement du Québec, the Société québécoise d'assainissement des eaux, the Société immobilière du Québec, Investissement Québec, Immobilière SHQ, the Agence métropolitaine de transport and the Société du Palais des congrès de Montréal. As at March 31, 2009, the consolidated direct debt is expected to total $124 865 million.

The net retirement plans liability represents the gross retirement plans liability minus the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees. As at March 31, 2009, the net retirement plans liability should amount to $28 391 million.

The net liability for employee future benefits consists of the government's commitments for accumulated sick leave and the survivor's pension plan, minus assets constituted in regard to these commitments. As at March 31, 2009, the net employee future benefits liability should stand at $125 million.

As at March 31, 2009, the sums accumulated in the Generations Fund are expected to amount to $1 934 million.

1.1.1 Change in gross debt in 2008-2009

In 2008-2009, the government's gross debt should increase by $3 432 million. Even though the budget will be balanced this year, the gross debt continues to rise for the following reasons:

- First of all, the government invests 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.

  For example, Hydro-Québec pays 75% of its net profits as dividends to the government and keeps 25% to fund its investments, particularly hydroelectric dams. The portion of profits that the government is leaving Hydro-Québec in 2008-2009 ($611 million) constitutes an investment by the government in Hydro-Québec, which creates a financial requirement for the government and thus leads to an increase in the gross debt.

  In addition, the government invested $250 million in the Société générale de financement. This investment is part of the $1 000-million contribution announced in the January 2009 Economic Statement in order to stimulate investment in Québec businesses.

  Overall, the government's investments, loans and advances should lead to a $17-million increase in the gross debt in 2008-2009. This amount includes the withdrawal of $805 million from the $1 100 million deposited with the Caisse de dépôt et placement du Québec in 2007-2008 under the *Act to establish a budgetary surplus reserve fund*.

- In addition, net investments in the health and social services and education networks, which include loans made by Financement-Québec and the Corporation d'hébergement du Québec to network institutions to fund their capital expenditures, should raise the gross debt by $815 million in 2008-2009.

— 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 2008-2009, net capital expenditures should cause the gross debt to increase by $2 405 million.

— Lastly, changes in some of the government's other asset and liability items, such as accounts payable and accounts receivable, should raise the gross debt by $896 million in 2008-2009.

TABLE D.3

Main factors responsible for growth in the Québec government's debt

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Investments, loans and advances	Net investment in the networks	Net capital expenditures[1]	Other factors[2]	Generations Fund	Debt, end of year[3]
Before accounting reform								
Total debt								
1998-1999	98 385	– 126	1 402		217	1 235		101 113
1999-2000	101 113	– 7	2 006		359	– 1 351		102 120
2000-2001	102 120	– 427	1 632		473	1 050		104 848
2001-2002	104 848	– 22	1 142		995	212		107 175
2002-2003	107 175	728	1 651		1 482	306		111 342
2003-2004	111 342	358	1 125		1 019	881		114 725
2004-2005	114 725	664	979		1 083	– 855		116 596
2005-2006	116 596	– 37	1 182		1 166	– 605		118 302
2006-2007	118 302	– 20	1 977		1 117	1 641	– 576	122 441
After accounting reform								
Gross debt								
2007-2008	143 449	—	2 410	487	1 457	861	– 649	148 015
2008-2009P	148 015	—	17	815	2 405	896	– 701	151 447
2009-2010P	151 447	3 946	1 345	1 004	3 304	– 58	– 715	160 273
2010-2011P	160 273	3 760	1 570	2 291	3 357	– 191	– 880	170 180

Note: A positive entry indicates a financial requirement and a negative entry, a source of financing.
P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 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 the change in the value of the debt in foreign currency.
3 Excluding pre-financing.

1.2 Total debt under the *Act to reduce the debt and establish the Generations Fund*

When the government created the Generations Fund in June 2006, the concept of total debt was used to set the debt/GDP ratio targets in the *Act to reduce the debt and establish the Generations Fund*.

Total debt corresponds to the sum of the following elements:

- debt issued on financial markets by the government and entities consolidated line by line;
- the net retirement plans liability of public and parapublic sector employees;

minus the balance of the Generations Fund.

When the Generations Fund was created, line-by-line consolidated entities corresponded to those entities that were included in the government's reporting entity at the time. However, the reporting entity has been broadened since the fund's creation. With the reform of government accounting in December 2007, entities in the health and social services and education networks were consolidated. The concept of debt was broadened to include the debt of entities that make loans to the networks, namely, Financement-Québec and the Corporation d'hébergement du Québec (CHQ), and to reclassify the debt of the Société québécoise d'assainissement des eaux (SQAE) and the net employee future benefits liability. In addition, since the 2007-2008 fiscal year, the results of Immobilière SHQ have also been consolidated line by line with those of the government. This broader concept of direct debt corresponds to gross debt as described above.

For the purpose of monitoring the targets incorporated in the *Act to reduce the debt and establish the Generations Fund*, the concept of total debt corresponds to the reporting entity that was in effect when the Generations Fund was created.

Preliminary results show that the total debt should amount to $129 916 million as at March 31, 2009, or 42.8% of GDP. Under the *Act to reduce the debt and establish the Generations Fund*, the total debt will have to represent 38% of GDP as at March 31, 2013, 32% of GDP as at March 31, 2020 and 25% of GDP as at March 31, 2026.

On account of the deficits anticipated for the coming fiscal years, the weight of the total debt as a percentage of GDP is expected to rise temporarily even though deposits continue to be made in the Generations Fund.

Therefore, until the tabling of the 2011-2012 Budget, that is, when the economic recovery will be well under way, the government will review the targets provided for in the *Act to reduce the debt and establish the Generations Fund*.

TABLE D.4

Total debt and gross debt of the Québec government

(millions of dollars)

	2008	2009P	2010P	2011P
TOTAL DEBT UNDER THE *ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND*	**125 915**	**129 916**	**138 015**	**145 913**
As a % of GDP	***42.4***	***42.8***	***45.5***	***46.3***
Plus: Debt of Financement-Québec	14 274	14 361	15 223	17 573
Debt of the CHQ and other entities	2 806	2 809	2 701	2 660
Debt of the SQAE	2 416	2 359	2 231	1 889
Debt of Immobilière SHQ	1 871	1 877	2 034	2 132
Net employee future benefits liability	733	125	69	13
GROSS DEBT	**148 015**	**151 447**	**160 273**	**170 180**
As a % of GDP	***49.9***	***49.9***	***52.8***	***54.0***

P: Preliminary results for 2009 and forecasts for subsequent years.

1.3 Debt representing accumulated deficits

Debt representing accumulated deficits is a simple concept that reflects the financial position of a government well, since it takes all of its liabilities and assets into account. The federal government, Ontario and Alberta use debt representing accumulated deficits as a measure of indebtedness in their budget documents.

The debt representing accumulated deficits corresponds to the difference between the government's liabilities and its financial and non-financial assets as a whole. The debt representing accumulated deficits is calculated by subtracting financial assets net of other liabilities as well as non-financial assets from the gross debt.

Preliminary results show that the debt representing accumulated deficits should amount to $95 771 million as at March 31, 2009, or 31.5% of GDP.

TABLE D.5

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

	2008	2009P	2010P	2011P
Gross debt	148 015	151 447	160 273	170 180
Less: Financial assets, net of other liabilities	– 23 697	– 22 415	– 23 287	– 24 610
Less: Non-financial assets	– 30 147	– 33 556	– 37 984	– 43 688
DEBT REPRESENTING ACCUMULATED DEFICITS IN ACCORDANCE WITH THE PUBLIC ACCOUNTS [1, 2]	**94 171**	**95 476**	**99 002**	**101 882**
As a % of GDP	*31.7*	*31.4*	*32.6*	*32.3*
Plus: Balance of the budgetary reserve	2 301	295	—	—
DEBT REPRESENTING ACCUMULATED DEFICITS AFTER TAKING INTO ACCOUNT THE BUDGETARY RESERVE[2]	**96 472**	**95 771**	**99 002**	**101 882**
As a % of GDP	***32.5***	***31.5***	***32.6***	***32.3***

P: Preliminary results for 2009 and forecasts for subsequent years.
1 Before taking into account the budgetary reserve.
2 Including the impact of the plan to restore fiscal balance.

Net financial assets and non-financial assets of the Québec government

Net financial assets correspond to the difference between financial assets and financial liabilities. Financial assets consist primarily of the value of the government's investments in its corporations, accounts receivable and long-term investments.

Financial liabilities include mainly accounts payable.

Net financial assets as at March 31, 2008
(millions of dollars)

FINANCIAL ASSETS		
Investments in government enterprises[1]	24 608	
Accounts receivable	14 389	
Long-term investments	5 384	
Other	989	
Subtotal		45 370
FINANCIAL LIABILITIES		
Accounts payable	14 254	
Deferred revenue	2 821	
Federal transfers to be repaid	1 903	
Deferred foreign exchange gains	1 146	
Other	1 549	
Subtotal		21 673
Total financial assets, net of liabilities		**23 697**

1 Corresponds for the most part to net profits of Hydro-Québec not paid to the government as dividends and investments in the Société générale de financement du Québec.

Non-financial assets consist of government capital assets, loans made to the health and social services and education networks to fund their capital expenditures, as well as inventories and prepaid expenses.

Non-financial assets as at March 31, 2008
(millions of dollars)

Capital assets		19 483
Net investment in the health and social services and education networks		
Health and social services network	4 596	
Education network	5 876	10 472
Inventories and prepaid expenses		192
Total non-financial assets		**30 147**

1.4 Public sector debt

Public sector debt includes the government's gross 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 infrastructures, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

Preliminary results show that, as at March 31, 2009, the public sector debt should be $208 362 million, or 68.6% of GDP.

TABLE D.6

Public sector debt as at March 31
(millions of dollars)

	Before accounting reform		After accounting reform		
	2005	**2006**	**2007**	**2008**	**2009P**
Government debt[1, 2]	116 596	118 302	143 449	148 015	151 447
Health and social services and education networks[3]	12 301	13 078	2 023	1 552	911
Hydro-Québec	33 032	32 367	32 674	32 399	36 572
Other government enterprises[4]	3 726	3 540	31	25	171
Municipalities[5]	17 053	18 347	16 409	17 321	19 261
TOTAL	**182 708**	**185 634**	**194 586**	**199 312**	**208 362**
As a % of GDP	***69.5***	***68.5***	***69.1***	***67.2***	***68.6***

P: Preliminary results.
1 Excluding pre-financing.
2 Before the accounting reform the data correspond to the concept of total debt under the *Act to reduce the debt and establish the Generations Fund*, while after the accounting reform they correspond to the concept of gross debt.
3 Corresponds to the long-term debt for which the government subsidizes debt service through transfers for repaying the principal and paying the interest on borrowings.
4 Excluding debt guaranteed by a third party or secured by assets such as inventories and accounts receivable.
5 Includes the long-term debt for which the government subsidizes debt service through transfers for repaying the principal and paying the interest on borrowings. The government-subsidized long-term debt should amount to $2 700 million as at March 31, 2009.

Information provided to regulatory authorities and data on Québec's debt

To borrow on foreign financial markets, the Québec government must satisfy the requirements of the regulatory authorities of those markets. Accordingly, Québec must file a variety of information with the Securities and Exchange Commission (SEC) in the United States, the Financial Services Authority (FSA) in the United Kingdom, the Australian Stock Exchange and the regulatory authority in Japan.

Each year, Québec files an information document (Form 18-K) with the SEC that contains all the information required under the *Securities Act of 1933*. The annual filing of Form 18-K avoids having to file a prospectus for each borrowing, which would entail additional time and costs. The information in Form 18-K must reflect the borrower's financial position as faithfully as possible. This requirement provides investors with the relevant information to make informed investment decisions.

Concerning the debt, the SEC legislation requires the inclusion of "funded debt", i.e. the debt with a term exceeding one year that was contracted on financial markets, and the "floating debt", i.e. the short-term debt that is continually rolled over to fund operations. Québec also provides information concerning the liability for the retirement plans of the public and parapublic sectors.

The information on the public sector debt in Form 18-K is divided into four categories:

- the debt contracted by the government to meet its financial requirements and fund government enterprises;
- the debt of public sector entities (mainly Hydro-Québec) for which the government guarantees the payment of the interest and the repayment of the principal in the event of the entity's default of payment;
- the debt of the municipalities;
- the debt of other institutions of the public sector issued in their own name (educational institutions, health and social services institutions and other government enterprises).

Moreover, Québec provides other regulatory authorities around the world with the same information supplied to the SEC.

As regards the public sector debt shown on the preceding page, the data on the debt of the health and social services and education networks, Hydro-Québec, government enterprises and municipalities reflect the requirements of the SEC for the purposes of the presentation of information in the annual Form 18-K and those of the other regulatory authorities with which the government must file information.

1.5 Comparison of the debt of Canadian provinces

It is worthwhile to compare the concepts of debt used by the Québec government with those used by other governments in Canada.

An analysis of the budget documents of the federal and provincial governments shows that the concepts of debt used to assess financial position vary widely from province to province.

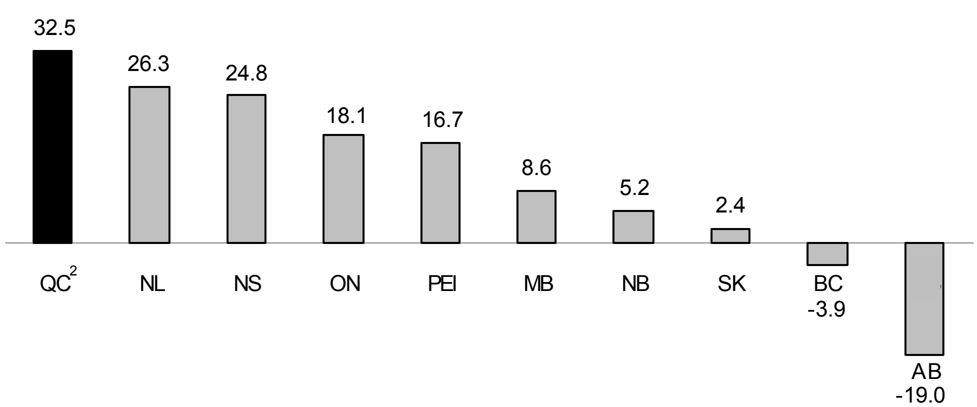
The preferred concept of debt in British Columbia and Saskatchewan is direct debt. Alberta, New Brunswick, Newfoundland and Labrador, Manitoba and Nova Scotia use the concept of net debt. As for Prince Edward Island, its recent budget documents make no reference to its debt.

Four governments use the concept of debt representing accumulated deficits as a measure of indebtedness in their budget documents. They are the government of Québec, the federal government and the governments of Ontario and Alberta.

On the basis of the concept of debt representing accumulated deficits, Québec is the most indebted province. Indeed, as at March 31, 2008, its debt/GDP ratio was 32.5%.

CHART D.1

Debt representing accumulated deficits[1] as at March 31, 2008
(as a percentage of GDP)



1 A negative entry means that the government has an accumulated surplus.
2 After taking the budgetary reserve into account.
Sources: Ministère des Finances du Québec, the governments' public accounts and Statistics Canada.

The following table shows the debt of the federal government and each of the provinces as at March 31, 2008. Figures surrounded by boxes indicate the concept of debt used by each government in its budget documents to measure its level of debt.

TABLE D.7

Debt as at March 31, 2008 according to the various concepts
(millions of dollars)

	QC	Fed.	ON	BC	AB	NB	NL	MB	SK	NS	PEI
Consolidated direct debt	**118 089**	**390 697**	**162 056**	**34 185**	**2 522**	**5 300**	**6 825**	**11 786**	**7 156**	**9 292**	**1 044**
Net retirement plans liability	30 426	137 371	– 3 714	2	7 883	– 245	1 459	2 300	5 088	328	– 43
Net employee future benefits liability	733	47 901	4 738	1 648	219	641	1 513	—	387	1 293	82
Generations Fund	– 1 233	—	—	—	—	—	—	—	—	—	—
Gross debt[1]	**148 015**	**575 969**	**163 080**	**35 835**	**10 624**	**5 696**	**9 797**	**14 086**	**12 631**	**10 913**	**1 083**
As a % of GDP	*49.9*	*37.5*	*27.9*	*18.6*	*4.1*	*21.1*	*33.2*	*29.0*	*24.5*	*33.1*	*23.8*
Less:											
Net financial assets[2]	– 21 396	– 59 688	– 20 662	– 13 552	– 45 670	1 247	391	– 3 898	– 6 866	1 202	264
Net debt[3]	**126 619**[4]	**516 281**	**142 418**	**22 283**	**– 35 046**	**6 943**	**10 188**	**10 188**	**5 765**	**12 115**	**1 347**
As a % of GDP	*42.7*	*33.6*	*24.3*	*11.6*	*– 13.5*	*25.8*	*34.5*	*21.0*	*11.2*	*36.7*	*29.6*
Less:											
Non-financial assets	– 30 147	– 58 644	– 36 801	– 29 734	– 14 140	– 5 538	– 2 436	– 5 995	– 4 547	– 3 928	– 587
Debt representing accumulated deficits[3]	**96 472**[4]	**457 637**	**105 617**	**– 7 451**	**– 49 186**	**1 405**	**7 752**	**4 193**	**1 218**	**8 187**	**760**
As a % of GDP	*32.5*	*29.8*	*18.1*	*– 3.9*	*– 19.0*	*5.2*	*26.3*	*8.6*	*2.4*	*24.8*	*16.7*

Note: The boxes indicate the debt concept used in the government's budget documents.
1 Gross debt is not disclosed in most of the governments' public accounts. However, the components of gross debt, i.e. consolidated direct debt, the net retirement plans liability and the net employee future benefits liability, are disclosed.
2 Financial assets, net of other liabilities.
3 A negative entry indicates that the government has net assets or an accumulated surplus.
4 After taking the budgetary reserve into account.
Sources: Ministère des Finances du Québec, the governments' public accounts and Statistics Canada.

1.6 Retirement plans

The Québec government participates financially in the retirement plans of its employees. As at December 31, 2007, these plans had 531 451 participants and 257 426 beneficiaries.

TABLE D.8

Retirement plans of public and parapublic sector employees as at December 31, 2007

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	495 000	159 509
Pension Plan of Management Personnel (PPMP)	26 550	18 965
Other plans:		
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)[1]	510	48 694
– Civil Service Superannuation Plan (CSSP)[1]	460	23 744
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 200	4 393
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 100	1 377
– Pension Plan of the Judges of the Court of Québec (PPJCQ)	270	312
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	240	108
– Pension Plan of the Members of the National Assembly (PPMNA)	121	324
Total for other plans	9 901	78 952
TOTAL	**531 451**	**257 426**

1 These plans have not accepted any new participants since July 1, 1973.
Source: Commission administrative des régimes de retraite et d'assurances.

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 usually 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 2008-2009, the government should pay $4 132 million to cover its share of the benefits paid to its retired employees.

❑ Retirement plans liability

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

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).

As at March 31, 2009, the government's retirement plans liability should be $64 471 million, an amount that is recognized in the government's gross debt.

TABLE D.9

Retirement plans liability
(millions of dollars)

	March 31, 2009P
Government and Public Employees Retirement Plan (RREGOP)	32 946
Pension Plan of Management Personnel (PPMP)	6 380
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	15 438
– Civil Service Superannuation Plan (CSSP)	5 025
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 217
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	830
– Pension Plan of the Judges of the Court of Québec (PPJCQ)	467
– Pension Plan of the Members of the National Assembly (PPMNA)	168
Total for other plans	25 145
RETIREMENT PLANS LIABILITY	**64 471**

P: Preliminary results.

❑ Annual retirement plans expenditure

Every year, the government records its expenditure as an employer with regard to the retirement plans.

In 2008-2009, this expenditure should total $1 979 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. $1 503 million;

— the amortization of revisions to the government's actuarial obligations that arise from the updating of actuarial valuations, for a cost of $476 million.

TABLE D.10

Retirement plans expenditure
(millions of dollars)

	2008-2009P
Net cost of vested benefits	1 503
Amortization of revisions arising from actuarial valuations	476
RETIREMENT PLANS EXPENDITURE	**1 979**

P: Preliminary results.

1.7 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) was created in 1993. The RPSF is an asset that can be used to pay the retirement benefits of public and parapublic sector employees.

As at March 31, 2009, the book value of the RPSF should amount to $36 080 million.

TABLE D.11

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Investment income imputed	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	– 5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095 [1]	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437 [1]	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009[P]	31 764	2 100	2 216	36 080

P: Preliminary results.
1 Taking into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.

The information on the RPSF shown in the preceding table was established on the basis of the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector following the reform of government accounting in 2007. The government is obliged to apply its accounting policies in the same way, year after year, in presenting its financial statements.

On the basis of the strict and consistent application of the government's accounting policies, the book value of the RPSF as at March 31, 2009 is higher than its market value. As a result of the accounting policies, the difference between these two items will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated in the government's financial framework over the entire planning horizon. Section 1.11 describes these items in greater detail.

The government's accounting policies apply when the RPSF's book value is higher than its market value as well as when it is lower. As shown by the following table, the book value of the RPSF has been lower than its market value 8 times in the past 15 years.

TABLE D.12

Book value and market value of the Retirement Plans Sinking Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
1994-1995	849	831	18
1995-1996	923	954	– 31
1996-1997	1 014	1 095	– 81
1997-1998	1 179	1 321	– 142
1998-1999	2 209	2 356	– 147
1999-2000	5 040	5 703	– 663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	– 479
2006-2007	26 877	28 859	– 1 982
2007-2008	31 764	32 024	– 260
2008-2009	36 080	26 101[1]	9 979

1 Market value as at December 31, 2008.

❑ Amounts deposited in the RPSF have no impact on gross debt

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

Indeed, the amount of borrowings contracted to make deposits in the RPSF 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 gross debt is nil.

TABLE D.13

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets and depositing it in the RPSF[1]
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	123 865	124 865	1 000
	Retirement plans liability	64 471	64 471	—
	Less: Book value of the RPSF	– 35 080	– 36 080	– 1 000
(B)	Net retirement plans liability	29 391	28 391	– 1 000
(C)	Net employee future benefits liability	125	125	—
(D)	Less: Generations Fund	– 1 934	– 1 934	—
(E)	**GROSS DEBT (E=A+B+C+D)**	151 447	151 447	—

1 Illustration based on preliminary results as at March 31, 2009.

❑ 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.

Since the RPSF was created, its return has been higher than the cost of new long-term borrowings by the government 11 years out of 15.

TABLE D.14

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(percent)

	Return of the RPSF[1]	Cost of new borrowings[2]	Difference
1994-1995	– 6.0	5.9	– 11.9
1995-1996	17.0	5.3	11.7
1996-1997	16.1	6.3	9.8
1997-1998	13.4	5.7	7.7
1998-1999	10.4	5.8	4.6
1999-2000	15.3	7.2	8.1
2000-2001	7.2	6.2	1.0
2001-2002	– 4.7	5.5	– 10.2
2002-2003	– 8.5	4.7	– 13.2
2003-2004	14.9	4.6	10.3
2004-2005	11.4	4.4	7.0
2005-2006	13.5	4.4	9.1
2006-2007	13.5	4.4	9.1
2007-2008	5.2	4.8	0.4
2008-2009	– 25.6	4.2	– 29.8

1 On a calendar year basis.
2 On a fiscal year basis.

❑ A flexible deposit policy

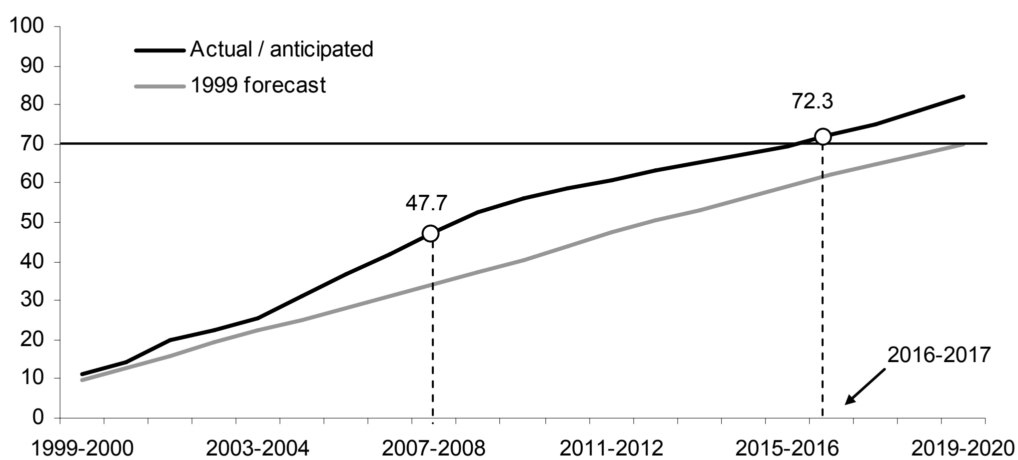
In December 1999, as part of an agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the funds accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic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

The RPSF's assets represent roughly 50% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees. The target of 70% should be attained three years earlier than anticipated, i.e. in 2016-2017.

CHART D.2

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



1.8 Employee future benefits

In addition to the retirement plans, the government records under its debt the value of its commitments regarding two future benefits programs for its employees, namely, accumulated sick leave, which is payable notably when an employee retires, and pensions paid to the survivors of a government employee. These programs give rise to long-term obligations whose costs are covered in full by the government.

As planned, the government created the Accumulated Sick Leave Fund in 2008-2009, in which were deposited sums that will be used to make the necessary payments. Therefore, the balance of the net employee future benefits liability should be $125 million as at March 31, 2009.

TABLE D.15

Net employee future benefits liability
(millions of dollars)

	March 31, 2009P
Accumulated sick leave	781
Survivor's pension plan	404
Accumulated Sick Leave Fund	– 616
Survivor's Pension Plan Fund	– 444
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**125**

P: Preliminary results.

1.9 Generations Fund

The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated exclusively to repaying the debt.

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

As at March 31, 2009, the book value of the Generations Fund should amount to $1 934 million. The following table shows the book and market values of the Generations Fund for the past three years.

TABLE D.16

Book value and market value of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2006-2007	584	586	– 2
2007-2008	1 233	1 199	34
2008-2009	1 934	1 660[1]	274

1 Market value of $1 297 million as at December 31, 2008 plus the amounts that will be allocated to the Generations Fund from January 1 to March 31, 2009.

1.10 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the ministère des Finances

In 2008, the return on the net assets of all depositors with the Caisse de dépôt et placement du Québec was – 25.0%. This section describes in greater detail the returns on four funds deposited with the Caisse by the ministère des Finances.

TABLE D.17

Market value and return in 2008 of funds deposited with the Caisse de dépôt et placement by the ministère des Finances
(millions of dollars and percent)

Name	Acronym	Return	Market value as at December 31, 2008
		%	$M
Retirement Plans Sinking Fund	RPSF	– 25.58	26 101
Generations Fund	GF	– 22.35	1 297
Accumulated Sick Leave Fund	ASLF	0.57	602
Budgetary Reserve Fund	BRF	2.46	337

1.10.1 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) showed a return of – 25.58% in 2008. Its market value was $26 101 million as at December 31, 2008.

The assets of the RPSF are managed by the Caisse de dépôt et placement du Québec in accordance with an investment policy established by the ministère des Finances. This investment policy was established taking several factors into account, including the return, standard deviation and correlation forecasts for various categories of assets prepared by the Caisse de dépôt et placement du Québec, as well as opportunities for investing in these assets.

The investment policy of the RPSF consists of 30% fixed-income securities (bonds, etc.), 35.5% stock markets and 34.5% other investments (real estate, private equity, etc.). These weightings are similar to those used on average by all depositors with the Caisse.

TABLE D.18

Investment policy of the RPSF as at January 1, 2009[1]
(percent)

	Reference portfolio of the RPSF	Average reference portfolio of depositors as a whole[2]
Fixed-income securities	30.0	32.0
Stock markets	35.5	34.3
Other investments	34.5	33.7
TOTAL	**100.0**	**100.0**

1 The detailed investment policy, which shows the percentages invested in each of the various asset categories offered by the Caisse, is presented in the additional information section.
2 Data for 2007. Source: Caisse de dépôt et placement du Québec, *Annual Report 2007.* The annual report for 2008 has not been published yet.

With its investment policy, the RPSF should generate a long-term annual return of 7.0%. This return is comparable to that forecast by most retirement plans in Canada. According to a recent survey by Morneau Sobeco,[1] the anticipated long-term return on assets of two retirement plans out of three in Canada is equal to or above 7%.

It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the reference portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's reference portfolio would have generated a return of – 19.15% in 2008. The spread between this return and that realized, i.e. – 25.58%, reflects the Caisse's active management.

1 Morneau Sobeco (2008), *2008 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits.*

1.10.2 Generations Fund

The Generations Fund posted a return of – 22.35% in 2008. As at December 31, 2008, its market value was $1 297 million.

The assets of the Generations Fund are managed by the Caisse de dépôt et placement du Québec in keeping with an investment policy established by the ministère des Finances. This investment policy was established taking several factors into account, including the return, standard deviation and correlation forecasts for various categories of assets prepared by the Caisse de dépôt et placement du Québec, as well as opportunities for investing in these assets.

The investment policy of the Generations Fund consists of 37% fixed-income securities (bonds, etc.), 35% stock markets and 28% other investments (real estate, private equity, etc.).

TABLE D.19

Investment policy of the Generations Fund as at January 1, 2009[1]
(percent)

	Reference portfolio of the Generations Fund	Average reference portfolio of depositors as a whole [2]
Fixed-income securities	37.0	32.0
Stock markets	35.0	34.3
Other investments	28.0	33.7
TOTAL	**100.0**	**100.0**

1 The detailed investment policy, which shows the percentages invested in each of the various asset categories offered by the Caisse, is presented in the additional information section.
2 Data for 2007. Source: Caisse de dépôt et placement du Québec, *Annual Report 2007*. The annual report for 2008 has not been published yet.

The investment policy of the Generations Fund aims to achieve an annual long-term return of 6.8%. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and constitutes the reference portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The reference portfolio of the Generations Fund would have generated a return of – 17.64% in 2008. The spread between this return and that realized, i.e. – 22.35%, reflects the Caisse's active management.

1.10.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) was created in the fall of 2008 following the adoption of Bill 80 by the National Assembly last June. Deposits totalling $600 million were subsequently made and initially placed in short-term investments, which explains the return of 0.57% posted by the ASLF in 2008. Its market value was $602 million as at December 31, 2008.

The assets of the ASLF are managed by the Caisse de dépôt et placement du Québec in keeping with an investment policy established by the ministère des Finances. As of January 1, 2009, the ASLF's investment policy has been identical to that of the RPSF, since the creation of the ASLF stems from a long-term commitment made by the government in regard to employee future benefits, which is similar to the commitment regarding the retirement plans.

It is important to note that the ASLF's investment policy constitutes the reference portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the ASLF's assets, particularly to take fluctuations in the economic and financial situation into account.

1.10.4 Budgetary Reserve Fund

The Budgetary Reserve Fund (BRF) consists of budgetary surpluses realized by the government.

The BRF posted a return of 2.46% in 2008. Its market value was $337 million as at December 31, 2008.

Contrary to the three other funds which fall under the responsibility of the ministère des Finances, the BRF by definition has a short-term investment horizon. Consequently, its investment policy consists of 100% short-term investments, whose principal is guaranteed and whose liquidity is high.

1.11 Impact of the return of the Retirement Plans Sinking Fund in 2008 on debt service

As indicated in section 1.7, the income of the RPSF is applied against the government's debt service. The losses of the Caisse in 2008 will affect the RPSF's income and therefore debt service as of 2009-2010.

The impact of the losses of 2008 on the RPSF's income will be taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting in accordance with generally accepted accounting principles (GAAP).

> "When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently." Canadian Institute of Chartered Accountants (CICA), *Public Sector Accounting Handbook*, section 3250, paragraph .035.

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on the returns realized by the fund. If, for a given year, the realized return differs from the long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower.[2]

[2] Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it has been adjusted every year.

In addition, the differences between actual and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 14 years, that is, the expected average remaining service life (EARSL) of retirement plan participants. This amortization mechanism and the period used are prescribed by GAAP.[3]

Income imputed to the RPSF is calculated based on the adjusted market value. Therefore, it will begin to reflect, as of 2009-2010, the losses incurred by the Caisse in 2008. This will reduce the income credited to the RPSF because the adjusted market value on which this income is calculated will be lower than if there had not been any losses at the Caisse in 2008.

Overall, the losses of the Caisse in 2008 will cause debt service to rise by $285 million in 2009-2010 and $595 million in 2010-2011.

TABLE D.20

Impact of the return of the RPSF in 2008 on debt service
(millions of dollars)

	2009-2010F	**2010-2011F**
Increase in debt service	285	595

F: Forecasts.

3 "…actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." Canadian Institute of Chartered Accountants (CICA), *Public Sector Accounting Handbook*, section 3250, paragraph .062. For the purposes of retirement assets, the CICA defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and expected results.

2. FINANCING

Borrowings in fiscal 2008-2009 should total $12 941 million, i.e. $9 227 million for the Consolidated Revenue Fund, $1 039 million for the Financing Fund and $2 675 million for Financement-Québec.

It should be noted that pre-financing of $5 984 million was carried out in the last few months of the fiscal year. It will be used to cover part of the borrowing program in 2009-2010.

2.1 Financing strategy

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

2.1.1 Diversification by market

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

Over the past 10 years, one quarter of borrowings, on average, has been contracted in foreign currency.

In 2008-2009, the government contracted 32.6% of its borrowings on foreign markets in five different currencies:

— one borrowing for 1 250 million euros (CAN$1 975 million) in April 2008;

— one borrowing for 1 000 million US dollars (CAN$996 million) in May 2008;

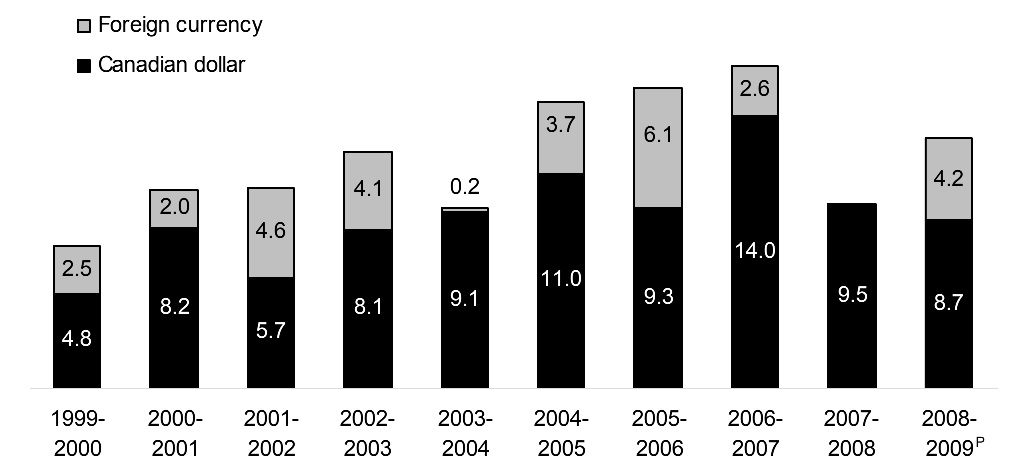
— five borrowings in Swiss francs totalling 1 050 million Swiss francs (CAN$1 091 million), one of which was contracted in May 2008, another in November 2008 and three in February 2009;

— one borrowing for 5 000 million yen (CAN$48 million) in August 2008;

— two borrowings totalling 712 million Hong-Kong dollars, one of which was contracted in January 2009 (CAN$38 million) and the other in February 2009 (CAN$76 million).

CHART D.3

History of borrowings by currency[1]
(billions)



P: Preliminary results.
1 Borrowings of the Consolidated Revenue Fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

2.1.2 Diversification by instrument

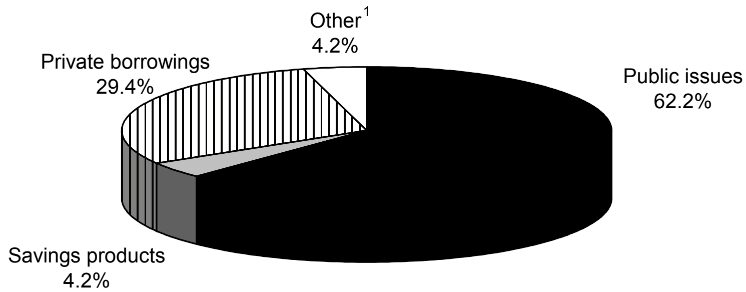
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues, private borrowings and savings products.

The long-term instruments used in 2008-2009 consisted mainly of public issues (62.2%) and private issues (29.4%).

CHART D.4

Borrowings in 2008-2009P by instrument



P: Preliminary results.
1 Includes the Immigrant Investor Program and borrowings from the Canada Pension Plan Investment Fund.

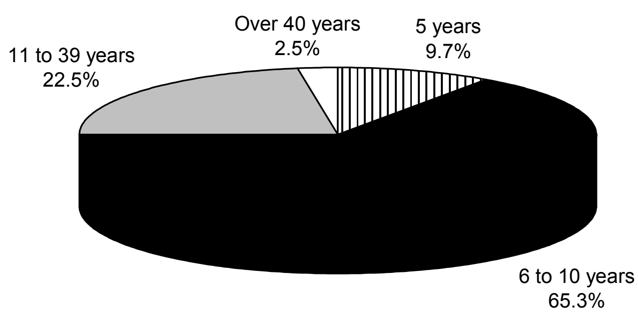
2.1.3 Diversification by maturity

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and thus ensure the government's regular and constant presence on capital markets.

In 2008-2009, 65.3% of borrowings contracted had a maturity of 6 to 10 years; 22.5%, 11 to 39 years; and 2.5%, over 40 years.

CHART D.5

Borrowings in 2008-2009P by maturity

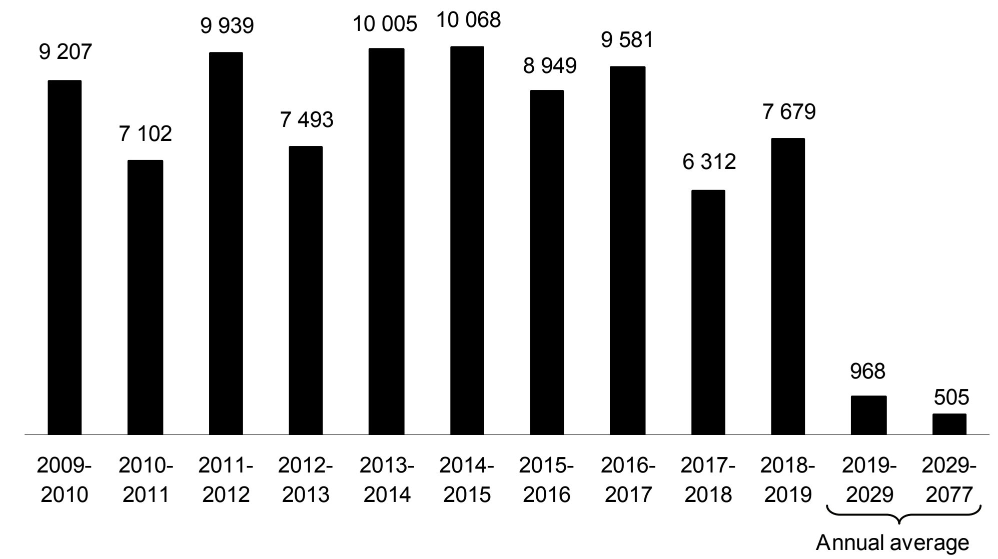


P: Preliminary results.

This diversification by maturity has an impact on the maturity of the debt shown in the following chart. As at March 31, 2009, the average maturity of the debt should be 10.9 years.

CHART D.6

Maturity of the debt as at March 31, 2009P
(millions of dollars)



P: Preliminary results.
Note: Direct debt of the Consolidated Revenue Fund, debt incurred to make advances to the Financing Fund and debt of Financement-Québec.

2.2 Financing program

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, Corporation d'hébergement du Québec) and to certain government enterprises.

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

In 2008-2009, the government contracted borrowings totalling $12 941 million, including $5 984 million in pre-financing conducted over the last few months of the year.

In 2009-2010, the financing program is expected to amount to $9 778 million. It would have amounted to $15 762 million had there not been any pre-financing in 2008-2009. In 2010-2011, the financing program will total $15 353 million.

TABLE D.21

The government's financing program
(millions of dollars)

	2008-2009P	2009-2010P	2010-2011P
CONSOLIDATED REVENUE FUND			
Net financial requirements (surplus)[1, 2]	– 57	5 017	5 040
Repayment of borrowings	4 571	5 245	3 813
Change in cash position	– 2 413	– 5 984	—
Retirement Plans Sinking Fund and funds dedicated to employee future benefits - Deposits	2 700	—	—
Transactions under the credit policy[3]	– 1 558	—	—
Pre-financing	5 984	—	—
TOTAL — Consolidated Revenue Fund	**9 227**	**4 278**	**8 853**
FINANCING FUND	**1 039**	**2 750**	**3 750**
FINANCEMENT-QUÉBEC	**2 675**	**2 750**	**2 750**
TOTAL	**12 941**	**9 778**	**15 353**

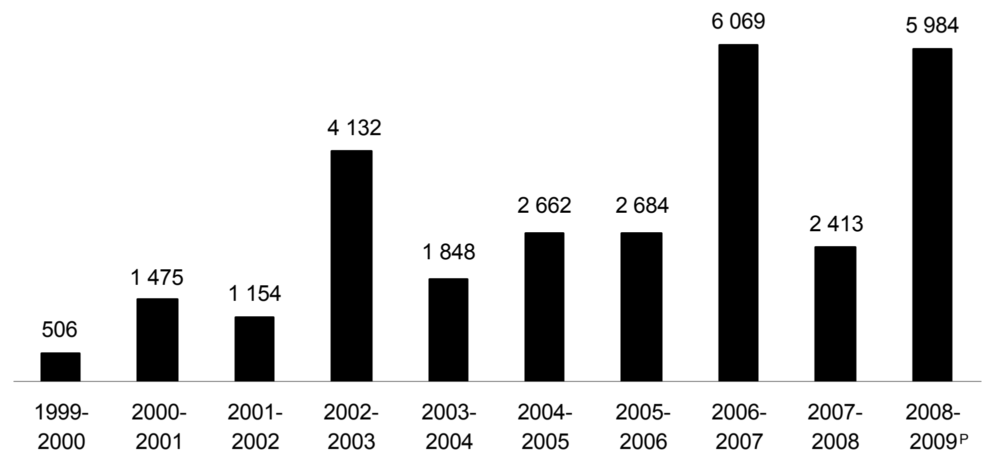
P: Preliminary results for 2008-2009 and forecasts for subsequent years.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
1 Excluding consolidated entities.
2 Net financial requirements are adjusted to take into account the non-receipt of RPSF income and of funds dedicated to employee future benefits.
3 Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government received $1 558 million in 2008-2009 following exchange rate movements. These receipts reduce financial requirements that have to be met through new borrowings.

Pre-financing

The government makes advance borrowings, or borrowings that would normally be made in the following fiscal year.

Over the past 10 years, the government has obtained an average of nearly $2.9 billion in pre-financing per year.

Pre-financing
(millions of dollars)



P: Preliminary results.

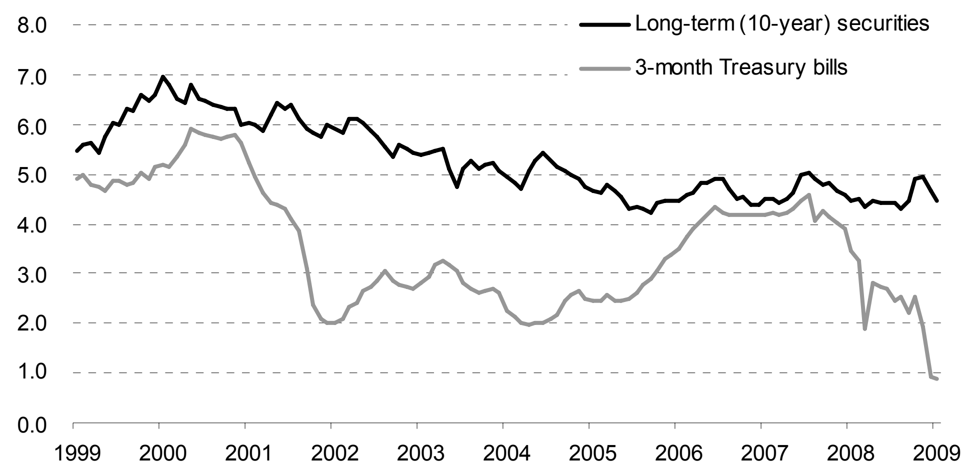
2.2.1 Yield

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 increased substantially, reflecting the change in market conditions observed on financial markets. In addition, since the early 2000s, the yield on long-term Québec securities has dropped from 6.9% to 4.5%, making it possible to refinance borrowings at better interest rates.

CHART D.7

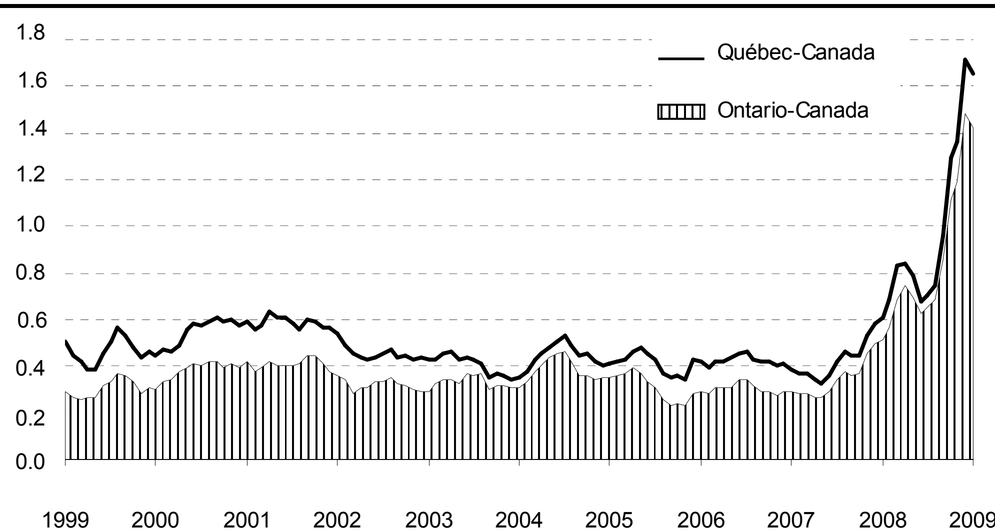
Yield on Québec securities
(percent)



Sources: PC-Bond, a business unit of TSX Inc., and ministère des Finances du Québec.

CHART D.8

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



Source: PC-Bond, a business unit of TSX Inc.

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, 2009, the proportion of the government's gross debt in Canadian dollars should amount to 93.1% and the proportion in foreign currency, 6.9%.

TABLE D.22

Structure of the gross debt as at March 31, 2009P
(millions of dollars)

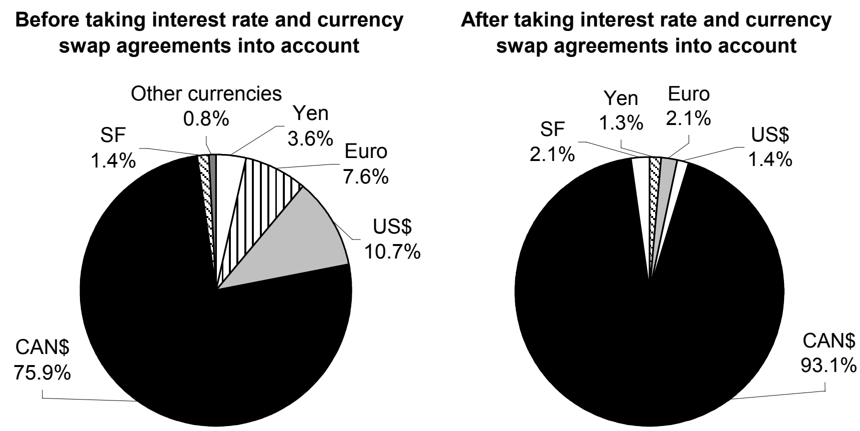
	Consolidated direct debt									
Currency	**Consolidated Revenue Fund**	**%**	**Consolidated entities**	**Total**	**%**	**Net retirement plans liability**	**Net employee future benefits liability**	**Less: Generations Fund**	**Gross debt**	**%**
Canadian dollar	82 083	88.3	37 924	120 007	91.7	28 391	125	– 1 934	146 589	93.1
US dollar	2 315	2.5	—	2 315	1.7	—	—	—	2 315	1.4
Euro	3 226	3.5	—	3 226	2.5	—	—	—	3 226	2.1
Swiss franc	3 226	3.5	—	3 226	2.5	—	—	—	3 226	2.1
Yen	2 075	2.2	—	2 075	1.6	—	—	—	2 075	1.3
Subtotal	**92 925**	**100.0**	**37 924**	**130 849**	**100.0**	**28 391**	**125**	**– 1 934**	**157 431**	**100.0**
Pre-financing	– 5 984		—	– 5 984		—	—	—	– 5 984	
TOTAL	**86 941**		**37 924**	**124 865**		**28 391**	**125**	**– 1 934**	**151 447**	

P: Preliminary results.
Note: The debt in foreign currency is expressed in the Canadian equivalent based on the exchange rates in effect on March 12, 2009.

Before interest rate and currency swap agreements are taken into account, the proportion of the debt in foreign currency as at March 31, 2009 should be 24.1%. After interest rate and currency swap agreements are taken into account, the proportion should be 6.9%.

CHART D.9

Structure of the gross debt by currency as at March 31, 2009P



P: Preliminary results.

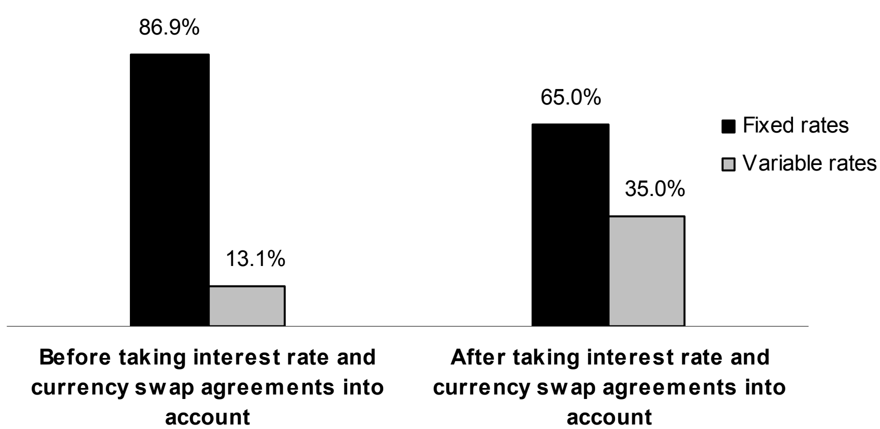
3.2 Structure of the debt by interest rate

The government keeps part of its debt 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 interest rate and currency swap agreements are taken into account, the proportion of the gross debt at variable rates should be 13.1% as at March 31, 2009. After interest rate and currency swap agreements are taken into account, the proportion should be 35.0%.

CHART D.10

Structure of the gross debt by interest rate as at March 31, 2009P



P: Preliminary results.

4. CREDIT RATINGS

4.1 The Québec government's credit rating

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze several economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for short-term debt and a scale for long-term debt.

The following table shows the rating scales used by agencies for short-term debt. Québec's credit rating is in the upper category of all of the agencies' rating scales.

TABLE D.23

Rating scales for short-term debt

Definition	Moody's	Standard & Poor's	Fitch Ratings	DBRS
Very strong capacity to pay interest and repay principal over the short term.	**P-1**	**A-1+** A-1	**F1+** F1	R-1^{high} **R-1^{middle}** R-1^{low}
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than the upper level.	P-2	A-2	F2	R-2^{high}
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P-3	A-3	F3	R-2^{middle} R-2^{low} R-3
Uncertain capacity to pay interest and repay principal over the short-term. Securities in this category are considered speculative securities.	Not Prime[1]	B-1 B-2 B-3 C	B C	R-4 R-5
Incapacity to pay interest and repay principal over the short-term. Securities in this category are considered default securities.	Not Prime[1]	D	D	D

Note: The credit ratings for Québec's short-term debt are identified in bold.
1 Moody's uses the "Not Prime" category for all securities not shown in the upper categories.

Credit rating agencies also use standard rating scales to assess the long-term debt of borrowers. For example, an "AA" credit rating means that the borrower has a very strong capacity to pay the interest and repay the principal on its long-term debt.

TABLE D.24

Rating scales for long-term debt

Definition	Moody's	Standard & Poor's	Fitch Ratings	DBRS	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1	AA+	AA+	AA (high)	**AA+**
	Aa2	AA	AA	AA	AA
	Aa3	AA-	**AA-**	AA (low)	AA-
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1	**A+**	A+	**A (high)**	A+
	A2	A	A	A	A
	A3	A-	A-	A (low)	A-
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1	BBB+	BBB+	BBB (high)	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB-	BBB (low)	BBB-
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1	BB+	BB+	BB (high)	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB-	BB-	BB (low)	BB-
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1	B+	B+	B (high)	B+
	B2	B	B	B	B
	B3	B-	B-	B (low)	B-

Note: The credit ratings for Québec's long-term debt are identified in bold.

Agencies add an "outlook" to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative.

❑ The Québec government's credit rating

The Québec government is rated by five credit rating agencies.

TABLE D.25

The Québec government's current credit ratings

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Positive
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA–	Positive
Japan Credit Rating Agency (JCR)	AA+	Stable

❑ Change in Québec's credit rating

The following charts show the change in the Québec government's credit rating in the last six years.

CHART D.11

Credit rating assigned to Québec by Moody's

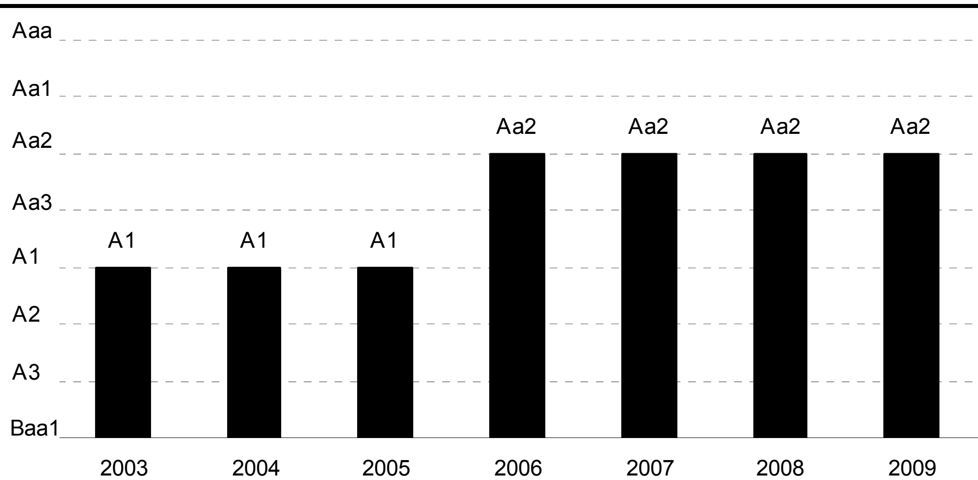
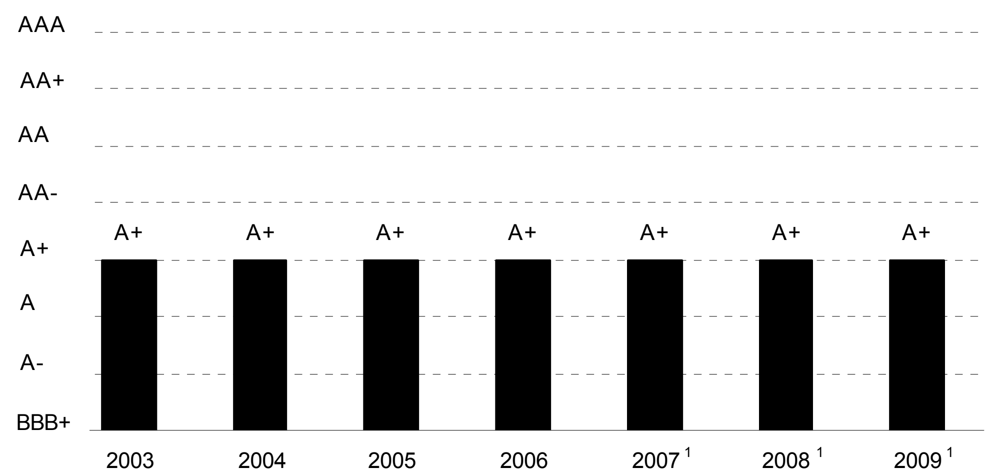


CHART D.12

Credit rating assigned to Québec by Standard & Poor's



1 A positive outlook has been assigned since July 5, 2007.

CHART D.13

Credit rating assigned to Québec by DBRS

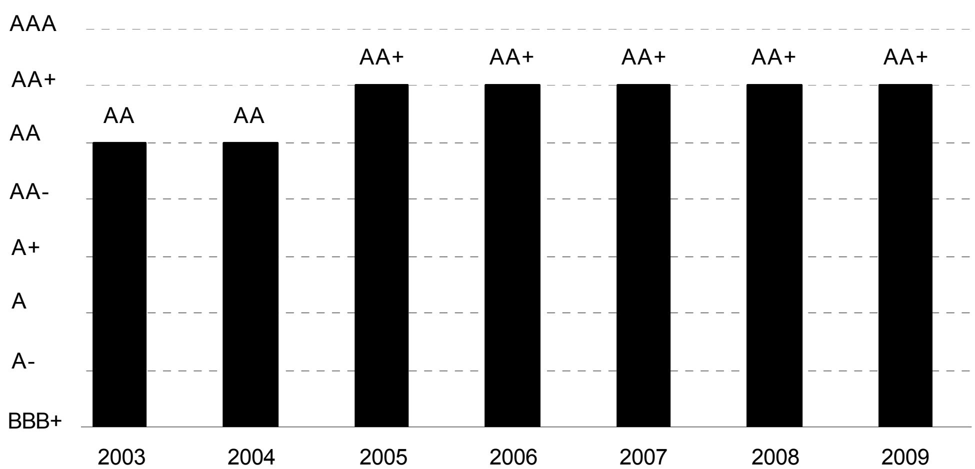
CHART D.14

Credit rating assigned to Québec by Fitch

1 A positive outlook has been assigned since January 9, 2008.

CHART D.15

Credit rating assigned to Québec by JCR

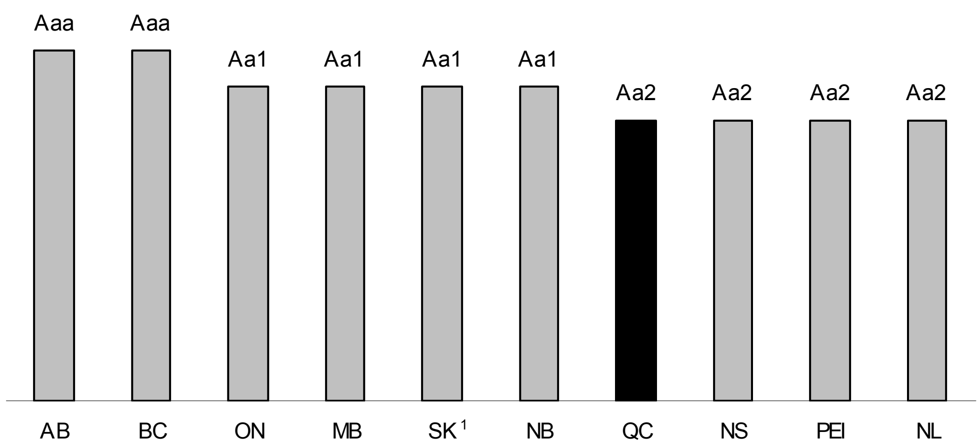


4.2 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces in early March 2009. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART D.16

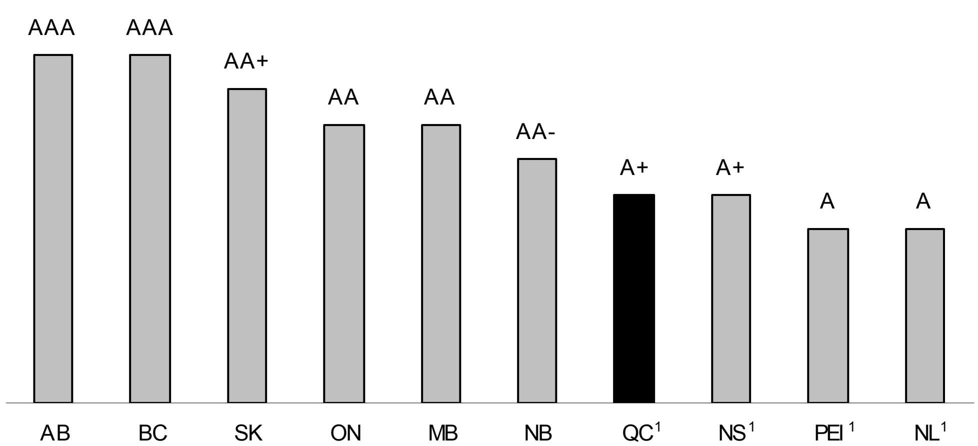
Credit ratings of Canadian provinces — Moody's



1 Positive outlook.

CHART D.17

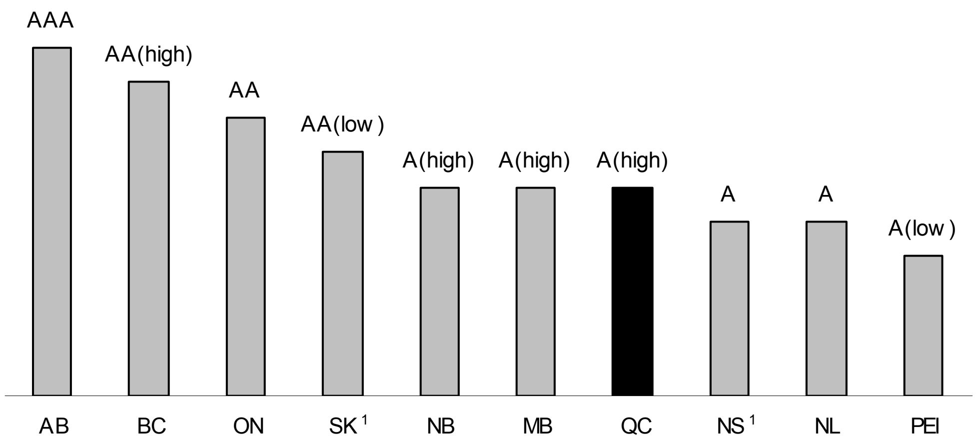
Credit ratings of Canadian provinces — Standard & Poor's



1 Positive outlook.

CHART D.18

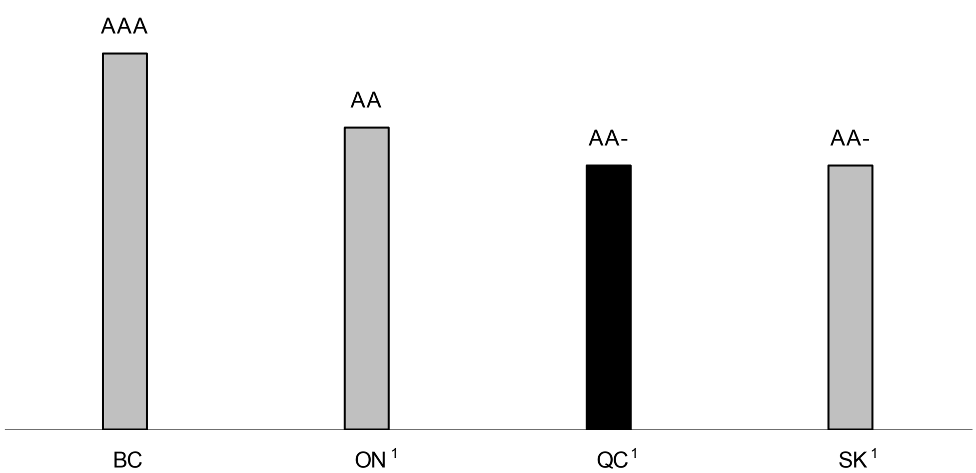
Credit ratings of Canadian provinces — DBRS



1 Positive outlook.

CHART D.19

Credit ratings of Canadian provinces — Fitch



Note: British Columbia, Ontario, Saskatchewan and Québec are the only provinces rated by this agency.
1 Positive outlook.

5. ADDITIONAL INFORMATION

TABLE D.26

Summary of consolidated financing transactions
(millions of dollars)

	2008-2009P				
	March 2008 Budget	Preliminary results	Change	2009-2010P	2010-2011P
CHANGE IN CASH POSITION					
Consolidated Revenue Fund	1 987	– 3 571	– 5 558	5 984	—
Consolidated entities	—	977	977	—	—
TOTAL – Change in cash position	**1 987**	**– 2 594**	**– 4 581**	**5 984**	**—**
Net borrowings					
Consolidated Revenue Fund					
New borrowings	6 612	10 075 [1]	3 463	4 278	8 853
Repayment of borrowings	– 4 316	– 3 861 [1]	455	– 5 245	– 3 813
	2 296	6 214	3 918	– 967	5 040
Consolidated entities[2]					
New borrowings	5 339	4 802 [3]	– 537	7 082	7 614
Repayment of borrowings	– 2 265	– 2 652	– 387	– 2 893	– 2 144
	3 074	2 150	– 924	4 189	5 470
TOTAL – Net borrowings	**5 370**	**8 364**	**2 994**	**3 222**	**10 510**
Retirement Plans Sinking Fund and funds dedicated to employee future benefits	**– 5 883**	**– 4 943**	**940**	**– 2 217**	**– 2 040**
Generations Fund	**– 742**	**– 701**	**41**	**– 715**	**– 880**
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**732**	**126**	**– 606**	**6 274**	**7 590**

P: Preliminary results for 2008-2009 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 Receipts totalling $1 558 million related to transactions carried out under the credit policy increase new borrowings by $848 million and reduce the repayment of borrowings by $710 million.
2 The data forecast in the March 2008 Budget have been adjusted to include the forecast for the net borrowings of Immobilière SHQ which was consolidated in 2007-2008.
3 Includes a $1 088-million increase in temporary borrowings.

TABLE D.27

Gouvernement du Québec
Summary of long-term borrowings in 2008-2009^{P}

(millions of dollars)

Currency	Consolidated Revenue Fund	Consolidated entities [1]	Total	%
CANADIAN DOLLAR				
Public issues	1 939	2 047	3 986	45.7
Private issues	1 971	1 667	3 638	41.7
Savings products	548	—	548	6.3
Immigrant Investor Program	540	—	540	6.2
Canada Pension Plan Investment Fund	5	—	5	0.1
Subtotal	**5 003**	**3 714**	**8 717**	**67.4**
OTHER CURRENCIES				
Euro	1 975	—	1 975	46.8
Swiss franc	1 091	—	1 091	25.8
US dollar	996	—	996	23.6
Hong-Kong dollar	114	—	114	2.7
Yen	48	—	48	1.1
Subtotal	**4 224**	**—**	**4 224**	**32.6**
TOTAL	**9 227**	**3 714**	**12 941**	**100.0**

P: Preliminary results.
1 Includes borrowings for the Financing Fund and borrowings of Financement-Québec.

TABLE D.28

Gouvernement du Québec
Borrowings for the Consolidated Revenue Fund in 2008-2009P

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)		%			$	%
511	—	5.00	April 7	2038-12-01	102.117	4.866
1 975	€1 250	4.75[4]	April 29	2018-04-29	99.922	4.760
338	—	4.50	May 1	2018-12-01	98.680	4.659
996	US$1 000	4.625	May 14	2018-05-14	99.399	4.701
237	250 SF	3.375[4]	May 19	2018-01-19	99.351	3.457
452	—	5.00	June 16	2038-12-01	101.301	4.917
529[5]	—	1.797[6]	June 20	2028-01-01	100.000	1.797
48[5]	5 000 yen	1.80	August 20	2018-08-20	100.000	1.800
30[5]	—	6.35	October 15	2065-09-21	120.022	5.242
118[5]	—	4.50	November 4	2026-12-01	114.877	3.392
118[5]	—	4.25	November 4	2031-12-01	115.258	3.300
160[5]	—	3.25	November 4	2036-12-01	99.182	3.295
89[5]	—	4.50	November 19	2026-12-01	114.848	3.394
84[5]	—	4.25	November 19	2031-12-01	115.223	3.302
160[5]	—	3.25	November 19	2036-12-01	99.145	3.297
263	250 SF	3.50[4]	November 21	2014-11-21	99.930	3.513
3[5]	—	5.10	December 1	2049-09-21	99.025	5.157
12[5]	—	5.10	December 1	2053-09-21	99.416	5.133
10[5]	—	5.10	December 1	2057-09-21	99.831	5.109
8[5]	—	5.10	December 1	2058-09-21	99.938	5.103
6[5]	—	5.10	December 1	2059-09-21	100.047	5.097
100[5]	—	3.25	December 15	2036-12-01	96.915	3.422
117[5]	—	4.50	December 16	2021-12-01	109.037	3.620
173[5]	—	4.25	December 16	2031-12-01	111.952	3.489
492	—	4.50	December 19	2018-12-01	98.313	4.714
38[5]	HK$240	3.35[4]	January 13	2014-01-13	100.000	3.350
146	—	4.50	February 3	2018-12-01	99.664	4.542
76[5]	HK$472	3.00[4]	February 11	2014-02-11	100.000	3.000
293	275 SF	3.125[4]	February 11	2015-12-11	99.414	3.223
215	200 SF	3.875[4]	February 11	2018-12-11	100.265	3.843
25[5]	—	5.00	February 11	2061-09-21	100.609	4.967
83	75 SF	3.125[4]	February 27	2015-12-11	101.883	2.817
229[5]	—	Various	March 2	2065-06-01	97.408	4.513
548[7]	—	Various	Various	Various	Various	Various
5[8]	—	Various	Various	Various	Various	Various
540[9]	—	Various	Various	Various	Various	Various
9 227						

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 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.

TABLE D.29

Gouvernement du Québec
Borrowings for the Financing Fund in 2008-2009P

Amount in Canadian dollars	Face value in foreign currency	Interest rate[1]	Date of issue	Date of maturity	Price to investor	Yield to investor[2]
(millions)		%			$	%
BORROWINGS FOR CONSOLIDATED ENTITIES						
155	—	4.50	May 1	2018-12-01	98.680	4.659
55	—	5.00	June 16	2038-12-01	101.301	4.917
477	—	4.50	October 31	2018-12-01	95.379	5.091
352	—	4.50	February 3	2018-12-01	99.664	4.542
1 039						

P: Preliminary results.
1 Interest payable semi-annually except if another frequency is indicated in a note.
2 Yield to investor is determined on the basis of interest payable semi-annually.

TABLE D.30

Borrowings by Financement-Québec in 2008-2009P

Amount in Canadian dollars	Face value in foreign currency	Interest rate[1]	Date of issue	Date of maturity	Price to investor	Yield to investor[2]
(millions)		%			$	%
63[3]	—	5.25	May 5	2034-06-01	103.706	4.994
42[3]	—	5.25	May 22	2034-06-01	105.464	4.877
505	—	4.25	May 26	2015-12-01	100.871	4.114
600[3]	—	4.09	October 6	2013-09-23	100.001	4.090
95[3]	—	5.25	October 20	2034-06-01	95.223	5.603
38[3]	—	5.25	October 28	2034-06-01	95.526	5.580
59[3]	—	Variable[4]	November 20	2014-12-01	94.227	Variable
503	—	4.25	December 15	2015-12-01	100.670	4.138
23[3]	—	Variable[4]	January 20	2014-12-01	92.052	Variable
498[3]	—	3.25	February 17	2014-06-01	99.660	3.320
115[3]	—	Variable[4]	February 18	2014-12-01	92.046	Variable
69[3]	—	Variable[4]	February 25	2014-12-01	92.045	Variable
65[3]	—	Variable[4]	March 2	2014-12-01	92.039	Variable
2 675						

P: Preliminary results.
1 Interest payable semi-annually except if another frequency is indicated in a note.
2 Yield to investor is determined on the basis of interest payable semi-annually.
3 Private borrowings.
4 Interest payable quarterly.

TABLE D.31

Borrowings by Hydro-Québec in 2008[1]

Amount in Canadian dollars	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		%			$	%
503	—	5.00	February 19	2045-02-15	100.691	4.959
500	—	5.00	April 25	2045-02-15	99.926	5.004
515	—	5.00	May 16	2045-02-15	102.903	4.830
513	—	5.00	September 2	2045-02-15	102.586	4.848
2 031						

1 Borrowings contracted from January 1 to December 31, 2008.
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.

TABLE D.32

Investment policies as at January 1, 2009

(percent)

Specialized portfolio	RPSF	Generations Fund	Average reference portfolio of depositors as a whole [1]
Short-term securities	1.0	1.0	1.4
Bonds	29.0	36.0	27.4
Real return bonds	0.0	0.0	0.8
Long-term bonds	0.0	0.0	2.4
Total – Fixed income	**30.0**	**37.0**	**32.0**
Canadian equity	13.0	10.0	12.2
US equity – hedged	0.5	0.5	3.7
US equity – unhedged	2.0	1.5	
Foreign equity – hedged	2.5	2.0	5.8
Foreign equity – unhedged	4.0	2.0	
Emerging market equity	4.0	4.0	3.1
Québec International	9.5	15.0	9.5
Total – Stock markets	**35.5**	**35.0**	**34.3**
Investments and infrastructures	6.0	5.0	5.4
Private equity	8.0	6.0	7.9
Real estate debt	7.0	7.0	6.5
Real estate	8.5	7.0	9.1
Commodities	1.5	0.0	1.9
Hedge funds	3.5	3.0	2.9
Total – Other investments	**34.5**	**28.0**	**33.7**
TOTAL	**100.0**	**100.0**	**100.0**

1 Source: Caisse de dépôt et placement du Québec, *Annual Report 2007*. The annual report for 2008 has not been published yet.

Section E

Supporting Families and the Well-being of Quebecers

INTRODUCTION

The 2009-2010 Budget provides for the implementation of several measures to support families and promote the well-being of Quebecers. More specifically, the measures target:

— families, to provide them with income support through, in particular, an improvement to the refundable tax credit for child care expenses;

— seniors, to improve their quality of life;

— the most disadvantaged, to provide them with adequate housing;

— the social economy sector, to help it fulfil its mission respecting, in particular, society's underprivileged.

The 2009–2010 budgetary measures represent financial support totalling more than $118.3 million over two years:

— $56.5 million in 2009–2010;

— $61.8 million in 2010–2011.

Moreover, as part of the 2009-2010 Budget, the government is presenting two documents. The first, entitled *Status Report on Québec's Family Policy* gives an update on the various components of Québec's family policy and attempts to measure the main impacts of the policy. The second, entitled *Quebecers' Income: The Progress Achieved*, presents the substantial tax relief introduced by the government and the improvement noted in Quebecers' income in recent years.

TABLE E.1

Impact of the measures to support families and the well-being of Quebecers
(millions of dollars)

	Investments	Financial impact 2009-2010	2010-2011	Total over 2 years	Target population
Support for families[1]					
– Improvement of the refundable tax credit for child care expenses	—	– 22.0	– 22.0	– 44.0	100 000 families
– Streamlining of the Québec education savings incentive	—	—	—	—	
– Increase to $25 000 in the Home Buyers' Plan withdrawal limit	—	– 5.0	– 5.0	– 10.0	10 000 taxpayers
– Deduction for a loss in the value of RRSP/RRIF investments following a death	—	—	—	—	17 000 taxpayers
Subtotal		**– 27.0**	**– 27.0**	**– 54.0**	
Support for seniors					
– "Age-Friendly Municipalities" initiative	—	– 1.0	– 1.0	– 2.0	
– Action plan to counter elder abuse	—	– 4.0	– 4.0	– 8.0	
– Financial assistance for home adaptations for independent seniors	3.5	– 0.3	– 0.4	– 0.7	1 200 households
Subtotal	**3.5**	**– 5.3**	**– 5.4**	**– 10.7**	
Investments in social housing					
– Investment of $200 million for the construction of 3 000 social housing units	200.0	—	—	—	3 000 households
– Financial assistance for low-income owner-occupants living in rural areas (RénoVillage)	50.0	– 4.5	– 9.5	– 14.0	6 000 households
– Enhancement of shelters for victims of domestic violence	10.0	– 0.1	– 0.6	– 0.7	370 households
– Financial assistance for emergency repairs for low-income owner-occupants	6.5	– 0.4	– 0.8	– 1.2	1 300 households
– Financial support for home adaptations for people with disabilities	40.0	– 9.6	– 16.8	– 26.4	2 500 households
– Home improvements in rundown areas (Rénovation Québec)	60.0	– 0.1	– 0.7	– 0.8	17 000 households
Subtotal	**366.5**	**– 14.7**	**– 28.4**	**– 43.1**	**30 170 households**
Investments in social development					
– Injection of $5 million in the Réseau d'investissement social du Québec	—	– 5.0	—	– 5.0	100 businesses
– Funding of a study for the Chantier de l'économie sociale	—	– 0.3	—	– 0.3	
– Extension of support for the Réseau québécois du crédit communautaire	—	– 2.2	—	– 2.2	21 organizations
– Promoting the development of female entrepreneurship	—	– 2.0	– 1.0	– 3.0	6 organizations
Subtotal	**—**	**– 9.5**	**– 1.0**	**– 10.5**	
TOTAL	**370.0**	**– 56.5**	**– 61.8**	**– 118.3**	

1 These measures are explained in greater detail in the *2009-2010 Additional Information on the Budgetary Measures*.

1. Supporting families

The 2009-2010 Budget provides for the implementation of four measures to support Québec families:

- the improvement of the refundable tax credit for child care expenses;
- the streamlining of the Québec education savings incentive;
- an increase to $25 000 in the Home Buyers' Plan withdrawal limit;
- the deduction for a loss in the value of RRSP/RRIF investments following a death.

TABLE E.2

Financial impact of the tax measures to support families
(millions of dollars)

	Full year	2009-2010	2010-2011	Total over 2 years
Improvement of the refundable tax credit for child care expenses	– 22.0	– 22.0	– 22.0	– 44.0
Streamlining of the Québec education savings incentive	—	—	—	—
Increase to $25 000 in the Home Buyers' Plan withdrawal limit[1]	– 5.0	– 5.0	– 5.0	– 10.0
Deduction for a loss in the value of RRSP/RRIF investments following a death	—	—	—	—
TOTAL	**– 27.0**	**– 27.0**	**– 27.0**	**– 54.0**

1 This measure was announced on February 5, 2009 in information bulletin 2009-2 of the ministère des Finances du Québec.

These actions are in addition to the substantial measures that were implemented gradually to provide parents with financial support (e.g. the child assistance payment, the work premium), help families needing childcare services (e.g. reduced-contribution day care centres) and offer parents the possibility of devoting themselves full time to their children during the first months after birth (e.g. Québec Parental Insurance Plan).

- Thus, Québec now ranks among the top countries in the world regarding the share of collective wealth allocated to family policy.
- The results are spectacular. The progress made in the employment rate of women, the fight against poverty and demographic trends is confirmed by the data.

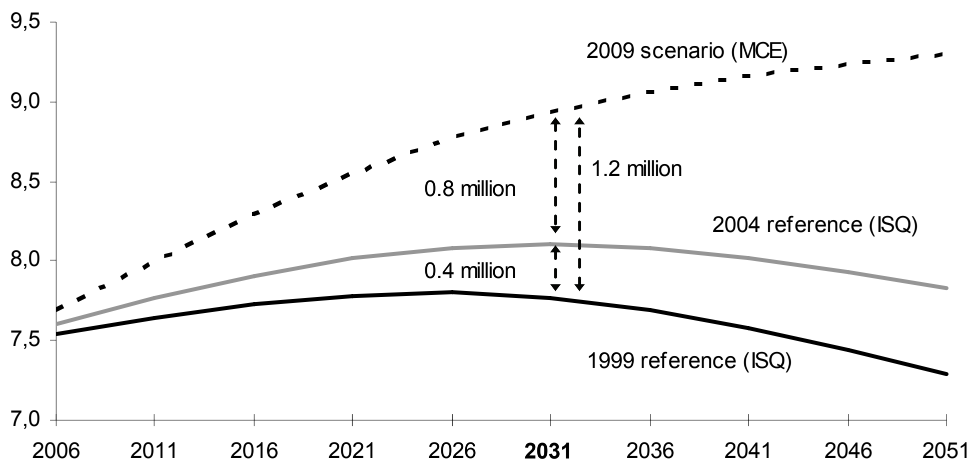
Québec's demographic future is changing

The vision for Québec's demographic future has undergone a major change in 10 years. In some cases, the changes are spectacular.

- In 1999, the Institut de la statistique du Québec (ISQ) projected in its reference scenario that Québec's population would start to decline, in absolute terms, as of 2026.
- In 2004, the Institut de la statistique du Québec pushed the date of the decline back to 2031.
- In 2009, under the most recent trends projection, the date of an eventual decline in Québec's population was pushed back again, this time beyond the projection period, that is, after 2051.
- According to those same trends, Québec's population would reach 8.9 million inhabitants in 2031—800 000 more than in the 2004 projection, and 1.2 million more than in the reference scenario of 10 years ago.
- Another key date is that on which the working-age population—people age 20 to 64—will begin to decline. In 2004, the Institut de la statistique du Québec anticipated that the phenomenon would occur in 2013. According to the most recent trends, that date is now 2017.

Thus, Québec's demographic future is changing. The anticipated changes are far from negligible and will occur in the not-too-distant future.

Changes in the Québec population from 2006 to 2051, based on the scenario of the ministère du Conseil executive (MCE) and the two ISQ reference scenarios
(millions)



Source: *2009-2010 Budget – Status Report on Québec's Familiy Policy*, ministère des Finances du Québec.

1.1 Improvement of the refundable tax credit for child care expenses

The Québec government offers Québec families generous childcare support, through:

- government subsidies for reduced-contribution childcare services;
- the refundable tax credit for child care expenses.

The refundable tax credit for child care expenses is designed to offset part of the child care expenses incurred by families in order to work, study or actively seek employment.

The tax credit rate varies from 75 % to 26 %, based on family income. The amount of eligible child care expenses is subject to certain limits:

- $10 000 for a child with a severe and prolonged impairment in physical or mental functions, regardless of the child's age;
- $7 000 for a child under 7 years of age;
- $4 000 for any other eligible child.

❑ Three enhancements

To make childcare choices more financially neutral and fairer for most families, the 2009-2010 Budget provides for three enhancements of the refundable tax credit for child care expenses:

- a change to the rate table to further reduce the net-cost difference between private and reduced-contribution childcare services;
- an increase from $7 000 to $9 000 in the limit on child care expenses for a child under 7 years of age;
- improvement of the tax treatment of child care expenses paid during parental leave.

Overall, these measures represent a cost of $22 million a year to the government and will benefit close to 100 000 families. They will apply as of the 2009 taxation year.

■ Changes to the rate table to further reduce the net-cost difference between private and reduced-contribution childcare services

▪ Reminder of the 2008-2009 Budget

The 2008-2009 Budget provided for an improvement to the refundable tax credit for child care expenses as of 2009.

The credit was enhanced to make the net cost of a regular rate childcare space comparable to the net cost of a $7 reduced-contribution space in a public day care centre, up to a family income of $80 000.

Briefly, as a result of the improvement:

- the tax credit rate was maintained at 60% of child care expenses for households earning between $47 860 and $84 040;
- the rate for family income over $84 040 was reduced gradually, to 26% for family income equal to or over $102 925.

▪ New enhancement to make the cost of private childcare comparable to the cost of $7-a-day childcare, up to a family income of $125 000

To make Québec's childcare network more financially neutral for the vast majority of families, the 2009-2010 Budget provides for an additional enhancement of the refundable tax credit for child care expenses.

Through this enhancement, which will take effect as of 2009, the cost of both types of childcare services—private and $7-a-day public services—will be comparable, up to a family income of approximately $125 000.

The measure will benefit close to 100 000 families, providing them with a tax benefit of $20 million annually. Together with the measure in the 2008-2009 Budget, the total tax relief will be $40 million annually and will benefit for 200 000 Québec families.

- **Impact of the measure for families**

Currently, the assistance for parents whose children are placed in private regular rate childcare services is more generous than, or comparable to, reduced-contribution childcare services for families with income below $80 000. Above that level of income, childcare services at $7 per day are more advantageous.

— For instance, taking both Québec and federal taxation into account, a couple with a child under age 5 and with an income of $50 000 would pay in 2009:

  — $2.68 per day in a childcare centre;

  — $2.81 per day in a private day care centre charging $25 per day.

— By comparison, the same family with an income of $100 000 would pay in 2009:

  — $2.73 per day for a reduced-contribution childcare space;

  — $8.06 for a private childcare space at the regular rate of $25 per day.

As a result of the change in the 2009-2010 Budget, the rates of the refundable tax credit for child care expenses will be enhanced up to a family income of $140 450.

— As of 2009, the rate of the refundable tax credit for child care expenses will increase to 60% of eligible child care expenses for income ranging from $47 860 to $86 370. A tax credit rate of 57% will apply to the income bracket of $86 370 to $124 000. It will then decline to the minimum rate of 26% at $140 450 rather than $102 925.

Accordingly, up to a family income of approximately $125 000, there will be hardly any difference between the daily net cost of the two types of childcare services, where the private child care rate is $25 per day.

TABLE E.3

Net daily child care costs for a child under age 5
Couple with one child and two work incomes[1] – 2009
(dollars per day)

		Private regular rate childcare services[2]					
Household's work income	**Reduced–contribution childcare ($7/day)**	**System before 2008-2009 Budget**	**Difference compared with $7 childcare**	**System after 2008-2009 Budget**	**Difference compared with $7 childcare**	**System after 2009-2010 Budget**	**Difference compared with $7 childcare**
50 000	2.68	2.81	– 0.13	2.81	– 0.13	2.81	– 0.13
60 000	2.68	5.07	– 2.39	**3.07**	**– 0.39**	3.07	– 0.39
70 000	2.68	7.32	– 4.64	**3.07**	**– 0.39**	3.07	– 0.39
80 000	2.87	9.50	– 6.64	**3.25**	**– 0.39**	3.25	– 0.39
90 000	2.73	10.79	– 8.06	4.29	– 1.56	**3.04**	**– 0.31**
100 000	2.73	10.56	– 7.83	8.06	– 5.33	**2.81**	**– 0.08**
110 000	2.87	10.74	– 7.87	10.74	– 7.87	**2.99**	**– 0.12**
120 000	2.87	11.06	– 8.19	11.06	– 8.19	**3.31**	**– 0.44**
125 000	2.87	11.06	– 8.19	11.06	– 8.19	**3.31**	**– 0.44**
130 000	2.87	11.06	– 8.19	11.06	– 8.19	5.56	– 2.69
140 000	2.87	11.06	– 8.19	11.06	– 8.19	9.56	– 6.69
150 000	2.87	11.06	– 8.19	11.06	– 8.19	11.06	– 8.19

Note: The cost reflects federal measures, including the Universal Child Care Benefit. In addition, the figures have been rounded off, so their differences may not correspond to those indicated.
1 Each spouse earns 50% of the work income.
2 Child care expenses of $25 per day per child for 260 days ($25 x 260 = $6 500).
Source: Calculator of Your Daycare Cost Per Day, ministère des Finances du Québec, www.finances.gouv.qc.ca.

Enhancement of the rate table for the refundable tax credit for child care expenses

Rate table for the refundable tax credit for child care expenses – 2009

Family income ($)		Tax credit rate (%)		Family income ($)		Tax credit rate (%)	
Greater than	Without exceeding	2009 table announced in 2008-2009 Budget	2009 table announced in 2009-2010 Budget	Greater than	Without exceeding	2009 table announced in 2008-2009 Budget	2009 table announced in 2009-2010 Budget
0	31 520	75	75	93 465	94 645	42	57
31 520	32 685	74	74	94 645	95 830	40	57
32 685	33 855	73	73	95 830	97 010	38	57
33 855	35 015	72	72	97 010	98 195	36	57
35 015	36 185	71	71	98 195	99 375	34	57
36 185	37 345	70	70	99 375	100 560	32	57
37 345	38 525	69	69	100 560	101 740	30	57
38 525	39 690	68	68	101 740	102 925	28	57
39 690	40 850	67	67	102 925	124 000	26	57
40 850	42 015	66	66	124 000	125 175	26	54
42 015	43 190	65	65	125 175	126 350	26	52
43 190	44 355	64	64	126 350	127 525	26	50
44 355	45 525	63	63	127 525	128 700	26	48
45 525	46 685	62	62	128 700	129 875	26	46
46 685	47 860	61	61	129 875	131 050	26	44
47 860	84 040	60	60	131 050	132 225	26	42
84 040	85 210	58	60	132 225	133 400	26	40
85 210	86 370	56	60	133 400	134 575	26	38
86 370	87 555	54	57	134 575	135 750	26	36
87 555	88 735	52	57	135 750	136 925	26	34
88 735	89 920	50	57	136 925	138 100	26	32
89 920	91 100	48	57	138 100	139 275	26	30
91 100	92 285	46	57	139 275	140 450	26	28
92 285	93 465	44	57	140 450	or over	26	26

Cost of a childcare space by type of care

Families with a family income of $100 000 who use reduced-contribution childcare services pay less for the care of their children. For example, for a couple, the cost of a space is:

- $7 per day in a childcare centre (CPE), for a net cost of $2.73;
- $25.00 per day in a regular rate day care centre, for a net cost of $2.81 – the family pays the full price but receives, in particular, the Québec refundable tax credit for child care expenses.

The difference between the two is $0.08 per day, after including the impact of the tax credits and government benefits.

Couple with one child and two work incomes totalling $100 000[1] – 2009
(dollars per day)

	Childcare services ($7/day)	Private regular rate childcare services	Difference
GROSS RATE FOR THE PARENT	**7.00**	**25.00**	**– 18.00**
Québec assistance			
– Refundable tax credit for child care expenses	n/a	– 14.25	14.25
Federal assistance			
– Canada Child Tax Benefit	– 0.14	– 0.50	0.36
– Universal Child Care Benefit	– 2.84	– 2.84	—
– Child Care Expenses Deduction	– 1.29	– 4.59	3.31
Federal subtotal	**– 4.27**	**– 7.94**	**3.67**
NET RATE	**2.73**	**2.81**	**– 0.08**

Note: The figures have been rounded off, so they may not add up to the total indicated.
1 Each spouse earns 50% of the work income.
Source: Calculator of Your Daycare Cost Per Day, ministère des Finances du Québec, www.finances.gouv.qc.ca.

■ Increase to $9 000 in the limit on child care expenses for a child under 7 years of age

The 2009-2010 Budget provides that the limit on eligible child care expenses for the purposes of the refundable tax credit for child care expenses, with respect to a child under age 7, will be increased by $2 000, to $9 000 annually.

— Thus, the full amount of child care expenses for a child care rate of up to almost $35 a day per child in full-time care (260 childcare days a year) will be eligible for the tax credit.

— This enhancement will strengthen neutrality between a private childcare space and a reduced-contribution space.

This measure represents tax relief of $1.5 million a year and will benefit more than 2 200 families.

■ Improvement of the tax treatment of child care expenses paid during parental leave

Currently, the refundable tax credit for child care expenses is designed to offset part of the child care expenses incurred by families in order to work, study or actively seek employment. In the case of a couple, it is not explicitly required that both spouses meet these conditions for child care expenses to be eligible for the tax credit.

Accordingly, child care expenses paid by a recipient of the Québec Parental Insurance Plan are eligible for the tax credit only if the recipient's spouse is working, studying or actively seeking employment. In the case of a single-parent family receiving benefits under the Québec Parental Insurance Plan, child care expenses do not give entitlement to the tax credit because the family does not meet the requirements.

To recognize that certain child care expenses can be necessary during parental leave, the 2009-2010 Budget provides for a change to the eligibility criteria of the tax credit so that parents receiving benefits under the Québec Parental Insurance Plan can claim the credit for child care expenses they pay during the period they are beneficiaries of the plan.

This measure, which will apply as of the 2009 taxation year, represents annual tax relief of $0.5 million and will benefit nearly 1 000 families.

1.2 Streamlining of the Québec education savings incentive

The 2007-2008 Budget introduced the Québec education savings incentive (QESI) to encourage Québec families to save for their children's post-secondary education.

— Generally, the QESI provides financial assistance corresponding, for a given year, to 10% of the first $2 500 paid as contributions to a registered education savings plan (RESP).

— In addition, an increase is granted for low- and middle-income families respecting the first $500 in contributions.

— The cumulative assistance may reach $3 600 per eligible child.

To date, 16 trusts have already registered with Revenu Québec. To encourage more trusts to offer the QESI to their clients and register with Revenu Québec, the 2009-2010 Budget provides for certain streamlining measures.

❑ Requirements regarding children 16 or 17 years of age

Currently, for contributions on behalf of a child age 16 or 17 to give entitlement to the QESI, certain requirements must be met in order to ensure that the assistance granted under the QESI is reasonable compared with the private savings already invested in an RESP. More specifically, a minimum contribution of $2 000 must have been made to an RESP on behalf of the child before the end of the year in which the child turns 15, or a contribution of $100 must have been paid over four consecutive or non-consecutive years before the end of the year in which the child turns 16. Trustees must see that this rule is abided by, which can be difficult to do. To ease the task of trustees offering the QESI, it will now be possible to determine eligibility for the QESI simply by making sure that the plan received an amount as a Canada Education Savings Grant with regard to a child 16 or 17 years of age.

❑ Transfer between plans

RESP subscribers may, if they so wish, entrust the management of their education savings portfolio to another trust. In that case, the "sending" trust must wait until it receives any QESI amounts owing for a previous year, generally in May, before it can make the transfer. This can lead to a delay of several months before the transfer is carried out. To cut down on delays, transfers between trusts will now be facilitated by allowing an outstanding QESI to be alienated.

1.3 Increase to $25 000 in the Home Buyers' Plan withdrawal limit

Under the Home Buyers' Plan (HBP), individuals can withdraw up to $20 000 from a registered retirement savings plan (RRSP) in order to purchase or build a first home, without having to pay income tax on the withdrawal.

The amounts withdrawn must then be repaid in annual instalments over a maximum of 15 years, until the HBP balance is nil.

— If an individual does not repay the minimum amount required for a year, the amount must be included in the individual's income for that year.

The repayment period begins in the second year following the year in which the withdrawal was made. Accordingly, the individual has a maximum of two years before he or she must begin repaying the amounts withdrawn.

❑ Reminder of the improvement to the HBP announced on February 5, 2009

In its January 27, 2009 Budget, the federal government announced an increase to $25 000 in the HBP withdrawal limit.

To harmonize the treatment of RRSPs with the federal tax system and thereby simplify RRSP administration for individuals, the ministère des Finances du Québec announced on February 5, 2009 that the HBP withdrawal limit would be raised from $20 000 to $25 000. The new limit applies to withdrawals made after January 27, 2009.

❑ Benefits for taxpayers

This measure will help households who have substantial RRSP amounts and who wish to buy a first home despite these uncertain economic times.

— Moreover, it will prompt households buying their first home to make a larger down payment.

The cost of this measure is $5 million a year. The measure will benefit about 10 000 taxpayers annually.

1.4 Deduction for a loss in the value of RRSP/RRIF investments following a death

The value of investments held in an RRSP or a RRIF upon a person's death is generally included in the person's income for the year of death. An increase in the value of the investments after the date of death is generally included in the income of the beneficiaries of the plan when the assets are distributed.

However, there is no fiscal provision recognizing a loss in the value of RRSP or RRIF investments that occurs between the date of the person's death and the date on which the assets are distributed to the beneficiaries of the plan.

❑ Measure in the 2009-2010 Budget

To harmonize the treatment of RRSPs and RRIFs with federal tax measures and simplify administration of the plans for individuals, the 2009-2010 Budget provides that the losses sustained on an RRSP or a RRIF, following a decrease in the value of the investments between the date of a person's death and the time when the assets are distributed, may be deducted in the calculation of the deceased's income for the year of death. The measure will apply to final distributions of assets made after 2008.

The cost of this measure is $8 million in 2008-2009.

TABLE E.4

Example of a loss in the value of an RRSP following a person's death
(dollars)

	Before 2009-2010 Budget	After 2009-2010 Budget
Value of RRSP investments upon death	10 000	10 000
Value of investments upon distribution	8 500	8 500
Loss in value	– 1 500	– 1 500
AMOUNT DEDUCTIBLE FROM THE INCOME OF THE DECEASED	**0**	**– 1 500**

2. IMPROVING THE QUALITY OF LIFE OF SENIORS

In the last two budgets, the government announced investments of $2.3 billion over five years for seniors, in particular to increase disposable income, enable seniors to remain in their home and promote respect toward seniors.

To continue the government's action on behalf of seniors, Québec must, in a context of population aging, make efficient use of all public services to promote active living by seniors and their contribution to society.

Consequently, the government wishes to take action specifically to:

— foster, in partnership with municipalities, the development of proximity services, which must be adapted to facilitate seniors' lives and increase their level of activity;

— eliminate elder abuse and remove this major barrier to active aging;

— meet seniors' substantial home adaptation needs.

Thus, the 2009-2010 Budget provides for three measures to improve the quality of life of seniors, totalling $10.7 million over two years:

— the "Age-Friendly Municipalities" initiative, at an annual amount of $1 million;

— the implementation of a government action plan to counter elder abuse, at an annual amount of $4 million;

— an investment of $3.5 million for home adaptations for independent seniors.

2.1 The “Age-Friendly Municipalities” initiative

The “Age-Friendly Municipalities” (AFM) initiative draws on an approach proposed by the World Health Organization that has high visibility and is generally applauded by organizations and the various levels of governance.

Pilot projects to implement the initiative began in 2008 in seven municipalities. The next step will be a strategy to promote and develop the initiative, whose key focuses are aimed at promoting active aging and community mobilization. The actions consist in:

- producing promotional support tools for the municipalities;
- making available consulting and support tools for communities through the preparation of a guide for implementing the AFM initiative in Québec;
- offering support for concrete action, through the creation of a financial assistance program for implementing AFM initiatives.

To support the “Age-Friendly Municipalities” promotional strategy and fund concrete local projects that will mobilize communities as a whole, the 2009–2010 Budget provides for additional investments of $1 million a year as of 2009-2010.

2.2 Action plan to counter elder abuse

Further to the public consultation on the living conditions of seniors held in Québec in the fall of 2007, the government undertook to draw up an action plan to counter elder abuse. To ensure the implementation of the action plan, the 2009-2010 Budget provides for the injection of $4 million a year as of 2009-2010.

The objective of the action plan is to take into account the concerns of independent seniors and seniors losing their autonomy, as well as those of professionals and family members, with a view to elder abuse prevention, detection and intervention.

The action plan will therefore cover a broad clientele, including seniors in Aboriginal, Inuit and ethnic communities.

The main measures in the action plan to counter elder abuse include the following:

- facilitating the adaptation and variation of the practices in effect;
- proposing new actions for prevention, detection and intervention;
- defining a new organization of services in order to coordinate actions and monitor their implementation;
- proposing a strategy for implementing, managing changes to, evaluating and following up the action plan.

The action plan, which will be unveiled soon by the Minister responsible for Seniors, will be complementary to existing government measures. Nine departments and agencies will be associated with the plan, under the coordination of the ministère de la Famille et des Aînés.

2.3 Financial assistance for home adaptations for independent seniors

In the coming years, Québec will be faced with accelerated population aging. For several years, Québec government intervention on behalf of seniors has sought, in particular, to help seniors remain at home as long as possible.

Under the Home Adaptations for Seniors’ Independence program, people 65 and over with low incomes can obtain financial assistance to make minor adaptations to their home that will enable them to live there more independently and safely.

- From January 1, 2007 to March 31, 2008, 935 seniors’ households received subsidies averaging $2 436.

To meet the needs of seniors, the 2009-2010 Budget provides for an investment of $3.5 million over two years in the Home Adaptations for Seniors' Independence program.

- These investments will benefit nearly 1 200 low-income seniors’ households over the next two years.

2.4 Impact of the measures in the 2007-2008, 2008-2009 and 2009-2010 budgets to improve the situation of seniors

In recent years, a number of measures have been announced to:

— increase seniors' disposable income;

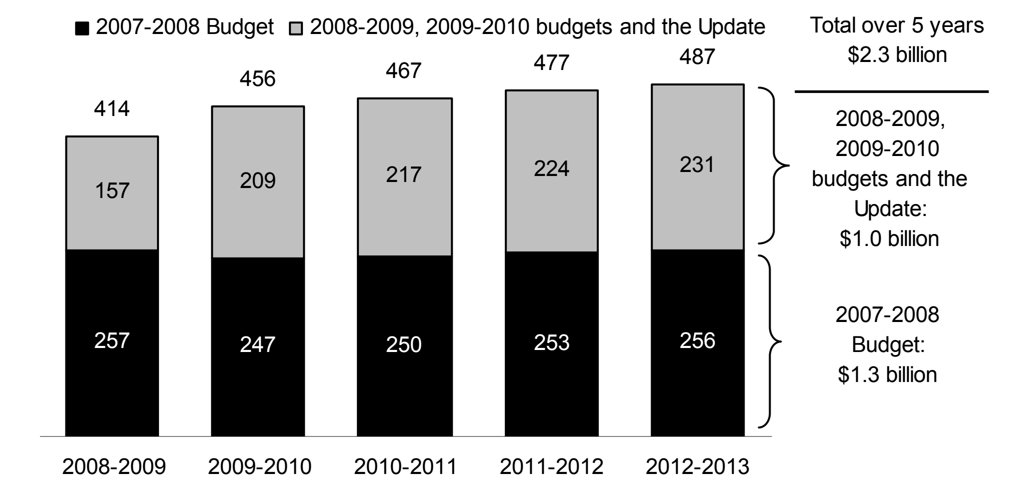
— help seniors remain at home;

— better support informal caregivers.

The 2007-2008 Budget earmarked an additional $1.3 billion over five years for seniors. Together with the measures in the 2008-2009 and 2009-2010 budgets, a total of more than $2.3 billion over five years has been invested in the well-being of seniors.

CHART E.1

Results of investments for seniors – 2007-2008, 2008-2009 and 2009-2010 budgets and the Update on Québec's Economic and Financial Situation
(millions of dollars)



Taking into account the measures implemented further to the most recent budgets, tax assistance for seniors and informal caregivers has almost tripled in nine years.

— Tax assistance has risen from $304 million in 2003-2004 to $662 million in 2008-2009. In 2012-2013, tax assistance for seniors will reach $840 million.

TABLE E.5

Results of tax measures for seniors for the period from 2003-2004 to 2012-2013
(millions of dollars)

	2003-2004	2008-2009	2012-2013	Average annual change (%)
Tax assistance for seniors				
– Refundable tax credit for home support for elderly persons	60	201	242	
– Tax credit with respect to age	137	151	184	
– Retirement income splitting between spouses	—	111	134	
– Tax credit for retirement income	58	112	176	
– Non-taxation of the guaranteed income supplement and spouse's allowance	32	37	49	
Subtotal	**287**	**612**	**785**	**11.8**
Tax assistance for informal caregivers				
– Refundable tax credit for informal caregivers[1]	17	40	44	
– Refundable tax credit for respite expenses of informal caregivers	—	10	11	
Subtotal	**17**	**50**	**55**	**13.9**
TOTAL	**304**	**662**	**840**	**12.0**

1 Including the refundable tax credit for housing a parent, which was replaced in 2006.

3. Investments of $370 million in social housing construction and renovation

For several years, the government has been supporting households, especially low-income households, to make affordable housing available and allow for home renovations and adaptations. Moreover, in an economic slowdown, government assistance is important to stimulating the construction and renovation sector, thereby retaining jobs and supporting the economy.

In this context, the 2009-2010 Budget provides for an investment of $370 million over two years for home construction, renovations and adaptations in order to support that sector and enable households to have adequate housing.

- First, investments of $200 million are earmarked for the construction of 3 000 additional social housing units.
- Second, investments totalling $170 million over two years are allocated for home renovations and adaptations on behalf of several vulnerable groups:
  - women who are victims of domestic violence;
  - people with disabilities;
  - low-income owners living in rural areas;
  - residents of rundown areas in municipalities.

TABLE E.6

Investments in social housing

(millions of dollars)

	Government investments	Financial impact 2009-2010	2010-2011	Total Over 2 years	Number of households
Investment of $200 million for the construction of 3 000 social housing units	**200.0**	—	—	—	**3 000**
Home renovation and adaptation programs					
– RénoVillage	50.0	– 4.5	– 9.5	– 14.0	6 000
– Shelter enhancement	10.0	– 0.1	– 0.6	– 0.7	370
– Emergency repairs	6.5	– 0.4	– 0.8	– 1.2	1 300
– Home adaptations	40.0	– 9.6	– 16.8	– 26.4	2 500
– Rénovation Québec	60.0	– 0.1	– 0.7	– 0.8	17 000
Subtotal	**166.5**	**– 14.7**	**– 28.4**	**– 43.1**	**27 170**
– Home Adaptations for Seniors' Independence[1]	3.5	– 0.3	– 0.4	– 0.7	1 200
TOTAL	**370.0**	**– 15.0**	**– 28.8**	**– 43.8**	**31 370**

1 This measure is presented in section E.2.3.

3.1 Investment of $200 million for the construction of 3 000 social housing units

The 2009-2010 Budget provides for an investment of $200 million for the construction of 3 000 social housing units under the AccèsLogis Québec program. It is the sixth consecutive budget to announce investments in social housing construction.

These housing units are in addition to those already announced in previous budgets and raise to 27 000 the number of social housing units announced since 2002-2003, thereby exceeding by 14 000 the initial objective of 13 000 units.

Together with this commitment, nearly $1.3 billion has been devoted to the construction of:

- 17 930 units under the AccèsLogis Québec program;
- 9 070 units under the Affordable Housing Québec program.

TABLE E.7

Construction of social housing units announced by the Québec government

	AccèsLogis Québec	Affordable Housing Québec	Total
Initial objective	6 500	6 500	13 000
Budgets			
– 2009-2010	3 000	0	3 000
– 2008-2009	2 000	0	2 000
– 2007-2008	2 000	0	2 000
– 2006-2007	1 400	0	1 400
– 2005-2006	2 600	0	2 600
– 2004-2005	430	2 570	3 000
Total – last six budgets	**11 430**	**2 570**	**14 000**
TOTAL	**17 930**	**9 070**	**27 000**

AccèsLogis Québec

The AccèsLogis Québec program enables housing bureaus, housing cooperatives, and non-profit organizations to implement community housing with a minimal contribution from their communities for low-income or modest-income households, or groups in difficulty with special needs.

As at January 31, 2009, of the 27 000 social housing units provided for:

- 15 624 had been delivered;
- 5 071 were under construction;
- 6 305 had yet to be built.

Thus, 11 376 additional social housing units will be delivered in the coming years.

TABLE E.8

Number of social housing units delivered and under way

	Units		Upcoming projects			
	Delivered	Under way	Before Budget	2009-2010 Budget	Subtotal	Total
AccèsLogis Québec	7 717	4 372	2 841	3 000	5 841	17 930
Affordable Housing Québec	7 907	699	464	—	464	9 070
TOTAL	**15 624**	**5 071**	**3 305**	**3 000**	**6 305**	**27 000**

1 As at January 31, 2009.

3.2 Financial assistance for low-income owner-occupants living in rural areas (RénoVillage)

Québec is composed of several small municipalities located in rural areas. Homes in need of major repairs are not uncommon in the heart of these municipalities. However, homeowners sometimes do not have the financial resources necessary to carry out the work. To help them, the Québec government introduced the RénoVillage program.

The program grants financial assistance to low-income and modest-income owner-occupants living in rural areas to enable them to correct major defects in their home.

- From January 1, 2007 to March 31, 2008, 2 938 households availed themselves of the RénoVillage program and received an average of $7 768 in financial assistance.

As part of the 2009-2010 Budget, the government is providing for an investment of $50 million over two years—$25 million in 2009-2010 and $25 million in 2010-2011—in the RénoVillage program. Over the next two years, these investments will benefit nearly 6 000 households in need.

3.3 Enhancement of shelters for victims of domestic violence

Certain hardships in life sometimes result in a need for emergency shelter or temporary accommodation for an individual or families. This is true, for example, for some victims of domestic violence and for homeless people and individuals undergoing social reintegration. For several years, Québec has had a network of shelters to help such people.

In that regard, the Shelter Enhancement Program (SEP) provides financial assistance for the renovation of shelters for women and young people under the age of 29 who are victims of family violence.

— From January 1, 2007 to March 31, 2008, 174 shelter units received financial assistance for renovation work. The average amount of assistance was more than $13 000.

To fund the renovation and construction of additional housing units, the 2009-2010 Budget provides for investments of $10 million over two years in the Shelter Enhancement Program (SEP Renovation) and the AccèsLogis Québec program, component III (SEP Development).

— It is estimated that, over the next two years, nearly 330 shelter units will be renovated and some 40 others will be built.

3.4 Financial assistance for emergency repairs for low-income owner-occupants

Owner-occupants sometimes have to deal with unforeseen repairs. A roof that leaks and a furnace that stops working require immediate attention. Unfortunately, some homeowners cannot afford to have the necessary work done.

The Emergency Repair Program provides financial assistance to low-income owner-occupants living in rural areas, so that they can correct major defects in their home that pose a threat to their safety or health.

— From January 1, 2007 to March 31, 2008, 576 emergency repairs were carried out. The average grant was $4 322.

The 2009-2010 Budget provides for investments of $6.5 million over two years—$3.25 million in 2009-2010 and $3.25 million in 2010-2011—in the Emergency Repair Program. Thus, in the next two years, almost 1 300 low-income households will benefit from this program.

3.5 Financial support for home adaptations for people with disabilities

The well-being of people with disabilities is predicated on the possibility of carrying out activities of daily living. Without that possibility, many of them would not be able to live alone in a dwelling.

In that regard, the Residential Adaptation Program helps people with disabilities assume the cost of the work required to make their dwelling accessible and thereby facilitate their daily activities.

— From January 1, 2007 to March 31, 2008, 901 home adaptations were carried out. The average grant was $ 13 665 per dwelling.

To support people with disabilities, the 2009-2010 Budget provides for an investment of $40 million over two years—$20 million in 2009-2010 and $20 million in 2010-2011—in the Residential Adaptation Program.

— An estimated 2 500 people with disabilities are expected to take advantage of the program in the next two years.

3.6 Home improvements in rundown areas (Rénovation Québec)

Most urban centres in Québec were built many years ago. In such centres, it is not uncommon to see buildings in need of renovations that could not be carried out without financial assistance from the government.

In that regard, the Rénovation Québec Program is aimed at improving homes in the rundown areas of municipalities.

— From January 1, 2007 to March 31, 2008, subsidies were granted for 2 724 renovation projects involving 10 238 households.

To support municipalities and households, the 2009-2010 Budget provides for an investment of $60 million over two years—$30 million in 2009-2010 and $30 million in 2010-2011—in the Rénovation Québec program.

— An estimated 17 000 dwellings will be able to be renovated under the program over the next two years.

4. INVESTMENTS IN SOCIAL DEVELOPMENT

The social economy sector plays a key role in the Québec economy. To support the sector in its mission, particularly regarding vulnerable people, the 2009-2010 Budget provides for four measures:

— an injection of $5 million in the Réseau d'investissement social du Québec, in order to facilitate financing of innovation and new-market development projects;

— the funding of a study for the Chantier de l'économie sociale on the creation of a secondary social economy market;

— the extension of support for the Réseau québécois du crédit communautaire;

— an investment to promote the development of female entrepreneurship, in order to add six new organizations and extend the network of regional organizations supporting women entrepreneurs to all regions of Québec.

4.1 Injection of $5 million in the Réseau d'investissement social du Québec

Social economy businesses play an essential role in the Québec economy and contribute greatly to the well-being of our communities. Today, social economy businesses employ over 125 000 people and generate financial benefits of more than $17 billion a year.

Social economy businesses require funding tailored to their reality. In that regard, the Réseau d'investissement social du Québec (RISQ) is a fund dedicated exclusively to such businesses for the purpose of supporting their projects and ensuring their development, by contributing to their capitalization.

— RISQ covers the $50 000 or less investment niche and helps businesses in the startup, consolidation, recovery or expansion phase.

However, to be more effective, RISQ should be able to offer financial tools specific to businesses interested in innovation or in developing new markets.

In this context, the government is announcing the creation of a pre-startup fund under RISQ's responsibility, with a view to enabling investments in social economy projects.

4.2 Funding of a study for the Chantier de l'économie sociale

The mission of the Chantier de l'économie sociale is to foster and support the emergence, development and consolidation of social economy businesses and organizations.

The Chantier de l'économie sociale has been helping social economy businesses for several years. Because of its experience in the field, it finds that existing financial products are often ill-suited to the reality of social economy businesses. To support this sector, it is therefore important to make available to these businesses financial products that meet their needs.

In that regard, the creation of a secondary market enabling financial instruments of businesses or funds related to the social economy to be traded, could be a promising option. The market would make it possible to offer specialized products to potential entrepreneurs, recapitalize existing funds and maintain the capitalization of social economy businesses. However, before going forward, it is necessary to evaluate the efficacy of such an approach, define the legal and regulatory framework, identify prospective investors and define transaction mechanisms.

In this context, the 2009-2010 Budget announces the funding of a study for the Chantier de l'économie sociale on the steps involved in the creation of a secondary social economy market. Funding of $300 000 will be allocated for the study.

4.3 Extension of support for the Réseau québécois du crédit communautaire

As part of the government's 2004-2009 action plan to combat poverty and social exclusion, the government granted financial support to the Réseau québécois du crédit communautaire (RQCC) network over a five-year period, that is, from 2004-2005 to 2008-2009.

— Founded in 2000, the network includes 21 member organizations in 11 regions of Québec.

— The organizations offer micro-credit for business startup and consolidation, as well as ongoing support in entrepreneurship for economically disadvantaged groups outside the traditional private and public funding networks. The loans granted averaged $5 412 per business.

In 2007-2008, the RQCC received $2.2 million, enabling member organizations to assist 1 136 people, 55% of whom were women. The same amount was allocated to the RQCC for 2008-2009.

To maintain support for the network, the 2009-2010 Budget provides for $2.2 million in 2009-2010, making it possible to renew government funding for another year.

4.4 Promoting the development of female entrepreneurship

The network of regional organizations supporting women entrepreneurs is established in most regions of Québec. However, six regions are not yet served by the network.

— The mission of the regional organizations is to promote female entrepreneurship. To that end, the organizations assist women entrepreneurs by referring them to resources in the area and organizing networking activities. The organizations can also offer financial support for the creation of enterprises headed by women entrepreneurs.

— Since the establishment of these organizations, they have made it possible for 250 businesses to obtain financing, thereby creating 200 new jobs and maintaining 400 jobs.

To complete the network, the government is announcing an investment of $3 million over two years, with a view to adding six new organizations and extending the network to all regions of Québec.

Section F

Supporting Jobs and Preparing for Economic Recovery

1. Plan to support jobs and prepare for economic recovery

Since last fall, the economic outlook has darkened around the world, and Québec has not been spared. Individuals and businesses are facing a global economic and financial crisis.

For many of these businesses, access to financing is restricted, limiting their ability to deal with the crisis or invest in modern equipment to prepare for economic recovery. In addition, Quebecers are worried about the economic and financial crisis and are curtailing their consumption spending.

The contraction in consumption and the lack of cash resources are compromising the profitability of companies and, consequently, employment levels in many sectors.

❑ Review of government actions in recent months to support the economy and employment

To mitigate the effects of the economic downturn, the government has intervened on a number of occasions in recent months to support the economy and employment, in particular on November 4, 2008 in the *Update on Québec's Economic and Financial Situation* and on January 14, 2009, in the *Economic Statement* presented to the National Assembly by the Minister of Finance.

At that time, the government announced the immediate implementation of a number of commitments to:

- stimulate the home renovation sector;
- support income and protect the purchasing power of households;
- increase the cash resources and investments of businesses;
- protect corporate pension plans;
- accelerate investments in public infrastructure.

1.1 An injection of $15 billion in the economy, equal to 4.9% of GDP

In recent weeks, the economic outlook has continued to worsen in Québec, Canada, the United States and the rest of the world.

In this context, the new initiatives of the 2009-2010 Budget will inject in excess of $3.4 billion in Québec's economy in 2009 and 2010.

— These initiatives are in addition to those recently announced, in particular, in the January 14, 2009, Economic Statement, the November 4, 2008, Update on Québec's Economic and Financial Situation and the 2007-2012 Québec's Infrastructures Plan, as well as the reduction in the rate of the tax on capital in 2009 and 2010.

❑ Substantial injection of cash resources into the economy

Taking all these measures into account, a total of $15 billion, i.e. 4.9% of GDP, is being injected into Québec's economy 2009 and 2010, i.e.:

— $5.3 billion for businesses;

— $1.4 billion for individuals;

— $8.3 billion to improve infrastructures.

TABLE F.1

Plan to support jobs and prepare for economic recovery – Impact on cash resources

(Millions of dollars)

	Injection of cash resources into the economy in 2009 and 2010			
	Businesses	**Individuals**	**Infrastructure**	**Total**
2009-2010 Budget				
– Measures of the 2009-2010 Budget	2 340	678	174	**3 192**
– Additional investments by Loto-Québec and the Société de l'assurance automobile du Québec	—	—	190	**190**
Subtotal	**2 340**	**678**	**363**	**3 381**
Earlier announcements				
– *Economic Statement*, January 14, 2009	1 030	250	1 441	**2 721**
– Measure announced December 19, 2008[1]	—	40	—	**40**
– *Update on Québec's Economic and Financial Situation*, November 4, 2008[2]	1 000	459	—	**1 459**
– 2007-2012 Québec Infrastructures Plan:[3] impact compared to 2007	—	—	6 450	**6 450**
– Elimination of the tax on capital: impact of rate reductions as at January 1, 2009 and 2010[4]	972	—	—	**972**
Subtotal	**3 002**	**749**	**7 890**	**11 641**
TOTAL	**5 342**	**1 427**	**8 253**	**15 023**
Québec GDP[P]				**309 249**
Injection of cash resources into the economy as a % of GDP				**4.9%**

Note: Due to rounding, the figures may not add up to the totals shown.
P: Average of forecasts of Québec's GDP for 2009 and 2010.
1 Corresponds to the impact of the 25% reduction in minimum withdrawals from Registered Retirement Income Funds (RRIF) in 2008.
2 Excluding the cost of Québec proposals requiring harmonization with the federal tax system, but not adopted by the federal government.
3 Amount of additional investments compared to 2007-2008.
4 According to the expected timetable for the elimination of the tax on capital by January 1, 2011.

❑ An economic support plan that compares well with those of Canada and the United States

On a relative basis, the efforts made by the Québec government compare well with those of Canada and the United States, which have also adopted ambitious economic support plans amounting respectively to 4.1% and 4.8% of their GDP.

TABLE F.2

Government action to support the economy in 2009 and 2010

	2009		2010		Total	
	$ billion	% of GDP	$ billion	% of GDP	$ billion	% of GDP
Québec	8.1	2.7	7.0	2.2	15.0	4.9
Canada	42.3	2.7	22.3	1.4	64.6	4.1
United States[1]	274.0	2.0	401.0	2.8	675.0	4.8

Note: Includes fiscal and budgetary measures, infrastructure investments and cash resources injected to support the economy, excluding assistance to the financial system.

1 Amounts in American dollars.

Sources: Ministère des Finances du Québec, Department of Finance Canada - Budget 2009, Congressional Budget Office and U.S. Treasury.

❑ The cost to the governement

For the government, the cost of these measures to support the economy and employment amounts to $2.4 billion over the next two years.

TABLE F.3

Cost to the government of the plan to support the economy and prepare for economic recovery
(Millions of dollars)

	2009-2010	2010-2011	Total over two years
2009-2010 Budget			
– Measures of the 2009-2010 Budget[1]	242	237	**479**
– Additional investments by Loto-Québec and the Société de l'assurance automobile du Québec	—	—	—
Subtotal	**242**	**237**	**479**
Earlier announcements			
– *Economic Statement,* January 14, 2009	291	75	**366**
– Measure announced December 19, 2008[2]	—	—	—
– *Update on Québec's Economic and Financial Situation*, November 4, 2008[3]	293	295	588
– Enhancement of the 2007-2012 Québec Infrastructures Plan[4]	—	—	—
– Elimination of the tax on capital: impact of reductions as at January 1, 2009 and 2010[5]	299	673	972
Subtotal	**883**	**1 043**	**1 926**
TOTAL	**1 125**	**1 280**	**2 405**

1 Net cost of funding from the federal government for the improvement to the Employment Pact to be paid into the Fonds de développement du marché du travail.
2 Corresponds to the impact of the 25% reduction in minimum withdrawals from Registered Retirement Income Funds (RRIF) in 2008, the cost of which is charged to fiscal year 2008-2009.
3 Excluding the cost of Québec proposals requiring harmonization with the federal tax system, but not adopted by the federal government.
4 The cost will be funded from the program spending objective.
5 According to the expected timetable for the elimination of the tax on capital by January 1, 2011.

1.2 Overview of the fiscal and budgetary measures of the 2009-2010 Budget

In view of the scope of the economic downturn, the government must intensify its efforts to support businesses and workers in difficulty and prepare for economic recovery so that it benefits everyone fully.

Despite the difficult situation, the government must stay the course on Québec's long-term economic development. To do so, it intends to guide Québec towards improving productivity, developing a new economic space and realizing the enormous potential of natural resources.

Accordingly, the 2009-2010 Budget contains a number of initiatives that will help inject nearly $3.4 billion more in Québec's economy in 2009 and 2010. The purpose of these measures is to:

- increase the cash resources and capitalization of businesses;
- support the efforts of workers to retrain and seek work;
- support forest development;
- reduce corporate taxes;
- support the cultural sector;
- develop Québec's North;
- develop our natural gas resources;
- support our technology companies;
- protect the environment and emphasize environmental technologies;
- support the family and Quebecers' well-being.

TABLE F.4

Overview of the fiscal and budgetary measures of the 2009-2010 Budget

(Millions of dollars)

	Cost to the government			Injection of cash resources in the economy in 2009 and 2010[1]	Population affected
	2009-2010	2010-2011	Total		
MEASURES OF THE 2009-2010 BUDGET					
1. ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS					
Measures to increase the cash resources and capitalization of businesses					
– Creation of a $500-million emergency fund for the recovery of businesses[2]	12.5	12.5	**25.0**	500.0	
– New stock savings plan II to foster the capitalization of public companies	18.0	30.0	**48.0**	165.0	
– Fostering the growth of Fondaction	13.1	22.5	**35.6**	70.0	
– $60-million increase in the envelope of the FIER-Régions[2]	3.0	3.0	**6.0**	90.0	
– Improvement of the *Renfort* program to benefit the forest and tourism sectors	40.0	20.0	**60.0**	200.0	
– Deferral of repayment of the loan envelope of local investment funds	—	—	—	25.0	
Subtotal	**86.6**	**88.0**	**174.6**	**1 050.0**	
Employment Pact: increase from $1.0 billion to $1.5 billion[3]					
– Additional support to develop human potential	155.4	188.3	**343.7**	336.2	117 450 individuals 21 800 businesses
– Additional support for training	55.6	44.2	**99.8**	138.1	
– Additional support to bolster work	11.4	0.9	**12.3**	12.3	
Subtotal	**222.4**	**233.4**	**455.8**	**486.6**	
Support for forest development					
– Improvement to the silvicultural investment program	22.0	—	**22.0**	22.0	
– Financing the production of seedlings	25.6	—	**25.6**	25.6	
– Other measures to support forest development	11.5	6.5	**18.0**	18.0	
Subtotal	**59.1**	**6.5**	**65.6**	**65.6**	

Overview of the fiscal and budgetary measures of the 2009-2010 Budget (continued)

(Millions of dollars)

	Cost to the government			Injection of cash resources in the economy in 2009 and 2010[1]	Population affected
	2009-2010	2010-2011	Total		
Corporate tax reduction to stimulate investment					
– Increase in the amount of income eligible for the reduced tax rate for small businesses raised from $400 000 to $500 000	13.0	15.0	**28.0**	28.0	5 900 businesses
– Extension of accelerated depreciation for manufacturing and processing equipment	—	—	—	—	15 000 businesses
– 100% accelerated depreciation for computer hardware	18.0	41.0	**59.0**	59.0	70 000 businesses
Subtotal	**31.0**	**56.0**	**87.0**	**87.0**	
Enhancements to certain tax credits for culture	**1.5**	**2.6**	**4.1**	**4.1**	100 businesses
TOTAL - ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS	**400.6**	**386.5**	**787.1**	**1 693.3**	
2. PREPARING QUÉBEC FOR ECONOMIC RECOVERY					
Northern Québec's: a new site of sustainable development					
– Preserving the environment and promoting the value of northern Québec's natural heritage	1.6	1.8	**3.4**	3.4	250 businesses
– Improving infrastructures in northern Québec	1.1	4.2	**5.3**	85.5	
Subtotal	**2.7**	**6.0**	**8.7**	**88.9**	
Stimulating gas exploration in Québec					
– Five-year royalty holiday for gas development	0.8	3.0	**3.8**	3.8	
– SGF support for the development of the gas exploration industry in Québec	—	—	—	—	
– Program for the acquisition of geoscientific knowledge	2.0	2.0	**4.0**	4.0	
– Strategic environmental assessment program	1.5	1.5	**3.0**	3.0	
Subtotal	**4.3**	**6.5**	**10.8**	**10.8**	
Supporting our technology companies					
– $125 million to create seed funds[2]	2.5	2.5	**5.0**	125.0	50 businesses
– $825 million to finance venture capital funds[2]	10.0	10.0	**20.0**	825.0	175 businesses
– Introduction of a tax holiday encouraging the commercialization of intellectual property	—	0.4	**0.4**	0.4	200 businesses
Subtotal	**12.5**	**12.9**	**25.4**	**950.4**	

Overview of the fiscal and budgetary measures of the 2009-2010 Budget (continued)

(Millions of dollars)

	Cost to the government			Injection of cash resources in the economy in 2009 and 2010[1]	Population affected
	2009-2010	2010-2011	Total		
Québec, a leader in environmental protection and environmental technologies					
– Development of green energy technologies	4.0	4.0	**8.0**	8.0	
– New refundable tax credit for a new green vehicle	2.3	3.3	**5.6**	5.6	19 000 customers
– Financial assistance program for capital assets related to bioenergy production	—	—	—	—	
– Acceleration of public dam modernization	0.1	0.7	**0.8**	62.0	
– National parks: expansion in southern Québec	1.8	3.6	**5.4**	27.0	
– Resiting of snowmobile trails outside Monts-Valin and Mont-Tremblant national parks	0.4	1.0	**1.4**	1.4	
Subtotal	**8.6**	**12.6**	**21.2**	**104.0**	
TOTAL – PREPARING QUÉBEC FOR ECONOMIC RECOVERY	**28.1**	**38.0**	**66.1**	**1 154.1**	
3. **SUPPORTING THE FAMILY AND WELL-BEING OF QUEBECERS[4]**					
Supporting families	**27.0**	**27.0**	**54.0**	**54.0**	100 000 families
Improving the quality of life of seniors	**5.3**	**5.4**	**10.7**	**13.9**	1 200 households
Investments of $370 million for housing construction and renovation	**14.7**	**28.4**	**43.1**	**266.0**	30 170 households
Investments for social development	**9.5**	**1.0**	**10.5**	**10.5**	
TOTAL – SUPPORTING THE FAMILY AND WELL-BEING OF QUEBECERS	**56.5**	**61.8**	**118.3**	**344.4**	
SUBTOTAL – MEASURES OF THE 2009-2010 BUDGET	**485.2**	**486.3**	**971.5**	**3 191.8**	
ADDITIONAL INVESTMENTS BY LOTO-QUÉBEC AND THE SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC	—	—	—	**189.5**	
TOTAL OF MEASURES OF THE 2009-2010 BUDGET TO SUPPORT EMPLOYMENT AND PREPARE FOR ECONOMIC RECOVERY	**485.2**	**486.3**	**971.5**	**3 381.3**	

1 Including, if applicable, the contributions of partners, i.e. the private sector and other levels of government.
2 The cost to the government represents the impact on debt service.
3 Including the portion funded by the federal government that will be paid into the Fonds de développement du marché du travail.
4 These measures are described in section E of the 2009-2010 Budget Plan.

2. 2009-2010 BUDGET: ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS

The additional immediate measures to support businesses and workers announced in the 2009 2010 Budget are designed to achieve four objectives, namely:

- make additional cash resources available to businesses and increase their capitalization;
- improve the Employment Pact with the addition of a cyclical component, raising total investment from $1.0 to $1.5 billion;
- introduce specific measures to support the forest sector and the cultural sector;
- reduce the corporate tax burden to stimulate business investment.

The cost to the government of the additional measures will total almost $790 million over two years, including $401 million in 2009-2010.

TABLE F.5

Cost to the government of the additional immediate actions to support businesses and workers in the 2009-2010 Budget
(Millions of dollars)

	2009-2010	2010-2011	Total
Measures to increase the cash resources and capitalization of businesses	86.6	88.0	**174.6**
Employment Pact: increase from $1.0 billion to $1.5 billion[1]	222.4	233.4	**455.8**
Support for forest development	59.1	6.5	**65.6**
Corporate tax reduction to stimulate investment	31.0	56.0	**87.0**
Improvements to certain tax credits for culture	1.5	2.6	**4.1**
TOTAL	**400.6**	**386.5**	**787.1**

1 Including the portion funded by the federal government that will be paid into the Fonds de développement du marché du travail.

2.1 Measures to increase the cash resources and capitalization of businesses

The tighter credit conditions caused by the current financial crisis are threatening the financial position of many Québec companies. Reduced access to financing, whether private or on the equity market, affects the cash resources and capitalization of businesses.

The tighter credit conditions have hit particularly hard in the regions, where businesses generally find it harder to obtain financing.

As part of the 2009-2010 Budget, the government is implementing major initiatives to enable businesses to add to their cash resources and boost their capitalization. Accordingly, the government is announcing:

- the creation of a $500-million emergency fund for the recovery of businesses;
- a new stock savings plan II, to facilitate capitalization of public companies;
- measures to foster the growth of Fondaction;
- a $60-million increase in the envelope of the FIER-Régions;
- an improvement to the *Renfort* program to benefit the forest and tourism sectors;
- the deferral of repayment of the loan envelope of local investment funds.

❑ A comprehensive approach targeting all businesses

The package of initiatives the government has taken to provide businesses with additional cash resources and increase their capitalization is part of a comprehensive approach targeting all businesses.

The actions taken meet the financing needs of Québec companies of all sizes and their interaction is complementary.

Some measures provide loans or guarantees for institutional loans while others enable intervention in the form of equity or easier access to financing on equity markets. In this way, the government continues to make multiple financing solutions available to businesses.

New financing tools will be made available to businesses and other existing programs are being improved to quickly respond to the cash resources needs of businesses.

The government is also providing existing institutions with the necessary means to intensify their interventions with a view to economic recovery and the development of Québec companies.

CHART F.1

Recent government actions to stimulate business financing

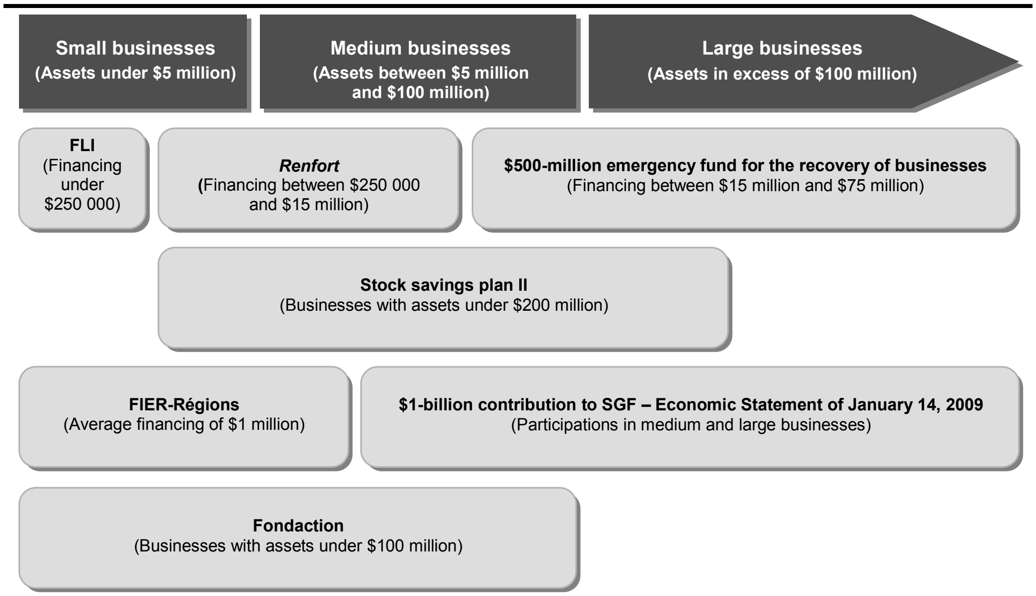


TABLE F.6

Cost to the government of measures to increase the cash resources and capitalization of businesses
(Millions of dollars)

	2009-2010	2010-2011	Total
Creation of a $500-million emergency fund for the recovery of businesses[1]	12.5	12.5	**25.0**
New stock savings plan II to foster the capitalization of public companies	18.0	30.0	**48.0**
Foster the growth of Fondaction	13.1	22.5	**35.6**
$60-million increase in the envelope of the FIER-Régions[1]	3.0	3.0	**6.0**
Improvement to the *Renfort* program to benefit the forest and tourism sectors	40.0	20.0	**60.0**
Deferral of repayment of the loan envelope of local investment funds	—	—	—
TOTAL	**86.6**	**88.0**	**174.6**

1 Impact on the government's debt service.

2.1.1 Creation of a $500-million emergency fund for the recovery of businesses

In Québec, companies with assets in excess of $10 million account for over 85% of private investment.

Even if their financial position is sound, these companies are currently experiencing difficulty obtaining the financing needed to maintain their operations. In some cases, their survival is jeopardized in the short term because of lack of cash resources. Others are finding it difficult to fund investments to improve productivity.

To remedy this situation, the government is announcing the implementation of an emergency fund for the recovery of businesses. This initiative will allow the Société générale de financement du Québec (SGF) and the Fonds de solidarité FTQ, hereunder referred to as the FSTQ, to pool their resources. The new fund will support medium and large enterprises that are affected by the economic situation and have pressing needs for cash resources.

The fund will have a capitalization of $500 million, with the SGF and the FSTQ each contributing $250 million. The SGF's contribution will consist of an additional investment by the government in its capital.

❑ Targeted corporations and investment parameters

Targeted corporations will be medium and large private and public enterprises with their head office in Québec or significant activities in Québec. All activity sectors will be eligible, though priority will be given to projects negatively affected by the current economic situation.

The objective of the new fund is to offer timely support that complements the assistance programs the government has already introduced (e.g.: the *Renfort* program).

The value of the investments will range between $15 and 75 million, i.e. higher than the intervention limit of the *Renfort* program.

The Minister of Economic Development, Innovation and Export Trade together with the presidents and CEOs of the SGF and the FSTQ will unveil the details of this fund in the near future.

2.1.2 New stock savings plan II to foster the capitalization of public companies

The public capital market is an essential source of financing for businesses, in particular for developing technology companies and those with good growth potential.

This large pool of financing enables expanding companies in particular to keep debt and shareholders' equity in balance.

Accordingly, to stimulate and facilitate public financing for Québec SMEs, the government set up, in the 2005-2006 Budget, the SME Growth Stock Plan. This plan enables an investor to deduct from his taxable income 100% of the cost of acquisition of a share or security of a Québec company with assets of less than $100 million.

❑ Difficulties with public financing

However, the economic crisis has thrown the environment in which public companies of all sizes operate into turmoil. Investors are gripped by fear and loath to commit to the financing of public companies, even sound ones with a promising profit outlook.

As is the case with all exchange-listed companies, the situation of Québec public companies has deteriorated in recent months.

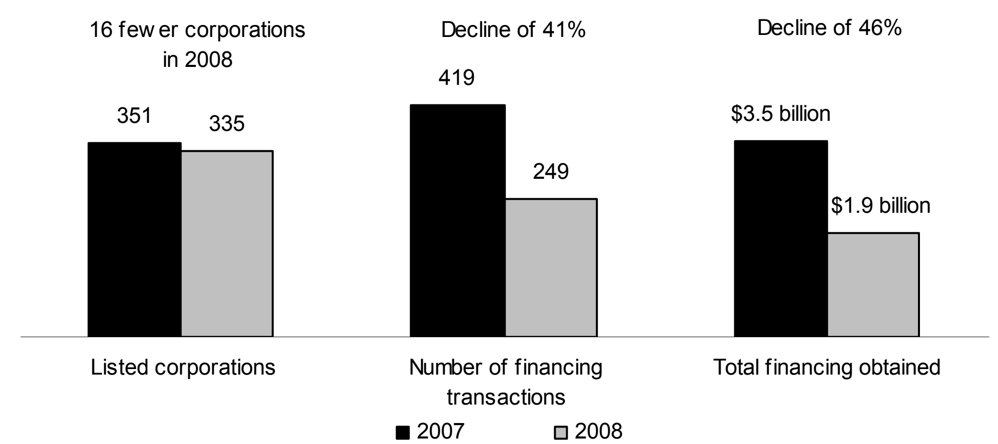
— The number of Québec corporations listed on a Canadian stock exchange has fallen from 351 in 2007 to 335 in 2008.

— The number of public financing transactions carried out by these companies dropped by 41% between 2007 and 2008.

— Overall public financing obtained by these companies fell by 46% between 2007 and 2008.

CHART F.2

Québec corporations listed on a Canadian stock exchange



Source: TMX Group.

Québec public companies must not only be able to offset the negative effects of the credit crisis, but also improve their positioning on public capital markets compared to other Canadian companies.

— In 2008, while Ontario's GDP was roughly twice the size of Québec's, the number of Ontario corporations listed on a Canadian stock exchange was almost 3.5 times the number of Québec public companies.

— The share of financing obtained by Québec corporations on Canadian public markets is only 5% of total financing raised on these markets in 2008 and has been falling since 2006.

— The average public financing obtained by Québec corporations is substantially less than what is raised by Ontario corporations.

TABLE F.7

Number of companies listed on a Canadian stock exchange and financing obtained

	2006				2008			
	Québec companies	Ontario companies	Other companies	Total	Québec companies	Ontario companies	Other companies	Total
Listed corporations	347	1 128	2 160	**3 635**	335	1 162	2 338	**3 835**
As a % of the total	*10*	*31*	*59*	***100***	*9*	*30*	*61*	***100***
Financing obtained ($ billion)[1]	4.2	19.9	26.5	**50.7**	1.9	23.5	15.6	**40.9**
As a % of the total	*8*	*39*	*52*	***100***	*5*	*57*	*38*	***100***
Average financing ($ million)	10.7	23.7	10.0	**13.1**	7.5	43.2	8.5	**15.6**

Note: Because of rounding, the figures may not add up to the totals shown.
1 The large amount of financing obtained by Ontario public companies in 2008 is attributable in particular to major financings raised by a few companies in the financial services sector.
Source: TMX Group.

❑ The stock savings plan II

In this context, the government is announcing major improvements to the SME Growth Stock Plan, which becomes the stock savings plan II (SSP II).

The SSP II will provide access to financing on the public markets for more companies while fostering investors' interest for the securities of Québec public companies. Accordingly:

- the maximum size of eligible corporations is doubled, rising from $100 to $200 million in assets;
- the deduction rate is raised to 150% unto December 31, 2010;
- the minimum holding period is reduced to two years;
- the procedure regarding the eligibility of shares for coverage purposes will be simplified;
- the plan will apply until December 31, 2014.

More specifically, the improvements are designed to:

- increase the pool of capital available for the capitalization of Québec public companies;
- stimulate public financings of our companies in the current crisis;
- reduce administrative constraints and improve the plan's flexibility.

TABLE F.8

Main parameters of the stock savings plan II

	Parameters
Eligible corporations	– Québec corporations with assets of less than $200 million – Start-up capital corporations – Investment funds
Eligible securities	– Newly issued common shares with voting rights – Securities issued by eligible investment funds
Tax incentive	– Deduction for individuals: ▪ 150% until December 31, 2010 ▪ 100% after December 31, 2010
Minimum holding period	– Two years
Eligible securities for coverage purposes	– Common shares of Québec corporations with assets of less than $200 million – Securities issued by eligible investment funds
Coverage deadline	– Coverage required within 3 months
Application period	– Until December 31, 2014

The plan will be accessible to some 225 Québec public companies with total market capitalization of $4 billion and will make access to the public capital market easier for new companies.

Investors will thus have a more diverse pool of eligible securities for the acquisition of newly issued shares or securities or to carry out an eligible coverage transaction.

TABLE F.9

Québec corporations currently listed on an exchange and targeted by the stock savings plan II

	Companies targeted
Number of companies targeted	225
Total assets ($ billion)	5.5
Market capitalization[1] ($ billion)	4.0

1 As of February 13, 2009.
Source: Investment Industry Regulatory Organization of Canada (IIROC).

By making the SSP II accessible to a larger number of companies and by offering an improved tax incentive and more flexible application terms and conditions for investors, the government is offering additional support for the capitalization of Québec public companies so they can be better positioned on public markets and in their respective fields.

2.1.3 Fostering the growth of Fondaction

The mission of Fondaction, the Fonds de développement de la CSN pour la coopération et l'Évolution de l'emploi, is to make access to retirement savings easier, contribute to maintaining or creating jobs and stimulate Québec's economy by investments in Québec SMEs.

More particularly, Fondaction invests in businesses engaged in a participative management process and in social economy businesses. Fondaction also supports companies with a concern for the environment and more sustainable development.

❑ Status report

To facilitate the capitalization of Fondaction, individuals who acquire this labour fund's shares can currently receive a non-refundable tax credit of 15% of the value of the shares acquired.

As at November 30, 2008, Fondaction had 85 924 shareholders and its net assets amounted to $544.6 million. The value of investments with an impact on Québec's economy stood at $346.7 million. As at May 31, 2008, 89% of Fondaction's investments were in Québec companies.

TABLE F.10

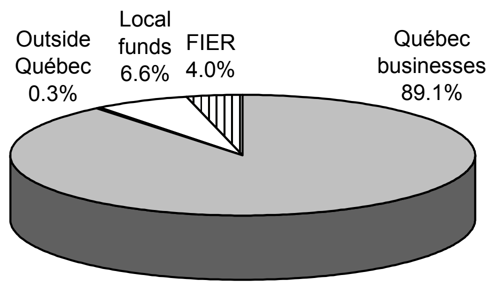
Fondaction – Main financial parameters

	Fiscal year ended May 31, 2008	First half ended November 30, 2008
Number of shareholders	85 770	85 924
Net assets ($ million)	627.3	544.6
Investments with an impact on Québec's economy ($ million)	385.4	346.7
Annual return / Half-yearly return	– 1.6%	– 16.2%
Historical annual return (1996-2008)	1.1%	—
Funds raised ($ million)	118.1	34.9

Source: Fondaction.

CHARTF.3

Breakdown of investments made by Fondaction – 2008



Source: Fondaction.

Fondaction's small capitalization limits its ability to intervene and prevents it from fully carrying out its specific mission as a financial partner. In addition, lacking economies of scale, its operating costs remain high, impacting its return.

Moreover, a number of streamlining measures have been made over the years to the investment requirement of labour funds. In view of its small capitalization, Fondaction has not been able to take full advantage of these changes (major investments, strategic investments, etc.) to diversify its portfolio.

❑ Increase in the tax credit for contributions to Fondaction

To enable Fondaction to reach optimum capitalization for it to continue with its specific mission, the rate of the non-refundable tax credit will be raised from 15% to 25% until Fondaction reaches a capitalization of $1.25 billion. During this period, Fondaction's annual issues will be capped at $150 million per year.

Compared to the $118 million raised in the last fiscal year, Fondaction will be able to raise an additional $32 million per year over the coming years. At least 60% of this amount, i.e. nearly $20 million, will be invested annually in Québec companies in compliance with Fondaction's investment requirement.

A larger capitalization will enable Fondaction to invest more in Québec companies as a partner in sustainable development and for the social economy, benefit from lower operating costs in relation to its assets, and improve the diversification of its portfolio.

2.1.4 $60-million increase in the envelope of the FIER-Régions

Access to financing is difficult for companies in the regions, especially for SMEs in their initial phases of development. This is mainly because private investors assign a higher level of risk to business projects in the regions. In addition, tighter credit conditions as a result of the current financial crisis is making access to financing even more challenging.

To facilitate access to financing, the government set up, in the 2004 2005 Budget, the Regional Economic Intervention Fund (FIER).

❑ Status report

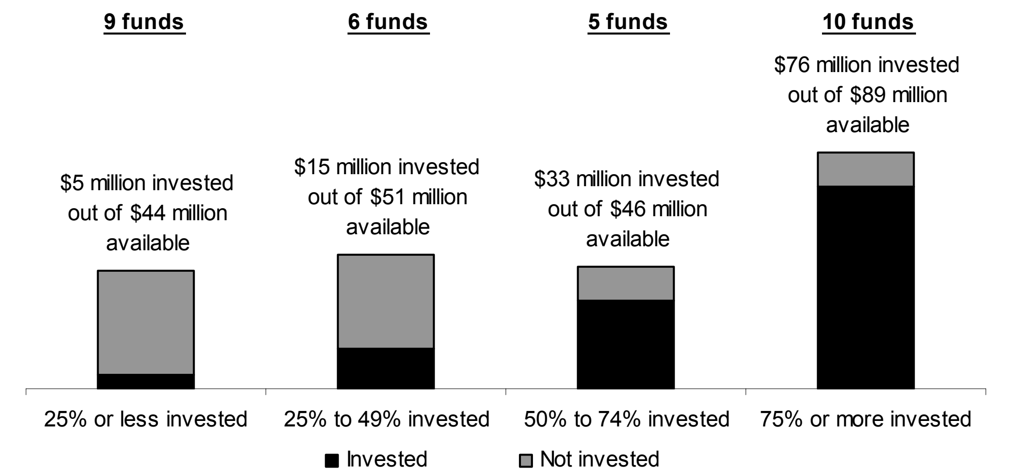
As offshoots of the FIER, the FIER-Régions are financed jointly with the private sector. Government contributions are conditional on an investment by the private sector. Accordingly, for each dollar invested by the private sector, the government, under a matching principle, contributes two. The government provided an envelope of $192 million to which contributions from the private sector have been added, bringing the total capitalization of the FIER-Régions to $288 million.

The FIER-Régions have met a substantial demand for financing from start-up and developing companies. As at December 31, 2008, the FIER-Régions had made 213 investments in businesses for total investments of $129.4 million.

Of the thirty FIER-Régions, ten funds have invested 75% or more of their capitalization available for investment.[1] The capitalization of these funds accounts for 38.7% of the total available capitalization of all FIER-Régions.

CHART F.4

Breakdown of FIER-Régions by percentage of their invested available capitalization



Sources: Investissement Québec and ministère des Finances du Québec.

1 Equivalent to total capitalization less management fees.

Moreover, the FIER-Régions of five regions have invested almost all the funds available to them. These regions are Capitale-Nationale, Montréal, Laval, Laurentides and Centre-du-Québec.

TABLE F.11

FIER-Régions – Status report as at December 31, 2008

(Amounts in millions of dollars)

Regions	Number of funds	Capitalization – Government	Capitalization – Private	Capitalization – Total	Available for investment	Number of investments in businesses	Investments in businesses	Balance
Bas-Saint-Laurent	2	7.3	3.7	**11.0**	8.8	4	2.5	6.3
Saguenay—Lac-Saint-Jean	2	20.0	10.0	**30.0**	24.0	24	14.8	9.2
Capitale-Nationale	2	20.0	10.0	**30.0**	24.0	31	20.8	3.2
Mauricie	1	3.0	1.5	**4.5**	3.6	1	0.2	3.4
Estrie	3	23.3	11.7	**35.0**	28.9	30	17.0	11.8
Montréal	2	20.0	10.0	**30.0**	24.0	21	20.3	3.7
Outaouais	1	10.0	5.0	**15.0**	12.0	8	4.9	7.0
Abitibi-Témiscamingue	1	5.0	2.4	**7.4**	5.9	12	2.7	3.3
Côte-Nord	1	6.0	3.0	**9.0**	7.2	1	0.2	7.0
Gaspésie—Îles-de-la-Madeleine	2	4.6	2.3	**6.9**	5.6	1	0.1	5.5
Chaudière-Appalaches	3	16.6	8.3	**24.9**	20.0	15	6.6	13.4
Laval	1	10.0	5.0	**15.0**	12.0	9	9.0	3.0
Lanaudière	2	6.7	3.3	**10.0**	8.0	4	1.4	6.6
Laurentides	1	10.0	5.0	**15.0**	12.0	12	11.1	0.9
Montérégie	5	21.9	11.0	**32.9**	26.3	26	11.4	14.9
Centre-du-Québec	1	6.0	3.0	**9.0**	7.2	14	6.4	0.8
Amount not allocated	—	1.6	0.8	**2.4**	—	—	—	—
TOTAL	**30**	**192.0**	**96.0**	**288.0**	**229.4**	**213**	**129.4**	**100.0**

Note: Because of rounding, the figures may not add up to the totals shown.
Sources: Investissement Québec and ministère des Finances du Québec.

❑ Invest more to continue economic development

Given the particular needs that the FIER-Régions fill, the government is announcing a $60-million increase to the envelope allocated to them.

■ $40 million for the creation of new FIER-Régions

In recent months, requests have been made to form new FIER-Régions and private investors have already swung into action to raise the money needed to form the funds. However, Investissement Québec cannot act on this initiative because the FIER-Régions envelope has been exhausted.

In this context, the government is announcing an investment of $40 million to create new FIER-Régions. These new funds will be allocated on the basis of identified needs.

■ $20 million to recapitalize certain existing FIER-Régions

In addition, six FIER-Régions will have completely committed their capital within a few months, yet financing needs remain high.

To build on their success and enable them to continue their mission, the government is announcing that an envelope of $20 million is being allocated to recapitalize certain FIER-Régions. These new investments will be allocated on the basis of identified needs.

2.1.5 Improvement to the *Renfort* program to benefit the forest and tourism sectors

On November 4, 2008, the government announced the implementation of the *Renfort* program to help businesses, mainly SMEs, in need of cash resources in the short term. Under the program, up to $1 billion in additional financing will be offered to Québec businesses before the end of 2010.

- The financial assistance offered consists of a direct loan or a guarantee of repayment for a loan contracted with a financial institution.
- The projects currently eligible for the program are for improvement to working capital and the acquisition of equipment.

As at March 13, 2009, nearly 216 companies turned to this program to apply for roughly $345 million in financing. Investissement Québec had authorized 38 applications for total financing of $65 million.

To meet the needs of certain sectors, the government is announcing a $200 million increase in the financing envelope.

❑ Eligibility of the forest sector

The forest industry is currently in a difficult situation. This sector, which employs close to 70 000 people and whose manufacturing shipments exceed $16 billion a year, needs support to continue modernizing. The current terms and conditions of the *Renfort* program exclude companies in the forest sector.

The *Renfort* program will be changed to enable forest management, pulp and paper and wood processing companies to benefit from the program.

This improvement will make access to financing easier for more companies in the forest sector for their operations and investment projects.

❑ Broadening of the program to tourism infrastructure

The tourism industry generates revenue in excess of $10 billion annually and employs 400 000 people in Québec of whom 60% are outside the major centres. Tourism is one of the main economic engines in many regions of Québec.

Québec's tourism industry needs to renew its facilities to remain competitive internationally. Companies in the sector need to have the necessary tools to develop their strengths and be in a position to offer innovative tourism products.

Although companies in the tourism sector are eligible for the *Renfort* program, the current parameters do not allow financing of capital investments. A specific new component will therefore be added to the *Renfort* program to enable financing of tourism infrastructure projects.

The new component of the program will help improve Québec's tourism offering and thus support economic activity in this key sector of the economy.

2.1.6 Deferral of repayment of the loan envelope of local investment funds

Present in the 120 local development centres (CLD), local investment funds (FLI) provide assistance for starting and expanding businesses in all regions of Québec with loans and loan guarantees, and thus are the chief financial tool available to CLDs.

CLDs are well-established organizations that are appreciated by regional players. They support projects averaging less than $250 000. As a result, these projects are not eligible for the *Renfort* program.

❑ Status report

Since their creation in 1998, the government has provided $175 million in interest-free loans to CLDs for the capitalization of FLIs. In 2007, the FLIs supported 649 businesses and helped create or maintain 8 112 jobs.

TABLE F.12

FLI operations – 2007

Businesses supported	649
Jobs created or maintained	8 112
Monetary contributions ($ million)	27.8
Total investment ($ million)	315.7

Source: Ministère du Développement économique, de l'Innovation et de l'Exportation.

The terms of the loan contract stipulate that the CLDs may no longer invest in businesses after December 31, 2009, because they will have to begin repaying their loans to the government.

❑ Extension of FLI operations

In view of the economic situation, the 2009-2010 Budget is announcing the deferral of FLI repayment for two years. This will help maintain access to financing for local entrepreneurs that is adapted to the priorities of each community during this difficult period.

Accordingly, CLDs will be able to invest roughly $60 million in businesses over the next two years.

Timely assistance for businesses

Businesses now have access to three programs adapted to their needs to deal with the current economic situation.

The *Renfort* program: up to $1.2 billion in additional cash resources

To meet the short-term cash requirements of businesses, the government introduced, on November 4, 2008, a new working capital and investment fund for the stabilization and recovery of successful companies, the *Renfort* program.

This program, administered by Investissement Québec (IQ), provides up to $1.2 billion in additional cash resources for Québec businesses to acquire equipment and improve working capital, including debt refinancing.

This program enables IQ to offer loans to companies and repayment guarantees for loans entered into with recognized financial institutions.

This measure is designed to satisfy temporary and circumstantial cash requirements. To be eligible, an application must be filed no later than December 1, 2010.

Contribution of $1 billion to the SGF

As part of its current mandate, the SGF contributes to the development of companies in Québec through investments in development capital, in accordance with the Québec government's economic policy stance.

The SGF invests more than $200 million annually ($233 million in 2006 and 2007) and its total assets stood at $2.4 billion in 2007.

The government has made an additional contribution to the SGF of $1 billion over two years, i.e. in 2009 and 2010. This contribution will enable it to:

- intensify its operations in the course of its regular investment program;
- intervene more specifically to support companies affected by the financial crisis.

Accordingly, in addition to holding common stock in companies, the SGF may henceforth purchase preferred shares and quasi-equity for financings in excess of $10 million.

$500-million emergency fund for the recovery of businesses

The emergency fund for the recovery of businesses, announced in the 2009-2010 Budget, will have capitalization of $500 million provided equally by the SGF and the FSTQ.

The objective of the new fund is to provide timely assistance that complements programs the government has already introduced.

Accordingly, the value of the new fund's financial interventions will be between $15 and $75 million, i.e. greater than the limit of *Renfort* program interventions. All activity sectors will be eligible, but priority will be given to projects particularly affected by the economic slowdown.

2.2 Employment Pact: increase from $1.0 billion to $1.5 billion

Because of the current economic situation, activity is slowing in many sectors. This situation will lead to job losses, even in sectors that so far have been experiencing growth. Action must be taken quickly to mitigate the effects of this economic slowdown on workers and businesses, while preparing them to participate fully in the economic recovery.

The Employment Pact is the best way to help workers in this regard.

— Introduced last year, the pact stipulates investments of $1 billion over three years. It seeks to meet manpower needs and assist the efforts of individuals to find lasting work. It is based on the coordinated mobilization of all the regions and all labour market partners.

Preliminary results of the Employment Pact as of February 2009

The initial results of the Employment Pact are very encouraging. There has been:

- an increase of more than 400 handicapped persons benefiting from the Contrat d'intégration au travail measure and the Programme de subventions aux entreprises adaptées;
- an increase of almost 650 youths participating in the Youth Alternative Program;
- an increase of 900 businesses benefiting from the training measure;
- an increase of 4 000 people participating in public employment services as part of their efforts to find work or enter training.

Overall, roughly 240 000 people and 9 200 businesses have been able to benefit from Emploi-Québec measures and services.

Accordingly, despite the difficult economic situation, the number of adults receiving benefits under social assistance programs has fallen by more than 6 200 since the Employment Pact was implemented.

2.2.1 Employment Pact Plus: additional investments of $518 million

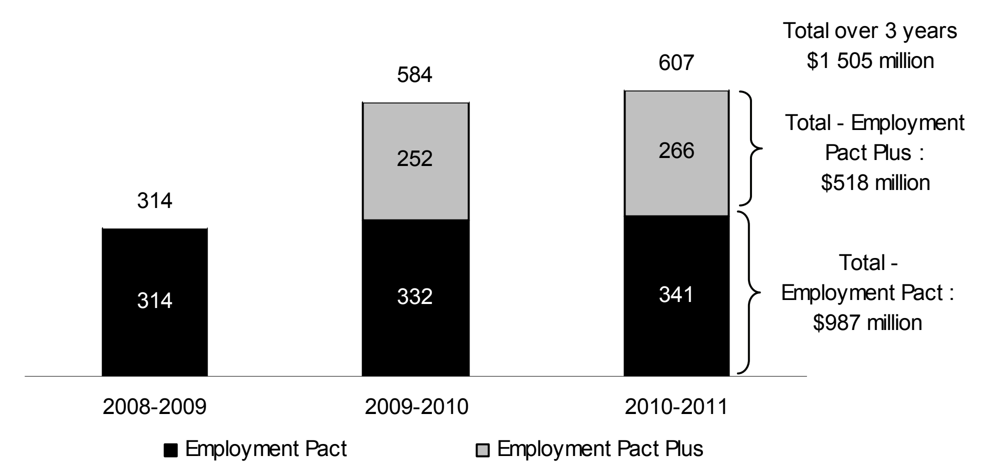
In this context, the 2009-2010 Budget is announcing the implementation of the Employment Pact Plus. This new component of the Employment Pact is designed to mitigate the effects of the current situation and stipulates public and private investments of $518 million, including $456 million funded jointly by the Québec government and the federal government.[2]

The Minister of Employment and Social Solidarity will unveil the details of the Employment Pact Plus in the near future.

This increase brings the total investments stipulated in the Employment Pact to $1.5 billion over three years.

CHART F.5

Total investments stipulated under the Employment Pact
(Millions of dollars)



2 In *Budget 2009*, the federal government has allocated additional funding of $1.9 billion over two years, for Canada as a whole, to broaden access to worker training offered by the provinces and territories. The funds allocated to Québec will be paid into the Fonds de développement du marché du travail.

❑ Almost 80% of the additional public support directed to workers and the unemployed

These new public investments are designed to respond, in the short term, to the challenges raised by the current situation and in particular to support workers and the unemployed. Accordingly, over the next two years, the government plans to invest:

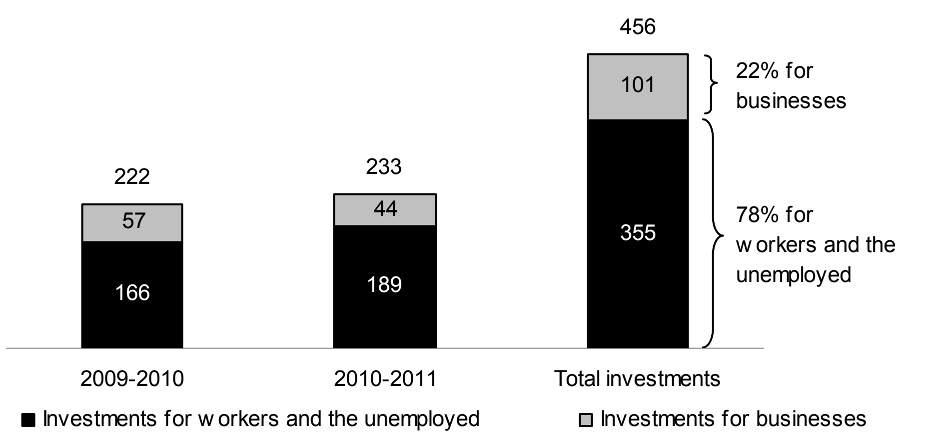
— $355 million to provide workers and the unemployed with more resources to help them maintain their current job or quickly find a new one;

— $101 million to help companies keep their workers employed.

Overall, almost 80% of the new public investments will directly benefit workers and the unemployed affected by the economic situation.

CHART F.6

New public investments for workers, the unemployed and businesses stipulated under the Employment Pact Plus
(Millions of dollars)



Note: Because of rounding, the figures may not add up to the totals shown.

2.2.2 Sixteen targeted initiatives to mitigate the effects of the economic slowdown

The government is announcing 16 targeted initiatives to mitigate the effects of the economic slowdown. By taking quick action, the Employment Pact Plus will help, in particular:

— forestall many lay-offs;

— train unemployed workers so they can quickly re-enter the labour market.

TABLE F.13

Employment Pact Plus – Cost to the government of additional support in the 2009-2010 Budget[1]
(Millions of dollars)

	2009-2010	2010-2011	Total	Population affected
Additional support to develop human potential				
1) Increase in Emploi-Québec training allowances	99.1	121.1	220.2	90 000 individuals
2) Improvement to the Wage Subsidy measure	5.2	5.9	11.1	3 500 businesses
3) Renewal of support measures for forest sector workers	13.2	13.2	26.4	13 500 individuals
4) Improvement to the Targeted Initiative for Older Workers (TIOW)	19.0	19.0	38.0	2 800 individuals
5) Broadening to all activity sectors of the support program for workers affected by collective dismissals (PSTLC)	4.9	14.0	18.9	7 500 individuals
6) Intensification of Emploi-Québec's efforts	13.0	13.1	26.1	n.a.
7) Broadening to all activity sectors of the Support Program for Older Workers (SPOW)	1.0	2.0	3.0	400 individuals
Subtotal	**155.4**	**188.3**	**343.7**	
Additional support for training				
8) Broadening to the forest and mining sectors of the refundable tax credit for training	2.0	3.0	5.0	3 000 businesses
9) Increase in the government's financial participation in funding training projects (MFOR-Entreprises)	20.5	17.0	37.5	13 650 businesses
10) Increase in the government's financial participation in financing training projects as part of large-scale economic projects	9.9	—	9.9	40 businesses
11) Implementation of a strategy for proactive intervention with businesses	2.7	2.7	5.4	n.a.
12) Increase in concerted activities for employment	4.0	3.0	7.0	850 businesses
13) Broadening to all activity sectors of the measure encouraging early retirement for older workers (ARTT)	4.0	6.0	10.0	1 000 individuals
14) Improvement to the program to support enterprises that risk being affected by economic slowdown	12.5	12.5	25.0	760 businesses
Subtotal	**55.6**	**44.2**	**99.8**	
Additional support to value work				
15) Adjustments to the financial assistance provided by certain Emploi-Québec measures	10.5	—	10.5	1 250 individuals
16) Broadening of eligibility for the work premium supplement to participants in the Alternative jeunesse program	0.9	0.9	1.8	1 000 individuals
Subtotal	**11.4**	**0.9**	**12.3**	
TOTAL	**222.4**	**233.4**	**455.8**	

1 The cost shown does not reflect the federal funding paid into the Fonds de développement du marché du travail.

2.2.3 Additional support to develop human potential

❑ Increase in Emploi-Québec training allowances

Currently, participants in Emploi-Québec training measures who are eligible for employment insurance can receive an allowance for the length of their training. This allowance is designed to financially support these people during their training and encourage them to complete it. It is offered to individuals who must update or develop their skills to successfully return to the labour market.

■ Basic allowance

The basic allowance of $220 per week is paid from the time the participant's employment insurance benefits end. However, it can be paid more quickly if the employment insurance benefit is less than $220 per week. In that case, Emploi-Québec pays an allowance from the beginning of the training that bridges the gap between the two amounts.

■ Special allowance for workers in the forest sector

Since 2006, Emploi-Québec training allowances have been increased to help workers in the forest sector. Accordingly, the allowance paid to these workers helps maintain their income for the length of their training at the level of the employment insurance benefits they received. This measure was implemented as part of the forest sector support plan. As at December 31, 2008, roughly 5 500 participants in this sector had benefited from this increase.

■ Improvement in the 2009-2010 Budget

In view of the current economic situation, the 2009-2010 Budget stipulates an improvement in Emploi-Québec training allowances:

- an increase in the basic allowance from $220 to $240 per week;
- the application of the special allowance for forestry workers to all participants receiving employment insurance;
- an increase in the budgetary envelope to reach more participants.

It is expected that roughly 90 000 individuals will benefit from this measure, representing an investment of $99.1 million in 2009-2010 and $121.1 million in 2010-2011, for a total of $220.2 million over the next two years.

❑ Improvement to the Wage Subsidy measure

The Wage Subsidy measure enables individuals at risk of long-term unemployment to be hired in lasting jobs, by offering employers that hire them specific financial assistance.

The 2009-2010 Budget stipulates an improvement to the Wage Subsidy measure to:

- extend the maximum length of a subsidized job offered by a private-sector (for-profit) business;
- introduce reimbursement of the retraining needed for employment for a certain number of subsidized employment projects.

In all, the improvement to the Wage Subsidy measure will benefit 3 500 businesses, representing, for the government, an additional investment of $11.1 million over the next two years.

❑ Renewal of support measures for forest sector workers

Since 2006, workers in the forest sector have received special support. Under the support plan for the forest sector, workers have accelerated and immediate access to services and to financial assistance and training measures. The support for forest workers consists of:

- employment assistance services adapted for forest workers;
- the measure encouraging early retirement for older workers (ARTT);
- the Support Program for Older Workers (SPOW);
- the improvement to the Emploi-Québec training allowance.

These initiatives have helped workers become more versatile and Québec companies to improve productivity and competitiveness while protecting the purchasing power of targeted workers.

Since the economic situation gives little hope that the outlook for the forest sector will improve in the near future, the government is announcing the renewal of these measures for two years.

To that end, the government is allocating $26.4 million over two years for the renewal of adapted employment assistance services and the ARTT measure.

❑ Improvement to the Targeted Initiative for Older Workers

The Targeted Initiative for Older Workers (TIOW) is designed to improve the re-entry of unemployed people age 55 to 64 into the labour market by focussing on recognition of experience and updating skills.

The current measure mainly targets communities notably affected by significant lay-offs or a relatively high unemployment rate.

The 2009-2010 Budget stipulates an additional investment of $19 million per year to:

— extend targeted initiatives for older workers until 2012;

— increase the number of people eligible for the measure by targeting more communities.

Accordingly, over the next two years, the improvement to the Targeted Initiative for Older Workers will enable almost 2 800 older workers to receive support in order to remain on the labour market.

❑ Broadening to all activity sectors of the support program for workers affected by collective dismissals

The program for workers affected by collective dismissals (PSTLC) is designed to financially assist persons who are part of a group of 50 or more workers laid off at the same time for a period of more than six months.

The program enables those covered:

— to receive financial support during the months when employment insurance benefits are not paid (e.g.: during the waiting period);

— to avoid turning to last resort financial assistance and being subject to the set of rules that apply to such assistance, such as disposing of their assets.

The current program targets workers laid off in the textile and clothing sector, as well as those of businesses located in the resource regions. In 2008-2009, the program paid financial support to roughly 2 500 people.

The 2009-2010 Budget stipulates that eligibility for the program is being broadened to workers in every region of Québec and in all activity sectors. In addition, to encourage workers who have been laid off to participate in training workshops, the program will be twinned with Emploi-Québec services. Accordingly, PSTLC beneficiaries will be able to receive an additional benefit as a participant in Emploi-Québec training measures.

With these initiatives, the government is implementing financial support that will benefit roughly 7 500 people, representing an investment of $18.9 million over the next two years.

❑ Intensification of Emploi-Québec's efforts

The 2009-2010 Budget stipulates an increase in the budgetary envelope for Emploi-Québec to enable it to intensify its efforts with workers and businesses under the Employment Pact Plus.

This increase will boost the resources available to Emploi-Québec to deal with increased demand, in particular for employment assistance services. This measure represents an investment of $26.1 million over two years.

❑ Broadening to all activity sectors of the Support Program for Older Workers

The Support Program for Older Workers (SPOW), until now restricted to workers in the forest industry, provides older workers with financial assistance in addition to enabling them to keep their assets and avoid having to turn to last resort financial assistance.

The assistance paid helps increase the retirement income of participants to a level equivalent to that of the retirement pension paid by the Régie des rentes du Québec. This program applies to workers age 55 to 60 for whom it is impossible to find a new job.

Over the next two years, the effects of the economic crisis are likely to affect older workers in all sectors. To protect the purchasing power of all older workers who are laid off and have difficulty finding a job, the 2009-2010 Budget stipulates that the application of the SPOW will be broadened to all activity sectors until April 1, 2011.

This measure represents an investment of $3 million benefiting roughly 400 workers over the next two years.

2.2.4 Additional support for training

❑ Broadening to the forest and mining sectors of the refundable tax credit for training

In recent years, the government has implemented many initiatives to boost manpower training by businesses. The chief initiative was the adoption of the *Act to promote workforce skills development and recognition*, which stipulates that employers must invest at least 1% of their payroll in training for their employees.

In addition, the government has specifically supported businesses in the manufacturing sector facing major cyclical difficulties, by introducing a tax credit for manpower training. This tax assistance is part of the Action Plan for the Manufacturing Sector announced on November 23, 2007.

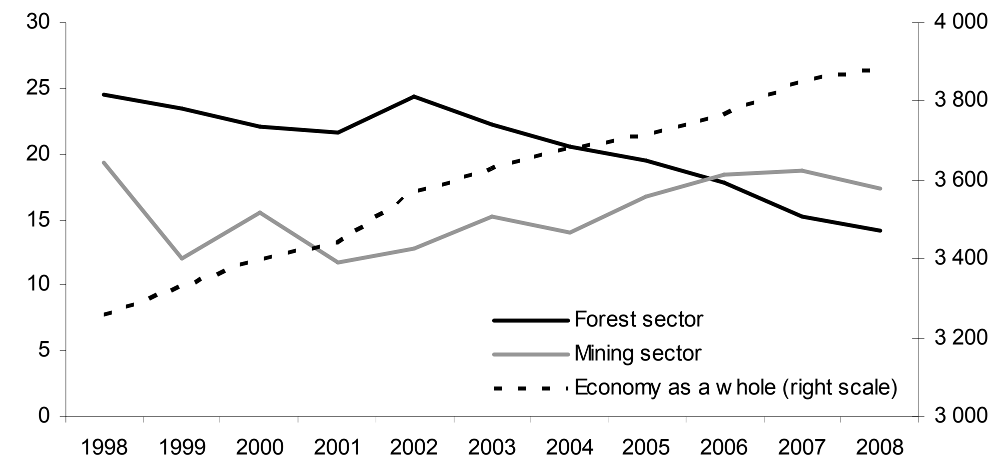
Over the last ten years, the forest and mining sectors have shed a substantial number of workers, unlike the prevailing situation in the economy as a whole which has experienced sustained growth in employment.

Moreover, over the past year, the mining, quarrying and oil and gas extraction sector has suffered an appreciable decline in its activities.

These trends could be accentuated by the repercussions of the global economic crisis that is having a particular effect on prices of raw materials, reducing the profitability and competitiveness of these companies.

CHART F.7

Number of workers in the forest and mining sectors compared to the economy as a whole
(Thousands)



Source: Statistics Canada.

■ Announcement in the 2009-2010 Budget

Taking the current economic situation into account and acting on its concern to support training for workers, the government is announcing that the refundable tax credit for manpower training, introduced for companies in the manufacturing sector, will be broadened to include companies in the forest development sector as well as the mining, quarrying and oil and gas extraction sector.

Accordingly, the government will contribute to improving the productivity of companies in these sectors by fostering enhanced qualification of their workers, which will enable faster integration of new technologies and new processes in the production process.

The tax assistance will be of particular benefit to SMEs with payroll of less than $1 million, which represent 94% of the companies in these sectors. They will have full access to the tax credit, while larger companies will first have to satisfy their requirement to contribute 1% to the Workforce Skills Development and Recognition Fund before receiving the tax credit.

The tax credit is calculated by applying a rate of 30% to training expenditures incurred prior to 2012. These expenditures include external training expenses as well as a portion of all of the wages paid to the employees during training.

This broadening of the tax credit will cost $3 million over a full year. The improvement will benefit roughly 3 000 companies employing nearly 31 000 workers.

Including the changes made by this budget and the initiative stipulated in the Action Plan to Support the Manufacturing Sector, the tax credit will target more than 18 000 companies generating roughly 800 000 jobs.

TABLE F.14

Tax credit for manpower training in the manufacturing, forest and mining sectors — Summary of parameters

	Parameters
Eligible businesses	– All corporations operating in Québec in the manufacturing, forestry and forest development, mining extraction, quarrying and oil and gas extraction sectors.
Rate	– 30%
Tax base	– External training expenses paid by the corporation for its employees. – The lesser of wages paid to employees during the training or twice the cost of external training.
Eligibility	– Eligible training expenditures incurred before 2012 given by an eligible trainer (a recognized educational institution or a certified trainer). – SMEs with payroll of less than $1 million are to calculate the tax assistance on the first training expenditures incurred. – Other corporations must first satisfy their requirement to contribute 1% to the Workforce Skills Development and Recognition Fund before receiving the tax credit.

❑ Increase in the government's financial participation in funding training projects

In a period of slowing economic growth, training and skills development become attractive solutions both for businesses, which realize that in the long run, they become more competitive, and for workers, since they keep their job.

In this context, the 2009-2010 Budget Speech is announcing an improvement to the business component of the manpower training measure — MFOR-Entreprises program for two years. This program is designed in particular for workers who need to upgrade their skills to remain employed.

Accordingly, the portion of training expenditures eligible for this program refunded to businesses will rise from 50% to 75% for the next two years. This measure will benefit 13 650 businesses.

To that end, the 2009-2010 Budget is allocating $37.5 million over the next two years.

❑ Increase in the government's financial participation in financing training projects as part of large-scale economic projects

Businesses that undertake an expansion project must take the necessary measures to adapt their workforce to these changes. To satisfy these new needs, Emploi-Québec offers technical and financial assistance to businesses for significant projects that create and consolidate jobs.

To enhance the support for these projects, the government is raising the rate of assistance of this measure from 25% to 50%, thus creating an auspicious environment for the development of new markets.

To that end, the government is allocating $9.9 million in 2009-2010 to this measure, benefiting 40 businesses.

❑ Implementation of a strategy for proactive intervention with businesses

In view of the current economic situation, some businesses may be forced to lay off a large number of workers. To prevent many such lay-offs, the 2009-2010 Budget stipulates the implementation of a strategy for proactive intervention with businesses at risk of being affected by the economic slowdown.

In particular, this strategy seeks to set up regional intervention teams to detect businesses in difficulty and offer them quick access to a diagnosis of the organization and assistance services appropriate to their situation. These teams will work in concert, in particular, with the ministère du Développement économique, de l'Innovation et de l'Exportation and Investissement Québec. This measure represents investments of $5.4 million over the next two years.

❑ Increase in concerted activities for employment

The 2009-2010 Budget stipulates an increase in the budgetary envelope allocated to Emploi-Québec for the Concertation pour l'emploi measure to maintain existing jobs and foster the creation of new ones.

This measure will enable Emploi-Québec to provide technical and financial support to a larger number of businesses for activities relating to human resources management and adaptation. In this way, these businesses will be able to find solutions to various problems relating to the economic slowdown.

This measure will provide support to 850 businesses, representing an investment of $7 million over the next two years under the Employment Pact Plus.

❑ Broadening to all activity sectors of the measure encouraging early retirement for older workers

The forest sector support plan provides for an incentive for work time accommodation and reduction by enhancing the measure fostering early retirement of older workers by $2 000. Thus, according to the terms and conditions agreed with their employer and depending on the provisions of their retirement plan, the older workers targeted by the measure can receive up to $6 000 per year for a maximum of three years.

Since the economic slowdown will affect workers in all sectors over the coming months, the 2009-2010 Budget is broadening this measure to all activity sectors.

This measure, costing $10 million for the next two years, will benefit roughly 1 000 workers.

❑ Improvement to the program to support enterprises that risk being affected by economic slowdown

On December 1, 2008, the Commission des partenaires du marché du travail (CPMT) made a temporary program available to businesses experiencing a slowdown in activity. The program provides financial support for training activities with a view to avoiding lay-offs. Eligible business can receive a subsidy of up to $100 000 for the expenses incurred.

Currently, funding for this program, in the amount of $25 million over two years, is provided by the CPMT via business contributions to the Fonds de développement et de reconnaissance des compétences de la main-d’œuvre.

To satisfy the increase in participation by businesses caused by the current economic situation, the 2009-2010 Budget stipulates an increase to the budgetary envelope of this program by means of a government contribution of $25 million over two years.

The addition of government funding to the program to support enterprises that risk being affected by economic slowdown will help support 760 businesses.

2.2.5 Additional support to value work

❑ Adjustments to the financial assistance provided by certain Emploi-Québec measures

Some employment assistance measures provided by Emploi-Québec make use of the general rate of the minimum wage to determine the amount of financial assistance granted.

To reflect the rise in the minimum wage from $8.50 to $9.00 per hour as of May 1, 2009, the 2009-2010 Budget stipulates an increase in the financial assistance provided by certain Emploi-Québec measures.

The adjustments to Emploi-Québec measures represent a rise in financial assistance of $10.5 million in 2009-2010 paid to 1 250 workers.

❑ Broadening of eligibility for the work premium supplement to participants in the Alternative jeunesse program

The Alternative jeunesse program,[3] introduced in 2007, is designed to support the social and vocational integration of youths under age 25 who are eligible for a last resort financial assistance program. Currently, beneficiaries of this program are not eligible for the work premium supplement, unlike recipients of last resort financial assistance. Accordingly, some youths have little incentive to participate in the Alternative jeunesse program.

The 2009-2010 Budget stipulates the broadening of eligibility for the work premium supplement to existing and former participants in the Alternative jeunesse program. Thanks to this measure, the months during which such persons receive benefits under this program will henceforth be included to determine their eligibility for the work premium supplement.

The broadening of eligibility for the work premium supplement will benefit more than 500 people annually who return to the labour market, representing an investment of nearly $1 million per year.

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3 Formerly called Solidarité jeunesse.

This measure will apply as of April 1, 2009 and the first payments will be made during July 2009. These will include the amounts accumulated since April 1, 2009.

Review of the work premium supplement
As stipulated in the 2008-2009 Budget, the work premium supplement was implemented on April 1, 2008. Currently, individuals eligible for the supplement are people who return to the labour market after having received last resort financial assistance for at least 36 of the last 42 months and who: – ceased to be eligible for last resort financial assistance programs because of the work income earned by their household and as such have a claim slip; – earned work income of at least $200 during the month, equivalent to the excluded work income threshold of the Social Assistance Program for a single person. The amount of the work premium supplement is $200 per month, i.e. $2 400 for a maximum of 12 consecutive months. For a couple, this amount can reach $4 800, if both spouses are eligible.

Substantial assistance to bolster work among youths

For example, a youth under age 25 who enters the labour market after having received benefits under the Alternative jeunesse program or last resort financial assistance programs for at least 36 of the last 42 months can receive total assistance of:

- $3 855 if his work income is $10 000;
- $2 768 if his work income is $15 000;
- $2 400 if his work income is $20 000.

TABLE F.15

Illustration of the gain stemming from the work premium supplement for a participant in the Alternative jeunesse program – 2009
Person living alone
(Dollars)

	Current assistance			2009-2010 Budget	
Work income	**Work premium**	**WITB[1,2]**	**Subtotal**	**Work premium supplement**	**Total**
5 000	182	500	682	—	**682**
10 000	530	925	1 455	2 400	**3 855**
12 500	353	625	978	2 400	**3 378**
15 000	118	250	368	2 400	**2 768**
17 500	—	—	—	2 400	**2 400**
20 000	—	—	—	2 400	**2 400**

1 WITB: Working Income Tax Benefit.
2 The parameters used are those that were announced in the federal government's *Budget 2009*. They could change depending on the outcome of negotiations between the Québec government and the federal government.

2.2.6 Employment Pact of $1.5 billion

Including these new investments, more than $1.5 billion will be invested under the Employment Pact by 2011.

The government is thus bolstering the mission of the Employment Pact, which is to secure manpower for Québec that can meet the challenges of globalization and population aging. Over the next two years, the Employment Pact will allocate:

— $623 million to develop human potential (Pillar I);

— $118 million to bolster work (Pillar II);

— $764 million to train workers (Pillar III).

In addition, as stipulated, the government will continue working to support regional stakeholders to achieve the objectives of the Employment Pact strategy.

TABLE F.16

Employment Pact – Private and public investments over three years, i.e. from 2008-2009 to 2010-2011

	Existing measures	Employment Pact Plus	Total
Pillar I: Invest in human potential	– Implementation of Démarcheurs d'emplois – Intensification of Emploi-Québec's active measures – Increase in employment assistance allowances – Measures for handicapped persons – Assistance for Immigrants and Visible Minorities program (PRIIME) – Improvement in the tax credit for on-the-job training of handicapped persons and immigrants – Broadening of and improvement to the Wage Subsidy measure	– Increase in Emploi-Québec training allowances – Improvement to the Wage Subsidy measure – Renewal of support measures for forest sector workers – Improvement to the Targeted Initiative for Older Workers (TIOW) – Broadening to all activity sectors of the support program for workers affected by collective dismissals (PSTLC) – Intensification of Emploi-Québec's efforts – Broadening to all activity sectors of the Support Program for Older Workers (SPOW)	
Subtotal: Pillar I	**$261 million**	**$362 million**	**$623 million**
Pillar II: Value work	– New work premium supplement – New work premium for persons with a severely limited capacity for employment – Full indexing of the deduction for workers – Implementation of the Découvrir program – Possibility of advance payment of the work premium for households without children – Improvement to the Youth Alternative Program – Measures fostering phased retirement	– Increase in the minimum wage from $8.50 to $9.00 an hour as of May 1, 2009 – Adjustments to the financial assistance provided by certain Emploi-Québec mesures – Broadening of eligibility for the work premium supplement to participants in the Alternative jeunesse program	
Subtotal: Pillar II	**$106 million**	**$12 million**	**$118 million**
Pillar III: A better-trained workforce	– Implementation of the Mutuelles de formation – Increase in on-the-job training – Improvement to the tax credit for manpower training - manufacturing sector – Foster skills recognition	– Broadening to the forest and mining sectors of the refundable tax credit for training – Increase in the government's financial participation in financing training projects (MFOR-Entreprises) – Increase in the government's financial participation in financing training projects as part of large-scale economic projects – Implementation of a strategy for proactive intervention with businesses – Increase in concerted activities for employment – Broadening to all activity sectors of the measure encouraging early retirement for older workers (ARTT) – Improvement to the program to support enterprises that risk being affected by economic slowdown	
Subtotal: Pillar III	**$620 million**	**$144 million**	**$764 million**
Pillar IV: Regional Pact	– Bolstered regional offering of services		
Subtotal: Pillar IV	**n.a.**	**n.a.**	**n.a.**
TOTAL INVESTMENTS	**$987 million**	**$518 million**	**$1 505 million**

Review of the Employment Pact announced in the 2008-2009 Budget

The government announced, in the 2008-2009 Budget, the implementation of the Employment Pact that brought forward a series of concrete measures involving public and private investments of nearly $1 billion over three years.

The Employment Pact is designed to provide Québec with manpower that is better trained to:

- meet the challenges of globalization and an aging population and satisfy the growing needs of businesses;
- act against poverty and social exclusion by making work a valued and paying choice, in particular for immigrants, handicapped persons, persons over 55, persons outside the labour market and young people.

To achieve these objectives, the Employment Pact offers a set of fiscal and budgetary measures and initiatives, divided into four pillars, namely:

- invest in the human potential of people out of work and prepare them to enter the labour market by supplying them with the skills needed to be successful in searching for a job;
- value work, by making it more lucrative and more attractive, in particular for people receiving social assistance benefits;
- develop better-trained workers and more productive businesses by fostering development of qualifications and recognition of the skills and experience of workers who are employed;
- meet the needs of the regions (the Regional Pact), by driving regional stakeholders to achieve objectives of the Employment Pact strategy.

With these measures, by 2011, the government expects:

- to reduce the number of people receiving social assistance benefits by 50 000;
- add more than 52 000 people to the number served by public employment services for job search or training activities;
- support 4 800 more businesses regarding their needs in terms of training and recognition of their workers' experience and skills;
- potentially reach more than 250 000 employees for qualifications upgrading or skills recognition.

Investments over three years announced under the Employment Pact
(Millions of dollars)

Pillars	Public investments	Contribution by businesses	Total
Invest in human potential	223	38	261
Value work	106	n.a.	106
A better-trained workforce	219	401	620
Regional pact	n.a.	n.a.	n.a.
TOTAL	**548**	**439**	**987**

2.3 Support for forest development

To foster investment, enable forest sector businesses to modernize and help workers in this sector upgrade their knowledge, the government implemented the forest sector support plan, to which it has committed $1.4 billion for the period from 2005-2006 to 2009-2010.

Results of the forest sector support plan
The 2005-2006 Budget announced the implementation of the initial measures of the forest sector support plan. They were designed chiefly to act on the recommendations of the Commission d'étude sur la gestion de la forêt publique québécoise concerning forest management and to implement support measures for businesses and workers in the sector. The 2006-2007 Budget added to this support with a loan and loan guarantee program, as well as measures to reduce operating costs, increase investments in silviculture, and provide workers with more assistance. Lastly, in October 2006, a final series of measures with the same targets further enhanced the plan. As at January 31, 2009, $1.1 billion has been committed under the plan, representing nearly 80% of the stipulated envelope. This investment has, among other things, helped to: – support economic diversification in 38 RCMs; – modernize roughly 450 businesses; – regenerate 10 000 hectares of forest; – assist nearly 7 000 affected workers; – offer tax credits worth nearly $400 million to foster the development of the forest road network and stimulate forest development. The forest sector continues to play a key role in Québec's economy, particularly in the regions. Nearly 70 000 jobs are directly tied to this sector. While the restructuring continues, high-value-added products are growing in importance within the industry and now account for almost half the jobs in the sector.

Since the announcement of the forest sector support plan, the economic situation in the United States has deteriorated and the crisis affecting the forest industry could continue. To help the sector get through this period, the government is announcing that it will maintain certain measures of the plan to ensure forest regeneration.

In addition, the government intends to support the development of new markets for the forest sector by helping the secondary and tertiary wood processing industry as well as the pulp and paper industry to benefit from the outlook for recovery based on high-value-added products. Encouragement will be given to the transfer of innovative technologies in mills and greater use of Québec wood.

The 2009-2010 Budget will thus allocate additional support of $65.6 million for forest development over the next two years.

These initiatives are in addition to the renewal of training measures announced in the Employment Pact Plus that foster greater versatility of forest workers, help boost the productivity and competitiveness of Québec forest companies and protect the purchasing power of workers.

With these announcements, support for the forest sector is increased by $99.7 million over two years.

TABLE F.17

Cost to the government of measures to support forest development
(Millions of dollars)

	2009-2010	2010-2011	Total
Forest regeneration			
– Improvement to the silvicultural investment program	22.0	—	**22.0**
– Financing the production of seedlings	25.6	—	**25.6**
– Assistance for forest road maintenance in ZECs	1.0	1.0	**2.0**
New markets for the forest sector			
– Development of high-value-added products	10.0	5.0	**15.0**
– Forest certification program for private woodlot owners	0.5	0.5	**1.0**
Subtotal – Support for forest development	**59.1**	**6.5**	**65.6**
Employment Pact: support measures for forest workers[1]	***17.5***	***16.6***	***34.1***
TOTAL	**76.6**	**23.1**	**99.7**

1 These measures are described in detail in section 2.2.

Renewal of support measures for workers in the forest sector

In 2006, the government introduced an array of services and measures for forest workers. Since the current situation offers little hope that the outlook will improve in the near future, the government is renewing the support measures for forest workers for two years.

Support for forest workers[1]
(Millions of dollars)

	2009-2010	2010-2011	Total
Employment assistance services	10.5	11.4	**21.9**
Measure encouraging early retirement for older workers	2.7	1.8	**4.5**
Subtotal	**13.2**	**13.2**	**26.4**
Improvement to the training allowance	**3.8**	**2.5**	**6.3**
Support Program for Older Workers (SPOW)	**0.5**	**0.9**	**1.4**
TOTAL	**17.5**	**16.6**	**34.1**

1 These measures are described in detail in section 2.2.

The renewal of the measures for forest sector workers involves $34.1 million over the next two years.

2.3.1 Forest regeneration

Since 2005, the Québec government has taken numerous steps to act on the recommendations of the commission for the study of public forest management in Québec. To maintain this momentum, the 2009-2010 Budget is announcing measures to follow through with silvicultural work and produce seedlings. In addition, assistance will be provided for forest road maintenance to improve access to the territory.

❑ Improvement to the silvicultural investment program

The government announced the four-year silvicultural investment strategy in the 2006-2007 Budget. Under this initiative, the government provided support for silvicultural work thoughout Québec and will continue to do so in 2009-2010, allocating $20 million through the silvicultural investment program.

These investments are significant since they increase the yield of public and private forests. The silvicultural investment program aims to:

- apply intensive silviculture to areas with a high timber potential;
- contribute to full reforestation of harvested areas;
- return unsuccessfully regenerated areas to production;
- rehabilitate poor-quality stands.

To intensify silviclutural efforts, $22 million is being added to the silvicultural investment program for 2009-2010.

TABLE F.18

Public investment for silvicultural work
(Millions of dollars)

	2009-2010
Current stipulated investment	20.0
Additional investment (2009-2010 Budget)	22.0
TOTAL	**42.0**

Accordingly, in 2009-2010, public investments of $42 million will be allocated for forest work, which will be supplemented by investments by the forest industry.

■ Planting of 35 million additional seedlings in Québec forests

The improvement to the silvicultural investment program will enable more intense silvicultural work in every region. In addition, this improvement will make it possible to plant 35 million more seedlings in 2009-2010 for the reforestation of northern Québec.

■ 2 000 jobs maintained in the regions

This silvicultural work will also help maintain 2 000 jobs in regions hit hard by the forest crisis and will result in significant environmental gains.

❑ Financing the production of seedlings

To encourage full reforestation of forests, capture greenhouse gases and give practical effect to sustainable forest management, the government will ensure the production of seedlings for the coming year. To that end, $25.6 million will be allocated for silvicultural work over the coming years.

❑ Assistance for forest road maintenance in controlled zones

Management of controlled zones (ZEC) falls within the remit of non-profit organizations that are responsible for the development, conservation and management of wildlife over 48 000 km² of territory. These bodies are charged with ensuring access to the territory and, consequently, maintenance of forest roads.

The investments ZECs make in this regard meet forest industry standards. This maintenance work benefits hunters and fishers as well as the forest industry.

The bodies responsible for ZECs are self-financing and their activities have substantial economic repercussions. ZECs have 40 000 members and 250 000 users generating annual sales of $14 million.

To support the forest road maintenance done by bodies responsible for ZECs, in particular for the reconstruction of watercourse crossings, the government is announcing assistance of $2 million over two years. This investment will help ensure access to the forest for hunters, fishers and forest companies.

2.3.2 New markets for the forest sector

The government recognizes the importance of the forest industry in Québec's economy. Over the past year, the government has taken sizeable steps to support the forest sector's long-term competitiveness while remaining environmentally friendly:

— In May 2008, the strategy for the use of wood in construction was announced. Its objective is to increase the final consumption of wood in the construction of buildings in Québec and to reduce greenhouse gas emissions by nearly 600 000 tonnes.

— Last February, an action plan to foster the value-added utilization of forest biomass was published. This action plan aims to replace polluting energy sources with clean and renewable ones, thus reducing greenhouse gas emissions.

While continuing to support the short-term turnaround of businesses affected by the economic crisis, the 2009-2010 Budget is renewing support for the industry with a forward-looking view that takes into account environmental concerns and fosters greater use of technology.

❑ Development of high-value-added products

To develop productive new activities, in particular in secondary and tertiary wood processing businesses and in pulp and paper mills, the 2009-2010 Budget is injecting $15 million over two years to develop new markets.

More specifically, this investment will result in:

— the in-plant transfer of innovative technologies, in particular new product demonstration pilot projects, for the pulp and paper sector;

— the commercialization of forest products on foreign markets;

— increased use of wood, in particular in non-residential construction.

These measures will help increase the value of manufactured products and introduce promising technologies, such as nanocrystalline cellulose. In addition, this investment will encourage actions to better assess future needs, in particular for eco-friendly wood products.

Nanocrystalline cellulose
Pulp and paper mills use plant fibre to make paper. Nanocrystalline cellulose (NCC) can be obtained from this substance. This product has a promising outlook and could enable the pulp and paper industry to find other outlets in a new industrial segment. Because of its plethora of applications, NCC has strong potential on transportation, pharmaceutical and building materials markets. The technology was developed in the laboratory by FPInnovation. It is expected to be featured in a demonstration pilot project, leading to in-plant testing. Accordingly, NCC could enable the paper industry to develop new products, leading to greater economic stability and positive results for workers and communities.

❑ Forest certification program for private woodlot owners

The purpose of forest certification is to demonstrate that businesses manage forests and use forest resources according to sustainable forest management principles. The wood thus certified can be used in the construction of buildings that satisfy the Leadership in Energy and Environmental Design (LEED) standard. There is growing demand for LEED-certified wood and obtaining certification opens doors to new markets.

In Québec, 17 million hectares of forest land are certified, representing 44% of the land surface that could be certified. In private forests, 300 000 hectares are currently certified, i.e. only 7.5% of the target potential.

To help owners of private woodlots obtain forest certification and thus foster sustainable development of the forest resource, the government is announcing the implementation of a forest certification program for these owners.

This program, which stipulates investments of $1 million over two years, will enable private woodlot owners to obtain certification and thus gain access to a new market. This investment will enable more than 125 000 hectares of additional land to be certified per year.

2.4 Corporate tax reduction to stimulate investment

Taxation has a major influence on business investment decisions, especially those of SMEs. It has a direct effect on the profitability of their operations and cash resources.

To mitigate the effects of the economic crisis on businesses and prepare them for the recovery, the government is announcing:

— the increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000;

— the extension of accelerated depreciation, using the straight-line method, at 50% for investments in manufacturing and processing equipment made in 2010 and 2011;

— the implementation of accelerated depreciation at 100% for computer equipment acquired before February 1, 2011.

Accordingly, the cash resources of companies in Québec will rise by a total of $87 million over two years.

TABLE F.19

Cost to the government of measures to reduce corporate taxes to stimulate investment
(Millions of dollars)

	2009-2010	2010-2011	Total
Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000	13.0	15.0	**28.0**
Extension of accelerated depreciation for manufacturing and processing equipment	—	—	—
100% accelerated depreciation for computer hardware	18.0	41.0	**59.0**
TOTAL	**31.0**	**56.0**	**87.0**

2.4.1 Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000

Québec's economy consists mainly of SMEs whose activities contribute to economic growth and help create jobs.

The economic slowdown and tighter credit conditions are causing cash problems for these businesses and their financial leeway is being squeezed.

To further support SMEs and increase the cash resources available to them to deal with the economic downturn, the government is announcing that the amount of income eligible for the reduced tax rate for small businesses will be raised from $400 000 to 500 000 as of the day following the day of the Budget Speech.

This initiative will reduce the tax burden of Québec SMEs by $13 million in 2009-2010. The cash resources of roughly 5 900 businesses will rise by an average of $2 200. For some businesses, the increase in cash resources could reach $3 900.

Accordingly, SMEs will be able to keep a larger portion of their profits to reinvest in their activities and continue growing.

TABLE F.20

Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000 – 2009-2010

	Number of businesses affected	**Cost to the government** ($ million)	**Increase in cash resources** ($/business)
Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000	5 900	13.0	2 200

2.4.2 Extension of accelerated depreciation for manufacturing and processing equipment

Accelerated depreciation enables businesses that invest to reduce their corporate income tax more rapidly, thereby reducing risk on their investments while increasing their return.

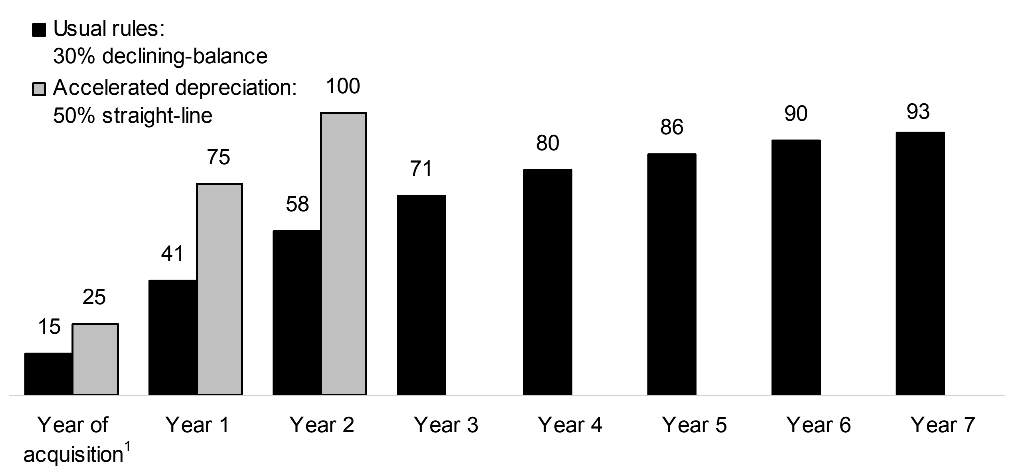
To help Québec businesses in their efforts to invest and modernize, the government is announcing that manufacturing and processing equipment acquired before 2012 will be covered by accelerated depreciation using the straight-line method and a 50% rate.

This extends the accelerated depreciation measure announced initially in the 2007-2008 Budget that was to have expired at the end of 2009. This extension will replace the transition rules announced in the 2008-2009 Budget for assets acquired in 2010 and 2011.

This measure means that manufacturing and processing machinery and equipment acquired before 2012 can be depreciated over an average period of two years rather than the usual seven years or more.

CHART F.8

Illustration of the effects of accelerated depreciation for manufacturing and processing equipment
(Accumulated depreciation, as a percentage of acquisition cost)



1 In the year of acquisition, purchases are subject to the half-year rule.

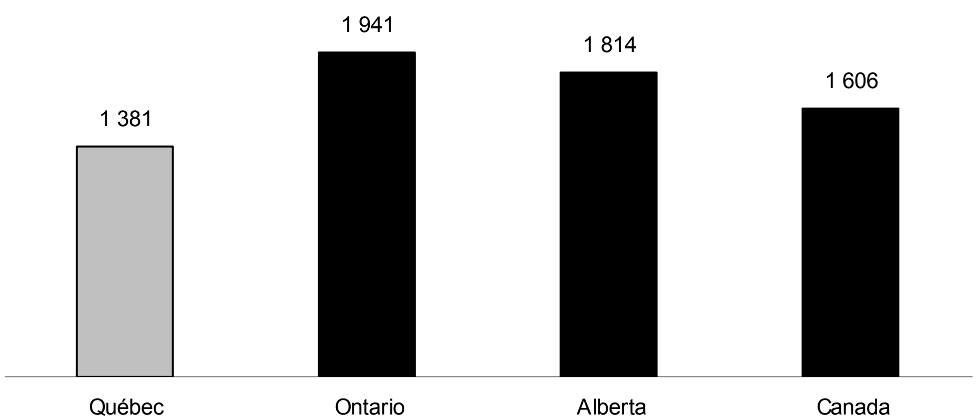
Accelerated depreciation will stimulate manufacturing companies by freeing up cash resources in the short term, thus making it easier for them to carry out their investment projects.

2.4.3 100% accelerated depreciation for computer hardware

Investment in information technology generates substantial productivity gains for companies. Québec's lag in this regard may explain part of its low productivity compared to our major trading partners.

CHART F.9

Investments in computer hardware per worker – 2007
(2002 dollars)



Sources: Centre for the Study of Living Standards, *ICT Investment and Productivity: A Provincial Perspective*, 2008.

To encourage Québec companies to improve their productivity and provide them with advantageous conditions in which to prepare for the recovery, the government is announcing a temporary accelerated depreciation measure for computer hardware.

The depreciation rate will be 100% for goods acquired before February 1, 2011. In addition, the half-year rule, that limits the depreciation deduction in the year of acquisition to half the amount normally available, will not apply for these goods.

This measure will enable businesses to depreciate all their acquisitions of computers and associated software in less than a year, compared to more than four under the usual rules.

TABLE F.21

Measures to reduce the corporate tax burden to stimulate investment – Illustration of the impact for a manufacturing SME
(Thousands of dollars)

	2009	2010	2011	2012	2013	Total
Purchase of computer hardware	50	50	—	—	—	**100**
Purchase of manufacturing and processing equipment	50	50	—	—	—	**100**
Calculation of corporate tax before 2009-2010 Budget						
Taxable income before depreciation	525	525	525	525	525	**2 625**
Less: prescribed depreciation[1]	– 21	– 53	– 50	– 27	– 16	**– 167**
Taxable income	504	472	475	498	509	**2 458**
– *At the general corporate income tax rate*	*104*	*72*	*75*	*98*	*109*	***458***
– *At the reduced tax rate for small businesses (maximum $400 000)*	*400*	*400*	*400*	*400*	*400*	***2 000***
Income tax payable to Québec before tax credit	44.4	40.6	41.0	43.6	45.0	**214.5**
Less: investment tax credit	– 2.5	– 2.5	—	—	—	**– 5.0**
Net corporate income tax burden	41.9	38.1	41.0	43.6	45.0	**209.5**
Calculation of corporate tax after 2009-2010 Budget						
Taxable income before depreciation	525	525	525	525	525	**2 625**
Less: accelerated depreciation	– 62	– 86	– 36	– 12	—	**– 195**
Taxable income	463	439	489	513	525	**2 430**
– *At the general corporate income tax rate*	—	—	—	*13*	*25*	***38***
– *At the reduced tax rate for small businesses (maximum $500 000)*	*463*	*439*	*489*	*500*	*500*	***2 392***
Income tax payable to Québec before tax credit	37.1	35.2	39.2	41.6	43.0	**195.5**
Less: investment tax credit	– 2.5	– 2.5	—	—	—	**– 5.0**
Net corporate income tax burden	34.6	32.7	39.2	41.6	43.0	**190.5**
Impact of the measures of the 2009-2010 Budget on the corporate income tax burden	**– 7.3**	**– 5.4**	**– 1.8**	**– 2.0**	**– 2.0**	**– 18.7**
Per cent	– 18%	– 14%	– 4%	– 5%	– 4%	– 9%

1 Depreciation rate of 55% for computer hardware and 30% for manufacturing and processing equipment, using the declining-balance method. The goods acquired are subject to the half-year rule for the year of acquisition.

2.5 Improvements to certain tax credits for culture

To promote Québec's cultural identity, the government has implemented a variety of fiscal measures, including the tax credit for sound recording production and the tax credit for the production of shows. These tax assistance measures mainly support companies that promote Québec singers and songwriters.

On an annual basis, the tax credit for sound recording production supports an average of 90 projects, while the tax credit for the production of shows provides assistance for roughly 180 productions. Québec's record and show industries generate some 3 000 jobs.

❑ Challenges posed by new distribution methods

Companies in the sound recording and show production sector face challenges posed by new distribution methods for music and songs, especially the Internet.

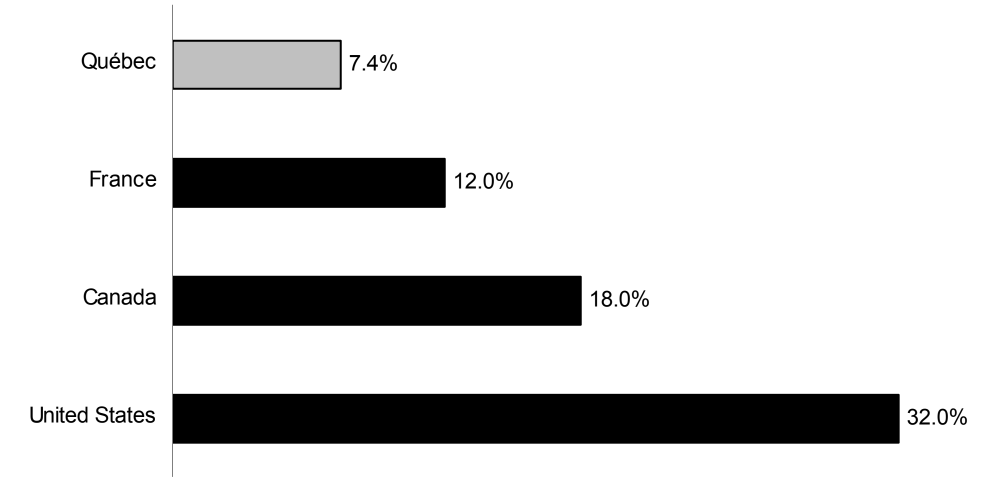
Accordingly, global sales of records have been falling constantly and the Québec market is not immune to this trend. The number of albums sold in Québec was estimated at 9.8 million units in 2008, down from 15.3% compared to the prior year. Records produced in Québec accounted for approximately 40% of total units sold.

Currently, sales on physical medium still account for most of the revenue of the record industry. However, in the medium term, with the proliferation of new distribution platforms, the industry's revenue will depend increasingly on on-line sales.

Québec is one of the markets in the world where consumers make the least use of the digital model.

CHART F.10

Digital market's share in certain music markets – 2008



Sources: Nielsen SoundScan Canada, Syndicat national de l'édition phonographique and International Federation of the Phonographic Industry (IFPI).

As for the production of shows, nearly 17 000 performances were staged in Québec in 2007. They generated box-office revenues estimated at $220 million, of which 70% stemmed from shows designed in Québec. French songs accounted for roughly 16% of the supply of shows in Québec.

Moreover, the average number of performances of a French song show is barely 3.7 compared to 10.7 for a variety show, which is clearly not enough to earn a profit from the investment made to create such a show.

❑ Improvements to tax assistance for the production of sound recordings and shows

To increase the volume of Québec songs available on the digital market and the number of performances of shows produced in Québec, improvements are being made to the two applicable tax credits, namely:

- the tax credit for sound recording businesses, which is improved as follows:
  - increase in the rate of the tax credit from 29.1667% to 35%;
  - rise in the cap on labour expenditures from 45% to 50% of production costs;
  - elimination of the maximum amount that can be claimed on account of the tax credit for sound recording production.
- the tax credit for show businesses, which is also improved by:
  - increasing the rate of the tax credit from 29.1667% to 35%;
  - raising the cap on labour expenditures from 45% to 50% of production costs.

The following table summarizes the improvements made to the two tax credits. The cost of these changes is estimated at $1.5 million for 2009-2010.

TABLE F.22

Tax credit for cultural businesses –
Current parameters and new parameters after improvements

	Current parameters	New parameters
Sound recording production		
Basic rate	– 29.1667% of eligible expenditures	– 35% of eligible expenditures
Expenditure limit	– 45% of production costs	– 50% of production costs
Cap on expenditures	– $43 750 per recording $21 875 per clip	– None
Production of shows		
Basic rate	– 29.1667% of eligible expenditures	– 35% of eligible expenditures
Expenditure limit	– 45% of production costs	– 50% of production costs
Cap on expenditures	– $750 000 per show	– $750 000 per show

3. Preparing Québec for Economic Recovery

Government policy can mitigate the effects of the current economic slowdown. The government can also introduce longer-term measures to make lasting improvements to Québec's competitiveness and ensure that it can capitalize on its full potential once the economy recovers.

To prepare Québec for economic recovery, the 2009-2010 Budget contains a package of initiatives totalling more than $66 million over two years, namely:

- $8.7 million to make northern Québec a new sustainable development space;
- $10.8 million to stimulate gas exploration in Québec;
- $25.4 million to position Québec in future-oriented sectors by supporting technology companies;
- $21.2 million to enhance Québec's role in environmental protection and development of environmental technologies.

TABLE F.23

Cost to the government of measures to prepare Québec for economic recovery
(Millions of dollars)

	2009-2010	2010-2011	Total
Northern Québec: a new site of sustainable development	2.7	6.0	**8.7**
Stimulate gas exploration in Québec	4.3	6.5	**10.8**
Support our technology companies	12.5	12.9	**25.4**
Québec, leader in environmental protection and environmental technologies	8.6	12.6	**21.2**
TOTAL	**28.1**	**38.0**	**66.1**

3.1 Northern Québec: a new site of sustainable development

Northern Québec boasts significant assets in terms of mineral wealth, energy, forest and wildlife resources, and nature sites that lend themselves to recreation and tourism activities. These assets represent an immense potential to be developed.

As far as the development of energy potential is concerned, the government has stipulated, in Québec's Energy Strategy 2006-2015, that capacity of 4 500 MW will be added from hydroelectric development and a further 4 000 MW from wind power. In addition, the government recently announced the development of the energy resources of northern Québec, which represents an increase of 3 500 MW by 2035, including 700 MW to be set aside for the development of other renewable energy sources, wind power in particular.

Considering the work undertaken since 2003, Québec will ultimately have additional capacity of 14 000 MW. This additional electricity production will be used to satisfy the growth in our domestic demand and that of export markets, while making it possible to accommodate wealth-generating businesses.

In the 2009-2010 Budget, the government is announcing a number of measures to develop the potential of northern Québec, in keeping with sustainable development principles. These measures will:

— preserve the environment and promote the value of Québec's natural heritage;

— improve infrastructure to optimize access to this territory.

Over the next two years, the government will allocate $8.7 million for the development of northern Québec.

The Plan Nord presents a comprehensive vision for the development of natural resources while protecting the environment. In addition, the development of northern Québec will be carried out in partnership with the First Nations, the Inuit and local communities.

The set of measures put forward in this budget is consistent with the vision to develop northern Québec in a way that fosters economic and social spin-offs while limiting the environmental impact for those who live there and for all citizens of Québec.

TABLE F.24

Cost to the government of measures fostering sustainable development of northern Québec
(Millions of dollars)

	2009-2010	2010-2011	Total
Preserving the environment and promoting the value of northern Québec's natural heritage			
– Program to consolidate outfitting operations	1.0	1.2	**2.2**
– Creation of protected areas	0.6	0.6	**1.2**
– Creation of five national parks	—	—	—
Improving infrastructure in northern Québec			
– Construction of a road to the Otish Mountains	0.2	0.4	**0.6**
– Repair of Highway 389 between Baie-Comeau and Fermont	0.4	0.9	**1.3**
– Improvement of northern airports	0.5	2.9	**3.4**
TOTAL	**2.7**	**6.0**	**8.7**

3.1.1 Preserving the environment and promoting the value of northern Québec's natural heritage

Environmental considerations are becoming more important in the government's actions. The government considers that the natural heritage belongs to Quebecers collectively that we are duty-bound to preserve for future generations.

In northern Québec, the environmental dimension is of a particular nature because of the fragility of ecosystems and their sensitivity to disturbances caused by human activity.

The 2009-2010 Budget announces three measures that will contribute to preserving the environment and developing this territory's natural heritage:

— a shared-cost program for the consolidation of outfitting operations;

— the creation of protected areas;

— ongoing work leading to the creation of five national parks.

These efforts to develop this territory's natural heritage will be carried out in keeping with the principles of sustainable development, maintaining a balance between economic development and preservation of the territory's natural habitats.

❑ Program to consolidate outfitting operations

The rich diversity of northern Québec's ecosystem makes the territory well-suited to the development of tourism relating to outdoor activities such as hunting, fishing, ecotourism and adventure tourism. In addition, there are more than 250 outfitting operations in the territory, accounting for roughly one third of outfitting operations in Québec.

In the 2009-2010 Budget, the government intends to contribute to improving the quality of the tourism offering of outfitting operations located in this territory. It wants to make the network of outfitting operations a quality destination for Quebecers and especially international travellers.

The government is setting up, in concert with outfitters north of the 49th parallel, a shared-cost program to provide financial support for these outdoor activities. The program will enable outfitters to improve their infrastructures as well as the quality of services they offer.

This assistance, totalling $2.2 million, will enable total investments of $4.4 million over the next two years. The funds will be applied to, in particular:

- draw up an inventory of investment intentions and needs of establishments in the territory;
- support outfitters preparing technical plans and specifications for infrastructure investments;
- make investments in hospitality and lodging facilities.

These efforts will enable the industry to consolidate its foundations to better develop the tourism potential of northern Québec.

❑ Creation of protected areas

Unique ecosystems can be preserved by creating protected areas. Northern Québec abounds in exceptional sites that should be preserved. Accordingly, the government plans to grant protected area status over 12% of the territory located north of the northern boundary.

Accordingly, the government will make this portion of the northern territory off limits for forest, mine, natural gas, oil and energy development. However, it will be open to hunting, fishing and trapping activities, as well as tourism activities.

Over the next two years, $1.2 million will be allocated to the management of protected areas.

❑ Creation of five national parks

The 2008-2009 Budget announced the creation of new national parks in northern Québec. These parks will host exceptional natural habitats that can be visited by tourists from Québec and elsewhere in the world. They will be among the largest of the network of Québec national parks. Their creation will contribute significantly to the growth of ecotourism and adventure tourism in northern Québec.

In this budget, the government is continuing the efforts undertaken to create five new national parks, namely:

- Kuururjuag;
- Guillaume-Delisle-et-à-L'Eau-Claire;
- Albanel-Témiscamie-Otish;
- Baie-aux-Feuilles;
- Assinica.

To that end, the government will invest $6 million in 2011-2012 to carry out this commitment.

3.1.2 Improving infrastructure in northern Québec

Northern Québec has airport, maritime and road infrastructures that allow access to the territory's communities. However, the acceleration of the development of energy, mineral, forest and tourism potential requires that these infrastructures be improved to optimize access to the territory.

New infrastructures need to be built to carry out various development projects. In addition, some existing infrastructures are showing signs of age and degradation and require repair work.

To improve northern Québec's transportation infrastructures, the 2009-2010 Budget is announcing the following investments:

- construction of a road to the Otish Mountains;
- improvement and repair work to Highway 389 between Baie-Comeau and Fermont;
- improvement of northern airports.

These measures represent investments of $347 million over the next five years.

❑ Construction of a road to the Otish Mountains

The government is announcing the construction of a road to Otish Mountains to facilitate access to the future Otish Mountains park, and encourage mining projects in the region. This new road will link Chibougamau with the Otish Mountains from Highway 167.

The total cost for the construction of this new road is estimated at $260 million and the work will extend over many years. This project will require establishing partnerships with the private sector and the other levels of government. The Québec government will invest $130 million for this purpose.

❑ Repair of Highway 389 between Baie-Comeau and Fermont

The Côte-Nord region boasts an abundance of mineral and forest resources as well as potential for hydroelectric development that are as yet untapped. Development of this territory depends on adequate access to it.

In this region, interprovincial Highway 389 between Baie-Comeau and Fermont needs to be upgraded. This highway will play a key role in new economic development projects in this territory. In addition, it is the only access to the Manicouagan biosphere world reserve and Hydro-Québec's energy and tourism facilities in the region, such as the Daniel-Johnson dam.

To upgrade Highway 389, major improvement and repair work, estimated at $438 million, will be needed. The work will be carried out in the medium and long terms.

❑ Improvement of northern airports

For most northern communities, air transport is the chief means of transportation linking them and connecting them with the rest of the world. Airport infrastructures in northern Québec are aging and require major improvement and repair work, in particular because of climate changes to the permafrost.

Accordingly, the government is announcing a plan to improve and repair airports in northern Québec. The plan targets some fifteen airports in Nunavik and the Côte-Nord. The repair work, estimated at $106 million, will be carried out over the next five years.

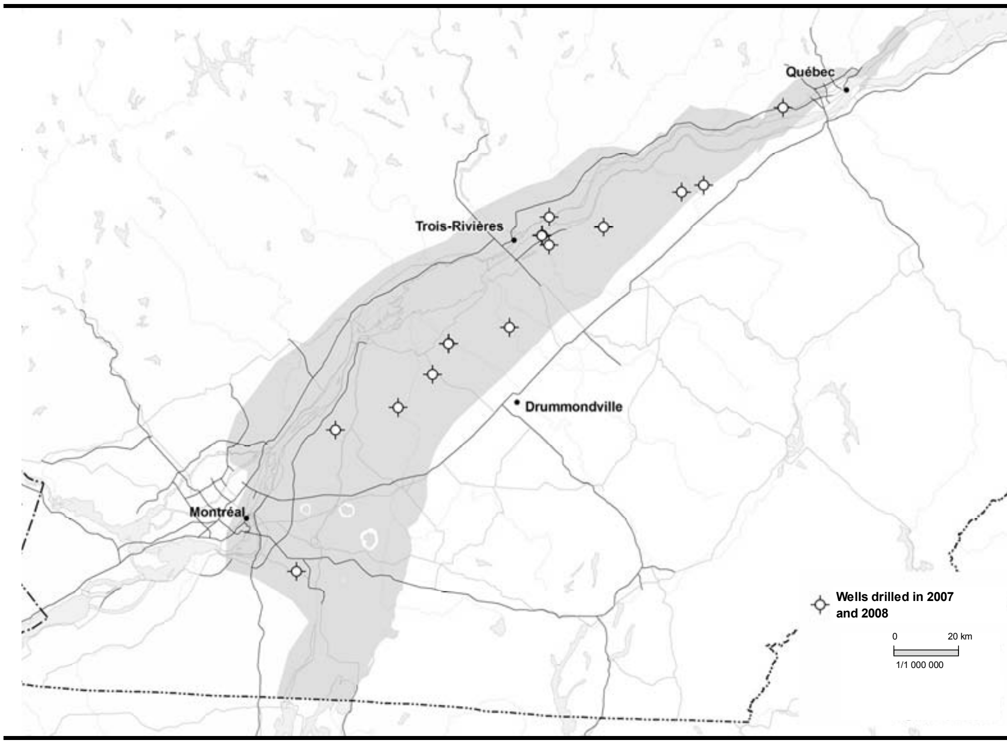
3.2 Stimulating gas exploration in Québec

As a result of its geology, Québec's territory is located in a favourable region for the discovery of hydrocarbons. In recent years, a great deal of exploration work has been carried out in Québec's sedimentary basins. In 2008, nearly thirty geophysical surveys were done and fifteen wells were drilled in the St. Lawrence Valley. This work represents investments estimated at over $60 million.

This exploration work in Québec's subsoil has confirmed attractive potential in gas shales[4] in the St. Lawrence lowlands.

CHART F.11

Gas shales – St. Lawrence lowlands



Sources: Ministère des Ressources naturelles et de la Faune and ministère des Finances du Québec.

4 Gas shales are unconventional deposits consisting of continuous accumulations of natural gas spread over large volumes of rock that extend over a regional scale.

In the current economic situation, the government is acting to pursue exploration activity and increase the possibilities for production to come on-stream in the near future. To do so, the government is announcing:

- the implementation of a five-year royalty holiday of up to $800 000 per well for wells put into production by the end of 2010;
- the participation of the Société générale de financement du Québec (SGF) to apply the tools at its disposal to support the development of this industry in Québec;
- implementation of a program for the acquisition of geoscientific knowledge;
- implementation of a strategic environmental assessment program.

To stimulate natural gas exploration in Québec, the government will provide the industry with support of $10.8 million over the next two years.

The government is also preparing for the future by announcing an overhaul of the existing system of natural gas royalties with a view to modernizing it to reflect the new realities, while securing a fair return for Quebecers on the resource they own collectively.

TABLE F.25

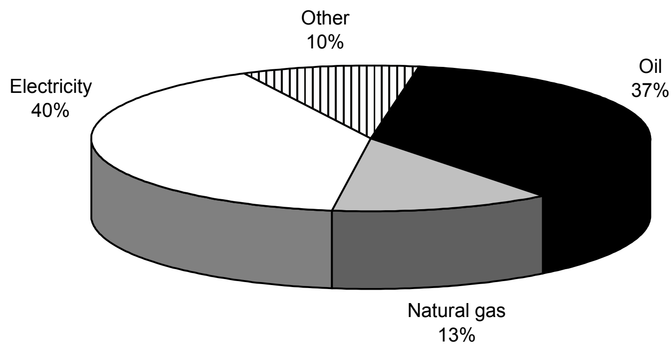
Cost to the government of measures to stimulate gas exploration in Québec
(Millions of dollars)

	2009-2010	2010-2011	Total
Five-year royalty holiday for gas development	0.8	3.0	**3.8**
SGF support for the development of the gas exploration industry in Québec	—	—	—
Program for the acquisition of geoscientific knowledge	2.0	2.0	**4.0**
Strategic environmental assessment program	1.5	1.5	**3.0**
TOTAL	**4.3**	**6.5**	**10.8**

Québec's natural gas potential

In 2006, Québec consumed almost 200 billion cubic feet of natural gas, accounting for 13% of total energy consumption in Québec.

Breakdown of energy consumption in Québec — 2006



Source: Ministère des Ressources naturelles et de la Faune.

Since Québec does not produce natural gas, it obtains all of its supplies from Western Canada. The cost of these supplies totalled roughly $2 billion in 2006.

Accordingly, the development of natural gas would enable Québec to be more self-sufficient in terms of energy supplies.

Natural gas development potential in Québec

Québec's geology is conducive to the presence of natural gas, mainly in the St. Lawrence lowlands, where gas shale is found.

Exploration work done in this region in 2008 has produced impressive results: Québec's gas shale could contain between 35 000 and 163 000 billion cubic feet of natural gas.

If one quarter of the gas shale potential were recovered, production could satisfy Québec's needs for more than 40 years. At the February 2009 price, this represents a value of $45 billion.

Québec's estimate gas shales potential

Theoretical potential	35 000 to 163 000 billion cubic feet
Commercial potential (25%)	8 750 to 40 750 billion cubic feet
Consumption reserve[1]	41 to 190 years
Production value[2]	$45 to $210 billion

1 Based on 2007 annual consumption of 215 billion cubic feet.
2 According to the February 2009 price of natural gas, $5.15 per thousand cubic feet.

Apart from gas shale, many other geological structures favourable to hydrocarbon accumulation have also been identified in Québec. The potential of these structures has yet to be identified, but industry experts are optimistic about the possibility of discovering large quantities of hydrocarbons with commercial potential.

3.2.1 Five-year royalty holiday for gas development

Hydrocarbon development work requires substantial investment that also involves financial risk for the industry. In the case of unconventional natural gas (gas shale), investments of many millions of dollars are needed for exploration and the spin-offs for Québec are substantial.

❑ Difficult economic context

The drop in prices for hydrocarbons and the financial crisis have not spared the natural gas industry. For companies in this sector, it has become less profitable to continue their activities and some have recently adjusted their development projects downward.

This difficult economic situation could prompt other companies to postpone their investments, depriving Québec of significant economic spin-offs. The development of natural gas wells must begin as quickly as possible to ascertain Québec's true potential and reassure the industry.

Consequently, investment support measures are essential until prices and economic conditions improve. It is also important to reduce the financial risk associated with natural gas exploration in Québec, where the potential for profit is still uncertain.

❑ Implementation of a royalty holiday

Currently, natural gas development corporations must pay a royalty of 10.0% or 12.5% of the value at the well based on average daily production.

Royalty rate of natural gas in Québec in effect since 1987-1988

The royalty rate applicable to natural gas development in force in Québec is 10% or 12.5% of the value at the well based on average daily production.

Royalty rate in force in Québec (natural gas)

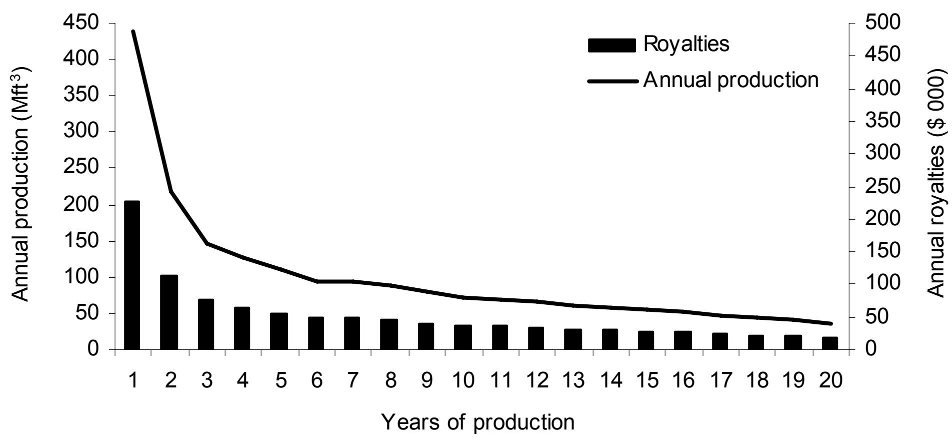
Daily production of a well	Rate
Less than or equal to 84 000 m³	10% of the value at the well
Greater than 84 000 m³	10% of the value at the well on the first 84 000 m³ 12.5% of the value at the well on the excess

Note: 84 000 m³ is equivalent to roughly 3 million cubic feet.
Source: Regulation respecting petroleum, natural gas, brine and underground reservoirs, c. M-13.1, r.1, sec. 104.

The life of a well averages 20 years and half its production is achieved during the first five years. Consequently, over 50% of the royalties are paid during the first five years.

CHART. F.12

Annual production of an average well and royalties payable[1]



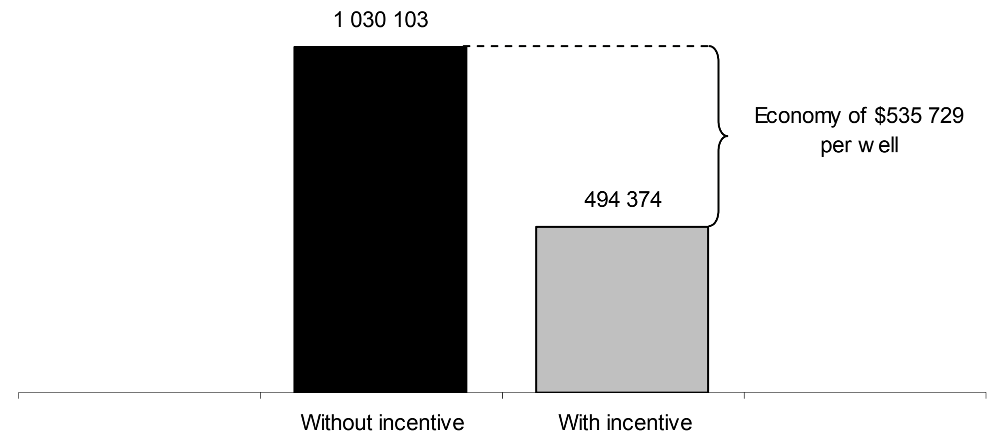
Mft³: Million cubic feet.
1 For production of 2 000 Mft³ over 20 years, at the February 2009 natural gas price of $5.15 per thousand cubic feet and using the 10% royalty rate in force.
Sources: Ministère des Finances du Québec and ministère des Ressources naturelles et de la Faune.

Accordingly, to foster the development of a gas industry in Québec, the government is announcing the implementation of a five-year royalty holiday of up to $800 000 per well for wells put into production after the day of the budget and before January 1, 2011.

Over a period of 20 years, this incentive will cut the royalties that would otherwise have been paid for an average well in half. At the February 2009 price, thanks to the royalty holiday, a development corporation would have to pay $494 374 to the government, i.e. $535 729 less than the situation without the incentive.

CHART F.13

Royalties payable per well with or without incentive[1]
(Dollars)



1 At the February 2009 price of natural gas, $5.15 per thousand cubic feet and according to the average production of a well.
Sources: Ministère des Finances du Québec and ministère des Ressources naturelles et de la Faune.

The cost of the five-year royalty holiday for gas development is estimated at $3.8 million for the next two years.

3.2.2 Société générale de financement support for the development of the gas exploration industry in Québec

The discoveries that have confirmed Québec's natural gas potential were possible, in particular, thanks to the work done by Québec exploration companies (juniors). These juniors hold a large share of exploration permits in Québec, i.e. almost 70% of the total surface area under permit.

TABLE F.26

Holders of oil and natural gas exploration permits – March 2009

	Surface area under permit	
	(Hectares)	(%)
Québec juniors	6 004 739	68.4
Others	2 780 069	31.6
TOTAL	**8 784 808**	**100.0**

Source: Ministère des Ressources naturelles et de la Faune.

However, because of the collapse of financial markets in recent months, juniors find it difficult to raise the capital needed to carry out their exploration programs.

Moreover, gas shale exploration requires major investments and highly specialized knowledge, which sometimes prompts juniors to turn to the majors for financing and expertise.

To facilitate access to capital and foster partnerships between juniors and majors, the government is encouraging the Société générale de financement du Québec to apply the tools at its disposal to support the development of this industry in Québec over the next two years.

3.2.3 Program for the acquisition of geoscientific knowledge

In recent years, the ministère des Ressources naturelles et de la Faune has carried out geophysical surveys in the Bas-Saint-Laurent and Gaspésie regions whose results have prompted many exploration companies to acquire exploration permits and carry out major development work.

To date, however, knowledge of the territory remains both superficial and incomplete. Much work remains to be done to keep companies interested in exploration, guide their research and ensure optimum development of the resource. To enable other discoveries and attract new players to the industry, it is important to more thoroughly detail and promote Québec's potential.

Accordingly, the government will allocate $4 million over two years to the implementation of a program for the acquisition of geoscientific knowledge.

The program will, in particular, help improve knowledge of the hydrocarbon potential of all Québec's sedimentary basins, including those of the St. Lawrence Valley, Gaspésie, the estuary and Gulf of St. Lawrence, as well as northern Québec.

3.2.4 Strategic environmental assessment program

In recent years, fears have been expressed as to the potential impact of seismic surveys, in particular on marine mammals and on various economic activities that communities of coastal and island regions depend on.

It is essential that the activities relating to hydrocarbons be carried out in an environmentally friendly way, to ensure sustainable development for current and future generations. To protect the environment and the communities affected by the effects of possible hydrocarbon development, an annual envelope of $1.5 million for the next two years will be allocated to implement a marine strategic environmental assessment program.

This program will be deployed using a global approach that could be used as a backdrop to the environmental impact studies of each future project.

Strategic environmental assessments
Strategic environmental assessment is a tool acknowledged around the world for the implementation of sustainable development. It enables an examination of the scope and nature of the potential environmental and socio-economic effects upstream from a series of projects, a program or a policy. Strategic environmental assessments aim to: – collect, analyze and take into consideration the public's concerns; – develop a portrait of the environment of the zone under study; – delimit sensitive sectors, including coastal and border zones; – examine the potential environmental, social and economic effects associated with exploration and development work; – assess the potential cumulative effects and the interaction with other commercial activities in the sector; – determine the appropriate environmental oversight and monitoring measures to maintain the integrity of marine fauna and habitats; – propose prevention and mitigation measures to reduce or eliminate the negative effects of development; – consider the sixteen principles of the *Sustainable Development Act* when formulating recommendations; – issue recommendations on the conditions for carrying out the work.

3.2.5 Modernize the natural gas royalty system

Québec's natural gas royalty was designed many years ago and no longer reflects the state of the market. The government wants to modernize this system.

The new system must be competitive, predictable and simple to administer for companies and the government, while securing a fair return for Quebecers on the resource they own collectively.

To give this nascent industry the predictability it needs to develop Québec's natural gas resources, the government is unveiling the major guidelines that will govern this industry in the coming years.

❑ Introduction of a variable rate royalty system

The government is announcing that the structure of royalties on natural gas development will be reviewed and modernized to adapt it to new realities.

■ Current system

Under the current system, the royalty rate varies only with the volume of production but takes no account of the rise in the price of the resource on the market. The royalty rate applicable to natural gas development is 10.0% or 12.5% of the value at the well depending on whether average daily production is less than or greater than 84 000 cubic metres. The value at the well represents the average retail price of natural gas, excluding taxes and after deducting certain costs.[5]

■ A new system in 2011

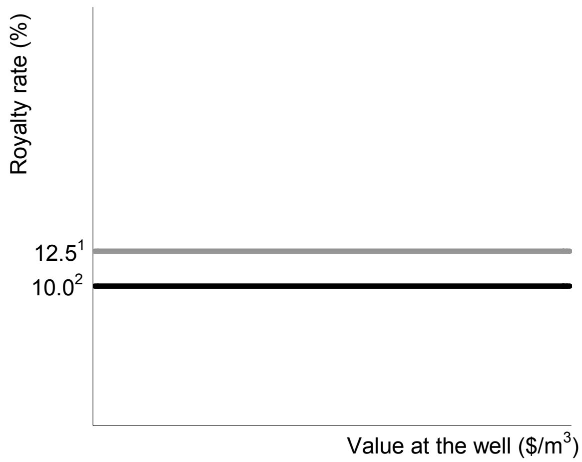
In 2011, at the end of the royalty holiday eligibility period, the current system will be changed and the royalty rate will vary with the price of the resource, which is not currently the case. The new system will be much closer to those in force in other provinces, especially British Columbia's system.

5 Average transportation costs from the well to the delivery sites, costs of measurement and, if applicable, purification can be deducted from the average retail price of natural gas for the purposes of calculating the royalty.

Accordingly, when the price is low, a lower royalty rate will help the gas developer fund its investments. On the other hand, when prices rise sharply, Quebecers will be entitled to expect to benefit from a greater share of the value of the resource.

GRAPHIQUE F.14

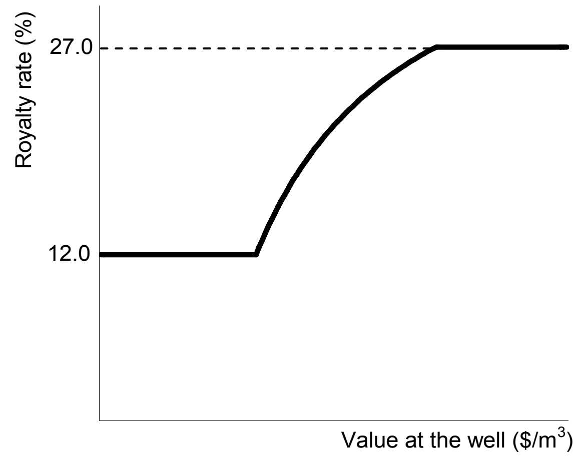
Current system – Québec



1 Daily production greater than 84 000 m³.
2 Daily production less than or equal to 84 000 m³.

GRAPHIQUE F.15

British Columbia system – Illustration[1]



1 Rate in force for a natural gas well not associated with oil and for which drilling began after May 31, 1998 (*Base 12 gas*).

■ Reduced rates for low-productivity wells

Moreover, the government acknowledges that price is not the only influence on the profitability of developing this resource: production also varies from one well to another. Geological characteristics can vary depending on the production zone and affect productivity and operating costs of different wells. The new royalty system will therefore offer reduced rates for wells with lower productivity.

Making the royalty rate a function of productivity will provide the flexibility needed to adapt the system to market conditions and the production characteristics of each well. This will ensure a fair division of risks and rewards between the government and the companies.

Within the next year, the government will propose the legislative and regulatory amendments needed to give effect to these orientations. The Minister of Natural Resources and Wildlife will give consideration to the results, which he will receive from the industry, concerning the commercial development potential of geological formations in Québec, further to the development work under way.

TABLE F.27

Comparison of royalties applicable to natural gas according to the system

Current system	**Illustration of a possible system**
Fixed rate	**Variable rate: depends on the price of the resource**
10% of the value at the well on the first 84 000 m^3 of average daily production	Rate to be determined
12.5% of the value at the well on the excess	
Adjustment	**Adjustment**
Based on the productivity of the well	Based on the productivity of the well and commercial development potential

Note: 84 000 m^3 is equivalent to roughly 3 million cubic feet.

3.3 Supporting our technology companies

To benefit fully from the spin-offs of technological development, Québec will have to create more technology companies.

These companies result from a lengthy gestation process that begins in higher education institutions and generally culminates in expansion financed by the equity markets.

Technology companies generally stem from an innovative concept developed in the course of university research. After obtaining a proof of concept and acquiring the intellectual property on the technology developed, the next stage is to seed and start up a technology company. Only after successfully completing the seed and start-up stages can the technology company, with venture capital financing, begin to grow. Lastly, the technology company completes its development with expansion generally financed by the equity markets.

The government is keenly aware of the continuity of the development process of technology companies. In addition to the fiscal and budgetary assistance normally reserved for research and development, the government is improving, in this budget, its support for technology companies with the following measures:

- $125 million to create seed funds;
- $825 million to finance venture capital funds;
- the introduction of a tax holiday encouraging the commercialization of intellectual property.

TABLE F.28

Cost to the government of measures to support our technology companies
(Millions of dollars)

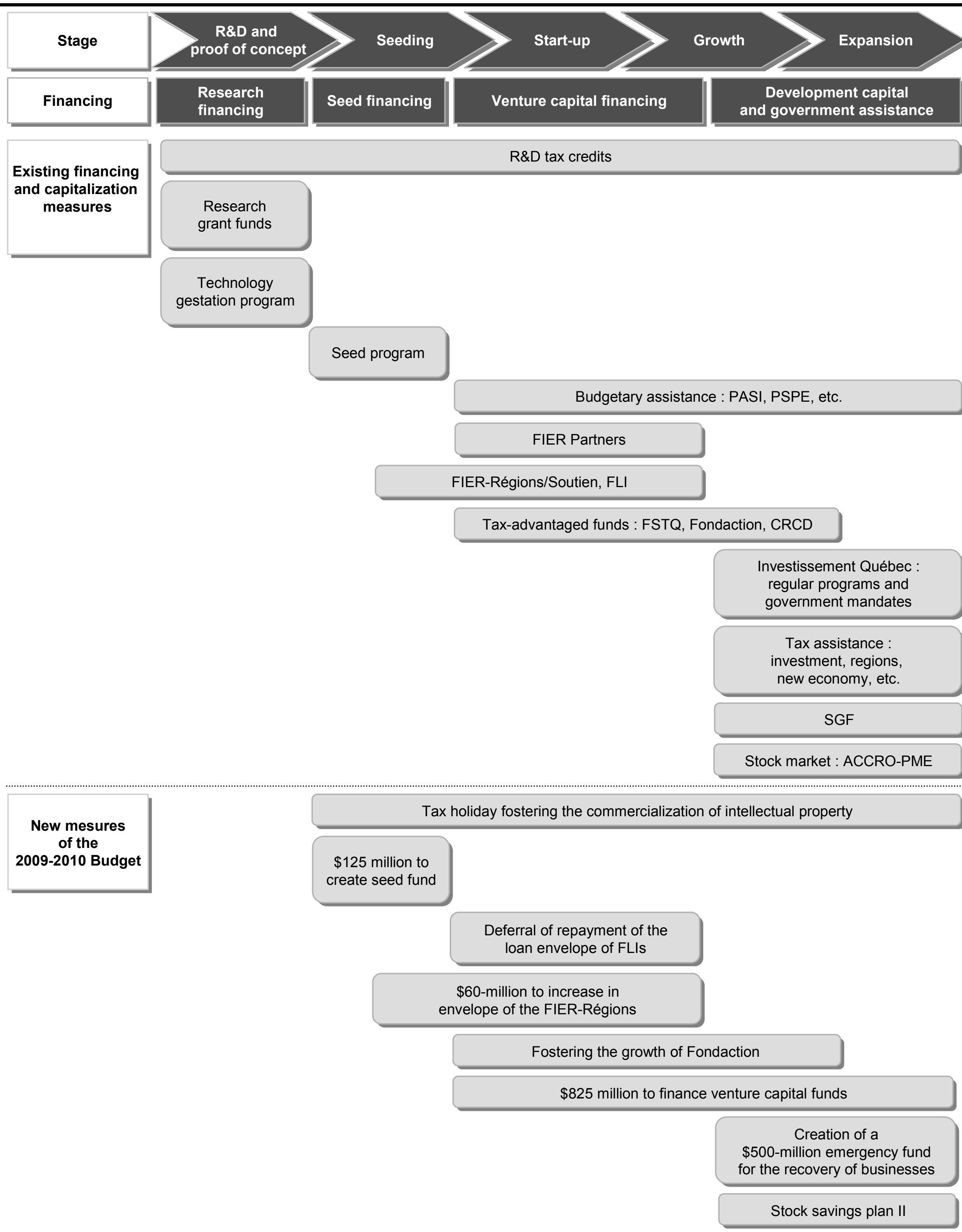
	2009-2010	2010-2011	Total
$125 million to create seed funds[1]	2.5	2.5	**5.0**
$825 million to finance venture capital funds[1]	10.0	10.0	**20.0**
Introduction of a tax holiday encouraging the commercialization of intellectual property	—	0.4	**0.4**
TOTAL	**12.5**	**12.9**	**25.4**

1 Impact on the government's debt service.

With respect to growing and expanding companies, measures to grant them additional cash resources and increase their capitalization are announced in this budget. They include, in particular, the creation of a $500 million emergency fund and the stock savings plan II, which were described earlier.

CHART F.16

Illustration of technology company financing and capitalization measures



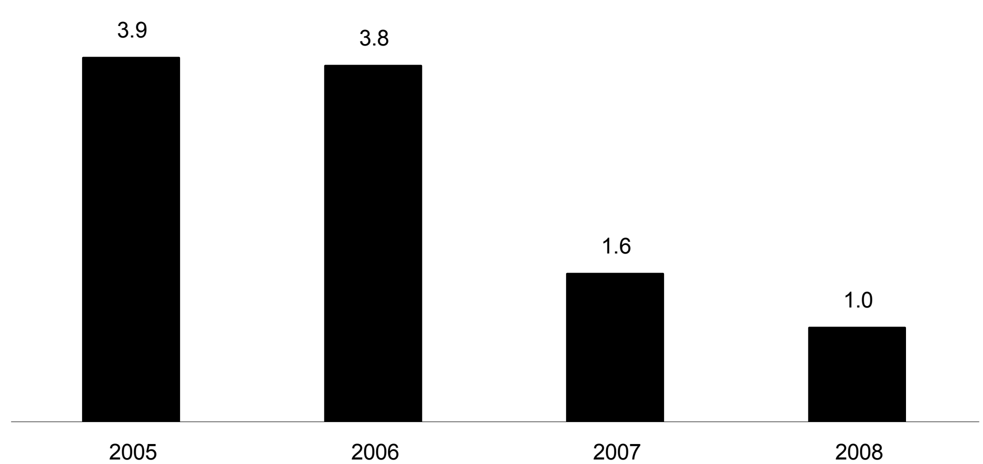
3.3.1 $125 million to create seed funds

Adequate seed financing is essential to foster the creation of high-value-added technology companies and for a sufficient number of technology company projects to reach maturity.

Since the bursting of the technology bubble in the early 2000s, private venture capital investors have focused more of their investments on companies at more advanced stages of development. In Québec, between 2001 and 2008, the share of venture capital financing intended for seeding and starting up businesses has fallen from 29.4% to 14.6%.[6] More specifically, the seed share dropped from 3.9% to 1.0% between 2005 and 2008.

CHART F.17

Share of total venture capital financing intended for seeding – Québec, 2005 to 2008
(As a percentage of total venture capital investments in Québec)



Source: Thomson Financial.

Because of the uncertain success of fledgling technology companies, seed financing is seen as highly risky by financial institutions and other traditional investors. In addition, the current financial crisis is not a favourable environment for seed investment.

The government, recognizing the strategic importance of seed financing, will participate in setting up three seed funds.

6 Source: Thomson Financial.

❑ Creation of three seed funds

The government will make, through its mandatary, Investissement Québec, a contribution of $50 million to set up three seed funds. This contribution will be matched by an injection of $50 million from tax-advantaged funds.

In addition, according to a principle whereby a government contribution of $2 is matched by a contribution of $1 from the private sector, an additional contribution of $25 million is expected from private partners.

In this regard, partners, such as angel investors, could put their resources and experience to good use. The contributions from all partners will bring the total capitalization of the three seed funds to $125 million, i.e. almost $42 million per fund.

■ The mission of the seed funds

The exclusive mission of these funds will be to invest in technology companies at the seed stage based in Québec. Targeted sectors will be information and communication technology, life sciences and other technologies.

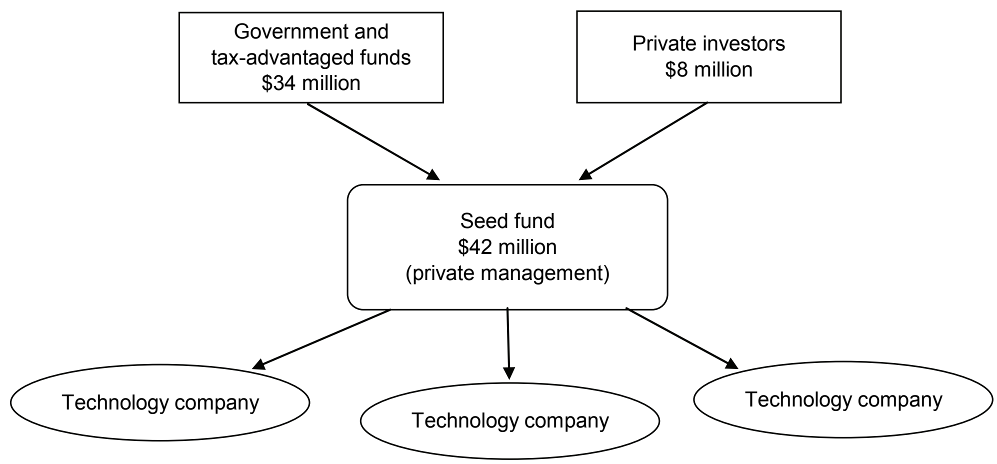
Consistent with industry best practices, the funds will be privately managed by a limited partnership. The funds will be run by independent and experienced managers that will be selected through a tender process.

Investissement Québec and the ministère du Développement économique, de l'Innovation et de l'Exportation will be charged with setting up a selection committee, issuing the call for tenders and initiating these funds in the weeks following the 2009-2010 Budget.

The Minister of Economic Development, Innovation and Export Trade will specify the operating details relative to the implementation of these funds at a later date.

CHART F.18

Illustration of the structure of a seed fund



The implementation of these seed funds will ensure the financing of technology companies in Québec and make it possible to benefit from the spin-offs of their investments in research and development.

3.3.2 $825 million to finance venture capital funds

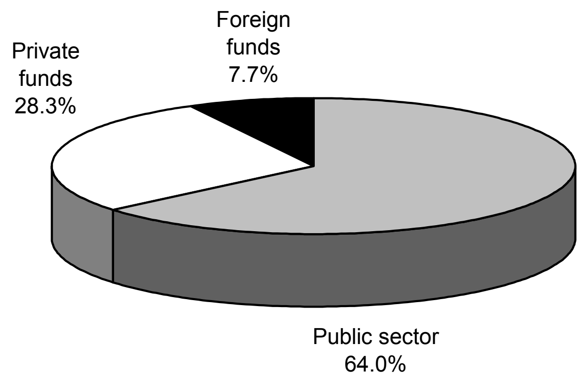
Because of the risky nature and degree of specialization of their activities, high-value-added technology companies find it impossible to satisfy their capital requirements through traditional financing vehicles. Venture capital is then essential to finance the growth of emerging technology companies.

Following the tabling of the *Rapport du groupe de travail sur le rôle de l'État québécois dans le capital de risque* (Brunet report) in December 2003, the Québec government changed its venture capital strategy. It refocused its role and took an approach that is more complementary to the private sector. Five years later, this shift has produced results. A true private venture capital industry has emerged in Québec.

Since the government's change in strategy, 18 new sector-based private venture capital funds now invest in Québec. More particularly, since 2002, the share of investments by foreign funds has virtually tripled, rising from 7.7% to 22.3% in 2008.

CHART F.19

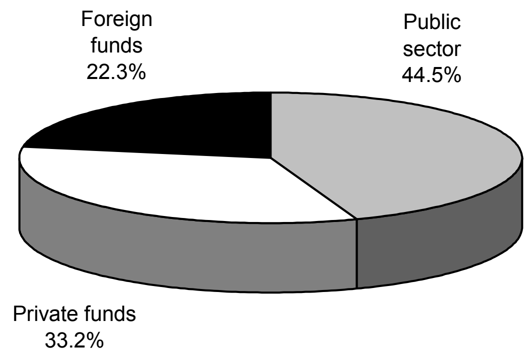
Share of venture capital investments by type of investor in 2002



Sources: Thomson Financial and ministère des Finances du Québec.

CHART F.20

Share of venture capital investments by type of investor in 2008



Sources: Thomson Financial and ministère des Finances du Québec.

However, these new funds are on the way to completely committing their financing for businesses. In 2009, some of these funds will have to be recapitalized. Refinancing the funds may prove difficult in the current economic conditions. Insufficient recapitalization of these funds would jeopardize the growth and survival of Québec technology companies that depend on their capital injections for their financing.

Moreover, the small size of Québec sector-based venture capital funds has historically prompted them to be risk-averse and, consequently, not maximize the spin-offs of their investments.

To consolidate the gains of the change in direction that has been made, continue the development of the venture capital industry on the basis of best practices and thus ensure adequate financing of emerging technology companies in Québec, the government is announcing the creation of a fund to finance sector-based venture capital funds.

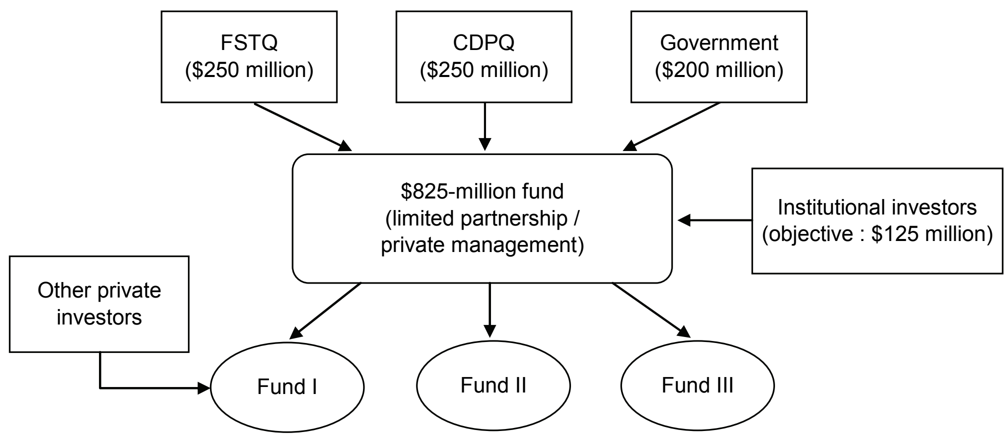
❑ Financing of the fund

The Québec government, working with its partners, will contribute to the creation of a fund with initial capitalization of $700 million to finance venture capital and growth funds.

The Québec government's participation will amount to $200 million and will be made through its mandatary, Investissement Québec. Its two partners, the Fonds de solidarité FTQ, hereunder called FSTQ, and the Caisse de dépôt et placement du Québec (CDPQ), will each contribute $250 million. Moreover, one of the objectives of the fund manager will be to raise $125 million from private institutional investors and thus achieve total capitalization of $825 million.

CHART F.21

Illustration of the structure of the fund



The fund will invest in 15 to 20 sector-based venture capital funds with target capitalization of $150 million. It will invest 75% of its capitalization in Québec and Canadian sector-based venture capital funds, where the latter undertake to invest in Québec. The funds' investments will target existing and emerging niches of excellence in technology in Québec.

Moreover, the fund may invest part of its capitalization abroad. These investments will help forge links with foreign investors and thus encourage them to invest further in Québec. Experience shows that foreign venture capital funds receiving financing from local investors subsequently return part of the amounts received in the form of financings of local businesses. In all, it is expected that roughly $1.2 billion will be invested in Québec technology companies.

Targeted sectors

Targeted technology sectors will be information and communication technology, life sciences, clean technologies and other technologies.

Private management

Consistent with industry best practices, the fund will be privately managed by a limited partnership. The fund will be run by an independent and experienced manager. The manager will be selected in concert with partners, i.e. the FSTQ and the CDPQ.

In addition, to ensure continuity and consistency of the chain of financing of Québec technology companies, the fund manager will work to create links with the three new seed funds announced in the 2009-2010 Budget and invest, as the case may be, in growth funds.

Investissement Québec, the ministère du Développement économique, de l'Innovation et de l'Exportation, the FSTQ and the CDPQ will be mandated to initiate this fund.

The Minister of Economic Development, Innovation and Export Trade will specify the operating details relative to the implementation of these funds at a later date.

3.3.3 Introduction of a tax holiday encouraging the commercialization of intellectual property

Each year, the government allocates substantial amounts to research and development activities in the higher education sector. In 2006, over $2.5 billion was invested in this way in Québec.

Despite these major investments, Québec compares poorly with the other Canadian provinces with respect to the creation of companies spun off from the university community.

— In 2004, while the expenditures allocated to research and development activities by Québec higher education organizations represented 27.2% of the Canadian total, the number of spin-off companies formed to date by these organizations accounted for only 17.0% of the total in Canada.

TABLE F.29

Creation of companies spun off from the university community – 2004

Regions / provinces	Spin-off companies		IRDSHE[1]	Gross domestic product
	Number to date	As a % of the Canadian total	As a % of the Canadian total	As a % of the Canadian total
Atlantic	65	6.7	5.7	6.0
Québec	165	17.0	27.2	20.5
Ontario	346	35.7	42.3	40.2
Prairies	170	17.5	15.6	21.0
British Columbia	224	23.1	9.2	12.3
TOTAL	**970**	**100.0**	**100.0**	**100.0**

1 In-house R&D spending by the higher education sector (IRDSHE) representing total in-house spending relating to R&D work carried out on the territory of a jurisdiction by the higher education sector (universities, public research centres, etc.).

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

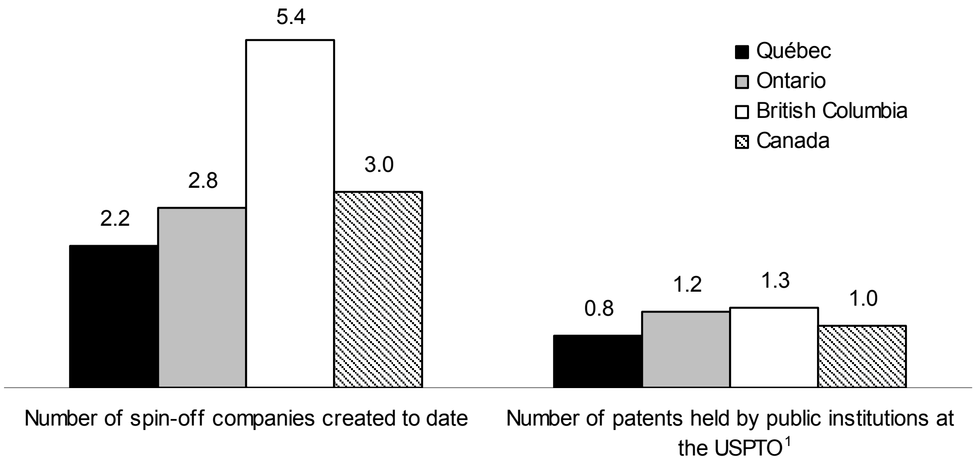
Moreover, in 2004, Québec had only 2.2 spin-off companies per 100 000 inhabitants, below the Canadian average of 3.0.

In addition to the difficulties Québec experiences regarding the creation of companies spun off from the university community, there is also a lag in terms of the number of patents held by public institutions.

— In 2004, Québec public institutions held only 0.8 patents per 100 000 inhabitants compared with 1.0 in Canada as a whole.

CHART F.22

Comparison of the number of companies spun off from the public domain and the number of patents held by public research institutions
(2004, per 100 000 inhabitants)



1 United States Patent and Trademark Organisation.
Sources: Ministère des Finances du Québec, Institut de la statistique du Québec and Statistics Canada.

To increase the number of companies spun off from research carried out in the public domain in Québec and thus further encourage innovation, the government is implementing a ten-year corporate income tax holiday.

By 2015, this tax holiday seeks to support 200 new companies in commercializing intellectual property, such as a patent, developed by a university or an eligible public research centre in Québec.

Accordingly, an eligible corporation, formed between the day following this budget and April 1, 2014, will be exempt from corporate income tax on the sale of goods stemming from intellectual property.

Eligible commercialization activities include in particular the manufacturing of products stemming from intellectual property and the marketing of products developed.

TABLE F.30

Tax holiday fostering the commercialization of intellectual property – Summary of parameters

	Parameters
Exemption rate	– 100% of corporate income tax
Length	– First 10 years following the incorporation of the corporation
Eligible corporations	– Established in Québec – Incorporated in Canada between the day following the day of the 2009-2010 Budget and April 1, 2014 – Must derive at least 90% of its income from commercialization activities
Eligible activities	– Manufacturing of products stemming from intellectual property – Marketing of products developed
Other detail	– The intellectual property must be developed by Québec universities or eligible public research centres in Québec

In addition to contributing to the creation of companies spun off by the university community, this new fiscal measure will:

- foster improved development of public research;
- encourage entrepreneurship in Québec through the creation of new companies;
- help retain intellectual property in Québec;
- make it easier for these new companies to access financing;
- enable universities and eligible public research centres to benefit further from the commercialization of the results of their research.

3.4 Québec, leader in environmental protection and environmental technologies

The environment is a central concern of Quebecers. In recent years, many environmental initiatives have been implemented. In 2006, the government tabled its 2006-2012 action plan on climate change in which it set out its vision and the steps it intends to take to reduce greenhouse gas (GHG) emissions. Since then, many measures have been implemented to improve Québec's GHG record.

While Québec holds an enviable position in terms of per capita GHG emissions compared to the rest of Canada, it must continue its efforts to improve its energy record and capitalize on the business opportunities represented by the development of bioenergy and the new technologies relating to environmental protection.

In addition, the protection of natural habitats and populations is essential to lessen the effects of climate change on and human disruption to the environment.

In this context, the government is announcing investments of $21.2 million over two years to:

- support the development and demonstration of new green energy technologies;
- stimulate the purchase of new green vehicles;
- help finance organic material conversion infrastructures;
- accelerate the modernization of public dams;
- extend the network of national parks to southern Québec;
- resite snowmobile trails outside Monts-Valin and Mont-Tremblant national parks.

TABLE F.31

Cost to the government of measures for environmental protection and environmental technologies

(Millions of dollars)

	2009-2010	2010-2011	Total
Development of green energy technologies	4.0	4.0	**8.0**
New refundable tax credit for a new green vehicle	2.3	3.3	**5.6**
Financial assistance program for capital assets related to bioenergy production	—	—	**—**
Acceleration of the modernization of public dams	0.1	0.7	**0.8**
National parks: expansion in southern Québec	1.8	3.6	**5.4**
Resiting of snowmobile trails outside Monts-Valin and Mont-Tremblant national parks	0.4	1.0	**1.4**
TOTAL	**8.6**	**12.6**	**21.2**

3.4.1 Development of green energy technologies

Innovation in green energy technology can improve our environmental performance and bolster our economy.

Initiatives like the *Global Green New Deal* of the United Nations Environment Program foster investments in the environment to stimulate the economy and create jobs. The *Global Green New Deal* views the clean energy and technology sector as a priority because of its repercussions in terms of economic spin-offs, job creation and positive environmental effects.

The global environmental shift will contribute to creating business opportunities for developers of new energy technologies. Close by Québec, the new U.S. administration is concerned by global warming and is moving its energy policy towards so-called “green” energies. The United States represents a potential market of 300 million people.

Moreover, emerging countries have major energy needs because of their vigorous economic growth. Considering that a large part of energy production in emerging countries relies on polluting sources of energy, foreign markets represent significant business opportunities for environmental technologies.

Québec has the resources and expertise necessary to make green energy a source of development and wealth creation.

However, the financial requirements are substantial, in particular to reach the stage of commercialization of technologies.

To foster economic development of a dynamic new green energy technology sector, the 2009-2010 Budget is allocating $8 million over two years for the implementation of a green energy technology development program.

In Québec, many sectors can claim priority regarding emerging energy technologies, in view of its objectives and its energy consumption profile.

Examples of technologies targeted by the green energy technology development program
Next-generation biofuels Support the development and application of technologies stemming from green chemistry enabling the extraction of cellulosic ethanol from forest and farm residues. **Electric vehicles** Improve the performance of batteries, engines and control systems. **Solar power** Develop new materials for the manufacture of photovoltaic cells used in solar panels. **Wind power** Perfect and adapt technologies to utilization conditions in Québec. **Underwater generators** Take greater advantage of the energy potential of our rivers with demonstration projects of power generation using underwater generators designed in Québec.

This program will help support applied research in Québec as well as the demonstration phase of projects designed to develop new energy technologies and will thus enable Québec-based companies to position themselves favourably on export markets.

3.4.2 New refundable tax credit for a new green vehicle

To encourage the use of highly fuel-efficient vehicles, the 2009-2010 Budget stipulates the introduction of a refundable tax credit for the acquisition or lease of a new green vehicle as of taxation year 2009.

The tax credit will be granted to an individual or a corporation that purchases or leases on a long-term basis a new green vehicle. It will be paid at the time of the tax return filed for the year of purchase or of the beginning of the lease of the vehicle.

❑ Encourage the purchase of vehicles that comply with the California standard on greenhouse gas emissions

The objective of the tax credit is to encourage use of vehicles that are currently compliant with the most stringent California standard on greenhouse gas emissions for vehicles, i.e. the equivalent of 5.27 litres of gasoline/100 kilometres.

The amount of the tax credit will depend on the greenhouse gas emissions the vehicle produces. The better a vehicle's environmental performance, the greater the tax credit, i.e.:

— $2 000 for vehicles with consumption of 3.00 to 5.27 litres of gasoline/100 kilometres, which corresponds to compliance with the 2016 California standard or better;

— $3 000 for vehicles with consumption of 0.01 to 2.99 litres of gasoline/100 kilometres, which is below that of the preceding standard and implies use of a technology requiring less fuel;

— $4 000 for low-speed restricted-use vehicles with consumption of 0.00 litres of gasoline/100 kilometres;

— $8 000 for other vehicles that consume 0.00 litres of gasoline/100 kilometres. As with the preceding category, this seeks to recognize the zero fuel consumption of exclusively electric vehicles or vehicles using an equivalent technology.

To reflect advances in technology, the amount granted regarding a category of motor vehicles will be reduced gradually as of the year following the one stipulated for the entry, on the Québec market, of a new generation of more environmentally friendly vehicles. Regarding vehicles that consume no fuel, the tax credit will extend until 2016, the target year for achieving the California standard.

For example, the purchase in 2010 of a new Toyota Prius with a consumption rating of 4.1 litres of gasoline/100 kilometres will entitle the purchaser to a tax credit of $2 000. If, however, the vehicle is purchased in 2012, the tax credit would be $1 000.

TABLE F.32

Refundable tax credit for the purchase of a new green vehicle according to gasoline consumption and taxation year[1]

Examples of vehicle generations	Current hybrid vehicles	Rechargeable hybrid electric vehicles	Low-speed electric vehicles	Exclusively electric vehicles
Examples of vehicles	Toyota Prius, Honda Civic Hybrid	Chevrolet Volt by GM	Zenn, Nemo	Under development
Expected year of bringing vehicle to market[2]	Before 2009	Late 2010	Before 2009	Late 2011
Gasoline consumption (litres/100 kilometres)	3.00 to 5.27[3]	0.01 to 2.99[4]	0.00	0.00
Value of the credit according to the year of purchase (Dollars)				
2009	2 000	—[5]	4 000	—[5]
2010	2 000	3 000	4 000	—[5]
2011	1 500	3 000	4 000	8 000
2012	1 000	2 250	4 000	8 000
2013	500	1 500	3 000	6 000
2014	—	750	2 000	4 000
2015	—	—	1 000	2 000
2016	—	—	—	—

1 The tax credit will be granted in a single payment to taxpayers for the taxation year corresponding to the year of purchase.
2 For rechargeable hybrid electric vehicles and exclusively electric vehicles, the period of arrival to market is a forecast.
3 For vehicles that use diesel fuel, the standard is 2.58 to 4.54 l/100 km.
4 For vehicles that use diesel fuel, the standard is 0.01 to 2.57 l/100 km.
5 The amount of the tax credit stipulated in 2011 regarding the vehicle's consumption category will apply if vehicles of this category are offered on the market.

❑ Impact of the tax credit on the cost of vehicles

Currently, new technologies relating to electrical vehicles are under development and new models comparable with existing gasoline-powered vehicles will arrive on the market over the coming years.

It is expected that the price of these new vehicles will be appreciably higher than that of an equivalent-range gasoline-powered vehicle. For example, the Canadian price of intermediate rechargeable hybrid electric vehicles should be in the vicinity of $40 000, which is appreciably higher than the price of a gasoline-powered vehicle of equivalent range.

- Despite the savings on gasoline, the cost of purchasing and using this type of electrical vehicle could be $8 000 more than that of a similar gasoline-powered model. The $3 000 tax credit would offset nearly 40% of this $8 000 gap.
- If, instead, such a vehicle sold for $35 000, the amount of the tax credit would make its net cost equivalent to that of a gasoline-powered vehicle.

TABLE F.33

Illustration of the impact of the tax credit
Comparison of the net cost between an ordinary gasoline-powered vehicle and a rechargeable hybrid electric vehicle over a period of eight years[1]
(Dollars)

		Rechargeable hybrid electric model			
	Intermediate gasoline-powered model	**Purchase price: $40 000**	**Difference compared to gasoline-powered model**	**Purchase price: $35 000**	**Difference compared to gasoline-powered model**
Purchase price	23 400	40 000	16 600	35 000	11 600
Cost of gasoline	14 400	4 200	– 10 200	4 200	– 10 200
Cost of electricity	0	1 600	1 600	1 600	1 600
Cost of purchase and use over 8 years	**37 800**	**45 800**	**8 000**	**40 800**	**3 000**
Tax credits in 2010	**—**	**– 3 000**	**– 3 000**	**– 3 000**	**– 3 000**
Net cost over 8 years	**37 800**	**42 800**	**5 000**	**37 800**	**0**

1 Assuming the price of gasoline is $1 per litre, the price of electricity 7 cents/kWh and annual distance travelled is 20 000 km. The gasoline-powered vehicle consumes 9 l/100 km and the rechargeable hybrid electric vehicle, 2.625 l/100 km.

❑ Total impact of the tax credit

For the entire period during which the tax credit is effective, more than 19 000 purchasers and lessees of new low-fuel-consumption vehicles will receive tax assistance totalling $30.7 million, i.e. an average of $1 600 per taxpayer.

California standards on greenhouse gas emissions for vehicles

The Québec government, as part of its 2006-2012 action plan on climate change, has adopted a measure to encourage manufacturers of light vehicles sold in Québec to comply with greenhouse gas emissions standards comparable with California's standards.

Ultimately, application of these standards should result in a reduction of from 25% to 35% in greenhouse gas emissions for vehicles of model years 2010 to 2016.

The imminent arrival of vehicles that operate using new, less polluting technologies, electricity in particular, is an opportunity to further promote the achievement of these standards and encourage the use of cleaner energy.

Some fifteen American states and five Canadian provinces, representing nearly 50% of the North American motor vehicle market, intend to adopt such standards. Initially designed for implementation in California, whence the name "California standards", these standards are converted into gasoline consumption values in the following table.

Currently, vehicles that use gasoline as a fuel account for more than 98% of the light vehicle fleet in Québec. For these vehicles, the most stringent consumption standard will be 5.27 litres of gasoline/100 kilometres.

Greenhouse gas emissions standards converted into gasoline consumption
(Litres/100 kilometres)

Vehicle year	Category 1 Passenger vehicles of 3 855 kg or less and light trucks whose laden weight is no more than 1 705 kg	Category 2 Passenger vehicles of more than 3 855 kg and light trucks whose laden weight is more than 1 705 kg
2009	8.33	11.19
2010	7.75	10.70
2011	6.88	9.92
2012	6.01	9.18
2013	5.85	9.06
2014	5.72	8.89
2015	5.47	8.69
2016	5.27	8.44

Source: Economic impact study, *Projet de règlement sur les émissions de gaz à effet de serre des véhicules automobiles et sur les redevances pour les émissions excédentaires*, MDDEP, December 4, 2007.

3.4.3 Financial assistance program for capital assets related to bioenergy production

Bioenergy production, notably through biomethanization, can contribute significantly to achieving the objectives of the 2006-2012 action plan on climate changes and Québec's Energy Strategy 2006-2015.

The government will put in place financial support programs to promote investments for bioenergy production. The Québec government will invite the federal government to participate financially in these initiatives as part of its commitment to invest $1 billion in green energy infrastructures within five years.

The government will introduce, in particular, a program to provide municipalities with financial assistance to install anaerobic digesters to produce biogas as a replacement for fossil fuels. Municipalities will also be able to process organic waste produced by industries, businesses and institutions within their territory and this service could partially fund municipal residual materials processing programs.

Biomethanization, as an organic matter treatment process, has the advantage of avoiding using landfills for these materials, in addition to reducing GHG emissions in Québec and producing biogas as a substitute for fossil fuels in vehicles, various equipment and buildings.

The installation of anaerobic digesters will enable Québec to give considerable impetus to the development of biomethanization and will help develop new niches of expertise as well as create jobs in a promising field. The cost of these investments would be allocated among the Québec government, the federal government and the municipalities.

For Québec as a whole, installation of anaerobic digesters represents total investments estimated at $500 million.

3.4.4 Acceleration of the modernization of public dams

Many large drainage basins in Québec are regulated by dams, a large number of which are operated by the government, mainly for the protection of communities and infrastructures against spring floods.

In 2005, the government implemented a plan to bring public dams up to standard calling for investments of $204 million over 20 years. So far, almost $49 million have been invested under this plan.

To better protect communities and infrastructures against flooding, the government will accelerate investments already planned for certain major government dams and see that the work required, to ensure that they can withstand extreme climate events, will be completed by 2015.

Acceleration of this work will require further investments of $89 million over the next six years and will be funded under the Québec Infrastructure Plan starting in 2009-2010.

3.4.5 National parks: expansion in southern Québec

Projects will be started to continue expanding the national park network in southern Québec.

These projects represent total investments of $50 million over five years, fostering the development of the regional tourism industry and continued occupation of the territory.

3.4.6 Resiting of snowmobile trails outside Monts-Valin and Mont-Tremblant national parks

The Québec government wants to remove snowmobiles from Québec national parks to better preserve these sites. However, some of the snowmobile trails in question are significant regional tourism attractions.

To maintain the integrity of national parks while fostering regional tourism development, snowmobile trails will be developed outside Monts-Valin and Mont-Tremblant national parks.

While enhancing the conservation of these national parks, the new trails will be a significant improvement compared with the existing trails, fostering the tourism industry and continuing to attract tourists to these regions.

Development of these trails will require outlays of almost $3.4 million over the next four years.

4. PLAN TO SUPPORT JOBS AND PREPARE FOR ECONOMIC RECOVERY – IMPACT ON CASH RESOURCES

TABLE F.34

Plan to support jobs and prepare for economic recovery – Impact on cash resources
(Millions of dollars)

	Injection of cash resources into the economy[1]			
	2009	2010	Total	Population affected
MEASURES OF THE 2009-2010 BUDGET				
1. ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS				
Measures to increase the cash resources and capitalization of businesses				
– Creation of a $500-million emergency fund for the recovery of businesses	250.0	250.0	**500.0**	
– New stock savings plan II to foster the capitalization of public companies	65.0	100.0	**165.0**	
– Fostering the growth of Fondaction	35.0	35.0	**70.0**	
– $60-million increase in the envelope of the FIER-Régions	45.0	45.0	**90.0**	
– Improvement to the *Renfort* program to benefit the forest and tourism sectors	100.0	100.0	**200.0**	
– Deferral of repayment of the loan envelope of local investment funds	—	25.0	**25.0**	
Subtotal	**495.0**	**555.0**	**1 050.0**	
Employment Pact: increase from $1.0 billion to $1.5 billion				
– Additional support to develop human potential				
▪ Increase in Emploi-Québec training allowances	102.2	125.1	**227.3**	90 000 individuals
▪ Improvement to the Wage Subsidy measure	9.9	11.2	**21.1**	3 500 businesses
▪ Renewal of support measures for forest sector workers	14.0	14.0	**27.9**	13 500 individuals
▪ Improvement to the Targeted Initiative for Older Workers (TIOW)	19.0	19.0	**38.0**	2 800 individuals
▪ Broadening to all activity sectors of the support program for workers affected by collective dismissals (PSTLC)	4.9	14.0	**18.9**	7 500 individuals
▪ Broadening to all activity sectors of the Support Program for Older Workers (SPOW)	1.0	2.0	**3.0**	400 individuals
Subtotal	**151.0**	**185.3**	**336.2**	

Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)
(Millions of dollars)

	Injection of cash resources into the economy[1]			
	2009	2010	Total	Population affected
– Additional support for training				
▪ Broadening to the forest and mining sectors of the refundable tax credit for training	6.7	10.0	**16.7**	3 000 businesses
▪ Increase in the government's financial participation in funding training projects (MFOR-Entreprises)	20.5	17.0	**37.5**	13 650 businesses
▪ Increase in the government's financial participation in financing training projects as part of large-scale economic projects	9.9	—	**9.9**	40 businesses
▪ Increase in concerted activities for employment	8.0	6.0	**14.0**	850 businesses
▪ Broadening to all activity sectors of the measure encouraging early retirement for older workers (ARTT)	4.0	6.0	**10.0**	1 000 individuals
▪ Improvement to the program to support enterprises that risk being affected by economic slowdown	25.0	25.0	**50.0**	760 businesses
Subtotal	**74.1**	**64.0**	**138.1**	
– Additional support to value work				
▪ Adjustments to the financial assistance provided by certain Emploi-Québec measures	10.5	—	**10.5**	1 250 individuals
▪ Broadening of eligibility for the work premium supplement to participants in the Alternative jeunesse program	0.9	0.9	**1.8**	1 000 individuals
Subtotal	**11.4**	**0.9**	**12.3**	
Subtotal – Employment Pact	**236.5**	**250.2**	**486.6**	
Support for forest development				
– Forest regeneration				
▪ Improvement to the silvicultural investment program	22.0	—	**22.0**	
▪ Financing the production of seedlings	25.6	—	**25.6**	
▪ Assistance for forest road maintenance in controlled zones	1.0	1.0	**2.0**	

Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(Millions of dollars)

	Injection of cash resources into the economy[1]			
	2009	2010	Total	Population affected
– New markets for the forest sector				
▪ Development of high-value-added products	10.0	5.0	**15.0**	
▪ Forest certification program for private woodlot owners	0.5	0.5	**1.0**	150 individuals
Subtotal	**59.1**	**6.5**	**65.6**	
Corporate tax reduction to stimulate investment				
– Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000	13.0	15.0	**28.0**	5 900 businesses
– Extension of accelerated depreciation for manufacturing and processing equipment	—	—	—	15 000 businesses
– 100% accelerated depreciation for computer hardware	18.0	41.0	**59.0**	70 000 businesses
Subtotal	**31.0**	**56.0**	**87.0**	
Improvements to certain tax credits for culture	**1.5**	**2.6**	**4.1**	100 businesses
TOTAL – ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS	**823.1**	**870.3**	**1 693.3**	
2. PREPARING QUÉBEC FOR ECONOMIC RECOVERY				
Northern Québec: a new site of sustainable development				
– Preserving the environment and promoting the value of northern Québec's natural heritage				
▪ Program to consolidate outfitting operations	1.0	1.2	**2.2**	250 businesses
▪ Creation of protected areas	0.6	0.6	**1.2**	
▪ Creation of five national parks	—	—	—	
– Improving infrastructure in northern Québec				
▪ Construction of a road to the Otish Mountains	6.5	3.0	**9.5**	
▪ Repair of Highway 389 between Baie-Comeau and Fermont	15.0	5.0	**20.0**	
▪ Improvement of northern airports	20.0	36.0	**56.0**	
Subtotal	**43.1**	**45.8**	**88.9**	

Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(Millions of dollars)

	Injection of cash resources into the economy[1]			
	2009	**2010**	**Total**	**Population affected**
Stimulating gas exploration in Québec				
– Five-year royalty holiday for gas development	0.8	3.0	**3.8**	
– SGF support for the development of the gas exploration industry in Québec	—	—	**—**	
– Program for the acquisition of geoscientific knowledge	2.0	2.0	**4.0**	
– Strategic environmental assessment program	1.5	1.5	**3.0**	
Subtotal	**4.3**	**6.5**	**10.8**	
Supporting our technology companies				
– $125 million to create seed funds	62.5	62.5	**125.0**	50 businesses
– $825 million to finance venture capital funds	412.5	412.5	**825.0**	175 businesses
– Introduction of a tax holiday encouraging the commercialization of intellectual property	—	0.4	**0.4**	
Subtotal	**475.0**	**475.4**	**950.4**	
Québec, leader in environmental protection and environmental technologies				
– Development of green energy technologies	4.0	4.0	**8.0**	
– New refundable tax credit for a new green vehicle	2.3	3.3	**5.6**	19 000 acquirers
– Financial assistance program for capital assets related to bioenergy production	—	—	**—**	
– Acceleration of the modernization of public dams	22.0	40.0	**62.0**	
– National parks: expansion in southern Québec	18.0	9.0	**27.0**	
– Resiting of snowmobile trails outside Monts-Valin and Mont-Tremblant national parks	0.4	1.0	**1.4**	
Subtotal	**46.7**	**57.3**	**104.0**	
TOTAL – PREPARING QUÉBEC FOR ECONOMIC RECOVERY	**569.1**	**585.0**	**1 154.1**	

Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(Millions of dollars)

	Injection of cash resources into the economy[1]			
	2009	2010	Total	Population affected
3. SUPPORTING THE FAMILY AND WELL-BEING OF QUEBECERS				
Supporting families				
– Improvement of the refundable tax credit for child care expenses	22.0	22.0	**44.0**	100 000 families
– Streamlining of the Québec education savings incentive	—	—	—	
– Increase in the maximum withdrawal limit under the Home Buyers Plan to $25 000	5.0	5.0	**10.0**	10 000 taxpayers
– Deduction for loss of value of investments in an RRSP/RRIF after death	—	—	—	17 000 taxpayers
Subtotal	**27.0**	**27.0**	**54.0**	
Improving the quality of life of seniors				
– The “Age-Friendly Municipalities” (AFM) initiative	1.0	1.0	**2.0**	
– Action plan to counter elder abuse	4.0	4.0	**8.0**	
– Financial assistance for home adaptations for independent seniors	2.0	2.0	**3.9**	1 200 households
Subtotal	**7.0**	**7.0**	**13.9**	
Investments of $370 million for housing construction and renovation				
– Investment of $200 million for the construction of 3 000 social housing units	—	38.0	**38.0**	3 000 households
– Financial assistance for low-income owner-occupants living in rural areas (RénoVillage)	25.0	25.0	**50.0**	6 000 households
– Enhancement of shelters for victims of domestic violence	2.5	3.0	**5.5**	370 individuals
– Financial assistance for emergency repairs for low-income owner-occupants	3.3	3.3	**6.5**	1 300 households
– Financial support for home adaptations for people with disabilities	22.3	22.3	**44.5**	2 500 individuals
– Home improvements in rundown areas (Rénovation Québec)	20.3	101.3	**121.5**	17 000 households
Subtotal	**73.3**	**192.8**	**266.0**	

Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(Millions of dollars)

	Injection of cash resources into the economy[1]			
	2009	2010	Total	Population affected
Investments for social development				
– Injection of $5 million in the Réseau d'investissement social du Québec	5.0	—	**5.0**	100 businesses
– Funding of a study for the Chantier de l'économie sociale	0.3	—	**0.3**	
– Extension of support for the Réseau québécois du crédit communautaire	2.2	—	**2.2**	21 organizations
– Promoting the development of female entrepreneurship	2.0	1.0	**3.0**	
Subtotal	**9.5**	**1.0**	**10.5**	
TOTAL – SUPPORTING THE FAMILY AND THE WELLBEING OF QUEBECERS	**116.7**	**227.7**	**344.4**	
SUBTOTAL - MEASURES OF THE 2009-2010 BUDGET	**1 508.9**	**1 683.0**	**3 191.8**	
ADDITIONAL INVESTMENTS BY LOTO-QUÉBEC AND THE SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC	**49.5**	**140.0**	**189.5**	
GRAND TOTAL, MEASURES OF THE 2009-2010 BUDGET	**1 558.4**	**1 823.0**	**3 381.3**	
EARLIER ANNOUNCEMENTS				
1. ECONOMIC STATEMENT, JANUARY 14, 2009				
– Introduction of a refundable tax credit for renovation and home improvements	250.0	—	**250.0**	170 000 households
– Contribution of $1 billion to the SGF to invest in Québec businesses	750.0	250.0	**1 000.0**	40 businesses
– Improvement to the tax credit for Québec film and television production	10.0	20.0	**30.0**	385 businesses
– Acceleration of the 2008-2013 Québec Infrastructures Plan	1 033.5	407.1	**1 440.6**	
Subtotal	**2 043.5**	**677.1**	**2 720.6**	
2. REDUCTION OF 25% OF MINIMUM WITHDRAWALS FROM RRIFs IN 2008 ANNOUNCED DECEMBER 19, 2008	**40.0**	—	**40.0**	100 000 taxpayers

Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(Millions of dollars)

	Injection of cash resources into the economy[1]			
	2009	2010	Total	Population affected
3. UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION, TABLED NOVEMBER 4, 2008				
– Increase from $1 500 to $2 000, in 2009, in the amount of the tax credit for retirement income	24.0	27.0	**51.0**	350 000 households
– Increase from 1.58% to 2.36% in the indexing rate of the personal income tax system for 2009	136.0	150.0	**286.0**	4 300 000 households
– Full indexing of 2.36% of last resort benefits for 2009, including that of households fit for work	35.0	45.0	**80.0**	332 000 households
– Increase in Child Assistance and the Work Premium	16.0	26.0	**42.0**	820 000 households
– Additional financing of $1 billion for businesses, mainly SMEs (Renfort program)	500.0	500.0	**1 000.0**	500 businesses
Subtotal	**711.0**	**748.0**	**1 459.0**	
4. QUÉBEC INFRASTRUCTURES PLAN 2007-2012 : IMPACT COMPARED TO 2007	**3 404.6**	**3 045.2**	**6 449.8**	
5. ELIMINATION OF THE TAX ON CAPITAL: IMPACT OF RATE DECREASES OF JANUARY 1, 2009 AND 2010	**299.0**	**673.0**	**972.0**	75 000 businesses
SUBTOTAL – EARLIER ANNOUNCEMENTS	**6 498.1**	**5 143.3**	**11 641.4**	
GRAND TOTAL OF MEASURES TO SUPPORT JOBS AND PREPARE FOR ECONOMIC RECOVERY	**8 056.5**	**6 966.3**	**15 022.7**	

Note: Figures have been rounded off, so they may not add up to the total indicated.
1 Including, if applicable, contributions of partners, i.e. the private sector and other levels of government.

Section G

Update on Federal Transfers

1. Introduction

Canada, like most other federations, has an equalization program. In fact, equalization is a fundamental component of Canadian fiscal federalism. It is the only program of transfers to the provinces whose objective is enshrined in the Constitution:

> Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.[1]

In recent years, numerous experts have examined the issue of equalization in Canada. In 2006, three reports concerning this issue were submitted:

- *Reconciling the Irreconcilable: Addressing Canada's Fiscal Imbalance* by the Advisory Panel on Fiscal Imbalance, set up by the Council of the Federation and chaired by Robert Gagné and Janice Gross Stein;
- *Achieving a National Purpose: Putting Equalization Back on Track* by the Expert Panel on Equalization and Territorial Formula Financing, set up by the federal government and chaired by Al O'Brien;
- *The Horizontal Fiscal Balance: Towards a Principled Approach* by the Standing Senate Committee on National Finance.

These three reports arrived at the conclusion that the equalization envelope and its allocation among the recipient provinces should be determined by a formula, and that this formula should take into account the average of the fiscal capacities of the ten provinces, commonly referred to as the "ten-province standard."

In its March 2007 budget, the federal government announced a thorough reform of the equalization program based on the recommendations of the O'Brien report. This reform, which at that time was presented by the federal government as one of the components of its solution for the fiscal imbalance, broadly met Québec's expectations.

In a letter dated March 19, 2007, addressed to the Premier of Québec, the Prime Minister of Canada stated that the 2007 federal budget marked "a fundamental return to fiscal balance in Canada" and that "henceforth all governments will receive resources in a way that is based on principles, predictable and defined over a long-term basis to carry out their responsibilities." [TRANSLATION]

1 Subsection 36(2) of the *Constitution Act, 1982*.

In that regard, the legislation implementing the 2007 equalization reform provided that the changes to the program were to be maintained until the end of 2013-2014.

Yet less than two years later, on November 3, 2008, the federal government announced that it intended to modify the equalization program, in particular so as to limit its growth to that of the nominal Canadian GDP.

Thus, faced with a significant economic slowdown, one of the federal government's first decisions was to unilaterally modify the equalization program, thereby taking revenues away from the provinces which at the outset have a lower per capita fiscal capacity than the national average.

The federal government asserts that the growth in equalization payments was not viable. Québec does not share this opinion. For example, because of the mechanism to smooth equalization entitlements applied since 2007, the recent decline in oil and natural gas prices would have automatically entailed a reduction in the cost of the equalization program in the coming years. The federal government therefore had no need to put a cap on the equalization program in order to limit its structural growth.

The changes to the equalization program were confirmed in the January 2009 federal budget. In that budget, the federal government also announced that it would unilaterally modify the formula for allocating the Canada Health Transfer (CHT) among the provinces.

The changes made by the federal government to these important programs for transfers to the provinces, without prior discussions with the provinces, have major consequences both on Québec's public finances and on the dynamic of federal transfers to the provinces.

This section is intended to provide an update on the changes recently made by the federal government to the equalization program and to the CHT. It also provides an update on other issues relating to the Canada Social Transfer (CST), as well as the conduct of federal-provincial relations in Canada, that must be discussed with the federal government.

2. EQUALIZATION: UNILATERAL CHANGES WITH MAJOR CONSEQUENCES

2.1 Impact on Québec's public finances

When Quebec's March 2008 Budget was tabled, $8 430 million in equalization revenue was anticipated for 2009-2010. On November 3, 2008, the federal government announced that, based on changes that it intended to make to the equalization program, Québec's equalization entitlements for 2009-2010 would amount to $8 355 million, that is, $75 million less than what had been anticipated in the March 2008 budget.

For 2010-2011 and the following years, the federal government provided no information to the provinces about the impact of the changes to the equalization program. Québec estimates, nevertheless, that these changes will have a major financial impact. Compared to the March 2008 Budget, the negative impact of these changes is estimated to be $695 million for 2010-2011 and more than $1 billion for each year thereafter.

TABLE G.1

Impact on Québec's revenues of the changes to the equalization program announced on November 3, 2008
(millions of dollars)

	2009-2010	2010-2011
Equalization anticipated in the March 2008 Budget	8 430	9 164
Equalization anticipated in the March 2009 Budget	8 355	8 469
Difference	– 75	– 695

2.2 New caps on equalization

On November 3, 2008, the federal government announced the introduction of new caps on equalization. These caps place limits on the equalization entitlements of recipient provinces.

First of all, the federal government announced the introduction of a capping mechanism designed so that a recipient province cannot be "richer" than the average of all provinces receiving equalization. This mechanism replaces the one introduced in 2007 by the federal government in accordance with the recommendations of the O'Brien report. The "O'Brien cap" was intended to avoid the possibility of a recipient province being "richer" than a province not receiving equalization.

In concrete terms, this change substantially reduces the cost of the equalization program. In 2009-2010, whereas the level of the "O'Brien cap" would have been $7 945 per capita, the level of the cap announced by the federal government on November 3, 2008 is only $7 162 per capita.

One factor explaining this disparity is the federal government's decision to exclude revenues from offshore resources agreements with Newfoundland and Labrador and with Nova Scotia from the calculation of the capping mechanism that will now be applied. Those revenues were taken into account in calculating the "O'Brien cap."

Furthermore, the federal government introduced a second capping mechanism, this one based on the nominal Canadian GDP. This "GDP cap" was not among the changes recommended by the O'Brien report.

Because of this cap, the increase in equalization entitlements in Canada will correspond, at its maximum, to the moving average over three years in the growth of the nominal Canadian GDP. For example, the growth in equalization entitlements in Canada in 2009-2010 was limited to the average growth in the nominal Canadian GDP for 2007, 2008 and 2009.

In 2009-2010, Ontario, for the first time in its history, will receive equalization payments totalling $347 million. It should be noted that if the federal government had introduced the "GDP cap" without first modifying the "O'Brien cap" described above, Ontario would not have received equalization in 2009-2010.

Finally, for 2009-2010, the federal government offered Nova Scotia and Manitoba transitional payments totalling $167 million to ensure that these two provinces would receive revenues at least equal to those they received in 2008-2009.[2] However, the federal government decided to offset the $167 million paid to Nova Scotia and Manitoba against the equalization entitlements of the other provinces receiving equalization, that is, Ontario, Québec, New Brunswick and Prince Edward Island.

In its economic statement of November 27, 2008, the federal government indicated that the changes made to equalization were "consistent with the O'Brien report." However, this is not the case.

The O'Brien report severely criticized the closed-envelope program applied from 2004-2005 to 2006-2007, which the system introduced on November 3, 2008, closely resembles. The O'Brien report recommended a return to an uncapped program, based on a formula and principles utilizing the ten-province standard:

> ... the concept of a fixed pool runs counter to the fundamental nature of Equalization—that it is intended to respond to changes in fiscal capacity of the provinces, rather than acting as a fixed entitlement over time. Establishing a fixed pool with a growth track divorces the Equalization program from the actual financial situation in provinces and the overall need for Equalization over time (page 44 of the O'Brien report).

Moreover, concerning the federal government's ability to pay, the O'Brien report had this to say:

> Any material changes to the Equalization program, particularly funding changes (e.g., any scaling back of the overall amount allocated by the federal government to the Equalization program), made within the five-year renewal period should be the subject of a public discussion paper (page 67 of the O'Brien report).

The changes of November 3, 2008, to the equalization program were not the subject of any prior public discussion paper.

2 It should also be noted that a few days after its 2009 budget was tabled, the federal government announced that Nova Scotia would receive an additional payment of $74 M in 2009-2010, so that the equalization entitlements of that province for 2009-2010 would be at the same level as in 2008-2009.

2.3 Unfair treatment of dividends paid by Hydro-Québec to the Québec government

The equalization entitlements of the provinces for 2009-2010 announced by the federal government on November 3, 2008, took into account other changes applied by the federal government that were announced to the provinces only on November 14, 2008, that is, 11 days later. These changes, which required amendments to the regulation respecting equalization, were made public in the *Canada Gazette* on December 24, 2008.

One of these changes concerns a modification in how dividends paid by Hydro One to the Ontario government are treated under the equalization program. The federal government decided to include this source of revenue in the corporate income tax base rather than in the natural resource tax base, as had been the case in 2007-2008 and in 2008-2009. In 2009-2010, the effect of this federal decision was to reduce Ontario's relative fiscal capacity and thereby increase its equalization entitlements.

The argument advanced by the federal government is that this government corporation transmits and distributes electricity, but does not produce it. Such an orientation does not seem to contradict the logic of the equalization program.

However, all the dividends paid by Hydro-Québec to the Québec government continue to be taken into account by the federal government in the natural resource tax base, even though a considerable portion of those dividends are generated by the transmission and distribution of electricity, just as in the case of Hydro One. The result is an unfair treatment.

Hydro One and Hydro-Québec are both government corporations which have only one shareholder: the Ontario government in the case of Hydro One, and the Québec government in the case of Hydro-Québec.

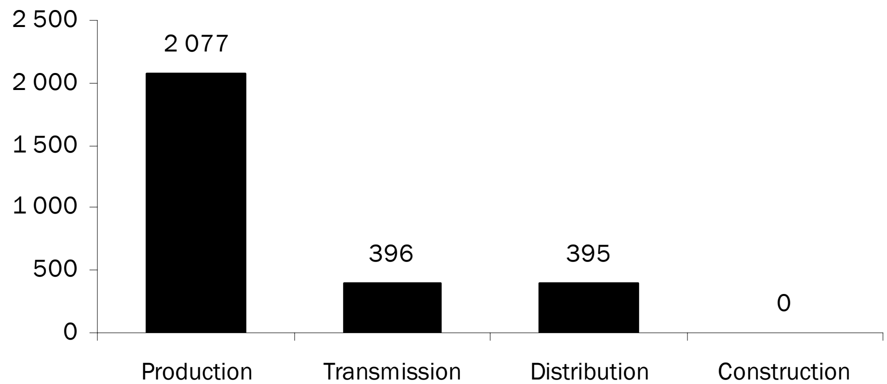
Hydro One's activities differ in no way from the activities carried on by two of Hydro-Québec's four divisions, that is, Hydro-Québec TransÉnergie, which operates the largest power transmission grid in North America, and Hydro-Québec Distribution, which distributes electricity to its customers. In a similar manner, the activities of Hydro-Québec Production, Hydro-Québec's largest division, differ in no way from those of Ontario Power Generation (production), another Ontario government corporation which, like Hydro One, has only one shareholder, the Ontario government.

In this context, there is no justification for the federal government, under the equalization program, to treat Hydro-Québec dividends generated by the transmission and distribution of electricity differently from how Hydro One dividends are treated.

In 2007, Hydro-Québec TransÉnergie generated a net income of $396 million, representing more than 13% of Hydro-Québec's net income. For its part, Hydro-Québec Distribution generated a net income of $395 million, likewise representing more than 13% of Hydro-Québec's net income. Altogether, Hydro-Québec's transmission and distribution sectors represented more than 27% of Hydro-Québec's net income in 2007. The division Hydro-Québec Production, for its part, generated a net income of $2 077 million in 2007.

CHART G.1

Net income of Hydro-Québec in 2007 by sector
(millions of dollars)



Source: 2007 annual report, Hydro-Québec.

By comparison, Ontario Power Generation (production) generated a net income of $528 million in 2007. Hydro One (transmission and distribution), for its part, generated a net income of $399 million in 2007.

A fair treatment of Hydro-Québec dividends by the federal government under the equalization program would increase Québec's equalization entitlements by more than $250 million annually.

2.4 The necessity of imposing caps on equalization has not been demonstrated

To justify the changes made to the equalization program, the federal government claims that equalization payments for Canada as a whole have grown by 56% since 2003-2004 and that this growth rate is not viable. While it is true that equalization payments have grown considerably since 2003-2004, it must also be noted that they declined by more than 20% between 1999-2000 and 2003-2004.

In fact, over the last ten years, equalization entitlements have grown by an average of only 4.1%, while growth in the nominal Canadian GDP has averaged 5.6%.

TABLE G.2

Equalization entitlements in Canada and growth in nominal Canadian GDP
(millions of dollars and percent)

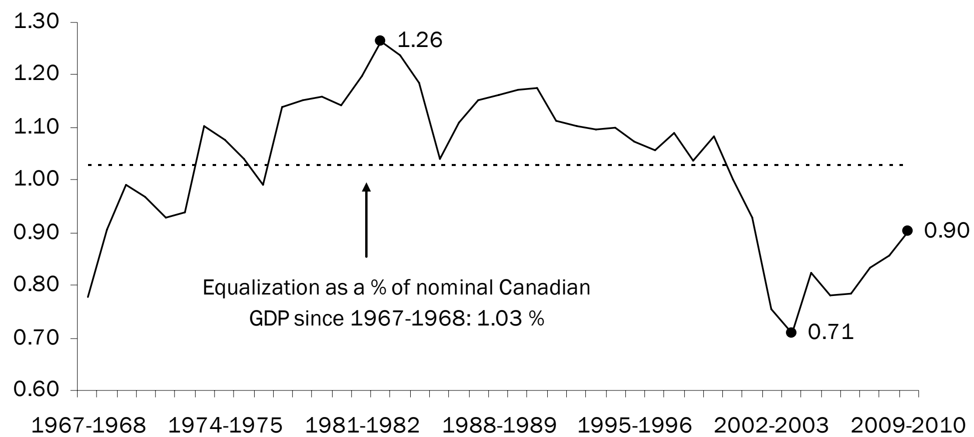
	Equalization entitlements in Canada		Nominal Canadian GDP
	($M)	(annual change in %)	(annual change in %)
1999-2000	10 900	13.5	8.7
2000-2001	10 948	0.4	8.9
2001-2002	10 310	– 5.8	1.3
2002-2003	8 859	– 14.1	6.0
2003-2004	8 690	– 1.9	4.2
2004-2005	10 774	24.0	7.0
2005-2006	10 907	1.2	6.7
2006-2007	11 535	5.8	5.0
2007-2008	12 925	12.1	5.8
2008-2009	13 620	5.4	2.3
Average annual growth (in %)	**N/A**	**4.1**	**5.6**

Sources: Department of Finance Canada, Statistics Canada and ministère des Finances du Québec.

In 2009-2010, the federal government will pay $14.2 billion in equalization entitlements. Although this is the highest amount ever in absolute terms, it represents 0.90% of the nominal Canadian GDP, which is lower than the 1.03% annual average observed since the end of the 1960s. By way of illustration, the cost of an equalization program representing 1.03% of the nominal Canadian GDP in 2009-2010 would amount to $16.1 billion, that is, nearly $2 billion more than the $14.2 billion that the federal government will pay in 2009-2010.

CHART G.2

Equalization in Canada as a proportion of nominal Canadian GDP
(percent)

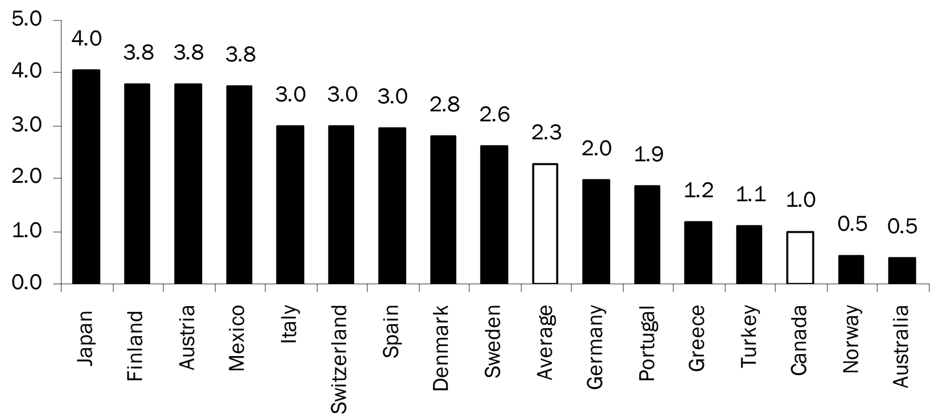


Sources: Department of Finance Canada, Statistics Canada and ministère des Finances du Québec.

What is more, in comparison with other OECD countries that have an equalization program, Canada's program is far from being the most costly. According to a recent study by the OECD,[3] the equalization mechanisms for the 16 countries analysed represented on average 2.26% of their nominal GDP.

CHART G.3

Equalization as a proportion of nominal GDP of certain OECD countries in 2004[1]
(percent)



1 Including territorial formula financing for Canada.
Source: Organization for Economic Co-operation and Development (OECD).

3 OECD. *Fiscal Equalisation in OECD Countries*, [on-line], September 2007, <http://www.oecd.org/dataoecd/51/6/39234016.pdf>.

2.5 A new dynamic that compromises the objective of the program enshrined in the Constitution

Finally, the "GDP cap" introduced by the federal government sets up a fundamental imbalance in the functioning of the equalization program:

- the equalization program will be able to play its role when the disparities in fiscal capacity between the provinces decline, since the cost of the program will decline (which is normal);
- however, the equalization program will not be able to play its role to the full if the disparities in fiscal capacity between the provinces increase markedly, since the growth in the cost of the program will then be limited to the growth in the nominal Canadian GDP (which is not normal).

On the budgetary level, the federal government has insulated itself against any financial risk: regardless of the factors that might affect the disparities in fiscal capacity between the provinces, such as a substantial increase in the price of oil, the equalization program will never grow faster than the nominal Canadian GDP.

The provinces, however, will be forced to assume a heavier risk. The new equalization formula with caps does not guarantee that the provinces will have, at a minimum, the fiscal capacity provided under the ten-province standard, as they did in 2007-2008 and 2008-2009. Furthermore, because of the "GDP cap" mechanism, any variation in the disparities in fiscal capacity between the provinces leads to a "zero-sum game," in which the equalization entitlements of one province can be increased only by reducing the entitlements of the other recipient provinces.

Furthermore, as a consequence of the "GDP cap," equalization as a proportion of the nominal Canadian GDP can never increase. In the future, equalization in Canada will never exceed the proportion of 0.90% observed in 2009-2010. Also, since the equalization program will grow either at the rate of the nominal GDP or at a lower rate, this proportion can only decrease over time.

For Québec, this new dynamic seriously compromises the equalization program's capacity to achieve the objective enshrined in the Canadian Constitution.

3. CANADA HEALTH TRANSFER: UNILATERAL CHANGES TO THE ALLOCATION FORMULA

The Canada Health Transfer (CHT) was enhanced by the September 2004 Health Accord. One result of this Accord is that cash transfers under the CHT will increase by 6% annually through the end of 2013-2014.

Unlike the Canada Social Transfer (CST), for which the cash amount has been allocated on an equal per capita basis since 2007-2008, the CHT is allocated among the provinces according to a formula that takes into account the value of the tax points that were transferred to the provinces by the federal government in 1977.[4] This means, for example, that a province such as Alberta, the value of whose tax points is higher than the average of the ten provinces due to the strength of its economy, receives a lower cash amount under the CHT. Globally though, taking into account the value of the tax points, all the provinces have identical per capita resources to finance their health systems.

In its 2007 budget, the federal government made a commitment to maintain this allocation formula until the end of the Health Accord, that is, until March 31, 2014.

> To respect the agreement on the *10-Year Plan to Strengthen Health Care*—which was signed by all First Ministers—the move to an equal per capita cash allocation for the CHT will be legislated to take effect in 2014-2015, when the current legislation expires (page 114 of the 2007 federal budget plan).

In its 2007 budget, the federal government also made a commitment to ensure that no province would be penalized financially in 2014-2015 when the CHT allocation formula is to be modified.

Yet on January 27, 2009, the federal government announced in its budget, with no advance notice, that it would modify the CHT allocation formula to allow Ontario to receive the same per capita cash amount as the other provinces that receive equalization, even though the value of Ontario's tax points continues to be higher than the Canadian average.

For 2009-2010 and 2010-2011, so that the other nine provinces will not be negatively affected by this change, the federal government will pay Ontario a sum of approximately $750 million from outside the CHT envelope.

However, for subsequent years, the additional compensation for Ontario will be paid from the legislated CHT envelope. The result will be a reduction in transfer revenues for health to the other nine provinces. For Québec, the negative impact of this federal decision is estimated to be more than $60 million annually for 2011-2012 and subsequent years.

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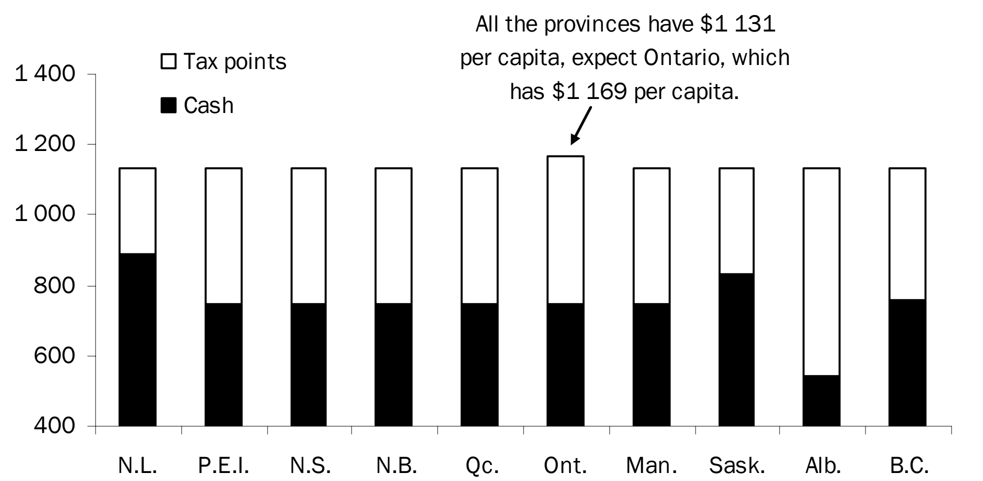
4 The allocation formula also takes into account the associated equalization related to the tax points that were transferred to the provinces by the federal government in 1977.

It should be noted that the 2009 federal budget initially provided that the additional compensation for Ontario would be paid out of the CHT envelope beginning from 2009-2010. The federal government changed its mind a few days later and informed the provinces that this would apply only beginning from 2011-2012.

As a result of this unilateral change to the CHT allocation formula by the federal government, Ontario, after taking into account cash transfers for health and the value of the tax points transferred to the provinces in 1977, has greater resources for financing its health system than the other provinces. For example, in 2009-2010, Ontario will have $1 169 per capita, while the other nine provinces will have $1 131 per capita, that is $38 less per capita. For Ontario, this will mean an additional amount of nearly $490 million.

CHART G.4

Canada Health Transfer (CHT) in 2009-2010
(dollars per capita)



Source: Department of Finance Canada.

Québec considers that this new CHT allocation formula ought to have been discussed before it was introduced. Québec is also of the opinion that no province should be penalized by the change made by the federal government, and particularly not before the end date of the September 2004 Health Accord, that is, March 31, 2014, so as to ensure full compliance with the Accord.

4. CANADA SOCIAL TRANSFER: AN INADEQUATE MECHANISM

In its May 2007 Budget, Québec indicated, in respect of the fiscal imbalance, that discussions must continue with the federal government and the other provinces on the amount of transfers for post-secondary education and other social programs, as well as on the issues relating to the allocation of these transfers, particularly regarding social assistance.

Taking into account inflation, the amount of the Canada Social Transfer (CST) remains lower than its 1994-1995 level. In 2009-2010, the CST amount for all of Canada will be $10 853 million. However, to equal its 1994-1995 level taking inflation into account, the 2009-2010 CST amount would have to be $14 267 million. This represents a shortfall of more than $3.4 billion for Canada as a whole, and approximately $800 million for Québec.

TABLE G.3

Change in the CST compared to 1994-1995
(millions of dollars)

	Excluding inflation	Including inflation
1994-1995	10 646	14 267
2009-2010	10 853	10 853
Difference	**207**	**– 3 414**

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

Moreover, the allocation of the federal contribution to provincial spending on social assistance is still a problem. The portion of the CST that supports provincial spending on social assistance is allocated among the provinces based on an equal amount per capita.

As a result, a province such as Alberta receives approximately $12 245 per social assistance recipient, while Québec receives $2 855, and the average contribution per province is $3 803. Such an allocation is difficult to justify, and all the more so in the context of an economic slowdown where the number of social assistance recipients might well increase at a rate that could vary from province to province.

Another way of allocating the federal contribution for social assistance would be to do so based on the number of social assistance recipients per province, instead of on a per capita basis. An allocation based on the number of social assistance recipients would increase transfers to Québec by approximately $500 million annually. Such a change would have no financial impact for the federal government.

TABLE G.4

Federal contribution to provincial social assistance spending in 2009-2010

(millions of dollars and dollars per social assistance recipient)

	CST component funding social assistance		Social assistance recipients[1]		Federal contribution
	$M	**% Canada**	**Number**	**% Canada**	**$ per social assistance recipient**
Newfoundland and Labrador	97	1.5	48 500	2.9	1 994
Prince Edward Island	27	0.4	6 900	0.4	3 898
Nova Scotia	179	2.8	52 300	3.1	3 421
New Brunswick	143	2.2	45 300	2.7	3 146
Québec	1 479	23.2	518 200	30.8	2 855
Ontario	2 477	38.8	676 500	40.3	3 661
Manitoba	231	3.6	60 900	3.6	3 796
Saskatchewan	195	3.1	48 700	2.9	4 010
Alberta	691	10.8	56 400	3.4	12 245
British Columbia	842	13.2	149 300	8.9	5 638
Territories	28	0.4	16 800	1.0	1 658
Canada	**6 388**	**100.0**	**1 679 800**	**100.0**	**3 803**

Note: Figures may not add up to the totals shown because of rounding off.
1 2005 estimate.
Sources: Department of Finance Canada and National Council of Welfare.

5. For a better governance of Canadian fiscal federalism

In recent decades, the federal government and the provinces set up committees to encourage discussions between governments concerning financial issues:

- the Continuing Committee of Officials (CCO), composed of the deputy ministers of finance from across the country, met almost systematically before each meeting of the finance ministers to review and discuss the ministers' principal concerns;
- the Fiscal Arrangements Committee (FAC), composed of the assistant deputy ministers in charge of federal-provincial policies in each of the finance departments, examined the principal issues involved in federal transfers to the provinces;
- the Sub-Committee on Transfers (SCT), composed of government specialists on equalization and other transfers to the provinces, discussed the technical issues related to provincial transfer programs, such as the treatment of various provincial revenue sources under the equalization program.

In recent years, however, these forums for discussion and co-ordination have almost never been used. In particular, none of the changes recently made by the federal government were discussed beforehand with the provinces, at the level of either ministers or officials.

Québec considers that greater use should be made of these committees so that all matters of concern to the finance ministers, including the sometimes more technical questions involving federal transfers, can be analysed beforehand by officials in order to promote a more harmonious and concerted development of Canadian fiscal federalism.

6. CONCLUSION

In its May 2007 Budget, Québec acknowledged that substantial progress had been made in regard to federal transfers in recent years. Québec acknowledged in particular that the reform of the equalization program, which was its priority, broadly met its expectations.

By unilaterally modifying, in recent months, the equalization program, then the CHT allocation formula, the federal government has reneged on its commitments.

What is more, for the past ten years, the three provinces that have most greatly benefited from increasing federal transfers are Ontario, Alberta and British Columbia.

TABLE G.5

Increase in federal transfers to the provinces since 1999-2000[1]
(millions of dollars and percent)

	1999-2000	2009-2010	Increase	
	($M)	($M)	($M)	(%)
Ontario	4 715	14 292	9 577	203
Alberta	1 311	3 132	1 821	139
British Columbia	2 230	4 785	2 555	115
Manitoba	1 805	3 359	1 554	86
Québec	9 263	16 671	7 408	80
New Brunswick	1 571	2 489	918	58
Nova Scotia[2]	1 778	2 649	871	49
Prince Edward Island	326	490	164	50
Saskatchewan	892	1 171	279	31
Newfoundland and Labrador[2]	1 457	1 080	– 378	– 26
Total	**25 349**	**50 118**	**24 769**	**98**

Note: Figures may not add up to the totals shown because of rounding off.
1 Equalization (including, in the case of Newfoundland and Labrador and Nova Scotia, revenues from offshore resources agreements) and transfers for health, post-secondary education and other social programs (including, in the case of Québec, the portion of the special Québec abatement associated with these transfers).
2 Under the 2005 offshore resources agreements, Newfoundland and Labrador and Nova Scotia received payments of $2 B and $830 M respectively in 2004-2005. Those amounts do not appear in this table.
Source: Department of Finance Canada.

This result stems from the orientation pursued by the federal government since the end of the 1990s, which consists in reducing the redistribution traditionally effected by means of social transfers to the provinces, and instead achieving that goal primarily through the equalization program. The 2007 federal budget was the end result of this logic, where it was notably announced that the CHT and CST cash transfers would be allocated on a per capita basis, in concert with an enhancement of the equalization program.

The federal government's recent decision to impose caps on equalization limits the program's ability to play its role. As a result, the overall level of redistribution of transfers to the provinces has been reduced.

Québec asked the federal government to suspend application of the changes announced on November 3, 2008, until a true process of discussions with the provinces has been completed.

Québec's priority is for the federal government to live up to the commitments it made in its 2007 budget, and thus return to the equalization program implemented on the basis of the O'Brien report's recommendations.

Québec also asks the federal government to correct, as of 2009-2010, the unfair treatment under the equalization program of Hydro-Québec dividends stemming from the transmission and distribution of electricity.

Section H

Report on the Application of the *Balanced Budget Act* and on the *Act to establish a budgetary surplus reserve fund*

1. BALANCED BUDGET

This section discusses the application of the *Balanced Budget Act* and the *Act to establish a budgetary surplus reserve fund*.

***Balanced Budget Act*[1]**
The *Balanced Budget Act* was adopted unanimously by the National Assembly of Québec on December 19, 1996. Essentially, the Act stipulates that the government must table balanced budgetary forecasts and sets forth the applicable rules in the case of an overrun. Thus, if the government records an overrun of less than $1 billion in relation to the balanced budget objective[2] in a fiscal year, it must achieve a surplus equivalent to that overrun in the following fiscal year. The Act stipulates that the government may incur overruns for a period of more than one year, where those overruns total at least $1 billion, as a result of the following circumstances: – a disaster having a major impact on the budget; – a significant deterioration of economic conditions; – a change in federal transfer payment programs to the government. In such case, the government must apply an offsetting financial plan ensuring that the overruns will be compensated for within a five-year period. If there is an overrun of more than $1 billion, the Minister of Finance must: – report to the National Assembly on the circumstances justifying the government in incurring such overruns; – present a financial plan allowing those overruns to be offset within the five-year period; – apply offsetting measures covering at least $1 billion within the fiscal year in which such an overrun is anticipated, or during the following year in the case of an actual overrun; – offset at least 75% of those overruns within the first four fiscal years of that period. In addition, the Act[3] stipulates that the Minister of Finance is required to report in the Budget Speech on the application of the Act.

1 R.S.Q., c. E-12.00001.
2 Sections 3, 4 and 5 of the *Act respecting the elimination of the deficit and a balanced budget* (S.Q., 1996, c. 55) set a maximum deficit for fiscal years 1996-1997 to 1998-1999. Those sections have been repealed.
3 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."

1.1 Balanced budget achieved in 2008-2009

On the basis of the information available at the time of the Budget Speech, the government considers that it will be able to fulfil the requirements of the *Balanced Budget Act* in 2008-2009. A balanced budget will be achieved using $2 billion from the budgetary reserve of $2.3 billion accumulated as at March 31, 2008.

As shown in Table H.1, a balanced budget is maintained while also taking into account the accounting reform applied since 2006-2007, which requires in particular that the government integrate into its results those of the health and social services network and education network.

TABLE H.1

Surpluses accumulated from 1996-1997 to 2008-2009 under the *Balanced Budget Act*
(millions of dollars)

Fiscal year	Deficit provided for by the Act	Surplus (deficit) disclosed in the public accounts for the fiscal years in question [1]	Budgetary reserve[2]	Surplus (overrun)	Accumulated surplus at the end of the fiscal 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	—	1 377	– 950	427	1 849
2001-2002	—	– 928	950	22	1 871
2002-2003	—	– 694	—	– 694	1 177
2003-2004	—	– 358	—	– 358	819
2004-2005	—	– 664	—	– 664	155
2005-2006	—	37	—	37	192[4]
After reform of government accounting					
2006-2007	—	1 409	– 1 300	109	109
2007-2008	—	1 001	– 1 001[3]	—	109
2008-2009[P]	—	– 2 006	2 006	—	109

P: Estimates.
1 Takes into account revenues allocated to and amounts deposited in the Generations Fund totalling $584 million for 2006-2007, $649 million for 2007-2008 and an anticipated amount of $701 million for 2008-2009.
2 A negative amount means an allocation to the reserve and a positive amount means a use.
3 Includes an allocation of an additional amount of $484 million.
4 This amount will be reduced to zero as at April 1, 2006 following the adoption of a bill to amend the *Balanced Budget Act*.

1.2 Status of the budgetary reserve

As at March 31, 2008, the balance of the budgetary reserve has been established at $2 301 million. This amount is made up of the following allocations:

— $1.3 billion allocated out of the 2006-2007 surpluses;[1]

— $517 million allocated out of the 2007-2008 surpluses,[2] including $200 million deposited in the Generations Fund;

— $484 million allocated out of the 2007-2008 surpluses.[3]

The 2009-2010 Budget provides that, because of the considerable economic slowdown under way in Québec, the reserve will be entirely used as follows:

— $2 006 million in 2008-2009, to achieve a balanced budget;

— $295 million in 2009-2010, to reduce the deficit.

The balance of the budgetary reserve will be zero at the end of 2009-2010.

TABLE H.2

Budgetary reserve transactions
(millions of dollars)

Fiscal year[1]	Balance, beginning of year	Allocation	Use	Balance, end of year
2000-2001	—	950	—	950
2001-2002	950	—	– 950	—
2006-2007	—	1 300	—	1 300
2007-2008	1 300	1 201[2]	– 200[3]	2 301
2008-2009P	2 301	—	– 2 006[4]	295
2009-2010P	295	—	295	—

P: Estimates.
1 No budgetary reserve transactions for fiscal years 2002-2003 to 2005-2006.
2 Includes $484 million corresponding to an additional budget surplus determined at the end of fiscal year 2007-2008, announced in the 2009-2010 Budget.
3 The amount of $200 million corresponds to a deposit in the Generations Fund.
4 Includes a deposit of $132 million in the Generations Fund.

1 Amount allocated in the 2007-2008 Budget.
2 Amount allocated in the 2008-2009 Budget.
3 Amount allocated in the 2009-2010 Budget.

The *Act to establish a budgetary surplus reserve fund*[1]

In March 2001, the government established a budgetary reserve. In the Budget Speech, the Minister of Finance determines the surpluses that may be allocated in whole or in part to a budgetary reserve.

The Act stipulates that the Minister must allocate the amounts according to different accounts for the implementation of capital projects and other projects having a defined duration.

Where the public interest so requires, the Act permits the government to authorize a use other than for capital projects in specific accounts, particularly in order to maintain a balanced budget.

1 R.S.Q., c. R-25.1.

2. SUSPENSION OF THE EFFECTS OF THE ACT

Due to the extent of the current economic slowdown and the recession which Québec has been drawn into as a result of the greatest international financial crisis since the 1930s, the government will be unable, for fiscal years 2009-2010 and 2010-2011, to maintain a balanced budget and thus achieve the objectives of the *Balanced Budget Act*.

Applying the current requirements of the Act would have as its result that the government, in avoiding a deficit, would be unable to marshall the necessary sums to support employment during the recession or to promote the return to economic growth by measures supporting the recovery. On the contrary, the government would be obliged to substantially reduce its expenditures to compensate for reduced revenues by fiscal year 2009-2010. Given the extent of the economic difficulties, all governments throughout the world have chosen instead to support their economies, at the cost of incurring deficits.

The government proposes to suspend the effects of the *Balanced Budget Act* retroactively to the date of this Budget, for fiscal years 2009-2010 and 2010-2011, so that it can ensure prudent management of its budgetary policy in this period of recession.

3. TABLING OF A BILL THAT WILL AMEND THE *BALANCED BUDGET ACT*

The government will table a bill that will amend the *Balanced Budget Act* so that it can present a budget deficit for 2009-2010 and 2010-2011 that it will not be obliged to offset by means of overruns in subsequent years.

The *Balanced Budget Act* will furthermore be amended to allow the government to gradually eliminate its budget deficit once the economic recovery is under way. For that purpose, the bill will enact provisions authorizing decremental budget deficits that will not have to be offset later,

The bill will also make it possible to act on the recommendations formulated by the Task Force on Government Accounting in its report tabled in December 2007. The Task Force, composed of representatives of the Auditor General of Québec and of the ministère des Finances, recommended modifications to the government's accounting practices and to the *Balanced Budget Act*. These recommendations prompted the government to procede with an immediate reform of government accounting and to table Bill 85 for the purpose of amending the *Balanced Budget Act*. That bill could not be adopted in 2008. Consequently, the provisions it contained, along with other provisions intended to follow through on the implementation of the accounting reform, will be resubmitted to the National Assembly this spring.

The government subscribes fully to the objectives of the *Balanced Budget Act*, which has applied to Québec since 1996. In its financial framework, the government will implement the necessary measures so that, once the economic recovery is well under way, a balanced budget will be restored by 2013-2014.

Bill 85 and the accounting reform

Bill 85 was proposed in the wake of the accounting reform announced in December 2007 following the report tabled by the Task Force on Government Accounting. The objective of that bill was:

- to specify that entries posted to the net debt must be taken into account in calculating the budget balance, except where such entries result from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the Canadian Institute of Chartered Accountants;
- to establish a new stabilization reserve formed from the surpluses of a fiscal year, for the purpose of maintaining a balanced budget and depositing sums in the Generations Fund;
- to set to zero the balance of the accumulated surplus within the meaning of the *Balanced Budget Act* as at April 1, 2006.

The scope of Bill 85's application was retroactive to April 1, 2006, the date corresponding to the beginning of the fiscal year in which the government applied the accounting reform.

Section I

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

1. MAINTENANCE OF DEPOSITS IN THE GENERATIONS FUND

With the creation of the Generations Fund in 2006, the government clearly demonstrated its commitment to reducing Québec's debt burden and thereby improving equity toward future generations. Over the last few years, the government has made a determined effort to devote specific revenue sources to repayment of the debt in order to reduce the debt burden to a level comparable to the average of the other Canadian provinces.

The government considers that the challenge of debt repayment must remain a central concern, despite the difficult economic situation that Québec is temporarily facing.

The government therefore intends to maintain, in 2009-2010 and over the coming years, the deposits of dedicated revenues in the Generations Fund, a fund devoted exclusively to repayment of the debt.

Furthermore, because of the deficits expected for the coming fiscal years, the debt burden as a percentage of GDP should temporarily increase despite the maintenance of the deposits in the Generations Fund.

For that reason, from now until the 2011-2012 Budget is tabled, that is, once the economic recovery is well under way, the government will review the targets provided for in the *Act to reduce the debt and establish the Generations Fund*.

Requirements of the Act

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

The objective of the Act is to reduce the government's debt burden. To that end, the Generations Fund was created. Pursuant to section 3, the Fund 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;
- fees or charges for water withdrawal;
- the sale of assets;
- gifts, legacies and other contributions received by the Minister of Finance;
- unclaimed property administered by the Minister of Revenue;
- 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 stipulates the government's debt reduction objectives. Under the Act, the government's debt corresponds to the total debt shown in the public accounts. Specifically, the Act provides for the reduction of the total debt as a percentage of GDP to less than:

- 38%, not later than March 31, 2013;
- 32%, not later than March 31, 2020;
- 25%, not 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. SUMS ACCUMULATED IN THE GENERATIONS FUND

In 2008-2009, $701 million were devoted to the Generations Fund, that is, $569 million from revenue sources dedicated to the Fund, to which is added an additional $132 million resulting from the sale of assets of the Société immobilière du Québec, as announced in the document *Update on Québec's Economic and Financial Situation* issued last November. The revenues of the Generations Fund for 2009-2010 and 2010-2011 should reach $715 million and $880 million, respectively.

Also, as a precaution, the additional sums that were expected from Hydro-Québec in regard to its earnings from electricity exports as of 2010-2011 were not incorporated into the forecasts for deposits in the Generations Fund, given the fact that the poor economic outlook for the immediate future prevents Hydro-Québec from making projections in that regard.

Taking into account the deposits since its creation and those projected for the coming years, the book value of the Generations Fund will be:

— $1 934 million as at March 31, 2009;

— $2 649 million as at March 31, 2010;

— $3 529 million as at March 31, 2011.

TABLE I.1

Generations Fund

(millions of dollars)

	March 2008 Budget		March 2009 Budget[P]		
	2008-2009	Adjustments	2008-2009	2009-2010	2010-2011
BOOK VALUE, BEGINNING OF YEAR	**1 233**		**1 233**	**1 934**	**2 649**
DEDICATED REVENUES					
Water-power royalties					
Hydro-Québec	550	—	550	571	600
Private producers	75	—	75	76	78
	625	—	625	647	678
Unclaimed property	15	– 15	0	—	—
Investment income	102	– 158	– 56	68	202
TOTAL	**742**	**– 173**	**569**	**715**	**880**
Deposit from the budgetary reserve[1]	—	132	132	—	—
TOTAL	**742**	**– 41**	**701**	**715**	**880**
BOOK VALUE, END OF YEAR	**1 975**	**– 41**	**1 934**	**2 649**	**3 529**

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 $132 million resulting from the sale of assets of the Société immobilière du Québec deposited in the Generations Fund from the budgetary reserve.

Section J

Additional Information
Historical Data

1. ADDITIONAL INFORMATION

TABLE J.1

Summary of consolidated budgetary and financial transactions

(millions of dollars)

	2005-2006	2006-2007	2007-2008	2008-2009P
BUDGETARY TRANSACTIONS OF THE CONSOLIDATED REVENUE FUND				
Own-source revenue	45 743	49 651	49 464	48 555
Federal transfers	9 969	11 015	13 629	13 924
Total	55 712	60 666	63 093	62 479
Program spending	– 49 229	– 51 734	– 54 826	– 57 400
Debt service	– 6 875	– 7 039	– 7 021	– 6 589
Total	– 56 104	– 58 773	– 61 847	– 63 989
NET RESULTS OF CONSOLIDATED ENTITIES	**429**	**100**	**404**	**205**
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	**37**	**1 993**	**1 650**	**– 1 305**
Deposit in the Generations Fund	—	– 584	– 649	– 701
Use of the budgetary reserve	—	– 1 300	– 1 001	2 006
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	**37**	**109**	**0**	**0**
Deposit of dedicated revenues in the Generations Fund	—	584	449	569
CONSOLIDATED BUDGETARY BALANCE	**37**	**693**	**449**	**569**
CONSOLIDATED NON-BUDGETARY TRANSACTIONS				
Investments, loans and advances	– 1 182	– 2 157	– 2 410	– 17
Capital expenditures	– 1 166	– 1 177	– 1 457	– 2 405
Net investments in the networks		– 1 002	– 487	– 815
Retirement plans and other employee future benefits	2 310	2 559	2 458	2 300
Other accounts	– 208	– 1 676	740	242
CONSOLIDATED NON-BUDGETARY REQUIREMENTS	**– 246**	**– 3 453**	**– 1 156**	**– 695**
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**– 209**	**– 2 760**	**– 707**	**– 126**
CONSOLIDATED FINANCING TRANSACTIONS				
Change in cash position	49	– 3 284	2 965	– 2 594
Net borrowings	4 390	11 076	3 286	8 364
Retirement Plans Sinking Fund[1] and employee future benefits funds[2]	– 4 230	– 4 448	– 4 895	– 4 943
Deposit in the Generations Fund	—	– 584	– 649	– 701
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**209**	**2 760**	**707**	**126**

Note 1: As of 2006-2007, results reflect the government accounting reform in December 2007.
Note 2: 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.
P: Preliminary results.
1 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.
2 The employee future benefits funds receive amounts used to cover employee future benefits (accumulated sick leave and surviving spouse's pensions) payable to government employees.

TABLE J.2

Consolidated Revenue Fund
Revenue by source

(millions of dollars)

	2005-2006	2006-2007	2007-2008	2008-2009P
OWN-SOURCE REVENUE[1]				
Income and property taxes				
Personal income tax	16 449	18 480	18 648	18 223
Contributions to the Health Services Fund	5 047	5 053	5 404	5 576
Corporate taxes	4 786	4 779	4 819	3 972
Sub-total	26 282	28 312	28 871	27 771
Consumption taxes				
Retail sales	9 614	9 873	10 238	10 796
Fuel	1 657	1 678	1 656	1 629
Tobacco	752	678	647	628
Alcoholic beverages	415	422	421	439
Sub-total	12 438	12 651	12 962	13 492
Duties and permits				
Motor vehicles	725	741	757	753
Natural resources	210	136	86	– 61
Other	203	179	197	188
Sub-total	1 138	1 056	1 040	880
Miscellaneous				
Sales of goods and services	383	396	399	401
Interest	463	541	562	622
Fines, forfeitures and recoveries	485	479	605	655
Sub-total	1 331	1 416	1 566	1 678
Revenue from government enterprises				
Société des alcools du Québec	657	710	761	797
Loto-Québec	1 537	1 391	1 360	1 320
Hydro-Québec	2 323	4 043 [2]	2 926	2 863
Other	37	72	– 22	– 246
Sub-total	4 554	6 216	5 025	4 734
Total	**45 743**	**49 651**	**49 464**	**48 555**
FEDERAL TRANSFERS				
Equalization	4 798	5 539	7 160	8 028
Health transfers	3 185	3 649	3 925	3 741
Transfers for post-secondary education and other social programs	1 034	1 070	1 516	1 267
Other programs	952	757	1 028	888
Total	**9 969**	**11 015**	**13 629**	**13 924**
TOTAL REVENUE	**55 712**	**60 666**	**63 093**	**62 479**

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.
P: Preliminary results.
1 Revenue is presented on an accrual basis as of 2006-2007.
2 Including profits of $944 M made by Hydro-Québec on the sale of its interests in corporations, including Transelec Chile.

TABLE J.3

Consolidated Revenue Fund
Expenditure by department
(millions of dollars)

	2005-2006	2006-2007	2007-2008	2008-2009P
PROGRAM SPENDING[1]				
Affaires municipales, Régions et Occupation du territoire	1 752	1 859	1 821	1 793
Agriculture, Pêcheries et Alimentation	658	694	724	711
Assemblée nationale	99	107	114	114
Conseil du trésor et Administration gouvernementale	465	633	426	437
Conseil exécutif	233	233	285	317
Culture, Communications et Condition féminine	543	600	633	659
Développement durable, Environnement et Parcs	195	190	202	211
Développement économique, Innovation et Exportation	689	519	706	833
Éducation, Loisir et Sport	12 280	12 638	13 399	13 941
Emploi et Solidarité sociale	4 073	4 135	4 169	4 231
Famille et Aînés	1 604	1 718	1 836	1 947
Finances (excluding debt service)	87	84	90	339
Immigration et Communautés culturelles	116	125	132	130
Justice	653	728	683	670
Persons designated by the National Assembly	58	131	71	143
Relations internationales	102	102	115	123
Ressources naturelles et Faune	401	464	641	564
Revenu	1 022	1 090	1 215	1 080
Santé et Services sociaux	21 163	22 453	24 054	25 417
Sécurité publique	942	987	1 054	1 060
Services gouvernementaux	97	112	124	153
Tourisme	159	143	145	139
Transports	1 776	1 953	2 148	2 347
Travail	62	36	39	41
Total	**49 229**	**51 734**	**54 826**	**57 400**
DEBT SERVICE				
Direct debt service	4 044	4 357	4 548	4 421
Interest ascribed to retirement plans	2 831	2 643	2 436	2 149
Employee future benefits	—	39	37	19
Total	**6 875**	**7 039**	**7 021**	**6 589**
TOTAL EXPENDITURE	**56 104**	**58 773**	**61 847**	**63 989**

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.
P: Preliminary results.
1 Certain data were reclassified for consistency with the 2009-2010 Budget structure.

TABLE J.4

Consolidated non-budgetary transactions

(millions of dollars)

	2005-2006	2006-2007	2007-2008	2008-2009P
INVESTMENTS, LOANS AND ADVANCES				
▪ Consolidated Revenue Fund				
— Government enterprises				
• Shares and investments				
– Société générale de financement	—	—	—	– 250
– Other	27	– 125	—	– 10
• Change in the equity value of investments	– 1 234	– 1 774	– 807	– 365
• Loans and advances				
– IQ FIER inc.	– 45	– 42	– 82	– 39
– Other	—	—	—	– 10
Total government enterprises	– 1 252	– 1 941	– 889	– 674
— Individuals, corporations and others				
• Investment with the Caisse de dépôt et placement du Québec	—	—	– 1 100	805
• Other	– 232	– 19	– 22	– 2
— Municipalities and municipal bodies	1	1	1	—
Total Consolidated Revenue Fund	**– 1 483**	**– 1 959**	**– 2 010**	**129**
▪ Consolidated entities	301	– 198	– 400	– 146
Total investments, loans and advances	**– 1 182**	**– 2 157**	**– 2 410**	**– 17**
CAPITAL EXPENDITURES				
▪ Consolidated Revenue Fund				
— Net investments	– 160	– 188	– 222	– 382
— Amortizations	215	225	234	255
▪ Consolidated entities	– 1 221	– 1 214	– 1 469	– 2 278
Total capital expenditures	**– 1 166**	**– 1 177**	**– 1 457**	**– 2 405**
NET INVESTMENTS IN THE NETWORKS				
▪ Annual deficit	—	219	442	189
▪ Loans and advances to the networks	—	– 1 221	– 929	– 1 004
Total net investments in the networks	**0**	**– 1 002**	**– 487**	**– 815**
RETIREMENT PLANS AND OTHER EMPLOYEE FUTURE BENEFITS				
▪ Cost of vested benefits,[1] amortizations and contributions	1 766	1 936	2 049	2 067
▪ Interest on the actuarial obligation	4 061	4 157	4 398	4 365
▪ Benefits, repayments and administrative expenses	– 3 517	– 3 534	– 3 989	– 4 132
Total retirement plans and other employee future benefits	**2 310**	**2 559**	**2 458**	**2 300**
OTHER ACCOUNTS				
▪ Consolidated Revenue Fund	– 364	– 1 101	682	– 366
▪ Consolidated entities	156	– 575	58	608
Total other accounts	**– 208**	**– 1 676**	**740**	**242**
TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS	**– 246**	**– 3 453**	**– 1 156**	**– 695**

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.

P: Preliminary results.

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

TABLE J.5

Consolidated financing transactions[1]

(millions of dollars)

	2005-2006	2006-2007	2007-2008	2008-2009P
CHANGE IN CASH POSITION				
Consolidated Revenue Fund	– 22	– 3 385	3 656	– 3 571
Consolidated entities	71	101	– 691	977
Total	**49**	**– 3 284**	**2 965**	**– 2 594**
NET BORROWINGS				
Consolidated Revenue Fund				
— New borrowings	10 256	12 531	4 187	10 075
— Repayment of borrowings	– 6 130	– 4 449	– 4 135	– 3 861
Sub-total	4 126	8 082	52	6 214
Consolidated entities				
— New borrowings	1 313	4 731	5 808	4 802
— Repayment of borrowings	– 1 049	– 1 737	– 2 574	– 2 652
Sub-total	264	2 994	3 234	2 150
Total	**4 390**	**11 076**	**3 286**	**8 364**
RETIREMENT PLANS SINKING FUND[2] AND EMPLOYEE FUTURE BENEFITS FUNDS[3]	**– 4 230**	**– 4 448**	**– 4 895**	**– 4 943**
GENERATIONS FUND	—	**– 584**	**– 649**	**– 701**
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**209**	**2 760**	**707**	**126**

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.

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.

3 The employee future benefits funds receive amounts used to cover employee future benefits (accumulated sick leave and surviving spouse's pensions) payable to government employees.

2. HISTORICAL DATA

TABLE J.6

Budgetary transactions
Consolidated Revenue Fund [1]
(millions of dollars)

	Own-source revenue[2]	Federal transfers[3]	Budgetary revenue	Program spending	Debt service	Budgetary expenditures
Before government accounting reforms						
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 government accounting reform in 1997-1998						
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[4]	8 885	47 325	– 41 888	– 6 687	– 48 575
2002-2003	40 409[4]	8 932	49 341	– 43 865	– 6 583	– 50 448
2003-2004	41 920[4]	9 370	51 290	– 45 339	– 6 655	– 51 994
2004-2005	44 381	9 229	53 610	– 47 656	– 6 853	– 54 509
2005-2006	45 743	9 969	55 712	– 49 229	– 6 875	– 56 104
After government accounting reform in 2006-2007						
2006-2007	49 651	11 015	60 666	– 51 734	– 7 039	– 58 773
2007-2008	49 464	13 629	63 093	– 54 826	– 7 021	– 61 847
2008-2009[P]	48 555	13 924	62 479	– 57 400	– 6 589	– 63 989
2009-2010[P]	47 371	14 841	62 212	– 59 989	– 6 104	– 66 093
2010-2011[P]	49 127	14 890	64 017	– 61 879	– 6 646	– 68 525

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

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

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

2 Including government enterprises.

3 Presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

4 Including the exceptional losses of the Société générale de financement du Québec, i.e. $91 M in 2001-2002, $339 M in 2002-2003 and $358 M in 2003-2004.

TABLE J.7

Budgetary transactions
Specified purpose accounts

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
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 government accounting reform in 1997-1998							
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
After government accounting reform in 2006-2007							
2006-2007	176	245	421	– 421	0	– 421	0
2007-2008	218	255	473	– 473	0	– 473	0
2008-2009^P	245	316	561	– 561	0	– 561	0
2009-2010^P	269	249	518	– 518	0	– 518	0
2010-2011^P	280	167	447	– 447	0	– 447	0

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.
P: Preliminary results for 2008-2009 and forecasts for subsequent years.

TABLE J.8

Budgetary transactions
Organizations other than budget-funded organizations, special funds and the health and education networks

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
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 government accounting reform in 1997-1998							
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
After government accounting reform in 2006-2007							
2006-2007	3 480	710	4 190	– 3 137	– 1 037	– 4 174	16
2007-2008	3 880	849	4 729	– 3 731	– 1 043	– 4 774	– 45
2008-2009P	3 617	971	4 588	– 3 954	– 998	– 4 952	– 364
2009-2010P	3 819	1 315	5 134	– 4 316	– 1 178	– 5 494	– 360
2010-2011P	3 911	997	4 908	– 3 840	– 1 385	– 5 225	– 317

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

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

TABLE J.9

Generations Fund

(millions of dollars)

	Dedicated revenues							
	Water-power royalties							
	Hydro-Québec	Private producers	Unclaimed property	Other	Investment income	Total	Deposit from the budgetary reserve	Deposit in the Generations Fund
Before government accounting reforms								
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 government accounting reform in 1997-1998								
1997-1998								
1998-1999								
1999-2000								
2000-2001								
2001-2002								
2002-2003								
2003-2004								
2004-2005								
2005-2006								
After government accounting reform in 2006-2007								
2006-2007	65	11	5	500	3	584		584
2007-2008	367	46	0		36	449	200	649
2008-2009[P]	550	75	0		– 56	569	132[1]	701
2009-2010[P]	571	76	0		68	715		715
2010-2011[P]	600	78	0		202	880		880

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 Deposit from the $132 M budgetary reserve for 2008-2009 derived from the sale of assets by the Société immobilière du Québec.

TABLE J.10

Summary of consolidated budgetary transactions

(millions of dollars)

	Own-source revenues	Federal transfers [1]	Consolidated revenue	Expenditure excluding debt service	Debt service	Consolidated expenditure	Impact of the plan to restore fiscal balance	Deposit in the Generations Fund	Use of the budgetary reserve	Budgetary balance for the purposes of the Act	Deposit of dedicated revenues in the Generations Fund	Consolidated budget balance
Before government accounting reforms												
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 government accounting reform in 1997-1998												
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[2]	9 476	50 011[2]	– 43 678	– 7 261	– 50 939			950	22		22
2002-2003	42 768[2]	9 457	52 225[2]	– 45 821	– 7 132	– 52 953				– 728		– 728
2003-2004	44 410[2]	10 120	54 530[2]	– 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	48 895	11 122	60 017	– 52 421	– 7 559	– 59 980				37		37
After government accounting reform in 2006-2007												
2006-2007	53 391	11 970	65 361	– 55 292[3]	– 8 076	– 63 368		– 584	– 1 300	109	584	693
2007-2008	54 011	14 733	68 744	– 59 030[3]	– 8 064	– 67 094		– 649	– 1 001	0	449	449
2008-2009[P]	52 986	15 211	68 197	– 61 915[3]	– 7 587	– 69 502		– 701	2 006	0	569	569
2009-2010[P]	52 174	16 405	68 579	– 64 823[3]	– 7 282	– 72 105		– 715	295	– 3 946	715	– 3 231
2010-2011[P]	54 198	16 054	70 252	– 66 166[3]	– 8 031	– 74 197	1 065	– 880	0	– 3 760	880	– 2 880

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 Presented on a cash basis until 2004-2005 and on an accrual basis thereafter.
2 Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 M in 2001-2002, $339 M in 2002-2003 and $358 M in 2003-2004.
3 The impact of the consolidation of the health and education networks is shown under “Expenditure excluding debt service”.

TABLE J.11

Summary of consolidated non-budgetary transactions

(millions of dollars)

	Consolidated budgetary balance	Consolidated non-budgetary transactions: Investments, loans and advances	Capital expenditures	Net investments in the neworks	Retirement plans	Other accounts	Excess amount (shortfall)	Net financial surplus (requirements)
Before government accounting reforms								
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 government accounting reform in 1997-1998								
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
After government accounting reform in 2006-2007								
2006-2007	693	– 2 157	– 1 177	– 1 002	2 559	– 1 676	– 3 453	– 2 760
2007-2008	449	– 2 410	– 1 457	– 487	2 458	740	– 1 156	– 707
2008-2009P	569	– 17	– 2 405	– 815	2 300	242	– 695	– 126
2009-2010P	– 3 231	– 1 345	– 3 304	– 1 004	2 490	120	– 3 043	– 6 274
2010-2011P	– 2 880	– 1 570	– 3 357	– 2 291	2 205	303	– 4 710	– 7 590

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.
P: Preliminary results for 2008-2009 and forecasts for subsequent years.

TABLE J.12

Change in gross debt

	Consolidated direct debt[1]		Retirement plans: Retirement plans liability	Retirement plans: Less: Retirement Plans Sinking Fund	Retirement plans: Net retirement plans liability		Employee future benefits: Employee future benefits liability	Employee future benefits: Less: funds dedicated to employee future benefits	Employee future benefits: Net employee future benefits liability	Less: Generations Fund	Gross debt[1, 2]	
	$M	As a % of GDP	$M	$M	$M	As a % of GDP	$M	$M	$M		$M	As a % of GDP
Before government accounting reforms												
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	– 854	20 483	12.6					65 643	40.4
1994-1995	52 468	30.8	22 846	– 849	21 997	12.9					74 465	43.7
1995-1996	52 886	29.8	24 547	– 923	23 624	13.3					76 510	43.1
1996-1997	52 625	29.2	26 475	– 1 014	25 461	14.1					78 086	43.3
After government accounting reform in 1997-1998												
1997-1998	57 947	30.7	41 617	– 1 179	40 438	21.5					98 385	52.2
1998-1999	60 685	30.9	42 637	– 2 209	40 428	20.6					101 113	51.5
1999-2000	62 783	29.7	44 377	– 5 040	39 337	18.7					102 120	48.4
2000-2001	65 737	29.2	46 170	– 7 059	39 111	17.4					104 848	46.6
2001-2002	69 115	29.9	48 259	– 10 199	38 060	16.4					107 175	46.3
2002-2003	72 916	30.2	50 266	– 11 840	38 426	15.9					111 342	46.1
2003-2004	76 444	30.5	52 485	– 14 204	38 281	15.3					114 725	45.8
2004-2005	80 310	30.6	54 619	– 18 333	36 286	13.8					116 596	44.4
2005-2006	83 672	30.9	57 193	– 22 563	34 630	12.7					118 302	43.6
After government accounting reform in 2006-2007												
2006-2007	110 437	39.2	59 721	– 26 877	32 844	11.7	1 176	– 424	752	– 584	143 449	51.0
2007-2008	118 089	39.8	62 190	– 31 764	30 426	10.3	1 166	– 433	733	– 1 233	148 015	49.9
2008-2009P	124 865	41.1	64 471	– 36 080	28 391	9.3	1 185	– 1 060	125	– 1 934	151 447	49.9
2009-2010P	134 133	44.2	66 966	– 38 246	28 720	9.5	1 180	– 1 111	69	– 2 649	160 273	52.8
2010-2011P	144 755	45.9	69 177	– 40 236	28 941	9.2	1 174	– 1 161	13	– 3 529	170 180	54.0

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 Excluding deferred foreign exchange gains or losses and pre-financing.
2 Data from before the accounting reform in December 2007 reflect the total debt; data from after the accounting reform reflect the gross debt.

TABLE J.13

Change in net debt

	Gross debt[1, 2]		Financial assets net of other liabilities[3, 4] — Including pre-financing	Financial assets net of other liabilities[3, 4] — Less: pre-financing	Financial assets net of other liabilities[3, 4] — Excluding pre-financing		Net debt[4]	
	$M	As a % of GDP	$M	$M	$M	As a % of GDP	$M	As a % of GDP
Before government accounting reforms								
1970-1971	2 478	10.9	188		188	0.8	2 290	10.1
1971-1972	2 920	11.9	275		275	1.1	2 645	10.8
1972-1973	3 309	12.0	317		317	1.1	2 992	10.9
1973-1974	3 679	11.8	28		28	0.1	3 651	11.7
1974-1975	4 097	11.2	4		4	—	4 093	11.2
1975-1976	5 134	12.4	90		90	0.2	5 044	12.2
1976-1977	6 389	13.2	36		36	—	6 353	13.2
1977-1978	7 731	14.6	673		673	1.3	7 058	13.3
1978-1979	9 240	15.7	780		780	1.3	8 460	14.4
1979-1980	11 070	16.8	234		234	0.3	10 836	16.5
1980-1981	14 667	20.1	341		341	0.5	14 326	19.6
1981-1982	17 612	21.9	5 043		5 043	6.3	12 569	15.6
1982-1983	20 974	24.6	5 936		5 936	7.0	15 038	17.6
1983-1984	24 425	26.6	7 127		7 127	7.8	17 298	18.8
1984-1985	27 945	27.9	6 490		6 490	6.5	21 455	21.4
1985-1986	31 631	29.4	5 896		5 896	5.4	25 735	24.0
1986-1987	34 959	29.9	6 243		6 243	5.4	28 716	24.5
1987-1988	37 702	29.4	6 587		6 587	5.2	31 115	24.2
1988-1989	39 688	28.1	6 869		6 869	4.8	32 819	23.3
1989-1990	42 019	28.3	7 436		7 436	5.0	34 583	23.3
1990-1991	45 864	29.9	8 306		8 306	5.4	37 558	24.5
1991-1992	51 249	33.0	9 364		9 364	6.0	41 885	27.0
1992-1993	58 899	37.2	11 985		11 985	7.6	46 914	29.6
1993-1994	65 643	40.4	13 806		13 806	8.4	51 837	32.0
1994-1995	74 465	43.7	16 788		16 788	9.9	57 677	33.8
1995-1996	76 510	43.1	14 886		14 886	8.3	61 624	34.8
1996-1997	78 086	43.3	13 253		13 253	7.4	64 833	35.9
After government accounting reform in 1997-1998								
1997-1998	98 385	52.2	9 788	—	9 788	5.2	88 597	47.0
1998-1999	101 113	51.5	15 134	2 831	12 303	6.2	88 810	45.3
1999-2000	102 120	48.4	13 464	506	12 958	6.1	89 162	42.3
2000-2001	104 848	46.6	18 115	1 475	16 640	7.4	88 208	39.2
2001-2002	107 175	46.3	15 557	1 154	14 403	6.2	92 772	40.1
2002-2003	111 342	46.1	19 873	4 132	15 741	6.5	95 601	39.6
2003-2004	114 725	45.8	19 548	1 848	17 700	7.1	97 025	38.7
2004-2005	116 596	44.4	20 216	2 662	17 554	6.7	99 042	37.7
2005-2006	118 302	43.6	16 303	2 684	13 619	5.0	104 683	38.6
After government accounting reform in 2006-2007								
2006-2007	143 449	51.0	25 221	6 069	19 152	6.8	124 297	44.2
2007-2008	148 015	49.9	26 110	2 413	23 697	8.0	124 318	41.9
2008-2009[P]	151 447	49.9	28 399	5 984	22 415	7.4	129 032	42.5
2009-2010[P]	160 273	52.8	23 287	—	23 287	7.6	136 986	45.2
2010-2011[P]	170 180	54.0	24 610	—	24 610	7.8	145 570	46.2

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 Data from before the accounting reform in December 2007 reflect the total debt; data from after the accounting reform reflect the gross debt.
2 Excluding pre-financing.
3 Including deferred foreign exchange gains or losses.
4 Before taking into account amounts deposited in the budgetary reserve.

TABLE J.14

Change in debt representing accumulated deficits

	Net debt[1]		Non-financial assets: Capital expenditures	Non-financial assets: Net investments in the networks	Non-financial assets: Inventories and prepaid expenses	Non-financial assets: Total non-financial assets		Debt representing accumulated deficits for the purposes of the Public Accounts[1, 2]		Plus: balance of the budgetary reserve	Debt representing accumulated deficits after taking into account the budgetary reserve	
	$M	As a % of the GDP	$M	$M	$M	$M	As a % of the GDP	$M	As a % of the GDP	$M	$M	As a % of the GDP
Before government accounting reforms												
1970-1971	2 290	10.1						2 290	10.1		2 290	10.1
1971-1972	2 645	10.8						2 645	10.8		2 645	10.8
1972-1973	2 992	10.9						2 992	10.9		2 992	10.9
1973-1974	3 651	11.7						3 651	11.7		3 651	11.7
1974-1975	4 093	11.2						4 093	11.2		4 093	11.2
1975-1976	5 044	12.2						5 044	12.2		5 044	12.2
1976-1977	6 353	13.2						6 353	13.2		6 353	13.2
1977-1978	7 058	13.3						7 058	13.3		7 058	13.3
1978-1979	8 460	14.4						8 460	14.4		8 460	14.4
1979-1980	10 836	16.5						10 836	16.5		10 836	16.5
1980-1981	14 326	19.6						14 326	19.6		14 326	19.6
1981-1982	12 569	15.6						12 569	15.6		12 569	15.6
1982-1983	15 038	17.6						15 038	17.6		15 038	17.6
1983-1984	17 298	18.8						17 298	18.8		17 298	18.8
1984-1985	21 455	21.4						21 455	21.4		21 455	21.4
1985-1986	25 735	24.0						25 735	24.0		25 735	24.0
1986-1987	28 716	24.5						28 716	24.5		28 716	24.5
1987-1988	31 115	24.2						31 115	24.2		31 115	24.2
1988-1989	32 819	23.3						32 819	23.3		32 819	23.3
1989-1990	34 583	23.3						34 583	23.3		34 583	23.3
1990-1991	37 558	24.5						37 558	24.5		37 558	24.5
1991-1992	41 885	27.0						41 885	27.0		41 885	27.0
1992-1993	46 914	29.6						46 914	29.6		46 914	29.6
1993-1994	51 837	32.0						51 837	32.0		51 837	32.0
1994-1995	57 677	33.8						57 677	33.8		57 677	33.8
1995-1996	61 624	34.8						61 624	34.8		61 624	34.8
1996-1997	64 833	35.9						64 833	35.9		64 833	35.9
After government accounting reform in 1997-1998												
1997-1998	88 597	47.0	6 016			6 016	3.2	82 581	43.8		82 581	43.8
1998-1999	88 810	45.3	6 233			6 233	3.2	82 577	42.1		82 577	42.1
1999-2000	89 162	42.3	6 693			6 693	3.2	82 469	39.1		82 469	39.1
2000-2001	88 208	39.2	7 166			7 166	3.2	81 042	36.0	950	81 992	36.5
2001-2002	92 772	40.1	8 234			8 234	3.6	84 538	36.5		84 538	36.5
2002-2003	95 601	39.6	9 716			9 716	4.0	85 885	35.6		85 885	35.6
2003-2004	97 025	38.7	10 735			10 735	4.3	86 290	34.4		86 290	34.4
2004-2005	99 042	37.7	11 818			11 818	4.5	87 224	33.2		87 224	33.2
2005-2006	104 683	38.6	12 984			12 984	4.8	91 699[3]	33.8		91 699	33.8
After government accounting reform in 2006-2007												
2006-2007	124 297	44.2	18 026	9 985	162	28 173	10.0	96 124	34.1	1 300	97 424	34.6
2007-2008	124 318	41.9	19 483	10 472	192	30 147	10.2	94 171	31.7	2 301	96 472	32.5
2008-2009P	129 032	42.5	21 888	11 476	192	33 556	11.0	95 476	31.5	295	95 771	31.5
2009-2010P	136 986	45.2	25 192	12 600	192	37 984	12.6	99 002	32.6		99 002	32.6
2010-2011P	145 570	46.2	28 549	14 947	192	43 688	13.9	101 882	32.3		101 882	32.3

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
1 Before taking into account amounts deposited in the budgetary reserve.
2 Including various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.
3 The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

TABLE J.15

Change in debt service

	Consolidated Revenue Fund						
	Direct debt	Interest ascribed to the retirement plans [1]	Employee future benefits [2]	Total	Consolidated entities	Total debt service	
	$M	$M	$M	$M	$M	$M	As a % of budgetary revenue
Before government accounting reforms							
1970-1971	197			197		197	5.2
1971-1972	210			210		210	4.8
1972-1973	242			242		242	4.9
1973-1974	288			288		288	5.1
1974-1975	296			296		296	4.1
1975-1976	368			368		368	4.5
1976-1977	456			456		456	4.8
1977-1978	606			606		606	5.5
1978-1979	763	54		817		817	7.0
1979-1980	882	88		970		970	7.4
1980-1981	1 217	165		1 382		1 382	9.5
1981-1982	1 686	264		1 950		1 950	11.0
1982-1983	1 921	379		2 300		2 300	11.8
1983-1984	2 031	480		2 511		2 511	11.6
1984-1985	2 414	598		3 012		3 012	13.7
1985-1986	2 648	706		3 354		3 354	14.0
1986-1987	2 754	802		3 556		3 556	14.0
1987-1988	2 751	924		3 675		3 675	13.1
1988-1989	2 665	1 137		3 802		3 802	12.8
1989-1990	2 829	1 186		4 015		4 015	12.9
1990-1991	3 026	1 411		4 437		4 437	13.4
1991-1992	3 222	1 444		4 666		4 666	13.5
1992-1993	3 475	1 281		4 756		4 756	13.5
1993-1994	3 750	1 566		5 316		5 316	14.8
1994-1995	4 333	1 549		5 882		5 882	16.2
1995-1996	4 287	1 747		6 034		6 034	15.8
1996-1997	3 906	1 949		5 855		5 855	15.7
After government accounting reform in 1997-1998							
1997-1998	3 800	2 965		6 765	577	7 342	17.7
1998-1999	4 159	2 414		6 573	614	7 187	15.6
1999-2000	4 120	2 632		6 752	621	7 373	15.7
2000-2001	4 378	2 594		6 972	634	7 606	15.0
2001-2002	3 970	2 717		6 687	574	7 261	14.5
2002-2003	3 935	2 648		6 583	549	7 132	13.7
2003-2004	3 913	2 742		6 655	586	7 241	13.3
2004-2005	4 066	2 787		6 853	596	7 449	13.1
2005-2006	4 044	2 831		6 875	684	7 559	12.6
After government accounting reform in 2006-2007							
2006-2007	4 357	2 643	39	7 039	1 037	8 076	12.4
2007-2008	4 548	2 436	37	7 021	1 043	8 064	11.7
2008-2009P	4 421	2 149	19	6 589	998	7 587	11.1
2009-2010P	3 760	2 344	0	6 104	1 178	7 282	10.6
2010-2011P	4 016	2 636	– 6	6 646	1 385	8 031	11.4

P: Preliminary results for 2008-2009 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.
2 Employee future benefits correspond to the interest on the accumulated sick leave obligation minus the investment income of the accumulated sick leave fund, and to the interest on the surviving spouse's pensions obligation minus the investment income of the surviving spouse's pensions fund.