

1998-1999
BUDGET

Budget

Plan



Gouvernement du Québec
Ministère des Finances

The Budget Plan 1998-1999

Contents

Section 1

Review of the Economic Situation in 1997 and Outlook

Section 2

The Government's Financial Position in 1997-1998 and Public Sector Borrowings

Section 3

The Government's Budgetary and Financial Stance

Section 4

Report on the application of the *Act respecting the elimination of the deficit and a balanced budget*

Summary

A budget focusing on economic development and job creation, particularly for young people

In its 1998-1999 Budget, the government is focusing on economic development and job creation, particularly for young people.

The government is implementing new tools to increase investment in Québec. Also, to improve the situation of young people, more specifically, the Budget announces a series of measures intended to strengthen links between training and the labour market, support the creation of jobs for young Quebecers, and improve job placement services. Further resources will also be devoted to helping young people experiencing difficulties and to services related to early childhood.

In this Budget, the government is announcing a reform of corporate taxation in order to make it more competitive and more favourable to job creation. It is also announcing an action plan designed to promote financial sector development.

Lastly, the government is devoting further sums to supporting culture and cultural industries in Québec, thereby reflecting the priority accorded to that which constitutes the essence of our collective identity.

The measures announced in the 1998-1999 Budget as a whole will result in a \$25-million decrease in revenue for the government in 1998-1999 and a \$129-million reduction in 1999-2000. The government will incur expenditures of \$189 million in 1998-1999 and \$234 million in 1999-2000 for the implementation of these measures.

An overhaul of government accounting

The 1998-1999 Budget announces a major reform of government accounting based on stricter but more suitable principles.

To improve the presentation of the government's financial statements, all of its financial commitments related to public-sector employee retirement plans will henceforth be included under the government debt. Currently, they appear only in the explanatory notes to these statements.

Furthermore, the financial statements of 92 entities reporting to the government will be consolidated with its financial statements.

Lastly, the government's capital expenditures will henceforth be recorded as assets rather than expenditures. Only the depreciation related to these expenditures will be included under government spending.

The reform of government accounting will provide a clearer picture of the Québec government's financial position. Although the reform increases budgetary deficit levels for 1997-1998 to 1999-2000, the government will meet the deficit targets set in the Act respecting the elimination of the deficit and a balanced budget.

A budget which continues to target sounder public finances

The government is meeting the requirements of the Act respecting the elimination of the deficit and a balanced budget

To date, the government has met the deficit reduction targets set, in keeping with the Act respecting the elimination of the deficit and a balanced budget.

The 1997 economic performance was much more favourable than that anticipated in the 1997-1998 Budget. Real economic growth was 2.4%, rather than the initial 1.5% forecast. Due to this positive performance and its effect on budgetary revenue for fiscal 1997-1998, the government was able to absorb the impact of the January 1998 ice storm and close fiscal 1997-1998 with a deficit of less than the ceiling set in the Act.

The government will also meet the deficit ceilings set in the Act for fiscal 1998-1999, on the basis of both new and former accounting policies. The same will be true in 1999-2000.

A budget plan based on conservative economic assumptions

Forecasts for the 1998-1999 budget plan are based on conservative economic assumptions, given, in particular, the upheavals of the Asian crisis, whose precise impacts are currently difficult to assess. The real economic growth forecast for 1998 is estimated at 2.3%, about three quarters of a percentage point lower than that anticipated by private-sector experts. In 1999, the economy's real growth rate should be 2.4%.

The deficit: \$1.1 billion in 1998-1999 and zero the following year

The benefits of higher-than-expected economic growth in 1997 will also make themselves felt in 1998. Budgetary revenue will be higher than anticipated in the last Budget, allowing the government to respect the deficit ceiling of \$1.2 billion set by law for fiscal 1998-1999, despite:

- the \$202-million increase in the program spending objective due to the government's decision to ease the budgetary demands made on the health and social services and education sectors; and
- the upward revision of the cost of debt service.

The government's budgetary deficit for fiscal 1998-1999 will, therefore, be \$1.1 billion. This year constitutes the home stretch before the elimination of the deficit, an objective that the government has promised to achieve in 1999-2000.

A budgetary strategy which is already paying off

Québec's success in reducing its deficit has already paid off.

In 1998-1999, for the first time in 20 years, the government's deficit will be lower than its capital expenditure. This constitutes significant progress since, to date, part of the cost of goods and services benefiting the current generation was passed on to future generations.

This progress means that the government's net financial requirements will be virtually nil in 1998-1999. As of 1999-2000, the government will post net financial surpluses and borrow on financial markets only to refinance maturing loans.

Furthermore, the government's indebtedness will continue to decrease.

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES**1998-1999 BUDGET SPEECH**

(in millions of dollars)

	Financial impact for the government	
	1998-1999	1999-2000
A. REVENUE MEASURES		
1. Corporate taxation reform	— ¹	— ¹
2. New tools for increasing investments	– 0.5	– 0.6
3. Helping young people to succeed	– 1.0	– 68.0
4. Promoting financial sector development	– 6.2	– 16.6
5. Supporting culture and cultural industries	—	– 19.0
6. Other revenue measures	– 17.3	– 24.8
TOTAL IMPACT OF REVENUE MEASURES	– 25.0	– 129.0
B. EXPENDITURE MEASURES		
1. New tools for increasing investments		
Better promotion and financial assistance tools	– 46.0	– 79.5
Restructuring of government investment corporations	4.2	5.3
Further developmental investments	– 34.3	– 44.7
Sub-total	– 76.1	– 118.9
2. Helping young people to succeed		
Strengthening links between training and the workplace	– 15.4	– 10.7
Supporting job creation for young people	– 28.1	– 38.1
Helping young people in difficulty	– 10.0	– 10.0
Quality services for young children: subsidized educational and day-care services	– 25.0	– 25.0
Sub-total	– 78.5	– 83.8
3. Promoting financial sector development	– 1.2	– 1.2
4. Supporting culture and cultural industries	– 14.8	– 15.4
5. Other expenditure measures	– 17.9	– 14.3
TOTAL IMPACT OF EXPENDITURE MEASURES	– 188.5	– 233.6
TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES	– 213.5	– 362.6

Note: A negative amount indicates a cost for the government.

¹ In 2000-2001, this reform will reduce the government's revenue by \$225 million.

Section 1

Review of the Economic Situation in 1997 and Outlook

The economic situation in 1997	3
More vigorous, better balanced growth than previously	3
Better results than forecast in last year's Budget	4
A favourable external context.....	5
Vigorous exports	7
Monetary conditions favourable to growth.....	9
Strong growth in household demand.....	10
Increase in business investment	14
Economic outlook	15
A slightly less dynamic external context than in 1997	
— Asian crisis	15
— US economy.....	18
Further deceleration of inflation.....	19
Monetary policy in the United States and Canada	20
Exports	21
Household demand	21
Business investment	22
Comparison with private-sector forecasts.....	24

Review of the Economic Situation in 1997 and Outlook

This section describes the recent economic situation and presents the economic forecasts used to prepare the financial framework for 1998 and subsequent years.

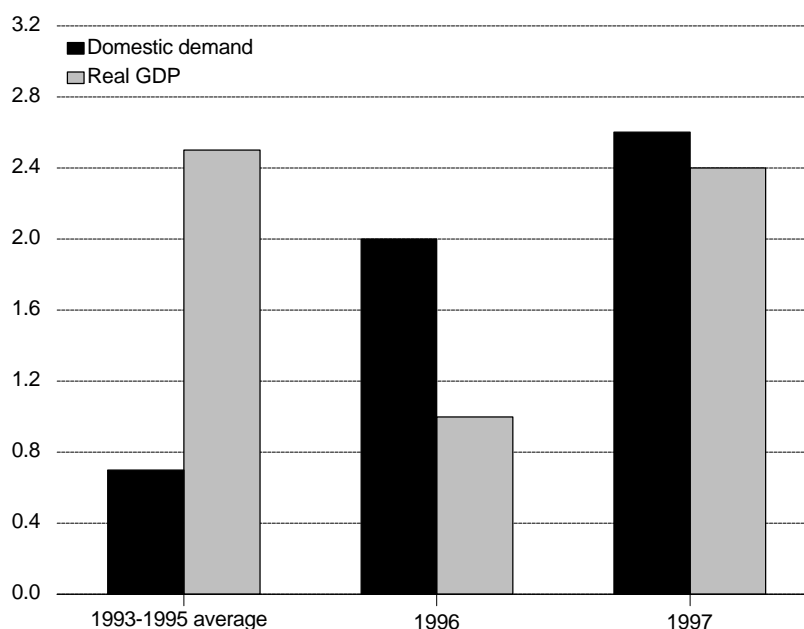
The economic situation in 1997

More vigorous, better balanced growth than previously

In 1997, economic growth in Québec, as in many industrialized countries, was stronger than during the two previous years. It reached 2.4%, more than twice the rate recorded in 1996 (1.0 %).

GRAPH 1.1

REAL GDP AND DOMESTIC DEMAND – QUÉBEC (percentage change—constant 1992 dollars)



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

Although Québec exports continued to be favoured by the expansion of foreign markets, the most significant gains were made with regard to domestic demand. While, previously, economic growth was fuelled mainly by exports, over the past two years it has been fostered to a larger extent by household demand (consumption and residential construction) and business demand (non-residential investment). Economic growth has not only been more vigorous, but has also become more balanced.

This upswing in economic activity was also reflected in an improvement in the labour market. Between December 1996 and December 1997, 96 800 jobs were created in Québec, an average monthly increase of over 8 000. During the same period, the unemployment rate fell by almost two percentage points, from 12.2% to 10.4%.

On the basis of annual averages, 47 700 jobs — most of which were full-time — were created in Québec in 1997. This increase led to a slight reduction in the unemployment rate, from 11.8% in 1996 to 11.4% in 1997.

Better results than forecast in last year's Budget

The present overview shows that last year's results exceeded the economic forecasts presented in the 1997-1998 Budget Speech. Québec's real economic growth was nearly 1.0% higher than anticipated in 1997 (1.5%). Job creation was also higher, i.e. nearly twice the rate forecast.

TABLE 1.1

PRELIMINARY OVERVIEW – 1997 (percentage change)

	1997-1998 Budget forecast	Preliminary results
OUTPUT		
— Real gross domestic product	1.5	2.4
— Gross domestic product	3.1	4.0
LABOUR MARKET		
— Employment	0.8	1.5
— in thousands	25	47.7
— Unemployment rate (%)	11.9	11.4

Most components of domestic demand, particularly consumer spending, business investment and residential construction expenditures, grew more strongly than expected. In the case of residential construction, a substantial increase was observed in renovation expenditures and housing resale commissions.

With regard to income, the better results recorded by the labour market had an impact on wages and salaries, and personal income, all of which grew at a higher rate than forecast. Corporate profits also grew more vigorously than anticipated in the 1997-1998 Budget.

A favourable external context

On the whole, the economic situation improved in the G-7 countries¹ last year, despite the upheavals caused in the second half of the year by the financial crisis in Southeast Asia, whose repercussions were felt as far away as Europe and North America.

In the United States, economic growth continued to accelerate in 1997, reaching 3.8%. This increase, the highest in 10 years, was largely attributable to consumers who, encouraged by the favourable situation on the labour market and low interest rates, once again increased their spending at a steady pace. In addition, non-residential investment rose by over 9% for the third consecutive year. Lastly, businesses increased their inventories at a rate not seen since 1984 to meet growing demand for their products.

In Canada, the situation was similar to that in the United States. In 1997, the economies of both countries grew by 3.8% under the impetus of the same components of demand, namely, consumer spending, business investment and inventories.

1 G-7 countries: United States, Japan, Germany, United Kingdom, France, Italy and Canada.

TABLE 1.2

ECONOMIC GROWTH AND INFLATION – G-7 COUNTRIES
(as a percentage)

	Growth in real GDP		Inflation rate	
	1996	1997	1996	1997
United States	2.8	3.8	2.9	2.3
Japan	4.1	0.9	0.1	1.7
Germany	1.4	2.3	1.5	1.8
United Kingdom	2.0	3.1	2.5	3.1
France	1.5	2.4	2.0	1.2
Italy	0.7	1.5	3.9	1.8
Canada	1.2	3.8	1.6	1.6

Sources: Data Resources Inc., Datastream and Statistics Canada.

On the European continent, growth was fuelled mainly by the external sector, owing to the depreciation of European currencies in relation to the US dollar. In the United Kingdom, payments made to households under programs relating to the demutualization of large insurance companies contributed to strong growth in consumption. The British economy therefore continued to grow more vigorously than the economies of the other European countries.

The economy of Japan, contrary to that of other overseas countries, experienced difficulties in 1997. Even before it suffered the effects of the financial crisis afflicting Japan's trading partners in Southeast Asia, it suffered a slowdown in domestic demand owing to the restrictive fiscal and budgetary policies of the Japanese government. In 1997, real GDP grew by only 0.9%.

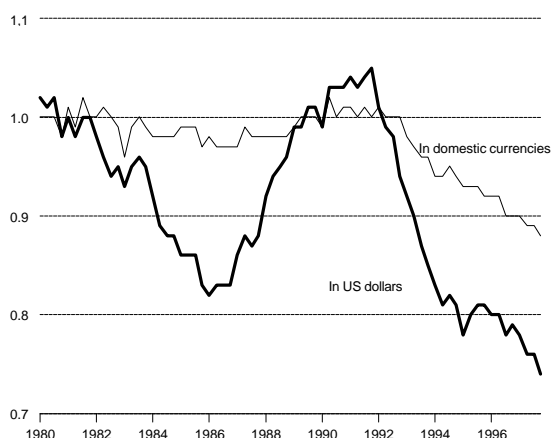
The rate of inflation remained low in almost all countries, declining, for example, in the United States, France and Italy. Amounting to 1.9% on average in the G-7, inflation in several countries was almost as low as in Canada (1.6%). The only exception was the United Kingdom, where strong domestic demand intensified inflationary pressures to some extent and the inflation rate reached 3.1%.

Vigorous exports

Québec firms active on foreign markets have benefited from a combination of several favourable factors: more rapid expansion of foreign markets, particularly the United States, a decline in the value of the Canadian dollar in relation to the US dollar and slower growth in unit labour costs than in the United States. Overall, the volume of international exports of goods rose by 7.5%, a better performance than in 1996 (5.4 %) and 1995 (7.2 %).

GRAPH 1.2

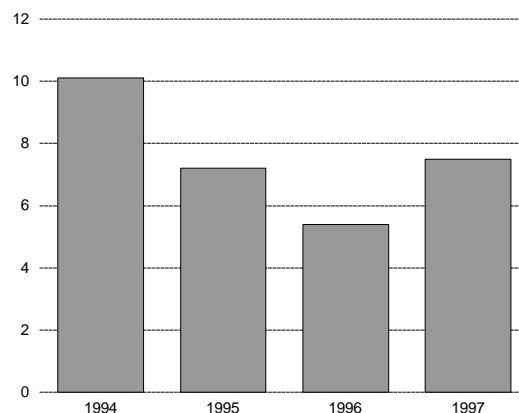
Unit labour costs: Québec/United States
(1989=1)



Sources: Data Resources Inc., Bureau de la statistique du Québec and ministère des Finances du Québec.

GRAPH 1.3

Growth of international exports of goods - Québec
(as a percentage – constant 1992 dollars)



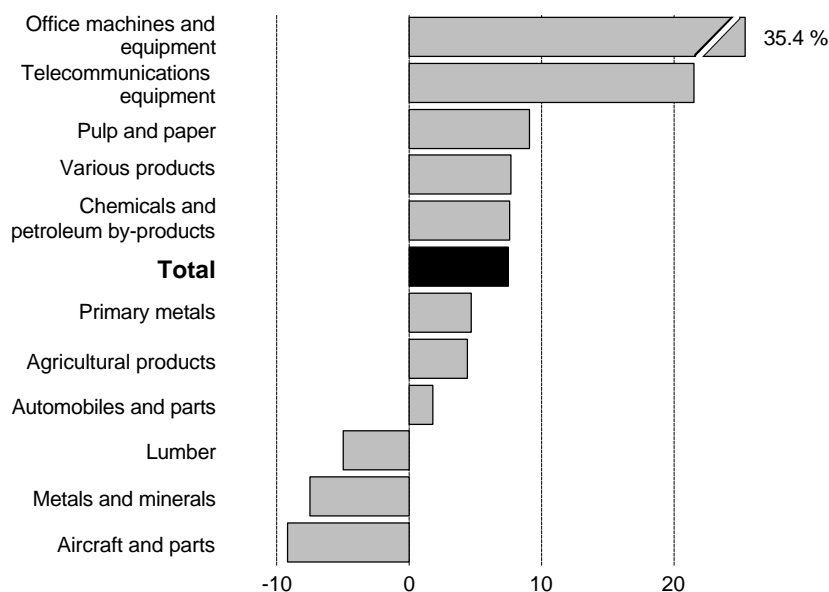
Sources: Bureau de la statistique du Québec and ministère des Finances du Québec.

The context was favourable to an increase in exports in several sectors. Substantial gains were recorded, notably in office machines and equipment (35.4%) and telecommunications equipment (21.5%), two sectors where Québec is increasingly active internationally. Significant growth was also observed in more traditional sectors such as pulp and paper (9.1%), chemicals and petroleum by-products (7.6%) and primary metals (4.7%). On the other hand, the gains in the volume of exports in the pulp and paper sector were completely offset, in current dollars, by a drop in prices.

Exports decreased, however, in a few sectors. For instance, lumber exports fell owing to the introduction by the United States of a quotas and penalties system in this sector. Nevertheless, the decline in volume was more than offset by an increase in export prices. After two years of strong growth, exports of aircraft and parts declined, despite a heavy backlog of orders. In addition, exports of metals and minerals were affected for the second year in a row by weak international markets and an unfavourable trend in prices world-wide.

GRAPH 1.4

INTERNATIONAL EXPORTS OF GOODS - QUÉBEC 1997
(percentage change – constant 1992 dollars)



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

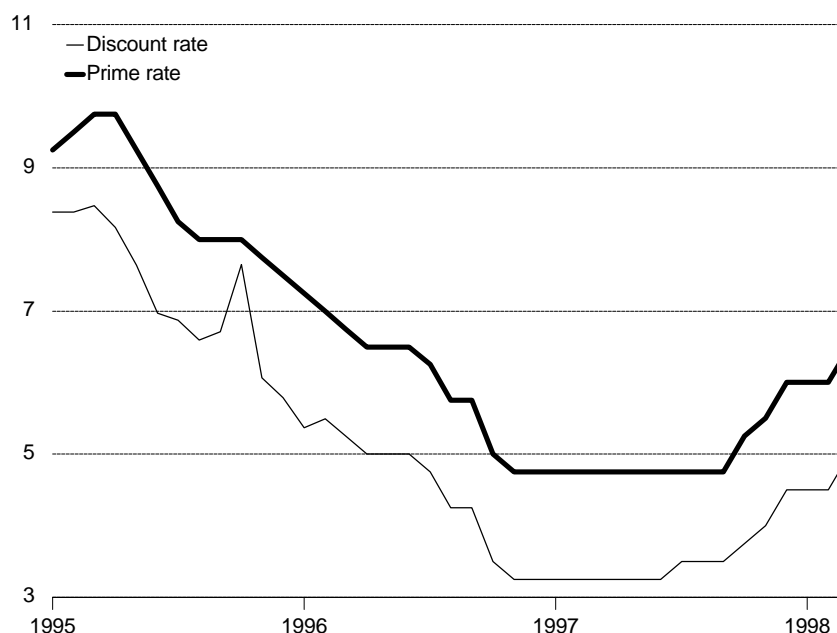
Monetary conditions favourable to growth

The much more accommodating monetary policy observed since 1995 has helped to stimulate economic activity over the past year. In addition, since this less restrictive monetary stance was achieved through a substantial decrease in interest rates, a marked improvement in the growth of domestic demand has been observed.

GRAPH 1.5

PRIME RATE AND DISCOUNT RATE

(as a percentage)

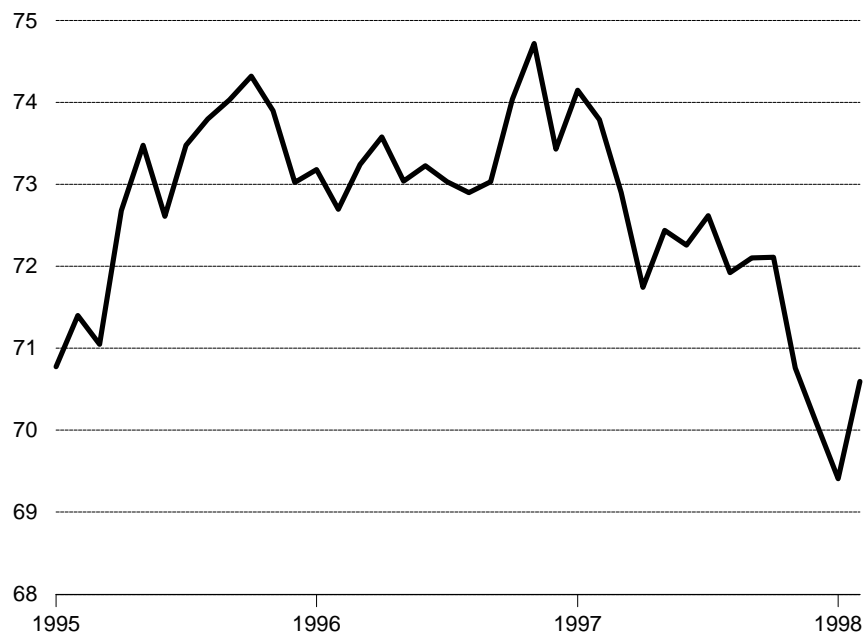


Source: Bank of Canada.

However, in the summer of 1997, the Bank of Canada reoriented its policy and raised its key policy rates to prevent an increase in inflation and support the Canadian dollar, which has been particularly hard hit by the repercussions of the Asian crisis on financial markets and by the drop in the price of raw materials.

Since mid-1997, the Bank has raised its key policy rates by a total of 175 basis points. Despite these hikes, global monetary conditions have remained expansionary on account of the depreciation of the Canadian dollar.

GRAPH 1.6

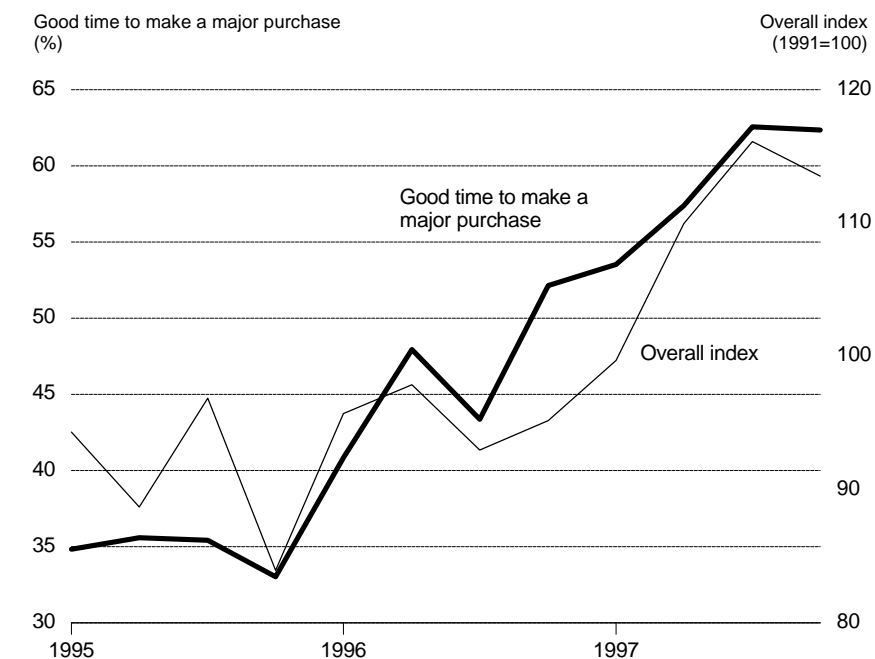
CANADIAN DOLLAR EXCHANGE RATE
(in US cents)

Source: Bank of Canada.

Strong growth in household demand

According to a survey by the Conference Board of Canada, consumer confidence has improved considerably in Québec since 1995. In particular, the percentage of households feeling it is a good time to make a major purchase, such as a house or an automobile, rose from 33% in late 1995 to nearly 63% in late 1997, the highest percentage observed since statistics have been available on this indicator (1966). This situation is largely attributable to low interest rates and a general improvement in the economic situation, particularly with regard to job creation. For example, it would be necessary to go back to the 1950s to find a prime rate that was lower than or comparable to the rate observed from November 1996 to September 1997 (4.75%).

GRAPH 1.7

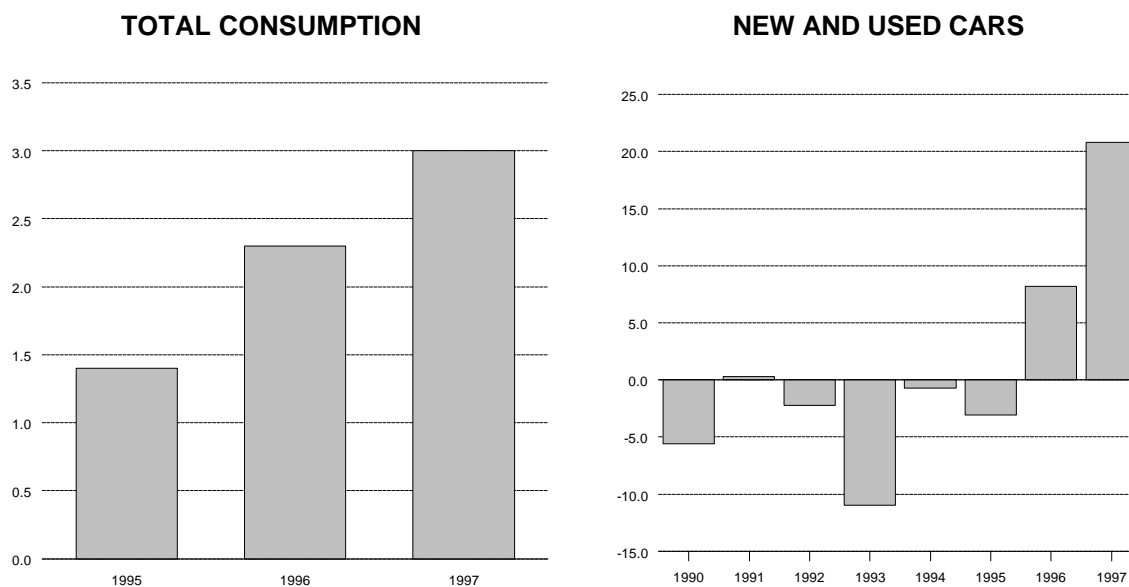
CONSUMER CONFIDENCE INDEX - QUÉBEC
(percentage of respondents and all-items index)

Source: Conference Board of Canada.

For the second consecutive year, the improvement in consumer confidence has been accompanied by strong growth in consumer spending and residential construction expenditures.

GRAPH 1.8

STRONG INCREASE IN CONSUMER SPENDING OVER THE PAST TWO YEARS – QUÉBEC
(percentage change – constant 1992 dollars)

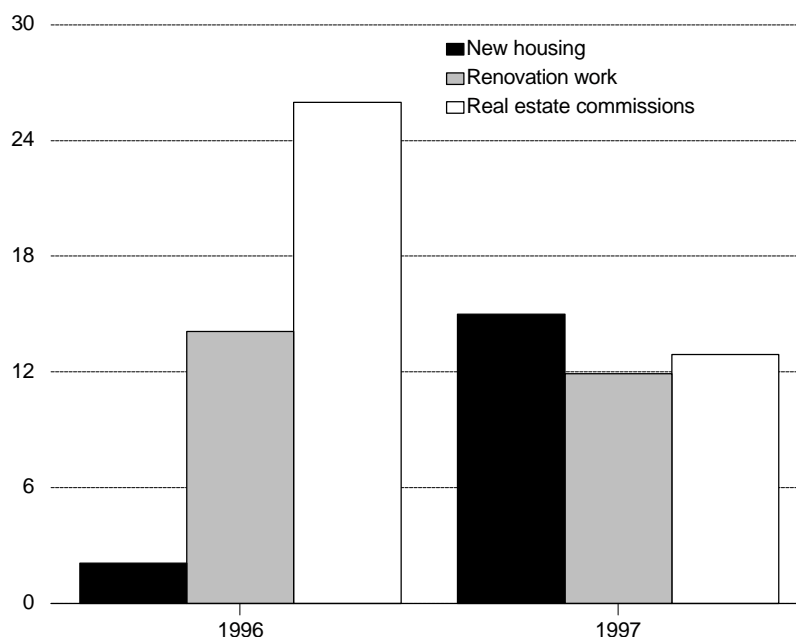


Sources: Bureau de la statistique du Québec and ministère des Finances du Québec.

With regard to consumer spending, purchases of durable goods, particularly automobiles, recorded the most substantial gains. Although households had postponed such purchases during the first half of the decade, they could not put them off indefinitely. Recreation and entertainment expenditures and purchases of personal goods and services, particularly financial services, also rose sharply.

In addition, in the residential sector, housing resales, renovation work and new housing construction all increased significantly. The volume of activity in each sector rose by over 10%.

GRAPH 1.9

RESIDENTIAL CONSTRUCTION EXPENDITURES – QUÉBEC
 (percentage change – constant 1992 dollars)


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

In 1997, the number of housing starts increased by 11.5%, to 25 896 units. Although this is the strongest increase since 1987, the level of activity in new residential construction was curtailed by surpluses in existing housing, particularly in the rental sector, and by relatively slow population growth.

In 1997, the number of transactions on the housing resale market exceeded the record set in 1996, even though the volume of activity declined slightly during the year. The vitality of the resale market also had a positive impact on the renovation sector, where spending rose by 12.0% in 1997, following an increase of 14.1% in 1996.

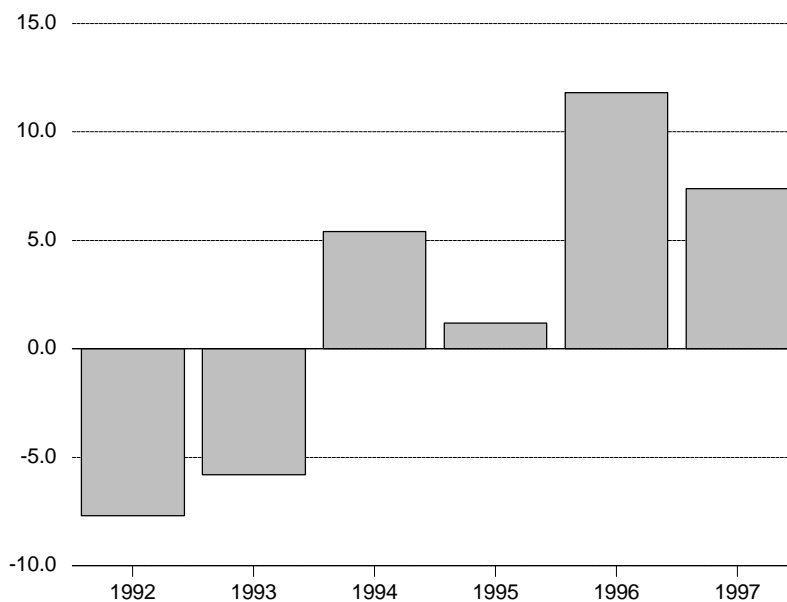
Increase in business investment

The general economic context was also favourable to businesses, whose confidence reached its highest level since the early 1980s. Capacity utilization rates increased, owing to strong growth in the demand for products, and, consequently, businesses made or planned investments to boost their production capacity. Other factors also favoured investment, notably the decline in long-term interest rates and vigorous growth in corporate profits in recent years (86.6% since 1993, and 15.0% in 1997).

According to the data in the most recent survey published by Statistics Canada, non-residential investment by private-sector enterprises rose by 7.4% in 1997, which is better than the performance suggested by the survey used to prepare last year's Budget (4.9%).

GRAPH 1.10

NON-RESIDENTIAL INVESTMENT BY PRIVATE-SECTOR ENTERPRISES – QUÉBEC (percentage change – current dollars)



Source: Statistics Canada.

Economic outlook

In general, the economic context remains favourable to continued growth of the Québec economy in 1998. Several factors, some positive and others negative, are responsible for this situation, and as a result of their combined impact, the Québec economy should grow by 2.3% in 1998, very similar to the rate observed last year (2.4%), and by 2.4% in 1999.

In this context, the labour market should continue to improve. The number of jobs created in 1998 should be approximately the same as last year, i.e. 48 000, and rise to 51 000 in 1999. This increase in employment should be accompanied by a reduction in the unemployment rate, to 10.9% this year and 10.6% next year.

A slightly less dynamic external context than in 1997

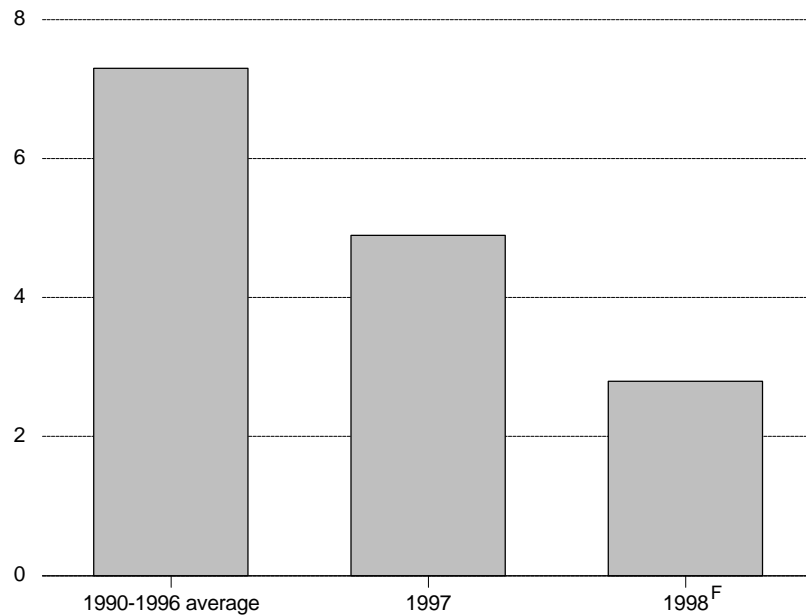
In 1998, the external context will be characterized mainly by the impact of the Asian crisis and a slowdown in economic growth in the United States.

Asian crisis

The countries of Southeast Asia will experience a pronounced slowdown in economic growth in 1998 after suffering, since July 1997, the effects of a financial crisis that has led to a substantial decline in their stock markets and currencies.

Graph 1.11

**PRONOUNCED SLOWDOWN IN GROWTH
IN SOUTHEAST ASIA IN 1998**
(as a percentage)

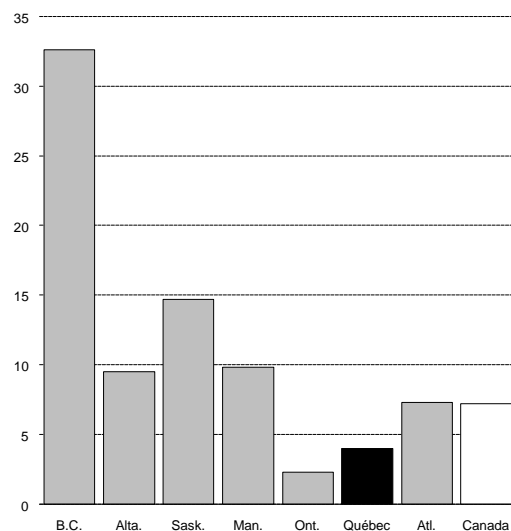


F: Forecast
Source: Data Resources Inc.

The G-7 countries will be affected to varying degrees by the slowdown on Asian markets. Québec and Canada, in particular, will experience few direct repercussions, since their exports to these markets represent only a small proportion of their total exports. However, the impact of the Asian crisis will be felt indirectly, through a decline in the economic growth of our main trading partners, especially the United States.

GRAPH 1.12

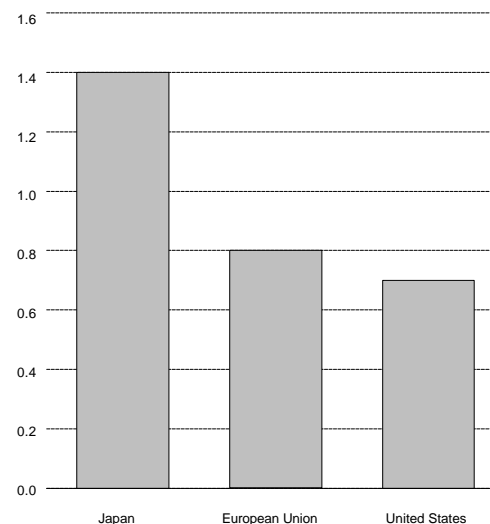
**EXPORTS TO SOUTHEAST ASIA, CHINA
AND JAPAN**
(as a percentage of total exports)



Source: Statistics Canada.

GRAPH 1.13

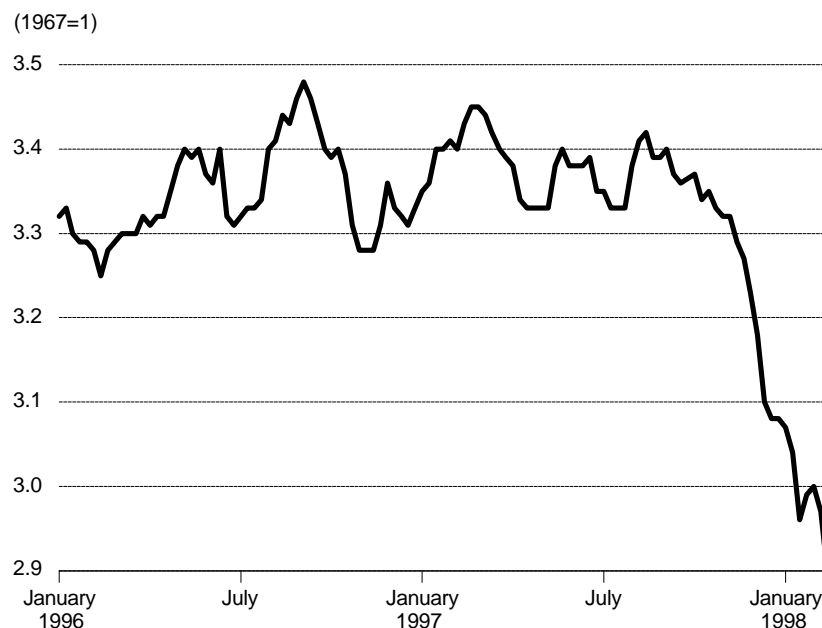
**DECLINE IN ECONOMIC GROWTH IN 1998
ATTRIBUTABLE TO THE ASIAN CRISIS**
(as a percentage)



Source: OECD.

As observed in recent months, the Asian crisis has also had a deflationary effect on the price of raw materials and basic industrial products. This situation will continue to have major repercussions on the profits of many Québec exporters in 1998.

GRAPH 1.14

**PRICE OF RAW MATERIALS AND BASIC INDUSTRIAL PRODUCTS –
INDUSTRIAL COMPONENT OF THE CRB INDEX¹**


1 Commodity Research Bureau.
Source: Data Resources Inc.

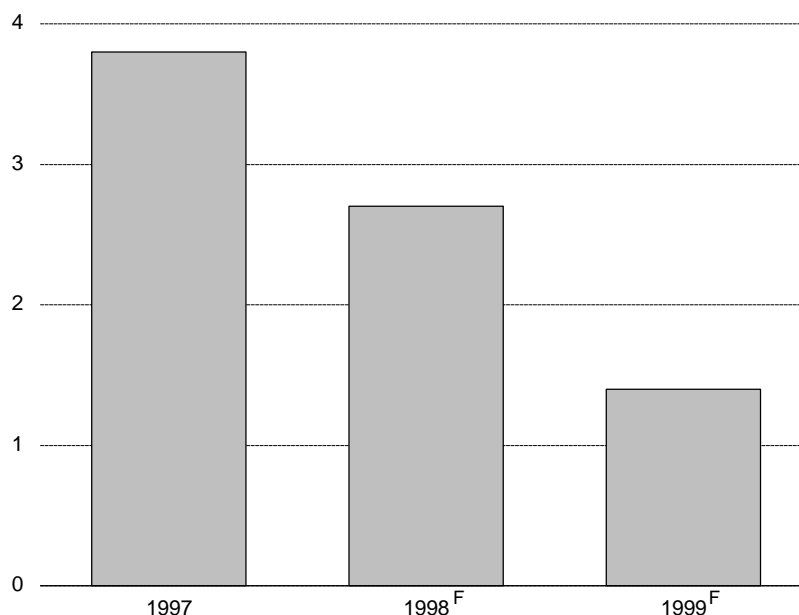
US economy

Economic activity in the United States should grow by 2.7% in 1998, a slower pace than last year, when it reached 3.8%. The growth rate is also expected to decline further in 1999, to approximately 1.5%.

This slowdown will be attributable to exports, which have been adversely affected by the strong appreciation of the US dollar since 1996 and the financial crisis that has afflicted Southeast Asia. Business investment will also increase less rapidly over the next two years owing to lower capacity utilization rates and a more moderate increase in profits.

Consumer spending, bolstered by a substantial rise in disposable income and low interest rates (household confidence of near-record levels), will remain strong during the first half of 1998. However, a slowdown is anticipated in the second half of the year and in early 1999, when the vitality of the labour market will decline and difficulties in the external sector will gradually affect domestic demand.

GRAPH 1.15

GROWTH IN REAL GDP IN THE UNITED STATES
(as a percentage)

F: Forecast

Source: Data Resources Inc.

Further deceleration of inflation

The decrease in oil prices and the repercussions of the Asian crisis will help to curb inflation world-wide in 1998, even though some countries that exert considerable influence, such as the United States and the United Kingdom, have reached an advanced stage of their expansionary cycle likely to generate inflationary pressures.

A marked deceleration in inflation has already been observed in Canada. Growth in the Consumer Price Index has slowed down substantially in recent months, amounting to only 0.7% last December after falling below the lower limit of the target range of the Bank of Canada for the first time in four years.

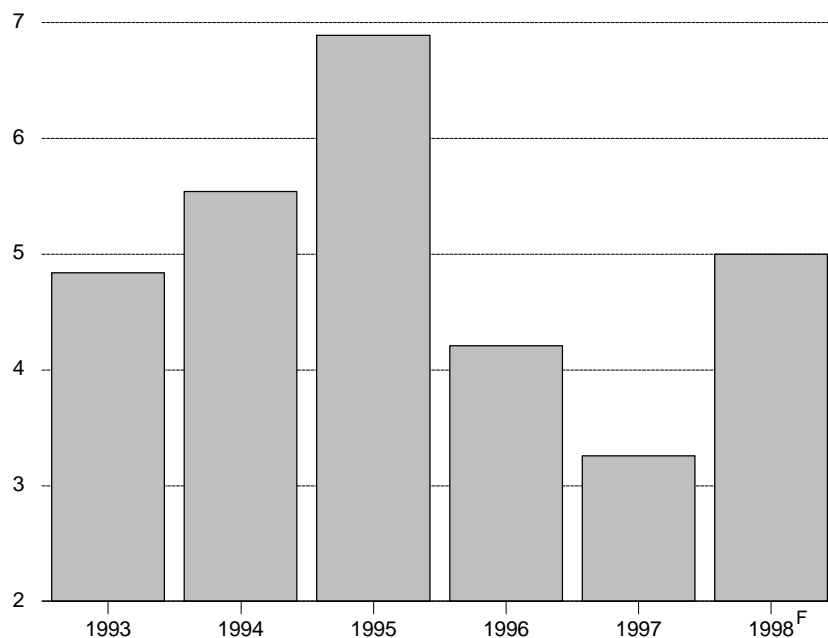
Monetary policy in the United States and Canada

Owing to the downturn in the US economy in 1998 and weak inflationary pressures, the key policy rates of the US Federal Reserve are expected to remain unchanged over the coming months. They might be eased later in the year when the slowdown in economic activity will start to become more obvious.

In Canada, there should not be any need for the central bank to raise its key policy rates again in the coming months, since the most recent hikes in the discount rate enabled the Bank of Canada to stabilize the Canadian dollar. In addition, the inflation rate should remain weak, staying within the target range of 1% to 3% set by the Bank. Furthermore, a slowdown in economic growth is currently under way in Canada.

Graph 1.16

YIELD OF THREE-MONTH TREASURY BILLS – CANADA (as a percentage)



F: Forecast

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

Exports

In 1998 and subsequent years, international exports of goods should continue to grow more rapidly than real GDP and thus continue to play a preponderant role in Québec's economic growth, as has been the case since 1989. Québec firms will continue to benefit from the major competitive advantage they have enjoyed over American producers since the beginning of the decade, owing to, among others, slow growth in wages, the depreciation of the Canadian dollar and a reduction in customs tariffs.

However, the growth of exports should be slower than that observed in 1997, mainly because of more moderate expansion of foreign markets, including the United States. In 1998, weak demand for automobiles manufactured in Québec will also contribute to the downturn in exports.

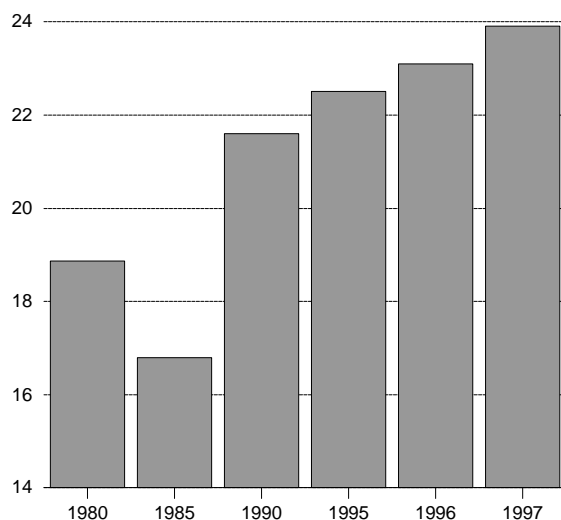
Household demand

After experiencing especially vigorous growth last year, household demand should grow more moderately in 1998 on account of the interest rate hikes observed since the summer of 1997, the particularly high rate of consumer indebtedness and the decline in the savings rate, which fell to an exceptionally low level in late 1997.

Residential construction should continue to grow at a moderate rate, owing to demographic trends and the high vacancy rate that still plagues the rental housing sector. In particular, a slowdown is expected in the housing resale market, following two years of record numbers of transactions. However, new housing construction should continue to improve slowly. The number of housing starts should reach some 27 800 units in 1998, an increase of 7.8% compared with last year.

GRAPH 1.17

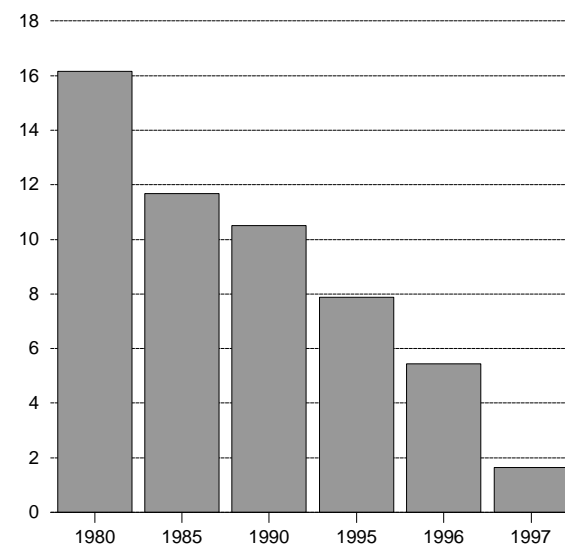
**RATE OF CONSUMER INDEBTEDNESS –
QUÉBEC**
(as a percentage of disposable income)



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

GRAPH 1.18

**SAVINGS RATE OF HOUSEHOLDS –
QUÉBEC**
(as a percentage of disposable income)



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

Business investment

Capital expenditures by businesses are expected to accelerate in 1998. Firms that wish to boost their production capacity and modernize their facilities will benefit from favourable conditions again this year owing to vigorous growth in demand over the past two years and more advantageous long-term credit terms than in the past.

According to Statistics Canada's survey of investment intentions, non-residential investment should grow by 8.5% in Québec in 1998, with growth in private-sector investments attaining 9.5%. These increases are higher than what is anticipated for both the Canadian average and Ontario.

TABLE 1.3

ECONOMIC OUTLOOK
(percentage change)

	1997	1998	1998-2000
OUTPUT			
— Real gross domestic product	2.4	2.3	2.3
— Gross domestic product	4.0	3.4	3.9
COMPONENTS OF DEMAND			
— Consumption	4.9	3.3	3.4
— Housing starts ('000)	25.9	27.8	31.3
— Non-residential investment	3.3 ¹	8.5 ¹	5.4
— International exports of goods ²	7.5	6.4	5.5
COMPONENTS OF INCOME AND PRICES			
— Wages and salaries	2.7	2.3	2.9
— Personal income	1.9	3.6	3.7
— Corporate profits	15.0	-1.0	2.9
— Consumer prices	1.5	1.5	1.7
LABOUR MARKET			
— Labour force	1.0	0.9	1.1
— Employment	1.5	1.5	1.4
— in thousands	47.7	48	47
— Unemployment rate (%)	11.4	10.9	10.6
INTEREST RATES - CANADA (%)			
— 3-month Treasury bills	3.3	5.0	4.8
— 30-year Canada bonds	6.7	6.5	6.4

1 Statistics Canada, Private and public investment.

2 Constant 1992 dollars.

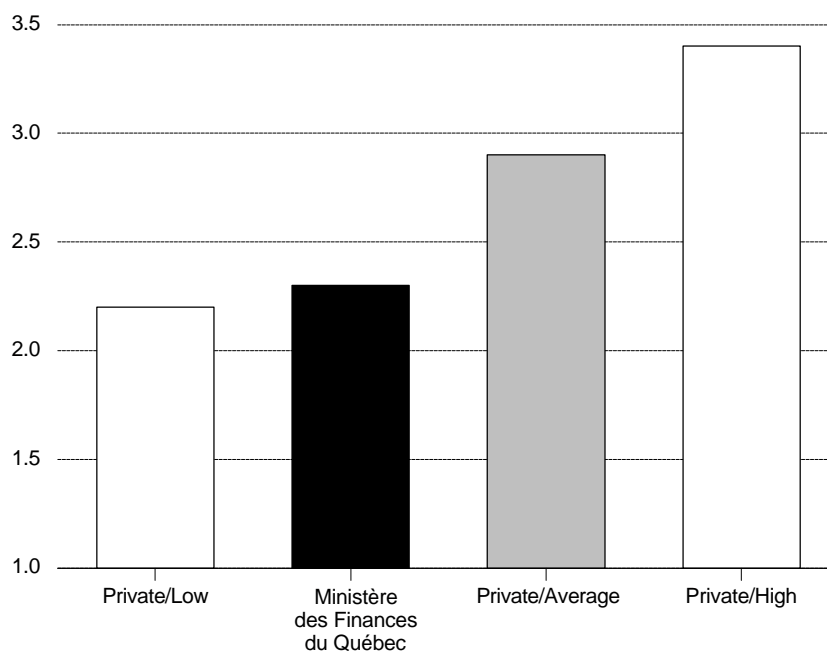
Comparison with private-sector forecasts

The economic growth and inflation forecasts used to prepare the present Budget are lower than those published by private-sector agencies. The latter anticipate that, on average, the Québec economy will grow by 2.9% in 1998 and 2.5% in 1999. In comparison, the forecasts used in preparing the Budget predict growth rates of 2.3% and 2.4% for 1998 and 1999 respectively. They are at the low end of the range of forecasts available for 1998.

Conversely, the interest rate forecasts used to prepare the Budget are slightly higher, on average, than the assumptions used by the private sector.

GRAPH 1.19

ECONOMIC GROWTH IN QUÉBEC IN 1998 – COMPARISON WITH PRIVATE-SECTOR FORECASTS (percentage change)



Source: Based on a survey of the ministère des Finances du Québec.

TABLE 1.4

COMPARISON WITH PRIVATE-SECTOR FORECASTS — QUÉBEC
 (as a percentage)

	Private sector	Ministère des Finances du Québec
REAL GROSS DOMESTIC PRODUCT		
1998	2.9	2.3
1999	2.5	2.4
CONSUMER PRICES		
1998	1.7	1.5
1999	1.8	1.7
INTEREST RATES		
Short-term		
1998	4.6	5.0
1999	4.8	4.7
Long-term		
1998	6.0	6.5
1999	6.0	6.4

Source: Based on a survey of the ministère des Finances du Québec.

Section 2

The Government's Financial Position in 1997-1998 and Public Sector Borrowings

The government's financial transactions	3
Impact of January 1998 ice storm	5
Budgetary revenue.....	6
Budgetary expenditure.....	10
Non-budgetary transactions.....	13
Financing	15
Repayment of borrowings	20
Direct debt.....	21
Public sector borrowings and investments	22
Historical data and preliminary results	28
Financial transactions of the gouvernement du Québec	
Summary.....	28
Budgetary revenue	29
Budgetary expenditure.....	30
Non-budgetary transactions.....	31
Financing transactions	34
Borrowings for the gouvernement du Québec in 1997-1998.....	35
Borrowings for the Financing Fund in 1997-1998	36
Borrowings by Hydro-Québec in 1997	37
Appendix.....	39

The 1998-1999 Budget Speech announces a major reform of government accounting. The paper entitled "Reform of Government Accounting" describes the impact of the reform on revenue, expenditure and the deficit. The results given in this section do not reflect the impact of the reform. Implementation of the government accounting reform will increase the deficit by \$125 million in 1997-1998.

The government's financial transactions¹

*Deficit of \$2 069 million:
\$131 million less than
forecast*

The preliminary results of the government's financial transactions for the year ending March 31, 1998 show a budgetary deficit of \$2 069 million, \$131 million less than anticipated in the March 25, 1997 Budget Speech. This represents a decrease of \$1 148 million compared with the \$3 217-million deficit recorded in 1996-1997.

Budgetary revenue for 1997-1998 is \$406 million higher than the amount forecast in the last Budget. The \$548-million increase in own-source revenue is partly canceled out by a \$142 million decrease in Government of Canada transfers.

Budgetary expenditure is adjusted upward by \$275 million, to \$40 551 million. This change reflects the impact of the ice storm in January 1998, which gave rise to additional program spending of \$319 million in 1997-1998. However, debt service cost \$44 million less than anticipated in the Budget.

*Net financial requirements
of \$980 million:
\$420 million less than
forecast*

Net financial requirements amount to \$980 million, \$420 million less than forecast in the March 1997 Budget. This difference reflects the impact of the \$131-million drop in the deficit for budgetary transactions and the \$289-million increase in the surplus for non-budgetary transactions.

With respect to financing transactions, the results show a \$362-million decrease in the change in direct debt and a \$70-million increase in the government's cash position compared with the initial forecast.

¹ The analysis of the government's financial transactions is based on the results obtained using the financial and budgetary structure in effect for the 1997-1998 fiscal year. The data included in the tables at the end of this section are historical and have been adjusted, for purposes of comparison, on the basis of the budgetary and financial structure that will prevail in 1998-1999.

Table 2.1

GOVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS¹
(in millions of dollars)

	1996-1997	1997-1998		
	Actual results	Budget Speech 1997-03-25	Preliminary results ³	Change
Budgetary transactions				
Own-source revenue	30 809	32 268	32 816	548
Government of Canada transfers	6 719	5 808	5 666	- 142
Total revenue	37 528	38 076	38 482	406
Program spending	- 34 885	- 34 374	- 34 693	- 319
Debt service	- 5 860	- 5 902	- 5 858	44
Total expenditure	- 40 745	- 40 276	- 40 551	- 275
Deficit	- 3 217	- 2 200	- 2 069	131
Non-budgetary transactions				
Investments, loans and advances	- 792	- 560	- 420	140
Retirement plans	1 928	1 879	1 789	- 90
Other accounts	- 55	- 519	- 280	239
Surplus	1 081	800	1 089	289
Net financial requirements	- 2 136	- 1 400	- 980	420
Financing transactions				
Change in cash position	1 433	70	—	- 70
Change in direct debt	794	1 415	1 053	- 362
Retirement plans sinking fund ²	- 91	- 85	- 73	12
Total financing of transactions	2 136	1 400	980	- 420

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 Before the impact of the reform in government accounting practices described in the paper entitled "Government Accounting Reform".

2 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public sector retirement plans. The income from this fund is accumulated in it and is subtracted from the interest credited to the retirement plans account.

3 The preliminary results for 1997-1998 are based on actual data recorded from April 1997 to January 1998, and on an estimate, as at March 12, 1998, of the February and March results for which transactions will be posted, up to the closing of the books, to 1997-1998 transactions.

*Impact of ice storm on
1997-1998 financial
framework: \$601 million*

Impact of January 1998 ice storm

At the beginning of 1998, a major ice storm crippled many of Québec's cities and towns. Its impact on the government's financial framework for 1997-1998 amounts to \$601 million: \$282 million in own-source revenue losses and \$319 million in additional program spending.

For the purposes of this document, the hypothesis adopted is that only those expenditures incurred by government departments would be eligible for compensation from the federal government, with the procedure being similar to that used for the federal disaster assistance program.

Up to now, the federal government has refused to shoulder any of the expenditures incurred by Hydro-Québec, particularly those involving implementation of emergency measures and the repair and rebuilding of its network. In all fairness and considering the precedents, the Québec government is going to continue to demand that the federal government assume part of these costs.

TABLE 2.2

IMPACT OF ICE STORM IN 1997-1998

(in millions of dollars)

	Costs and losses assumed in 1997-1998
Own-source revenue	
excluding government enterprises	- 175
government enterprises	
• Hydro-Québec	- 90
• Loto-Québec and Société des alcools du Québec	- 17
	- 282
Program spending	
departmental expenditures	- 891
share assumed by the federal government	772
	- 119
Hydro-Québec's expenditures for emergency measures	- 200
	- 319
Net impact in 1997-1998	- 601

The overall cost of the ice storm and its impact on the government's financial framework in 1997-1998 are described in detail in the appendix.

Budgetary revenue

For the 1997-1998 fiscal year, budgetary revenue totals \$38 482 million, a 2.5% increase over the 1996-1997 results. Own-source revenue grew by 6.5%, while federal transfers fell by 15.7%.

Own-source revenue

Compared with the forecast in the 1997-1998 Budget Speech, own-source revenue is adjusted upward by \$548 million. This result stems from the combined effect of a better-than-anticipated economic performance in 1997 and the negative impact of the ice storm.

TABLE 2.3

SUMMARY OF OWN-SOURCE REVENUE (in millions of dollars)

	1996-1997			1997-1998	
	Actual results	Budget Speech 1997-03-25	Preliminary results	Change compared with Budget	Change compared with 1996-1997
					%
Personal income tax	12 867	13 556	13 956	400	8.5
Health Services Fund	3 768	3 847	3 886	39	3.1
Corporate taxes	2 931	2 839	3 092	253	5.5
Retail sales	5 213	5 650	5 650	—	8.4
Government enterprises	2 186	2 178	1 998	– 180	– 8.6
Other sources	3 844	4 198	4 234	36	10.1
Total own-source revenue	30 809	32 268	32 816	548	6.5

Revenue from personal income tax is \$400 million higher than anticipated in the Budget Speech. This change is due chiefly to the fact that salaries and wages grew faster in 1997 than expected. What is more, the processing, since April 1997, of income tax returns for the 1996 taxation year shows that the tax payable is higher than expected.

Health Services Fund contributions are also adjusted upward, by \$39 million, because of the higher-than-expected salaries and wages.

The \$253-million increase in revenue from corporate taxes is mainly due to the fact that the income tax returns processed for 1996 show more taxable income than expected and by a slightly higher increase in corporation profits than anticipated in 1997.

Although the Québec sales tax (QST) base grew more than expected, QST revenue is not adjusted in relation to the forecasts in the 1997-1998 Budget Speech. This is partly because of the steps taken since then to repay large companies for the QST paid on trucks and fuel they purchase. Also, the fact that more and more consumers are deciding to lease motor vehicles instead of buying them means that more sales tax revenue than expected is carried over to subsequent years. When vehicles are leased, the QST is applied to monthly payments as opposed to the vehicle's total value.

The \$180-million downward adjustment to revenue from government enterprises is essentially the result of a \$197-million decrease in Hydro-Québec's net profits, stemming in large part from the losses incurred as a result of the ice storm and the unusually mild weather. Revenue from the Société des alcools du Québec is also adjusted downward, by \$18 million, chiefly because of additional costs resulting from the retirement incentive program and the introduction of a new inventory management system. On the other hand, the net profits of Loto-Québec are \$84 million higher than originally forecast since the profits derived from operating casinos and video lottery terminals were higher than expected. Finally, preliminary results show a downward adjustment of \$49 million in the profits of other government enterprises, owing to the carrying-over to 1998-1999 of the sale of certain assets that was originally planned for 1997-1998.

Government of Canada transfers

Compared with the forecast in the March 1997 Budget Speech, the preliminary results for 1997-1998 show a decrease of \$142 million in Government of Canada transfers, which amount to \$5 666 million.

TABLE 2.4

SUMMARY OF TRANSFERS FROM THE GOVERNMENT OF CANADA (in millions of dollars)

	1996-1997	1997-1998			
	Actual results	Budget Speech 1997-03-25	Preliminary results	Change compared with Budget	Change compared with 1996-1997 %
Equalization	4 103	3 940	4 187	247	2.0
Contributions to social programs	2 554	1 785	1 660	- 125	- 35.0
Contributions to welfare programs	- 2	—	—	—	—
Other transfers related to fiscal arrangements	- 38	42	27	- 15	—
Other programs	102	41	- 208	- 249	—
Total Government of Canada transfers	6 719	5 808	5 666	- 142	- 15.7

Equalization revenue is \$247 million higher than originally forecast. This difference is chiefly attributable to the updating of fiscal capacity indicators and new data on the revenue subject to equalization, mainly with respect to personal income tax and property taxes. These updates affect equalization calculations not only for 1997-1998, but also for earlier years. The adjustment of data for former years alone brings about a non-recurrent increase in equalization payments of over \$150 million in 1997-1998.

Contributions to social programs (Canada Health and Social Transfer, or CHST) are \$125 million lower than anticipated in the 1997-1998 Budget Speech. This is chiefly due to the increase in the value of the tax transfer used to calculate the CHST, which reduces cash payments to Québec accordingly.

Revenue in the form of other transfers related to fiscal arrangements is \$15 million lower than anticipated in the March 1997 Budget Speech. In particular, this adjustment reflects a decline in transfers with regard to the tax on dividends from preferred shares.

Revenue received under all other transfer programs is adjusted downward by \$249 million. This change reflects lower revenue than anticipated with respect to adult vocational training and the terms for refund of the tax transfer related to the Youth Allowance Program. It also reflects less revenue than expected in the form of the compensation that Québec receives because it does not participate in the Canadian student loans program.

Budgetary expenditure

Not counting the impact of the ice storm, the 1997-1998 program spending objective was met

Preliminary results for budgetary expenditure amount to \$40 551 million for fiscal 1997-1998, \$275 million more than forecast in the Budget Speech on March 25, 1997. This represents a decrease of 0.5% compared with 1996-1997, however.

Program spending is adjusted upward by \$319 million, to \$34 693 million. This increase is due to the impact of the ice storm on program spending. Other instances of overruns with respect to certain budgetary items were offset by current assets and by spending reductions in other budgetary items. All in all, program spending dropped by 0.6% in 1997-1998 compared with the previous year.

Regarding debt service, the forecast is adjusted downward by \$44 million in relation to the amount anticipated in the Budget.

TABLE 2.5

BUDGETARY EXPENDITURE

(in millions of dollars)

	1996-1997				1997-1998
	Actual results	Budget Speech 1997-03-25	Preliminary results	Change compared with Budget	Change compared with 1996-1997
					%
Program spending before impact of ice storm	34 885	34 374	34 374	—	– 1.5
Impact of ice storm	—	—	319	319	—
Program spending	34 885	34 374	34 693	319	– 0.6
Debt service¹	5 860	5 902	5 858	– 44	—
Total budgetary expenditure	40 745	40 276	40 551	275	– 0.5

¹ Including direct debt service and interest expenditures on retirement plans account balance.

TABLE 2.6

SUMMARY OF EXPENDITURE

(in millions of dollars)

	1997-1998		
	Program spending	Debt service	Total
Expenditure budget presented in the 1997-1998 Estimates	33 864	5 902	39 766
Plus:			
Impact of measures announced in the 1997-1998 Budget	196	—	196
Family policy	314	—	314
Expenditure forecast in the Budget Speech	34 374	5 902	40 276
Impact of ice storm	319	—	319
Debt service adjustment	—	- 44	- 44
Preliminary results	34 693	5 858	40 551

Program spending

When the 1997-1998 Estimates were tabled, the program spending forecast was \$33 864 million. Supplementary appropriations of \$196 million were voted by the National Assembly in May 1997 to provide for certain measures announced in the March 1997 Budget. Also, last November the National Assembly authorized additional appropriations to finance the new family policy. An amount of \$314 million, offset by an equivalent increase in revenue, was slated for this purpose in the March 25, 1997 Budget Speech.

Furthermore, the ice storm produced unexpected expenses of \$319 million, which required an upward adjustment of the program spending objective, to \$34 693 million.

Debt service

Preliminary results for the debt service amount to \$5 858 million, including \$3 752 million for the direct debt service and \$2 106 million for the interest on the retirement plans account, a decrease of \$44 million compared with the figure anticipated in the March 1997 Budget.

This difference reflects the \$37-million decline in the direct debt service and the \$7-million decrease in interest expenditures on the retirement plans account. The decrease in the direct debt service compared with the forecast in the Budget is essentially due to lower-than-anticipated interest rates. This effect was partly offset by the fact that the value of the Canadian dollar in relation to other currencies did not improve as much as anticipated.

Non-budgetary transactions

Preliminary results show that the surplus in non-budgetary transactions amounts to \$1 089 million, \$289 million higher than forecast in the March 1997 Budget Speech. This difference reflects a \$140-million reduction in financing requirements in the form of investments, loans and advances, a \$90-million decrease in the surplus anticipated in the retirement plans account and \$239 million in additional financing due to changes in other non-budgetary accounts.

TABLE 2.7

SUMMARY OF NON-BUDGETARY TRANSACTIONS

(in millions of dollars)

	1997-1998		
	Budget Speech 1997-03-25	Preliminary results	Change
Investments, loans and advances			
Government enterprises			
Shares and investments, and change in the equity value of investments	- 445	- 319	126
Loans and advances	- 120	- 40	80
Sub-total	- 565	- 359	206
Loans and advances to municipalities, municipal bodies, individuals, corporations and others	5	- 61	- 66
Total investments, loans and advances	- 560	- 420	140
Retirement plans	1 879	1 789	- 90
Other accounts	- 519	- 280	239
Surplus	800	1 089	289

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

Under the heading of investments in government enterprises, the \$126-million decrease in financial requirements, compared with the Budget forecast, can be explained on the one hand by the decrease in net profits forecast for government corporations, Hydro-Québec in particular and, on the other, by the \$95-million increase in terms of additional investments in capital stock, chiefly in the Société générale de financement du Québec because of its participation in a greater number of investment projects than expected.

Loans and advances to government enterprises were \$80 million lower than anticipated.

The \$66-million upward adjustment of funding requirements for loans and advances to municipalities, municipal bodies, individuals, corporations and others is notably the result of an increase in the forecast amounts to be paid by the government to financial institutions to repay student loans it guarantees. This change is partly canceled out by the downward adjustment of advances to special funds.

The surplus in the retirement plans account amounts to \$1 789 million, which is \$90 million less than anticipated in March 1997. This change is attributable, notably, to an increase in the benefits paid out, which proved to be more substantial than the increase in the contributions made by the government in its capacity as employer. These adjustments basically stem from the retirement incentive program introduced in the 1997-1998 fiscal year.

Transactions related to other non-budgetary accounts represent year-to-year changes in these financial items. These accounts, which include, in particular, cash and bills on hand, outstanding cheques, accounts receivable and accounts payable, can fluctuate a great deal because of the variability of government cash inflow and disbursements. For 1997-1998, the balance of the other accounts shows financial requirements of \$280 million, compared with the \$519 million forecast in the 1997-1998 Budget Speech.

Financing

Net financing transactions are expected to amount to \$1 053 million, a decrease of \$362 million compared with the forecast in the 1997-1998 Budget Speech. Borrowings for the consolidated revenue fund totalled \$9 059 million in 1997-1998, which is \$1 891 million higher than anticipated in the last Budget. This difference may be attributed partly to an increase of \$2 253 million in the repayment of borrowings, to \$8 006 million.

The cash level did not change in 1997-1998, although a \$70-million reduction was forecast in last year's Budget Speech.

TABLE 2.8

SUMMARY OF FINANCING TRANSACTIONS

(in millions of dollars)

	1997-1998		
	Budget Speech 1997-03-25	Preliminary results	Change
Change in cash position	70	—	– 70
Change in direct debt			
New borrowings	7 168	9 059	1 891
Repayment of borrowings	– 5 753	– 8 006	– 2 253
Total change in direct debt	1 415	1 053	– 362
Retirement plans sinking fund	– 85	– 73	12
Total financing of operations	1 400	980	– 420

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.

Total borrowings were \$11 083 million in 1997-1998: \$9 059 million made for the consolidated revenue fund and \$2 024 for the Financing Fund.

This financing program was characterized by the exceptional receptivity of financial markets to Québec securities. This favourable climate substantially narrowed yield spreads on all markets and resulted in a large number of public issues.

On the Canadian market, the government carried out five public issues with terms of 10 and 30 years, for a total of \$2 239 million of negotiable bonds in Canada. In addition, private issues totalling \$1 485 million were negotiated, including \$1 420 with the Caisse de dépôt et placement du Québec, while \$631 million was obtained through the issue of medium-term notes. Savings products furnished \$1 309 million. Overall, almost 60% of the financing program, or \$6 594 million, was carried out on the Canadian market, the highest percentage in eight years.

Several public issues were also carried out on foreign markets. The Québec government made first issues on the Spanish peseta market and the Luxembourg franc market, which is perfectly in keeping with the diversification strategy for markets used for government financing. In addition, the Québec government returned to the domestic Japanese market, making the biggest issue for a Canadian borrower, namely ¥100 billion (C\$1 194 million), for a 12-year term. In addition, Québec, which had not made any issues in Swiss francs since 1991, returned to this market for a 10-year borrowing of SFr500 million (C\$490 million), the largest issue in circulation for a Canadian borrower. Lastly, a 12-year public issue of FFr2 billion (C\$467 million) was carried out in February.

As in previous years, the medium-term note program in Europe made a substantial contribution to Québec's financial requirements, totalling \$1 478 million, of which \$525 million is in US dollars.

A total of \$4 489 million, or a little over 40% of the financing program, was thus obtained on foreign markets.

TABLE 2.9

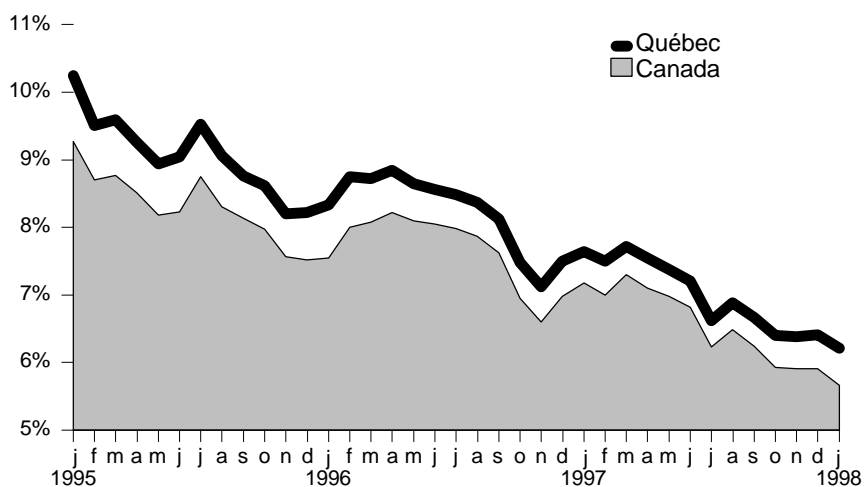
SUMMARY OF BORROWINGS IN 1997-1998

(in millions of dollars)

Currency and market	Consolidated revenue fund	Financing Fund	Total		
			%		
Canadian dollar					
Canadian market					
Public issues					
Savings products	1 309	—	1 309	11.8	
Negotiable bonds	1 882	357	2 239	20.2	
Treasury bills	—	930	930	8.4	
Private issues					
Caisse de dépôt et placement du Québec	848	572	1 420	12.8	
Actual return bonds	65	—	65	0.6	
Medium-term notes	631	—	631	5.7	
Sub-total	4 735	1 859	6 594	59.5	
US dollar					
US market					
Public issues					
Treasury notes	277	52	329	3.0	
US eurodollar market					
Medium-term notes	490	35	525	4.7	
Sub-total	767	87	854	7.7	
Other currencies					
Public issues					
German market	206	—	206	1.9	
Japanese market	1 191	—	1 191	10.8	
Spanish market	91	—	91	0.8	
Luxembourg market	75	—	75	0.7	
Swiss market	490	—	490	4.4	
French market	467	—	467	4.2	
Private issues					
Japanese market	69	—	69	0.6	
German market	93	—	93	0.8	
Medium-term notes					
European market	875	78	953	8.6	
Sub-total	3 557	78	3 635	32.8	
Total	9 059	2 024	11 083	100.0	

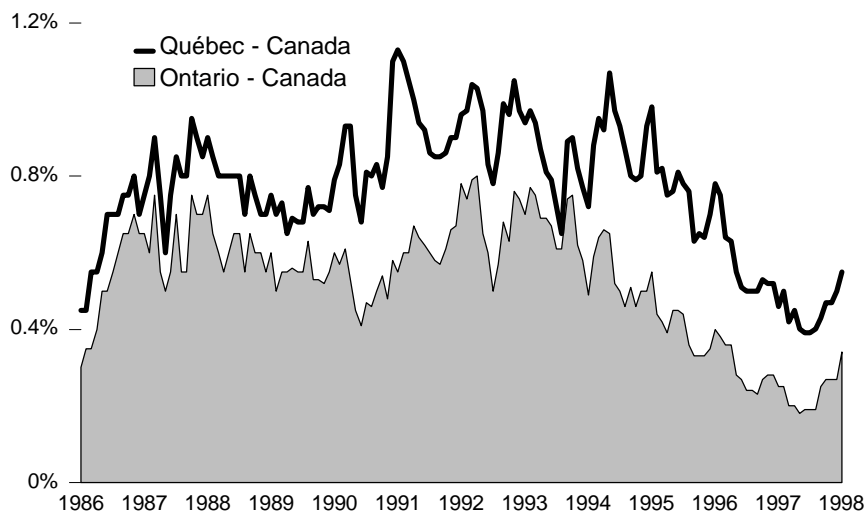
GRAPH 2.1

YIELD ON QUÉBEC AND CANADA LONG-TERM GOVERNMENT SECURITIES

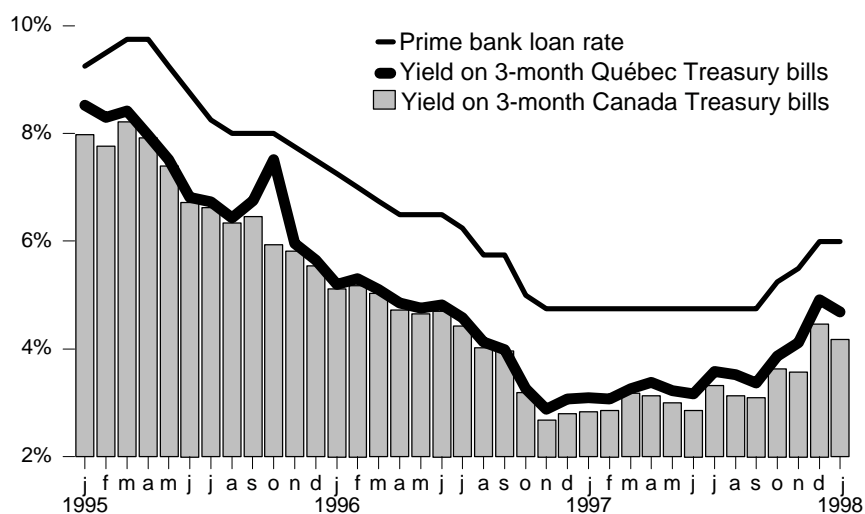


GRAPH 2.2

YIELD SPREADS ON LONG-TERM SECURITIES



GRAPH 2.3

YIELD ON SHORT-TERM SECURITIES

Repayment of borrowings

Preliminary results show that the repayment of borrowings for fiscal 1997-1998 amounts to \$8 006 million. This represents an increase of \$2 253 million compared with the \$5 753 million forecast in the March 1997 Budget Speech.

This increase can be explained mainly by the combined effect of a \$930-million reduction in outstanding Treasury bills and increases of \$654 million for refinancing prior to maturity and \$413 million for repayment of savings products.

In addition, contributions to the direct debt sinking fund to provide for eventual repayments are \$92 million higher than expected owing to the fund yield being higher than anticipated.

These repayments include refinancing transactions of \$1 589 million prior to maturity. Given the possibility of renegotiating certain borrowings under more favourable terms, the government exercised its call options on borrowings that were not due to mature this year. These transactions have made it possible to reduce the cost of debt service by \$23 million in 1997-1998 and by \$29 million in 1998-1999.

Direct debt

The Québec government's direct debt should stand at \$53 821 million as at March 31, 1998. Borrowings and interest rate swap transactions raised the share of the debt at fixed rates from 56.6% last year to 63.8% at the end of fiscal 1997-1998, while the proportion of the debt at variable rates was 36.2%.

The weighted average maturity of the direct debt, excluding savings bonds, Treasury bills and Treasury notes, is 9.9 years as at March 31, 1998, compared with 8.9 years as at March 31, 1997. Savings products outstanding total \$2 004 million, or 3.7% of the direct debt. Outstanding Treasury bills, which fell by \$930 million, total \$1 800 million, or 3.3% of the direct debt¹. Outstanding Treasury notes, which amounted to \$94 million at March 31, 1997, increased to \$371 million.

As at March 31, 1998, the proportion of the direct debt in Canadian dollars amounts to 61.1% and the proportion of the debt in foreign currency, 38.9%. In addition to the direct debt, the government's total debt includes the balance of the retirement plans account, all the commitments of which are in Canadian dollars. The proportion of the total debt in Canadian dollars therefore stands at 74.2%, just as it did on March 31, 1997.

TABLE 2.10

GOVERNMENT DIRECT DEBT FORECAST AT MARCH 31, 1998 INCLUDING CURRENCY SWAP TRANSACTIONS

(in millions of dollars)

Currency		%
Canadian dollar	32 897	61.1
US dollar	11 227	20.9
Japanese yen	4 342	8.1
Swiss franc	2 493	4.6
German mark	1 205	2.2
French franc	1 190	2.2
Pound sterling	467	0.9
Total	53 821	100.0

Note: The debt in foreign currency is expressed in the Canadian equivalent at the exchange rates effective on March 12, 1998.

¹ Outstanding Treasury bills of \$1 200 million issued for the Financing Fund bring the total outstanding to \$3 000 million.

Public sector borrowings and investments

During the 1997 calendar year, gross long-term public sector borrowings totalled \$14 889 million, an increase of \$168 million over the previous year. Borrowings by the government and Hydro-Québec rose by \$1 367 million and \$92 million respectively. Decreases in gross borrowings by the other components of the public sector reduced this increase substantially, however.

TABLE 2.11

LONG-TERM PUBLIC SECTOR BORROWINGS (in millions of dollars)

	Calendar year				
	1993	1994	1995	1996	1997 ¹
Gross borrowings					
Government ²	6 395	5 757	7 799	6 984	8 351
Educational institutions	1 067	805	799	1 259	881
Health and social services institutions	408	535	286	750	570
Hydro-Québec ³	4 609	3 614	2 222	1 792	1 884
Other government enterprises	1 001	354	1 097	1 361	1 117
Municipal bodies	2 281	2 246	2 490	2 575	2 086
Total	15 761	13 311	14 693	14 721	14 889
Repayments	9 112	7 432	8 123	10 015	12 259
Net borrowings	6 649	5 879	6 570	4 706	2 630

1 Preliminary results.

2 Amounts borrowed during the calendar year for purposes of the consolidated revenue fund, excluding less-than-one-year net borrowings made as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text. These amounts also exclude borrowings to cover the needs of the Financing Fund, which are distributed among the agencies for which they were intended.

3 Amounts borrowed during the calendar year, excluding less-than-one-year net borrowings made as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text.

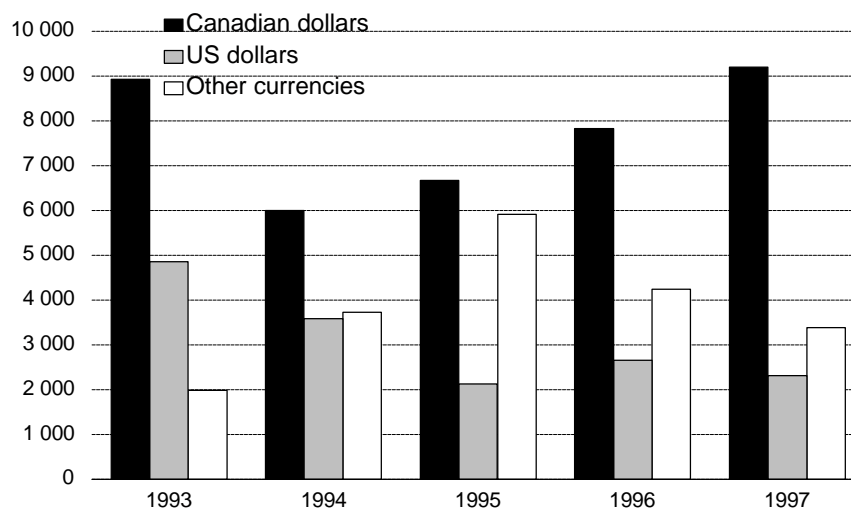
Source: Ministère des Finances du Québec.

Gross borrowings in Canadian dollars totalled \$9 192 million in 1997, or 61.7% of total borrowings by the public sector. Gross borrowings in US dollars reached \$2 314 million, or 15.6% of the total, while those in other currencies amounted to \$3 383 million, or 22.7% of the total.

Taking refinancing and repayments into consideration, net public sector borrowings are estimated at \$2 630 million in 1997, the lowest level for as long as these data have been compiled. The ratio of net borrowings to gross domestic product fell from 2.6% in 1996 to 1.4% in 1997.

GRAPH 2.4

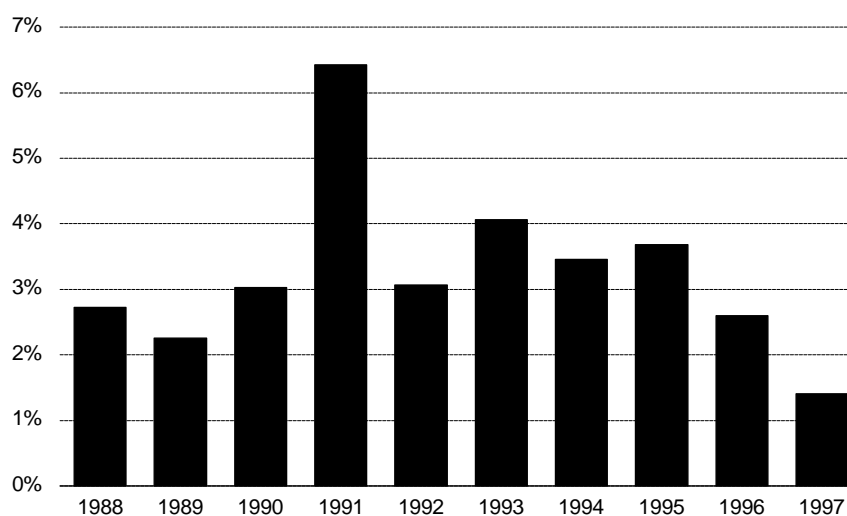
GROSS PUBLIC SECTOR BORROWINGS BY CURRENCY (in millions of dollars)



Source: Ministère des Finances du Québec.

GRAPH 2.5

NET PUBLIC SECTOR BORROWINGS COMPARED WITH GROSS DOMESTIC PRODUCT



Source: Ministère des Finances du Québec.

In 1997, public sector investments amounted to \$6 342 million. The \$520-million drop in Hydro-Québec's investments compared with 1996 is partly offset by an increase of almost \$260 million in investments by other public sector components.

TABLE 2.12

PUBLIC SECTOR INVESTMENTS
(in millions of dollars)

	Calendar year				
	1993	1994	1995	1996	1997 ¹
Government ²	771	912	992	887	891
Educational institutions ³	781	645	599	681	799
Health and social services institutions ³	436	515	472	448	391
Hydro-Québec ⁴	4 030	3 291	2 775	2 047	1 527
Other government enterprises ⁵	615	592	661	393	547
Municipal bodies ⁶	1 918	2 139	2 197	2 148	2 187
Total	8 551	8 094	7 696	6 604	6 342

1 Preliminary results.

2 Government investments include its capital expenditures as well as grants and loans for investments made available to economic agents outside the public sector. Financial investments in other components of the public sector are therefore excluded.

Sources: Public Accounts of the gouvernement du Québec, Conseil du trésor and ministère des Finances du Québec.

3 Investments by school boards, colleges, universities and health and social services institutions include the share paid by the institutions themselves. The share paid by the government is financed by subsidies for the debt service.

Source: Conseil du trésor.

4 Only those investments made in Québec were considered.

Source: Hydro-Québec.

5 Investments by government enterprises correspond to an increase in long-term assets. Investments of the Société québécoise d'assainissement des eaux are included under "municipal bodies".

Sources: Financial statements of the enterprises of the gouvernement du Québec and ministère des Finances du Québec.

6 Investments by municipal bodies include those related to water purification, public transportation and cultural and community facilities, as well as other municipal investments.

Sources: Conseil du trésor, ministère des Affaires municipales and ministère des Finances du Québec.

In order to take into account the interrelation between the government's financial policy and the situation in the various sectors under its jurisdiction, a comparative analysis of borrowings and investments must consider the situation of the public sector as a whole. Total net public sector borrowings include, in addition to the net long-term borrowings mentioned earlier, less-than-one-year borrowings made as long-term financing transactions, including Treasury bills and Treasury notes issued by the government, and financing obtained from the government's retirement plans account. Over the four preceding years, the ratio of total net borrowings to investments stood at an average of 1.0; the decrease in total net borrowings made it possible to reduce it to 0.7 in 1997.

TABLE 2.13

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(in millions of dollars)

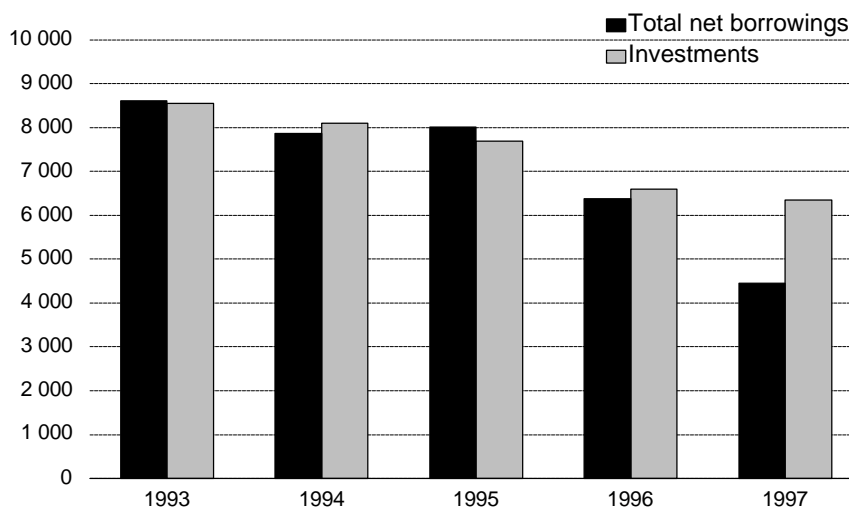
	Calendar year				
	1993	1994	1995	1996	1997 ¹
Net long-term borrowings	6 649	5 879	6 570	4 706	2 630
Less-than-one-year net borrowings made as long-term financing transactions	613	894	177	—	—
Surplus from the government retirement plans account ²	1 346	1 089	1 264	1 678	1 827
Total net borrowings	8 608	7 862	8 011	6 384	4 457
Investments	8 551	8 094	7 696	6 604	6 342
Ratio	1.01	0.97	1.04	0.97	0.70

1 Preliminary results.

2 Once contributions to and revenue from the retirement plans sinking fund have been deducted.

Source: Ministère des Finances du Québec.

GRAPH 2.6

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(in millions of dollars)

Source: Ministère des Finances du Québec.

Historical data and preliminary results

TABLE 2.14

GOUVERNEMENT DU QUÉBEC SUMMARY OF FINANCIAL TRANSACTIONS¹ (in millions of dollars)

	1993-1994	1994-1995	1995-1996	1996-1997	Preliminary results 1997-1998 ^b
Budgetary transactions²					
Own-source revenue	28 723	29 370	30 557	31 087	33 084
Government of Canada transfers	7 780	7 510	8 142	6 719	5 666
Total revenue	36 503	36 880	38 699	37 806	38 750
Program spending	- 36 110	- 36 820	- 36 612	- 35 163	- 34 961
Debt service	- 5 316	- 5 874	- 6 038	- 5 860	- 5 858
Total expenditure	- 41 426	- 42 694	- 42 650	- 41 023	- 40 819
Deficit	- 4 923	- 5 814	- 3 951	- 3 217	- 2 069
Non-budgetary transactions					
Investments, loans and advances	- 623	- 1 142	- 287	- 792	- 420
Retirement plans	1 668	1 509	1 701	1 928	1 789
Other accounts	52	571	- 411	- 55	- 280
Surplus	1 097	938	1 003	1 081	1 089
Net financial requirements	- 3 826	- 4 876	- 2 948	- 2 136	- 980
Financing transactions					
Change in cash position	676	- 573	853	1 433	—
Change in direct debt ³	4 004	5 444	2 169	794	1 053
Retirement plans sinking fund ⁴	- 854	5	- 74	- 91	- 73
Total financing of transactions	3 826	4 876	2 948	2 136	980

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. For comparison purposes, the data are shown on the basis of the budgetary and financial structure in force in 1998-1999.

- 1 Before the impact of the change in accounting practices described in the paper entitled "Government Accounting Reform".
- 2 The total revenue is made up of amounts credited to the consolidated revenue fund and to the Health Services Fund, whereas expenditure includes the amounts charged to these two funds.
- 3 The change in direct debt includes new borrowings and the change in the debt resulting from currency swaps, less repayments of borrowings. It excludes the effect of the change in the exchange rate on the outstanding debt in foreign currencies as at March 31.
- 4 This sinking fund receives amounts to be used to eventually cover retirement benefits payable by the government under the public sector retirement plans. The income from this fund is accumulated in it and is subtracted from the interest credited to the retirement plans account.
- 5 The preliminary results for 1997-1998 are based on actual data recorded from April 1997 to January 1998, and on an estimate, as at March 12, 1998, of the February and March results for which transactions will be posted, up to the closing of the books, to 1997-1998 transactions.

TABLE 2.15

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
(in millions of dollars)

	1993-1994	1994-1995	1995-1996	1996-1997	Preliminary results 1997-1998
Income and property taxes					
Personal income tax	12 313	12 447	12 907	13 139	14 216
Contributions to Health Services Fund	2 932	3 300	3 694	3 768	3 886
Corporate taxes ¹	1 953	2 123	2 517	2 931	3 092
Succession duties	- 2	- 1	—	- 1	—
	17 196	17 869	19 118	19 837	21 194
Consumption taxes					
Retail sales	5 583	5 436	5 620	5 219	5 658
Fuel	1 264	1 340	1 407	1 454	1 465
Tobacco	288	181	265	283	325
Pari mutuel	5	5	2	—	—
	7 140	6 962	7 294	6 956	7 448
Duties and permits					
Motor vehicles	567	500	482	490	642
Alcoholic beverages	102	117	126	123	128
Natural resources ²	98	157	236	227	363
Other	135	143	153	156	165
	902	917	997	996	1 298
Miscellaneous					
Sales of goods and services	486	486	482	510	526
Interest	208	235	268	234	257
Fines, forfeitures and recoveries	1 114	719	471	368	363
	1 808	1 440	1 221	1 112	1 146
Revenue from government enterprises³					
Société des alcools du Québec	346	326	351	372	367
Loto-Québec	536	688	806	972	1 002
Hydro-Québec	761	920	422	661	579
Other	34	248	348	181	50
	1 677	2 182	1 927	2 186	1 998
Total own-source revenue	28 723	29 370	30 557	31 087	33 084
Government of Canada transfers					
Equalization	3 812	3 543	4 321	4 103	4 187
Contributions to social programs	—	—	—	2 554	1 660
Contributions to welfare programs	2 005	2 092	2 031	- 2	—
Other transfers related to fiscal arrangements	1 743	1 880	1 689	- 38	27
Other programs	220	- 5	101	102	- 208
Total Government of Canada transfers	7 780	7 510	8 142	6 719	5 666
Total budgetary revenue	36 503	36 880	38 699	37 806	38 750

1 Includes tax on corporate profits, tax on capital and tax on insurance company premiums.

2 Includes forest, mining and hydraulic resources.

3 Includes the dividends declared and the change in surpluses or deficits accumulated by government enterprises, which are consolidated with a corresponding revaluation of the investment held by the government.

TABLE 2.16

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
(in millions of dollars)

Departments and agencies	1993-1994	1994-1995	1995-1996	1996-1997	Preliminary results 1997-1998
Assemblée nationale	72	77	77	70	67
Personnes désignées par l'Assemblée nationale	38	86	99	42	40
Affaires municipales	1 270	1 371	1 370	1 271	1 118
Agriculture, Pêcheries et Alimentation	675	657	659	600	529
Conseil du trésor, Administration et Fonction publique ¹	525	542	515	595	846
Conseil exécutif	40	52	51	38	36
Culture et Communications	443	430	425	433	433
Développement des régions et Affaires autochtones	67	169	159	129	116
Education	10 231	10 521	10 524	10 110	9 645
Emploi, Solidarité et Condition féminine	3 929	4 054	4 071	4 004	3 963
Environnement et Faune	290	275	262	247	220
Famille et Enfance	796	828	854	856	996
Finances (excluding debt service)	92	87	81	77	127
Industrie, Commerce, Science et Technologie	396	435	395	312	358
Justice	496	489	455	461	462
Métropole	90	108	116	38	58
Relations avec les citoyens et Immigration	155	149	148	147	143
Relations internationales	100	95	100	83	78
Ressources naturelles	436	406	376	346	321
Revenu	557	490	511	631	696
Santé et Services sociaux	13 010	13 137	13 107	12 934	12 616
Sécurité publique	713	718	718	696	989
Tourisme	44	50	44	53	57
Transports	1 533	1 551	1 461	930	994
Travail	72	77	73	71	73
Sub-total	36 070	36 854	36 651	35 174	34 981
Change in the allowance for loss on share investments²	40	- 34	- 39	- 11	- 20
Total program spending³	36 110	36 820	36 612	35 163	34 961
Debt service (ministère des Finances)	5 316	5 874	6 038	5 860	5 858
Total budgetary expenditure	41 426	42 694	42 650	41 023	40 819

1 The 1997-1998 preliminary results contain provisions which allow transfers to other departments and agencies between the date the budget documents are produced and the end of the fiscal year.

2 Allowance created when the accumulated deficit of a government enterprise exceeds the cost of investment in shares held by the government.

3 According to the 1997-1998 budgetary structure, program spending for fiscal 1997-1998 stands at \$34 693 million. The \$268-million discrepancy with the preliminary results appearing in this table stems from the impact of the new family policy over a period of twelve months as opposed to seven months.

TABLE 2.17

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1993-1994	1994-1995	1995-1996	1996-1997	Preliminary results 1997-1998
Investments, loans and advances					
GOVERNMENT ENTERPRISES					
SHARES AND INVESTMENTS:					
Société générale de financement du Québec	—	—	—	—	- 90
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	—	—	37	—	—
Société québécoise d'exploration minière (SOQUEM)	39	—	—	—	—
Société québécoise d'initiatives pétrolières (SOQUIP)	—	—	25	186	—
Other	- 1	- 1	—	—	- 19
	38	- 1	62	186	- 109
CHANGE IN THE EQUITY VALUE OF INVESTMENTS ¹	- 739	- 1 177	- 359	- 731	- 210
LOANS AND ADVANCES:					
Innovatech	—	—	—	- 26	- 46
Sidbec	- 7	7	—	—	—
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	—	35	—	—	—
Other	—	—	—	- 32	6
	- 7	42	—	- 58	- 40
Total government enterprises	- 708	- 1 136	- 297	- 603	- 359
INDIVIDUALS, CORPORATIONS AND OTHERS	81	- 9	7	- 192	- 64
MUNICIPALITIES AND MUNICIPAL BODIES	4	3	3	3	3
Total investments, loans and advances	- 623	- 1 142	- 287	- 792	- 420

TABLE 2.17 (cont.)

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1993-1994	1994-1995	1995-1996	1996-1997	Preliminary results 1997-1998
Retirement plans					
CONTRIBUTIONS BY THE GOVERNMENT AS EMPLOYER					
<u>RREGOP</u>					
Current service					
ø Cost of constituted benefits ²	457	503	506	534	599
ø Amortization of actuarial gain (-) or loss	- 352	- 353	- 477	- 380	- 219
	105	150	29	154	380
Past service					
ø Amortization of unrecorded actuarial liabilities and cost of change to plan	85	90	93	139	141
<u>Other plans</u>					
Current service					
ø Cost of constituted benefits ²	175	169	188	169	142
ø Amortization of actuarial gain (-) or loss	- 1	- 2	- 2	- 4	—
	174	167	186	165	142
Past service					
ø Amortization of unrecorded actuarial liabilities and cost of change to plans	616	653	746	758	812
Total employer contributions	980	1 060	1 054	1 216	1 475
OTHER CONTRIBUTIONS					
Contributions by independent employers	24	22	23	22	26
Employee contributions	172	172	154	156	146
Total other contributions	196	194	177	178	172
Total contributions	1 176	1 254	1 231	1 394	1 647
BENEFITS AND OTHER PAYMENTS					
Benefits and refunds	- 1 036	- 1 173	- 1 240	- 1 343	- 1 549
Other outlays	- 41	- 117	- 111	- 163	- 488
Total benefits and other payments	- 1 077	- 1 290	- 1 351	- 1 506	- 2 037
Interest on retirement plans account charged to debt service ³	1 569	1 545	1 821	2 040	2 179
Total retirement plans	1 668	1 509	1 701	1 928	1 789

TABLE 2.17 (cont.)

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1993-1994	1994-1995	1995-1996	1996-1997	Preliminary results 1997-1998
Other accounts					
Cash and bills on hand and outstanding deposits	- 94	129	- 201	178	- 173
Outstanding cheques	169	- 97	192	84	- 222
Clearing accounts for collected taxes	21	- 22	- 16	40	20
Accounts receivable	- 165	- 173	- 774	121	6
Accrued interest on investments	6	- 3	2	- 8	—
Allowance for water purification ⁴	14	43	- 16	9	42
Advances from trust funds	59	20	- 113	244	- 101
Accounts payable and accrued expenses	- 182	98	441	- 482	315
Sick leave and annual leave	26	15	- 15	- 66	- 47
Accrued interest on borrowings	10	153	- 218	- 168	- 154
Deferred expenses	- 36	- 91	91	- 42	4
Unrealized gain (-) or loss on exchange ⁵	241	416	197	81	- 27
Allowance for losses on loan guarantees	- 17	81	21	- 47	57
Specific purpose accounts ⁶	—	2	- 2	1	—
Total other accounts	52	571	- 411	- 55	- 280
Total non-budgetary transactions	1 097	938	1 003	1 081	1 089

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

1 Net amount including the change in the allowance for loss on share investments.

2 Cost of pension benefits constituted during the fiscal year, calculated according to the accounting method that consists in distributing benefits in proportion to years of service.

3 Excluding revenue from the retirement plans sinking fund.

4 Inflow to this account consists of government contributions for the repayment of the long-term borrowings of the Société québécoise d'assainissement des eaux. Disbursements consist of the payments of the borrowings when they come to maturity.

5 Item presented in consideration of the amortization of the change in unrealized gain or loss on exchange attributed to servicing the direct debt of budgetary expenditure, but excluding the unamortized portion of the change, which has no effect on government financial transactions.

6 This item consists of amounts received under a contract or agreement with the Government of Canada or a third party, which intends that the sums be used for a specific purpose.

TABLE 2.18

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
(in millions of dollars)

	1993-1994	1994-1995	1995-1996	1996-1997	Preliminary results 1997-1998
Change in cash position	676	- 573	853	1 433	—
Change in direct debt					
New borrowings	6 742	8 656	5 227	7 049	9 059
Change in the debt resulting from currency swap transactions ¹	4	- 214	45	- 94	- 110
Repayment of borrowings	- 2 742	- 2 998	- 3 103	- 6 161	- 7 896
Total change in direct debt	4 004	5 444	2 169	794	1 053
Retirement plans sinking fund²	- 854	5	- 74	- 91	- 73
Total financing of transactions³	3 826	4 876	2 948	2 136	980

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 Represents the differential, in Canadian equivalent as at the preceding March 31, between currencies cashed and those paid for during the fiscal year.
- 2 This sinking fund receives amounts to be used to eventually cover retirement benefits payable by the government under the public sector retirement plans. The income from this fund is accumulated in it and is subtracted from the interest credited to the retirement plans account.
- 3 Excluding transactions carried out for the Financing fund.

TABLE 2.19

BORROWINGS FOR THE GOUVERNEMENT DU QUÉBEC IN 1997-1998

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
(in millions)		%			\$	%
393	—	8.50	May 28	2026-04-01	112.316	7.454
63 ⁴	—	5.25	June 3	2002-04-01	96.139	6.185
225 ⁴	—	8.50	June 5	2026-04-01	112.553	7.436
123	DM 150	variable	June 11	2007-06-11	99.185	variable
83	DM 105	variable	June 11	2007-06-11	99.40	variable
402	—	8.50	June 16	2026-04-01	114.843	7.262
350	—	6.50	July 11	2007-10-01	100.871	6.381
1 194	¥ 100 000	3.00	July 29	2009-09-29	99.70	3.03
91	PTA 10 000	5.50 *	August 6	2002-08-06	100.84	5.235
242	—	8.50	September 22	2026-04-01	121.168	6.808
98 ⁴	—	11.00	November 10	2009-04-01	139.681	6.111
99 ⁴	—	8.50	November 10	2026-04-01	124.199	6.601
69	¥ 6 000	2.29 *	November 12	2007-11-13	100.00	2.277
253	—	8.50	November 28	2026-04-01	126.276	6.465
208	—	6.50	November 28	2007-10-01	104.14	5.937
25 ⁴	—	6.50	December 12	2007-10-01	102.462	6.16
467	FFr 2 000	5.50 *	February 5	2010-02-05	100.565	5.36
39	DM 50	5.40 *	February 27	2008-02-27	100.00	5.329
50	—	4.50	February 27	2026-12-01	99.798	4.512
15	—	4.50	February 27	2026-12-01	99.606	4.524
16	DM 20	variable	March 3	2008-03-03	100.00	variable
75	LuxFr 2 000	5.25 *	March 13	2004-12-13	102.75	4.714
490	SFr 500	3.50 *	March 17	2008-09-17	103.00	3.136
209 ⁴	—	6.50	March 17	2007-10-01	104.382	5.893
129 ⁴	—	8.50	March 20	2026-04-01	128.732	6.303
38	DM 50	variable	March 25	2008-03-25	100.00	variable
1 309 ⁵	—	Varied	Varied	Varied	Varied	Varied
631 ⁶	—	Varied	Varied	Varied	Varied	Varied
277 ⁷	—	Varied	Varied	Varied	Varied	Varied
1 361 ⁸	Varied	Varied	Varied	Varied	Varied	Varied
35 ⁹	Varied	Varied	Varied	Varied	Varied	Varied
9 059¹⁰						

* Interest payable annually.

1 Currency swap transaction value or Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually except where marked with an asterisk.

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

4 Borrowings subscribed by the Caisse de dépôt et placement du Québec.

5 Savings products.

6 Medium-term notes on the Canadian market.

7 Increase in Treasury notes outstanding on the US market. Includes the effect of the variation in the exchange for replacement issues.

8 Medium-term notes on various European markets.

9 Interest capitalized on deep-premium or discount borrowings, including \$4.1 million related to borrowings in US dollars and \$-3.3 million related to borrowings in yen.

10 Excluding borrowings of \$2 024 million carried out for the financing fund.

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

TABLE 2.20

BORROWINGS FOR THE FINANCING FUND IN 1997-1998

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
(in millions)		%			\$	%
150	—	6.50	May 28	2007-10-01	97.036	6.904
226 ⁴	—	5.25	June 3	2002-04-01	96.139	6.185
200	—	6.50	September 22	2007-10-01	102.273	6.192
100 ⁴	—	5.25	November 18	2002-04-01	100.118	5.218
110 ⁴	—	7.50	November 28	2003-12-01	110.428	5.442
111 ⁴	—	7.75	December 12	2006-03-30	111.178	6.017
25 ⁴	—	6.50	December 12	2007-10-01	102.462	6.16
113 ⁵	Varied	Varied	Varied	Varied	Varied	Varied
930 ⁶	Varied	Varied	Varied	Varied	Varied	Varied
52 ⁷	Varied	Varied	Varied	Varied	Varied	Varied
7 ⁸	Varied	Varied	Varied	Varied	Varied	Varied

2 024

1 Currency swap transaction value or Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually.

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

4 Borrowings subscribed by the Caisse de dépôt et placement du Québec.

5 Medium-term notes on various European markets.

6 Increase in outstanding Treasury bills.

7 Increase in Treasury notes outstanding on the US market. Includes the effect of the variation in the exchange for replacement issues.

8 Interest capitalized on deep-premium or discount borrowings.

TABLE 2.21

BORROWINGS BY HYDRO-QUÉBEC IN 1997

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
(in millions)		%			\$	%
400 ⁴	—	5.75/7.00	January 24	2002-02-15	99.22	5.93
355	FFr 1 500	5.875 *	March 13	2008-03-13	101.425	5.621
350	—	5.50	September 12	2003-05-15	98.222	5.871
111 ⁵	—	Varied	Varied	Varied	Varied	Varied
124 ⁶	US\$90	Varied	Varied	Varied	Varied	Varied
514 ⁷	—	Varied	Varied	Varied	Varied	Varied
30 ⁸	Varied	Varied	Varied	Varied	Varied	Varied
1 884						

* Interest payable annually.

1 Currency swap transaction value or Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except where marked with an asterisk.

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

4 Public borrowing exchangeable in 2002, if the holder wishes, at 7.00% maturing on February 15, 2007.

5 Medium-term notes on the Canadian market.

6 Medium-term notes on the US market.

7 Medium-term notes on various European market.

8 Interest capitalized on deep-premium or discount borrowings.

Note: Hydro-Québec has credit agreements with various banks and financial institutions for a total of US\$1 800 million. None of the credit agreements was being drawn upon at December 31, 1997.

Section 2

Appendix

Impact of January 1998 Ice Storm on 1997-1998 Financial Framework

During the week of January 4, 1998, a devastating ice storm hit the southwestern part of Québec. Hydro-Québec's power transmission and supply lines were badly damaged and this caused general blackouts in many of Québec's cities and towns.

The estimated costs and losses in revenue stemming from the ice storm which will be assumed by the government have not changed in terms of the Quarterly Presentation of Financial Transactions as at December 31, 1997, published on February 13, 1998. The Additional Information to the 1998-1999 Estimates provides more details on the impact of this disaster on departmental expenditures.

According to the latest estimates, the overall cost of the ice storm for the government and Hydro-Québec stands at \$1 971 million, \$1 373 million of which is for 1997-1998:

- the Québec government departments should incur an estimated total of \$964 million in expenditures, including \$891 million in 1997-1998; these are basically costs related to the implementation of emergency measures and government assistance for the disaster victims;
- total costs for Hydro-Québec are estimated at \$815 million:
 - \$90 million in revenue loss;
 - \$200 million for expenses incurred in order to implement emergency measures; these expenses will be repaid to Hydro-Québec by the government;
 - \$525 million in investments to ensure rapid restoration of power to customers and to repair and rebuild equipment and facilities;
- loss in own-source revenue for the government, excluding government corporations, is estimated at \$175 million;
- loss in revenue for Loto-Québec and the Société des alcools du Québec is estimated at \$17 million;

IMPACT OF ICE STORM¹

(in millions of dollars)

	Costs and losses linked to storm	Impact on 1997-1998 financial framework
Departmental expenditures	– 964	– 891 ²
Hydro-Québec		
loss in revenue	– 90	– 90
emergency measure expenditures	– 200	– 200 ³
investments for repair and rebuilding of power transmission and supply networks	– 525	— ⁴
	– 815	– 290
Loss in own-source revenue (excluding government corporations)	– 175	– 175
Loto-Québec and Société des alcools du Québec		
revenue losses	– 17	– 17
Total cost	– 1 971	– 1 373
Minus:		
share of expenditures assumed by federal government		
• departmental expenditures	837	772
• Hydro-Québec's expenditures	0	0
Impact on Québec government financial framework	– 1 134	– 601

Note: A negative entry indicates a decrease in revenue and a positive entry, an increase in expenditures.

1 Preliminary data.

2 A portion of departmental expenditures, \$73 million, will be incurred in 1998-1999.

3 The government will assume Hydro-Québec's expenditures linked to emergency measures, so an amount of \$200 million will be recorded under its program spending for 1997-1998.

4 The government will assume the part of Hydro-Québec's capital expenditures corresponding to the net cost of returning the power grid to its state prior to the storm: \$235 million out of investments of \$525 million. Therefore, as of 1998-1999, the government will be paying a contribution corresponding to the depreciation charge and financing costs that Hydro-Québec has to take on for these expenditures. No amounts have been accounted for in this connection in 1997-1998.

The costs related to the ice storm are admissible for federal government compensation. For the purposes of this document, the hypothesis adopted is that only those expenditures incurred by government departments would be eligible, with the procedure being similar to that used for the federal disaster assistance program.

Federal government participation in connection with the costs of the disaster is estimated at \$837 million, which include \$772 million in 1997-1998. Therefore, the impact on the government's financial framework is \$601 million in 1997-1998.

Section 3

The Government's Budgetary and Financial Stance

Introduction	3
The Budget Plan 1998-1999: The last step before a zero deficit	3
The government is achieving its deficit-reduction targets.....	5
Benefits of deficit reduction already apparent.....	6
Government revenue	10
<input type="checkbox"/> Budgetary revenue	10
<input type="checkbox"/> Own-source revenue	11
<input type="checkbox"/> Federal transfers	16
Government expenditure.....	18
Conclusion.....	20
Appendices	
3.1 Change in forecasts in relation to the 1997-1998 Budget Speech	21
3.2 Additional information on own-source revenue in 1998-1999	23
3.3 Update on cuts in federal transfers to Québec	27
3.4 Additional information on the Québec government's financial position	31

The 1998-1999 Budget Speech announces a major reform of government accounting. The paper entitled "Reform of Government Accounting" describes the impact of the reform on revenue, expenditure and the deficit. The results presented in this section do not reflect the impact of the reform.

Introduction

This section of the Budget Plan 1998-1999 indicates the Québec government's budgetary and financial stance. It presents revenue, expenditure and budget deficit forecasts in light of the economic assumptions adopted and the fiscal and budgetary policies announced in the 1998-1999 Budget Speech. This section also presents various indicators describing the government's current financial position.

The Budget Plan 1998-1999: The last step before a zero deficit

In the 1996-1997 Budget Speech, the government committed itself to eliminating the budget deficit in 1999-2000. In December 1996, the government had adopted by the National Assembly the *Act respecting the elimination of the deficit and a balanced budget*. The legislation sets a ceiling on the deficit for the 1996-1997 to 1999-2000 fiscal years and calls for the maintenance of balanced budgets in subsequent years.

Compliance with requirements of the Act respecting the elimination of the deficit and a balanced budget

To date, the government has complied with the requirements of the Act. The deficit for the 1996-1997 fiscal year was \$3 217 million, \$58 million less than the ceiling of \$3 275 million set by the *Act respecting the elimination of the deficit and a balanced budget*. Despite the impact of the January 1998 ice storm on government revenue and expenditure, the 1997-1998 deficit should stand at \$2 069 million, \$131 million less than the \$2.2-billion target stipulated in the last Budget.

Deficit reduced to \$1.1 billion in 1998-1999

As for the 1998-1999 fiscal year, the government will respect the \$1.2-billion deficit cap stipulated by the Act; in fact, the deficit should be reduced to \$1.1 billion.

Moreover, the government will fulfill its commitment to eliminate the deficit in 1999-2000.

TABLE 3.1

SUMMARY OF FINANCIAL OPERATIONS^{1, 2}

(in millions of dollars)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^P	1998-99 ^P	99-2000 ^P
Budgetary operations								
Own-source revenue ³	28 077	28 723	29 370	30 557	31 087	33 084	34 618	35 941
Federal transfers	7 782	7 780	7 510	8 142	6 719	5 666	6 097	6 051
Total revenue	35 859	36 503	36 880	38 699	37 806	38 750	40 715	41 992
Program spending ³	- 36 133	- 36 110	- 36 820	- 36 612	- 35 163	- 34 961	- 35 444	- 35 755
Debt service	- 4 756	- 5 316	- 5 874	- 6 038	- 5 860	- 5 858	- 6 398	- 6 237
Total expenditure	- 40 889	- 41 426	- 42 694	- 42 650	- 41 023	- 40 819	- 41 842	- 41 992
Deficit	- 5 030	- 4 923	- 5 814	- 3 951	- 3 217	- 2 069	- 1 127	0
Non-budgetary operations	1 117	1 097	938	1 003	1 081	1 089	927	750
Net financial requirements	- 3 913	- 3 826	- 4 876	- 2 948	- 2 136	- 980	- 200	750

P: Preliminary results for 1997-1998 and forecasts for subsequent years

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

2 Prior to the reform of government accounting.

3 Data adjusted to take into consideration the impact on a full year of the family policy implemented on September 1, 1997.

*Net financial surpluses
starting in 1999-2000*

In light of the striking reduction in the deficit since 1994-1995, the government's net financial requirements will be virtually nil in 1998-1999. Starting in 1999-2000, the government will record net financial surpluses and will no longer borrow on the financial markets except to refinance maturing loans.

Compliance with deficit caps set by law both before and after the reform of government accounting

The reform of government accounting announced in the 1998-1999 Budget Speech will increase the deficit by \$125 million in 1997-1998, \$73 million in 1998-1999 and \$94 million in 1999-2000, in relation to the figures calculated prior to the reform. Despite this impact, once the reform is implemented, the government will meet the deficit caps set by law for the 1997-1998 and 1998-1999 fiscal years. In fiscal 1999-2000, the government will identify measures worth \$94 million to fully offset the impact of the reform and thus eliminate the deficit, as it has undertaken to do.

TABLE 3.2

**IMPACT OF THE REFORM OF GOVERNMENT ACCOUNTING
ON THE DEFICIT**
(in millions of dollars)

	1997-1998 ^P	1998-1999 ^P	1999-2000 ^P
Deficit prior to the reform of government accounting	- 2 069	- 1 127	0
Impact of the reform of government accounting	- 125	- 73	- 94
Measures to be identified to meet the zero deficit target in 1999-2000, following the reform	—	—	94
Deficit after the reform of government accounting	- 2 194	- 1 200	0

P: Preliminary results for 1997-1998 and forecasts for subsequent years

The government is achieving its deficit-reduction targets

*80% deficit reduction
between 1994-1995
and 1998-1999*

Since the 1994-1995 fiscal year, the government has significantly reduced its deficit, which fell, on a comparable basis, from a peak of \$5 814 million in 1994-1995 to \$2 069 million in 1997-1998. The deficit should be \$1 127 million in 1998-1999, an 80% reduction compared with 1994-1995.

Moreover, the government has achieved the deficit targets that it set in the last three Budgets.

TABLE 3.3

ANTICIPATED AND ACTUAL BUDGET DEFICIT¹
(in millions of dollars)

	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998 ^P
Deficit anticipated in the Budget Speech in each year	- 3 790	- 4 145	- 4 425	- 3 975	- 3 275 ²	- 2 200 ²
Actual deficit	- 4 932 ³	- 4 894 ³	- 5 710 ³	- 3 966 ³	- 3 217	- 2 069
Discrepancy	- 1 142	- 749	- 1 285	9	58	131
Adjusted deficit ⁴	- 5 030	- 4 923	- 5 814	- 3 951	- 3 217	- 2 069

P: Preliminary results

1 Prior to the reform of government accounting.

2 Deficit ceiling stipulated in the *Act respecting the elimination of the deficit and a balance budget* adopted by the Québec National Assembly in December 1996.

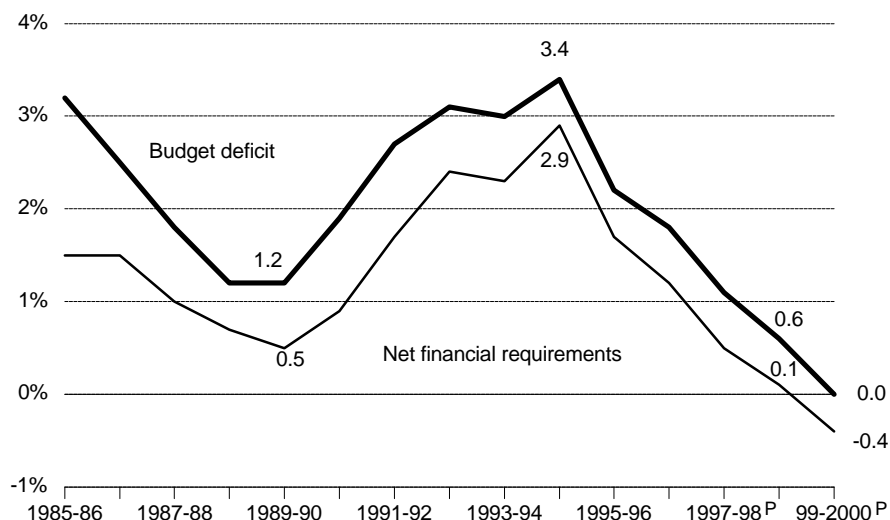
3 Data drawn from the public accounts reflecting the accounting policies in effect each year.

4 Based on the budgetary and financial structure in effect in 1998-1999.

In light of the striking drop in the deficit, the deficit/GDP ratio fell from 3.4% in 1994-1995 to 1.1% in 1997-1998. This year, the ratio should stand at 0.6%.

GRAPH 3.1

BUDGET DEFICIT AND NET FINANCIAL REQUIREMENTS¹
(as a percentage of GDP)



P: Preliminary results for 1997-1998 and forecasts for subsequent years

¹ Prior to the reform of government accounting.

Benefits of deficit reduction already apparent

The success achieved until now in reducing the deficit has already produced considerable benefits.

Net financial requirements will be virtually eliminated in 1998-1999

The government's net financial requirements have of course fallen as the deficit dwindles. In 1997-1998, they stood at \$980 million, less than half the 1996-1997 level.

In fiscal 1998-1999, net financial requirements should total only \$200 million. Once the deficit is eliminated in 1999-2000, the government should achieve a net financial surplus of \$750 million.

This means that in 1999-2000, the government will no longer have to engage in new borrowing on financial markets in order to finance its operations, except to refinance maturing loans.

A deficit lower than capital expenditure

For the first time in 20 years, the deficit will be lower than capital expenditure

In 1998-1999, for the first time in 20 years, the government's deficit will fall below its capital expenditure. This means that it will stop borrowing to finance current expenditure.

TABLE 3.4

CURRENT ACCOUNT BALANCE^{1, 2}

(in millions of dollars)

1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^P	1998-99 ^P	99-2000 ^P
- 3 397	- 3 400	- 4 111	- 2 195	- 2 003	- 797	207	1 475

P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 The current account balance is the difference between the budgetary deficit and capital expenditure.

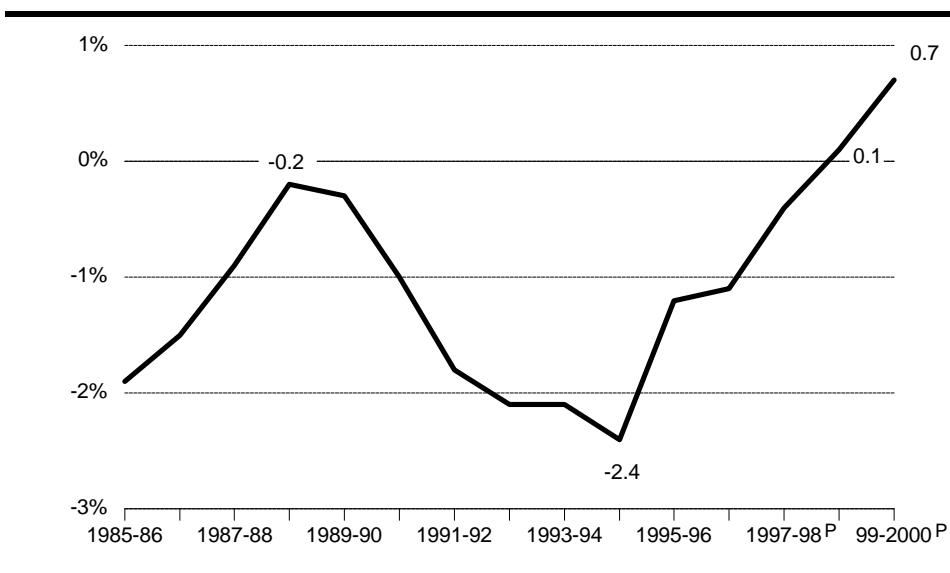
2 Prior to the reform of government accounting.

The current account surplus should reach 0.1% of GDP in 1998-1999 and 0.7% of GDP in 1999-2000 once the deficit is eliminated.

GRAPH 3.2

CURRENT ACCOUNT BALANCE^{1, 2}

(as a percentage of GDP)



P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 The current account balance is the difference between the budgetary deficit and capital expenditure.

2 Prior to the reform of government accounting.

Starting now, government borrowing will be used solely to finance capital expenditure that will benefit more than one generation. This is a considerable improvement since, until now, a portion of the cost of goods and services benefiting the current generation was transferred to future generations.

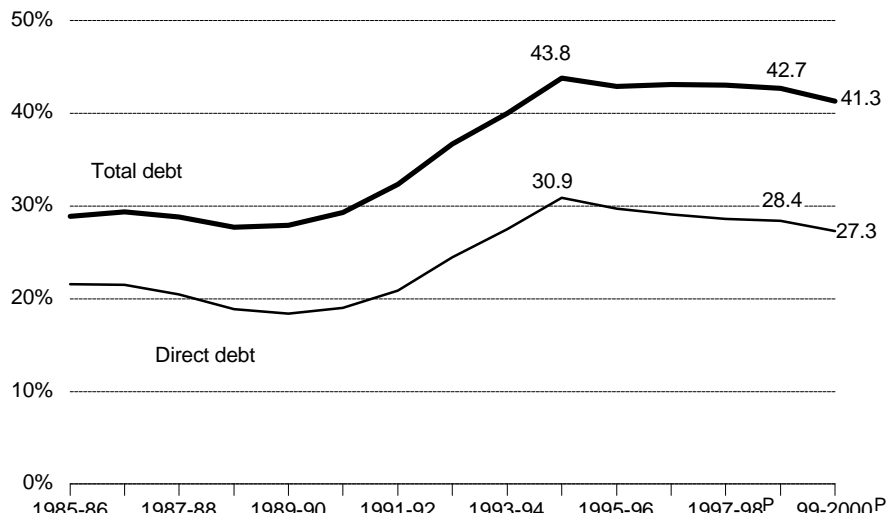
The government's indebtedness rate continues to decline

The rate of government indebtedness continues to decline

The drop in the government's indebtedness rate is another key benefit resulting from the government's efforts to eliminate the deficit.

GRAPH 3.3

GOVERNMENT DEBT AT THE END OF THE FISCAL YEAR^{1, 2} (as a percentage of GDP)



P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 Adjusted data excluding the impact of pre-recording expenditures from 1987-1988 to 1989-1990.

2 Prior to the reform of government accounting.

After reaching a peak of 30.9% of GDP in 1994-1995, the direct debt to GDP ratio should fall to 28.4% at the end of the 1998-1999 fiscal year. Next year, the ratio will drop to 27.3% once the deficit is eliminated.

As for the total debt, which includes direct debt and net commitments accounted for in respect of public and parapublic sector employee retirement plans, its importance in relation to GDP should also decline. It should represent 42.7% of GDP in 1998-1999 and 41.3% in 1999-2000.

The portion of government revenue allocated to interest payments on the debt is gradually decreasing

The reduction in the rate of the government's indebtedness is lowering the portion of revenue that must be allocated to interest payments on the debt. As a result, for the same level of revenue, more resources are available to finance public services.

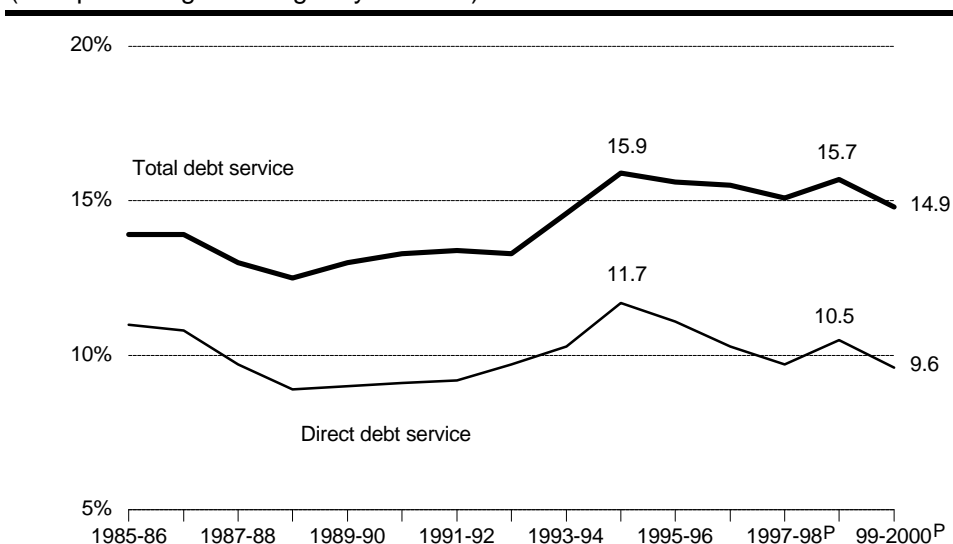
Direct debt service, i.e. excluding interest on the retirement plans account, should represent only 10.5% of the government's budgetary revenue in 1998-1999, 1.2 percentage points below the peak reached in 1994-1995. As for total debt service, it should account for 15.7% of budgetary revenue.

The increase in the portion of revenue earmarked for the payment of interest on the debt in 1998-1999 compared with 1997-1998 is attributable mainly to higher interest rates.

GRAPH 3.4

DEBT SERVICE^{1, 2}

(as a percentage of budgetary revenue)



P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 Adjusted data excluding the impact of pre-recording expenditures from 1987-1988 to 1989-1990.

2 Prior to the reform of government accounting.

Government revenue

Budgetary revenue

The government's budgetary revenue will total \$40 715 million in 1998-1999, \$34 618 million in the form of own-source revenue and \$6 097 million in the form of federal transfers. In the wake of a 2.5% increase in budgetary revenue in 1997-1998, such revenue is expected to increase 5.1% in 1998-1999 and 3.1% in 1999-2000.

Budgetary revenue includes, starting in 1998-1999, additional federal transfers received under the Canada-Québec agreement on the labour market. Pursuant to this agreement, which will come into force on April 1, 1998, Québec will from now on assume certain responsibilities related to the active employment measures previously assumed by the federal government. This transfer of responsibilities is accompanied by an equivalent transfer of funds in the form of higher federal transfers, such that the agreement has no impact on the Québec deficit.

Excluding the impact of the Canada-Québec agreement on the labour market, the government's budgetary revenue should rise 3.7% in 1998-1999.

TABLE 3.5

BUDGETARY REVENUE¹ (in millions of dollars)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^P	1998-99 ^P	99-2000 ^P
Own-source revenue	28 077	28 723	29 370	30 557	31 087	33 084	34 618	35 941
% change	- 0.2	2.3	2.3	4.0	1.7	6.4	4.6	3.8
Federal transfers before the impact of the Canada-Québec agreement on the labour market	7 782	7 780	7 510	8 142	6 719	5 666	5 578	5 525
% change	15.0	0.0	- 3.5	8.4	- 17.5	- 15.7	- 1.6	- 1.0
Impact of the Canada-Québec agreement on the labour market	—	—	—	—	—	—	519	526
Federal transfers	7 782	7 780	7 510	8 142	6 719	5 666	6 097	6 051
% change	15.0	0.0	- 3.5	8.4	- 17.5	- 15.7	7.6	- 0.8
Budgetary revenue	35 859	36 503	36 880	38 699	37 806	38 750	40 715	41 992
% change	2.8	1.8	1.0	4.9	- 2.3	2.5	5.1	3.1
Growth rate of nominal GDP as a %*	1.1	2.3	3.7	4.9	1.6	4.0	3.4	4.1
Inflation rate in Canada as a %*	1.5	1.8	0.2	2.2	1.6	1.6	1.2	1.7

P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 Prior to the reform of government accounting.

* For the calendar year ending three months before the fiscal year.

Own-source revenue

Own-source revenue rose 6.4% in 1997-1998 in relation to the preceding year. The most striking increases were recorded with respect to personal income tax, consumption taxes and other government revenue.

The upturn in revenue is attributable by and large to accelerated growth in the main tax bases in 1997, as reflected in growth in nominal gross domestic product, which reached 4%.

TABLE 3.6

OWN-SOURCE REVENUE, BY SOURCE¹

(in millions of dollars)

	1997-1998 ^P	1998-1999 ^P	1999-2000 ^P
Personal income tax	14 216	14 588	15 245
% change	8.2	2.6	4.5
Health Services Fund	3 886	4 010	4 027
% change	3.1	3.2	0.4
Corporate taxes	3 092	3 046	3 276
% change	5.5	- 1.5	7.6
Consumption taxes	7 448	8 165	8 352
% change	7.1	9.6	2.3
Other revenue	2 444	2 393	2 414
% change	15.9	- 2.1	0.9
Subtotal, excluding government enterprises	31 086	32 202	33 314
% change	7.6	3.6	3.5
Government enterprises	1 998	2 416	2 627
% change	-8.6	20.9	8.7
Own-source revenue	33 084	34 618	35 941
% change	6.4	4.6	3.8
Growth rate of nominal GDP as a %*	4.0	3.4	4.1

P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 Prior to the reform of government accounting.

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

Growth in revenue outstripped that in the economy because of additional revenue generated through measures to eliminate tax evasion and unreported work, notably personal income tax, and growth in non-fiscal revenue¹ largely attributable to higher stumpage dues paid by the forest industry to harvest timber on public lands² and an increase in vehicle registration fees tied to additional investments on the road network.

Over the next two years, growth in revenue is expected to slow. In 1998-1999, such growth should stand at 4.6%. The more pronounced lag in personal and corporate tax revenue will be partially offset by more rapid growth in consumption tax revenue and revenue generated by government enterprises. In 1999-2000, revenue is expected to rise 3.8%.

Changes in revenue by source:

- Personal income tax, the main source of government revenue,³ should increase 2.6% in 1998-1999, to nearly \$14.6 billion. During the fiscal year, growth in revenue will be attenuated by the tax reduction in effect since January 1, 1998. This tax reduction will have an effect throughout the fiscal year, reducing revenue from this source by nearly \$700 million, whereas in 1997-1998 it had an effect only during one quarter. In 1999-2000, revenue will climb 4.5%, an increase compatible with growth in revenue subject to tax.
- Contributions to the Health Services Fund should increase by 3.2% in 1998-1999, at a pace slightly higher than salaries and wages because of the more pronounced increase in revenue not associated with employment income, such as net business income and investment income, which has been subject to a 1% contribution since 1993. In 1999-2000, contributions to the HSF are expected to rise by only 0.4%, at which time the increase resulting from the rise in salaries and wages will be almost entirely offset by the reduction in the contribution rate applicable to small and medium-sized enterprises, as of July 1, 1999, under the corporate taxation reform. This reduction will lead to a \$106-million downturn in revenue from this source.

1 The Québec government's own-source revenue falls into three categories:

- tax revenue, including personal income tax, corporate taxes and consumption taxes;
- non-tax revenue, including fees and permits (vehicle registration fees, hunting and fishing permits, and so on) and miscellaneous revenue (interest, recoveries, sales of goods and services, fines, and so on);
- revenue generated by government enterprises.

2 The stumpage dues for timber on public lands are adjusted according to the market value of timber on private lands.

3 Appendix 3.2 presents the breakdown of the main sources of the government's own-source revenue since 1970-1971.

- The 1.5% downturn anticipated in corporate taxes next year is attributable by and large to the 1% decrease in corporate profits expected in 1998. The increase in revenue should stand at 7.6% in 1999-2000, in the wake of the anticipated turnaround in growth in corporate profits and the increase in the taxation rate of the profits of small and medium-sized enterprises, which will generate, with the other measures included in the reform, an additional \$126 million in revenue.
- Consumption tax revenue will climb 9.6% in 1998-1999. This marked increase is due essentially to the Québec sales tax rate hike from 6.5% to 7.5%, in effect since January 1, 1998, and the accounting in respect of revenue from the tobacco tax of the net proceeds from the sale of the Olympic Village,¹ which amount to \$62 million. Subsequently, consumption tax revenue will keep pace with consumption.
- The 20.9% anticipated increase in revenue generated by government enterprises in 1998-1999 is attributable primarily to the boost in Hydro-Québec's consolidated earnings which, after dropping 12.4% in 1997-1998 in the wake of the ice storm and unseasonably mild temperatures, will grow by \$413 million in 1998-1999.
- Revenue from other sources will remain fairly stable over the next two years.

¹ The *Tobacco Tax Act* stipulates that a portion of tobacco taxes must be paid to the Fonds spécial olympique (FSO). The Act was amended in 1995 to allow the government to reduce the amount to be paid to the FSO up to the amount of the net proceeds from the sale of a real estate asset belonging to the Régie des installations olympiques.

Link between growth in own-source revenue and economic growth

Broadly speaking, growth in revenue is expected to match nominal economic growth. Once account has been taken of the financial impact of fiscal measures and measures intended to eliminate tax evasion and unreported work, the average growth rate for own-source revenue over the next two years will be 3.9%, compared with a 3.8% increase in nominal gross domestic product.

TABLE 3.7

OWN-SOURCE REVENUE AND GDP

(in millions of dollars)

	1997-1998 ^P	1998-1999 ^P	1999-2000 ^P
Revenue, excluding government enterprises	31 086	32 202	33 314
% change		3.6	3.5
Less:			
Impact of measures in this Budget ¹	—	– 25	– 129
Impact of measures in the 1997-1998 Budget ²	– 5	– 97	– 355
Measures to maintain a sound tax system ³	1 001	1 150	1 300
Revenue before measures	30 090	31 174	32 498
% change		3.6	4.2
Gross domestic product	188 382	194 832	202 793
% change		3.4	4.1
Elasticity⁴		1.05	1.04

P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 Source: Table entitled "Financial Impact of Fiscal and Budgetary Measures", Summary of the Budget Plan 1998-1999.

2 Excluding measures to collect all revenue owed to the government and the postponement of the refund of the QST to large companies.

Source: 1997-1998 Budget Speech, Appendix A, pages 240 and 241. Includes:

– Tax reduction under the tax reform	– 178	– 674	– 1 005
– Increase from 6.5% to 7.5% in the sales tax rate	169	675	675
– Measures to foster investment, employment and economic development	– 119	– 235	– 212
– Other measures	123	137	187
Total	-5	-97	-355

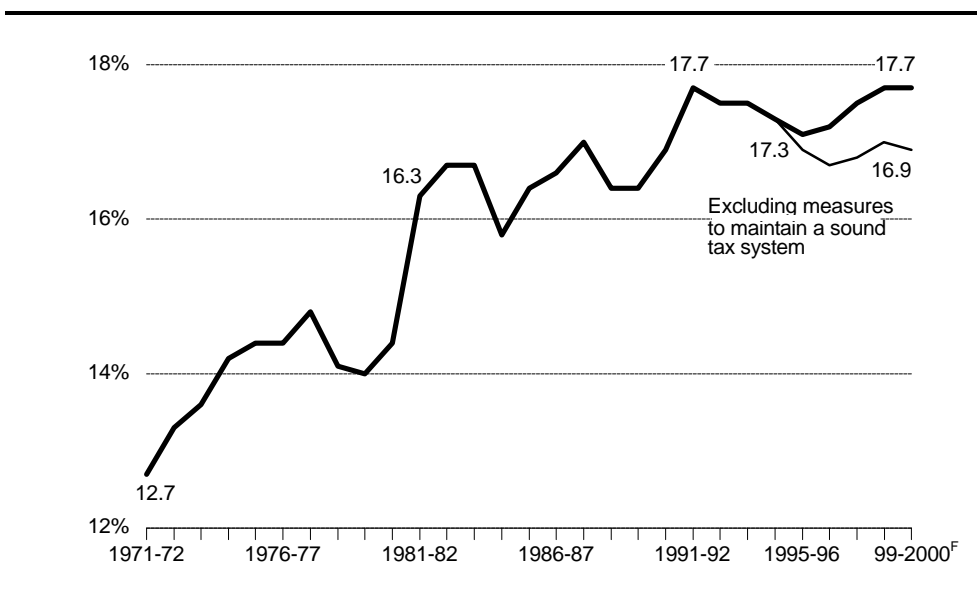
3 Source: 1998-1999 Budget Speech, paper entitled "Maintaining a Sound Tax System". Excluding \$316 million for measures that affect the revenue of government enterprises (Loto-Québec, Société des alcools du Québec).

4 Elasticity measures the link between growth in revenue before various measures and growth in gross domestic product. An elasticity of 1.05 means that a 1% increase in gross domestic product will lead to a 1.05% increase in own-source revenue.

In this respect, the importance of own-source revenue in relation to gross domestic product will average 17.7% over the next two years. When the impact of government measures to eliminate tax evasion and unreported work, which do not represent an increase in the tax burden, is excluded, taxes as a proportion of gross domestic product fall to 16.9%, the same level as in recent years.

GRAPH 3.5

OWN-SOURCE REVENUE¹
(as a percentage of GDP)



F: Forecast

1 Prior to the reform of government accounting.

Federal transfers

After declining 15.7% in 1997-1998, federal cash transfers should increase 7.6% in 1998-1999. Subsequently, transfer revenue will once again dwindle. On an accrual basis, i.e. by charging the amounts received to the year to which they apply, federal transfers will increase 3.2% in 1998-1999, then decrease 1.9% in 1999-2000.

The significant reduction in federal transfers in 1997-1998 mainly reflects the impact of federal cutbacks, notably in respect of the Canada Health and Social Transfer (CHST). All told, the federal cutbacks announced since 1994-1995 in the financing of health, post-secondary education and income security programs resulted in a shortfall of over \$1.4 billion for Québec in 1997-1998. The reduction in federal transfers is also due, to a lesser extent, to growth in tax transfers with respect to the CHST,¹ which reduce cash payments concomitantly.

TABLE 3.8

FEDERAL TRANSFER REVENUE (in millions of dollars)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^P	1998-99 ^P	99-2000 ^P
Cash basis – excluding the Canada-Québec agreement on the labour market	7 782	7 780	7 510	8 142	6 719	5 666	5 578	5 525
% change	15.0	0.0	- 3.5	8.4	- 17.5	- 15.7	- 1.6	- 1.0
Adjustment arising from the Canada-Québec agreement on the labour market	—	—	—	—	—	—	519	526
Cash basis	7 782	7 780	7 510	8 142	6 719	5 666	6 097	6 051
% change	15.0	0.0	- 3.5	8.4	- 17.5	- 15.7	7.6	- 0.8
Adjustment to attribute amounts received to the appropriate year	- 142	41	415	- 199	85	211	- 31	- 103
Accrual basis	7 640	7 821	7 925	7 943	6 804	5 877	6 065	5 948
% change	9.4	2.4	1.3	0.2	- 14.3	-13.6	3.2	- 1.9

P: Preliminary results for 1997-1998 and forecasts for subsequent years

¹ Tax transfers correspond to personal and corporate income tax points that the federal government ceased collecting in the past, leaving the tax room to the provinces. The federal government subtracts the value of tax transfers from the total entitlements under the CHST in order to calculate the cash transfers it pays to the provinces under the program. When the value of tax transfers increases, cash transfers under the CHST decrease.

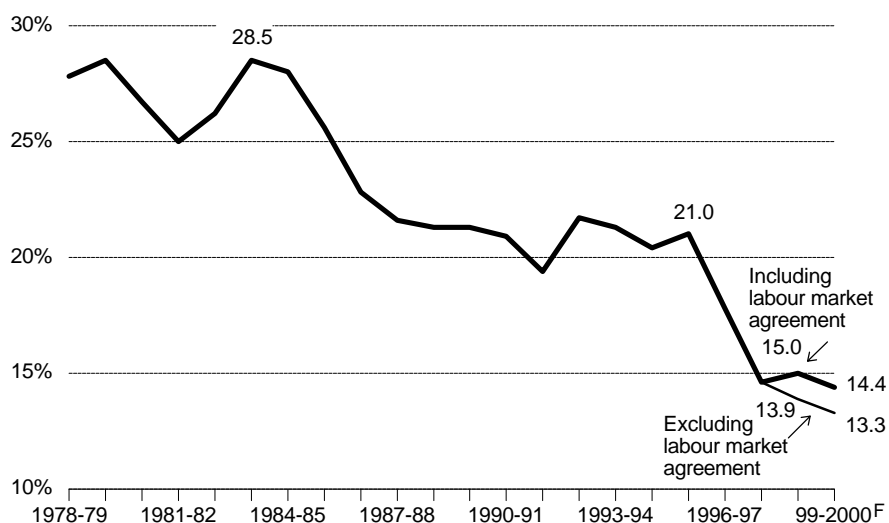
The increase in federal transfer revenue in 1998-1999 reflects the additional revenue arising from the Canada-Québec agreement on the labour market. This agreement will result in a \$519-million increase in federal transfer revenue in 1998-1999 and a \$526-million increase subsequently. However, these increases in revenue have no impact on the Québec government's financial framework since they are accompanied by a transfer of responsibility in respect of active employment measures and, consequently, an attendant increase in spending.

Despite the increase in revenue arising from the Canada-Québec agreement on the labour market, federal cash transfers will steadily decline in the medium run, to just under \$6.1 billion in 1999-2000, nearly \$2.1 billion less than in 1995-1996.

In light of the slowdown in the growth of such transfers during the 1980s and a downturn starting in 1996-1997, federal cash transfers, which accounted for 28.5% of overall Québec budgetary revenue in 1983-1984, will account for only 14.4% in 1999-2000.

GRAPH 3.6

FEDERAL CASH TRANSFERS TO QUÉBEC (as a percentage of budgetary revenue)



F: Forecast

Government expenditure

Last year's Budget called for a freeze in program spending at \$34 060 million for 1998-1999 and 1999-2000, before the adjustment arising from the implementation of the family policy.

Since then, given priority needs in the education and health and social services sectors, the government has decided to lighten the budgetary demands made on these two sectors, starting in 1998-1999. Consequently, it has been necessary to raise the spending program objective by \$202 million.

The family policy came into force on September 1, 1997. Certain family assistance measures, until then accounted for as a reduction in government revenue, are now integrated into the new family allowance and accounted for in spending, with no impact on the deficit. The level of program spending for 1997-1998 and 1998-1999 has therefore been raised by an amount equivalent to the additional revenue accounted for, thus leading to a \$626-million increase in program spending in 1998-1999 and a \$703-million increase in 1999-2000.

Program spending will increase 0.7% in 1998-1999

The measures announced in this Budget require the raising of the spending program objective once again. While the appropriations needed to finance these measures in 1998-1999 will come from the Contingency Fund, the level of spending will be raised \$234 million in 1999-2000 to cover their financing.

These adjustments bring the growth rate in program spending to 0.7% in 1998-1999 and to 0.9% in 1999-2000.

The January 1998 ice storm engendered additional expenditure for the government. A final increase in the spending objective stems from the coming into force on April 1, 1998 of the Canada-Québec agreement on the labour market. However, the impact of this agreement on spending is offset by an equivalent increase in government revenue, with the result that the impact on the deficit is nil.

Overall, program spending should stand at \$35 444 million in 1998-1999 and \$35 755 million in 1999-2000.

Debt service should stand at \$6 398 million in 1998-1999 and \$6 237 million in 1999-2000. The anticipated increase in 1998-1999 in relation to 1997-1998 is attributable mainly to higher interest rates.

Budgetary expenditure will therefore total \$41 842 million in 1998-1999 and \$41 992 million in 1999-2000.

TABLE 3.9

BUDGETARY EXPENDITURE¹

(in millions of dollars)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^P	1998-99 ^P	99-2000 ^P
Program spending presented in the 1997-1998 Budget Speech	- 35 582	- 35 552	- 36 266	- 36 060	- 34 616	- 34 060	- 34 060	- 34 060
% change	4.6	- 0.1	2.0	- 0.6	- 4.0	- 1.6	0.0	0.0
Adjustments:								
Raising of objective in order to lighten the budgetary demands on the health and social services and education sectors							- 202	- 202
Family policy	- 551	- 558	- 554	- 552	- 547	- 582 ²	- 626	- 703
1998-1999 Budget measures							— ³	- 234
Sub-total	- 36 133	- 36 110	- 36 820	- 36 612	- 35 163	- 34 642	- 34 888	- 35 199
% change	4.6	- 0.1	2.0	- 0.6	- 4.0	- 1.5	0.7	0.9
January 1998 ice storm						- 319	- 37	- 30
Canada-Québec agreement on the labour market							- 519	- 526
Program spending after adjustments	- 36 133	- 36 110	- 36 820	- 36 612	- 35 163	- 34 961	- 35 444	- 35 755
% change	4.6	- 0.1	2.0	- 0.6	- 4.0	- 0.6	1.4	0.9
Total debt service	- 4 756	- 5 316	- 5 874	- 6 038	- 5 860	- 5 858	- 6 398	- 6 237
% change	1.9	11.8	10.5	2.8	- 2.9	0.0	9.2	- 2.5
Budgetary expenditure	- 40 889	- 41 426	- 42 694	- 42 650	- 41 023	- 40 819	- 41 842	- 41 992
% change	4.3	1.3	3.1	- 0.1	- 3.8	- 0.5	2.5	0.4
Growth rate of nominal GDP as a %*	1.1	2.3	3.7	4.9	1.6	4.0	3.4	4.1
Inflation rate in Canada as a %*	1.5	1.8	0.2	2.2	1.6	1.6	1.2	1.7

P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 Prior to the reform of government accounting.

2 The \$268-million discrepancy in relation to the amount mentioned in the 1997-1998 Budget reflects the impact of the family policy over a period of twelve months rather than seven months.

3 The additional amounts required for the Budget measures affecting expenditure in 1998-1999 will come from the Contingency Fund.

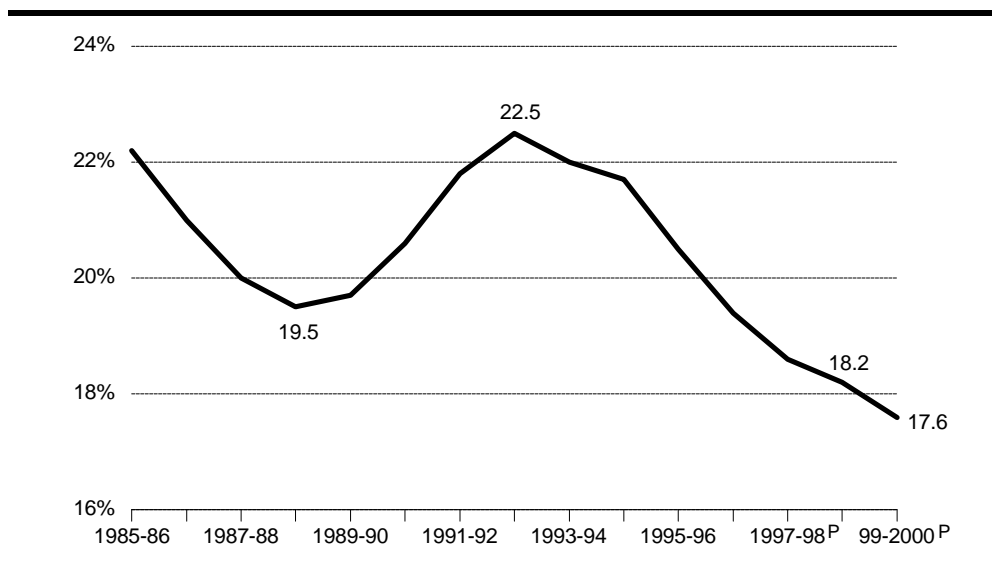
* For the calendar year ending three months before the end of the fiscal year.

The difficult but necessary decisions that the government has had to make in recent years to bring spending into line with Quebecers' ability to pay mean that this year program spending will be 5.1% lower than in 1994-1995.¹ This figure is striking, given that inflation rose 6.6% during that period.

The government's program spending will be equivalent to 18.2% of GDP in 1998-1999, its lowest level since 1972-1973. In 1999-2000, the spending program/GDP ratio will fall to 17.6%.

GRAPH 3.7

PROGRAM SPENDING¹
(as a percentage of GDP)



P: Preliminary results for 1997-1998 and forecasts for subsequent years

1 Adjusted data excluding the impact of pre-recording expenditures from 1987-1988 to 1989-1990.

Conclusion

The 1998-1999 Budget Plan reaffirms the Québec government's determination to eliminate the deficit next year. The attainment of this objective is inescapable. The elimination of the deficit will make it possible to reduce the government's indebtedness rate, with the result that the resources needed to pay interest on the debt will diminish. The government will thus be in a position to better satisfy Quebecers' needs for public services and enhance Québec's fiscal competitiveness.

¹ Excluding, in 1998-1999, the \$519-million increase in program spending resulting from the Canada-Québec agreement on the labour market.

Section 3

Appendix 3.1

Change in forecasts in relation to the 1997-1998 Budget Speech

The 1997-1998 Budget Speech anticipated a \$2.2-billion deficit in fiscal 1997-1998. The actual deficit should be \$2 069 million, \$131 million less than expected.

This discrepancy is attributable to revenue that was \$406 million higher than forecast, mainly because the economy performed better than was anticipated in the 1997-1998 Budget, and to \$44 million less in spending on total debt service. However, these gains were partially offset by the impact of the January 1998 ice storm, which engendered \$319 million in additional spending.

As for the 1998-1999 fiscal year, the anticipated deficit stands at \$1 127 million, \$73 million less than the target initially set.

Government revenue should exceed the forecast in the last Budget by \$729 million. However, \$392 million in additional spending in respect of total debt service should be incurred, mainly because the improvement in the value of the Canadian dollar in relation to other currencies that was forecast in the Budget Speech of March 1997 is no longer expected.

Moreover, the government has decided to lighten the budgetary demands on the education and health and social services sectors, in light of priority needs in these sectors. Consequently, the program spending objective has been raised by \$202 million. The impact of the ice storm and the Budget measures somewhat alter the initial estimates.

CHANGE IN FORECASTS SINCE THE 1997-1998 BUDGET^{1, 2}

(in millions of dollars)

	1997-1998 ^P	1998-1999 ^P
Deficit anticipated in the 1997-1998 Budget	– 2 200	– 1 200
Revised forecasts:		
Own-source revenue	548	882
Federal transfers	– 142	– 153
	406	729
Total debt service	44	– 392
	450	337
Raising of the program spending objective in order to lighten the budgetary demands on the education and health and social services sectors	—	– 202
Impact of the ice storm on program spending	– 319	– 37
1998-1999 Budget measures	—	– 25 ³
Deficit anticipated in the 1998-1999 Budget Speech	– 2 069	– 1 127

P: Preliminary results for 1997-1998 and forecasts for 1998-1999

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

2 Prior to the reform of government accounting.

3 Impact of budget measures affecting revenue. Additional amounts required for the Budget measures affecting expenditure in 1998-1999 will come from the Contingency Fund.

Section 3

Appendix 3.2

Additional information on own-source revenue in 1998-1999

The Québec government's own-source revenue will total \$34 618 million in 1998-1999. Such revenue is made up primarily of personal income tax, consumption taxes and corporate taxes. The breakdown of revenue from these sources has changed appreciably since 1970-1971.

Own-source revenue makes up the bulk of government revenue

The Québec government obtains revenue from two sources, i.e. own-source revenue and federal transfers. Own-source revenue encompasses the entire range of tax and non-tax revenue that the Québec government levies, along with revenue generated by government enterprises.¹ Such revenue totals \$34 618 million in 1998-1999 and accounts for 85% of overall budgetary revenue.

TABLE 3.2.1

BUDGETARY REVENUE IN 1998-1999^F

	in \$M	%
Own-source revenue	34 618	85.0
Federal transfers	6 097	15.0
	40 715	100.0

F: Forecast

1 The Québec government's own-source revenue falls into three categories:

- tax revenue, including personal income tax, corporate taxes and consumption taxes;
- non-tax revenue, including fees and permits (vehicle registration fees, hunting and fishing permits, and so on) and miscellaneous revenue (interest, recoveries, sales of goods and services, fines, and so on);
- revenue generated by government enterprises.

Tax revenue accounts for 86.5% of own-source revenue

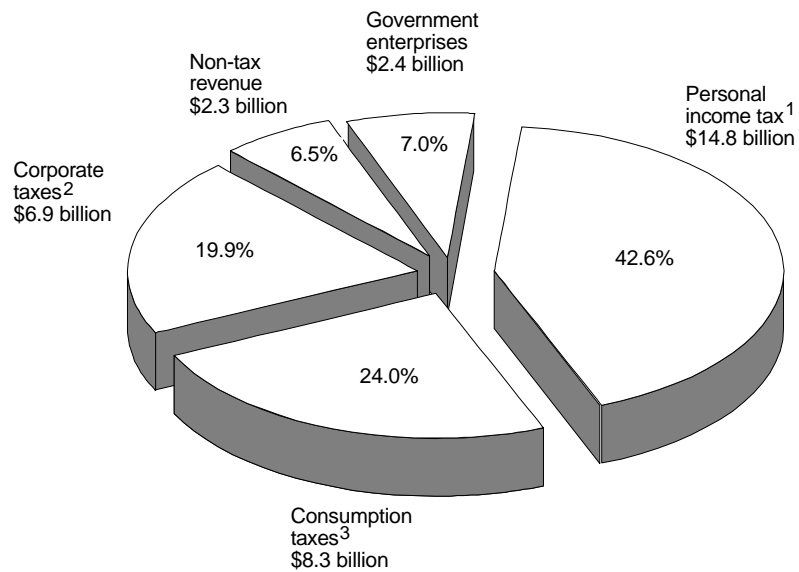
In 1998-1999, personal income tax will be the main source of own-source revenue (42.6%), followed by consumption taxes (24%) and corporate taxes (19.9%). These three sources of revenue, comprising tax revenue, account for 86.5% of own-source revenue overall.

The remaining revenue is generated by government enterprises (7%) and non-tax revenue (6.5%), which includes, in particular, fees for government services.

GRAPH 3.2.1

BREAKDOWN OF OWN-SOURCE REVENUE BY SOURCE IN 1998-1999^F

Total: \$34.6 billion



F: Forecast

1 Including individual contributions to the Health Services Fund.

2 Including corporate contributions to the Health Services Fund.

3 Including duties on alcoholic beverages.

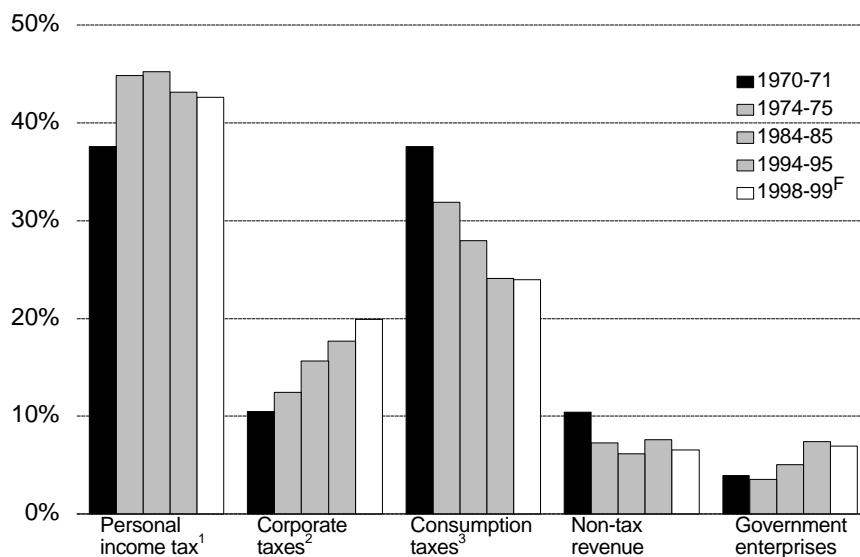
Corporate taxes account for a growing share of revenue

The composition of own-source revenue has altered considerably over the years. While personal income tax continues to be the main source of government revenue, its share of overall revenue has declined over the past two decades. On the other hand, the share of corporate taxes in overall own-source revenue has grown steadily, almost doubling since 1970-1971. The relative importance of consumption taxes has declined, from 37.6% in 1970-1971 to 24% in 1998-1999.

As for the revenue generated by government enterprises, they have become more important in recent years, mainly because of the improved profitability of such enterprises.

GRAPH 3.2.2

CHANGE IN OWN-SOURCE REVENUE BY SOURCE (as a percentage of the total)



F: Forecast

1 Including individual contributions to the Health Services Fund.

2 Including corporate contributions to the Health Services Fund.

3 Including duties on alcoholic beverages.

Section 3

Appendix 3.3

Update on cuts in federal transfers to Québec

Federal cash transfers to Québec in 1997-1998 amounted to \$5.7 billion. These transfers have decreased significantly over recent years.

The federal government has cut transfer payments to the provinces several times since the early 1980s. In all, these cuts represent a shortfall of \$4.4 billion for Québec in 1998-1999. From 1982-1983 to 1998-1999, these cuts amount to over \$26 billion.

The introduction of the Canada Health and Social Transfer (CHST) alone results in a shortfall for Québec of \$1.3 billion in 1998-1999, that is, close to one quarter of all federal cuts in Québec for that same year.

TABLE 3.3.1

IMPACT OF CUTS IN FEDERAL TRANSFERS TO QUÉBEC SINCE 1982-1983 (in billions of dollars)

	1995-96	1996-97	1997-98	1998-99	Total from 1982-83 to 1998-99
Established Programs Financing (EPF)	2.1	2.5	2.7	3.0	22.6
Canada Assistance Plan (CAP)	0.1	0.1	0.2	0.3	0.7
Canada Health and Social Transfer (CHST)	—	0.6	1.2	1.3	3.1
Sub-total	2.2	3.2	4.1	4.6	26.4
Increase in the CHST cash floor from \$11 billion to \$12.5 billion	—	—	- 0.1	- 0.2	- 0.3
Total federal cuts	2.2	3.2	4.0	4.4	26.1

The increase in the CHST cash floor announced last April by the federal government only slightly reduced the impact of the cuts announced earlier. In fact, the impact in Québec of the increase in the CHST cash floor in 1998-1999 is \$233 million. This amount represents a reduction of only 5% in total federal cuts in Québec for that same year.

Federal cuts by sector

Federal cuts since the early 1980s can be divided among the sectors to which the federal transfers contribute: health, education and income security. In 1998-1999, the shortfall in transfers in respect of the health sector amount to \$2.5 billion, close to 60% of total federal cuts in Québec. The shortfall in the post-secondary education sector equals \$1.2 billion, which represents 27% of total cuts.

Since 1982-1983, cuts in federal transfers to Québec in the health sector total \$16 billion, about twice the amount cut in the education sector. Cuts in the income security sector amount to \$1.7 billion. It is important to note that these cuts have only applied since 1995-1996.

TABLE 3.3.2

IMPACT BY SECTOR OF CUTS IN FEDERAL TRANSFERS TO QUÉBEC SINCE 1982-1983¹ (in billions of dollars)

	1995-96	1996-97	1997-98	1998-99	Total from 1982-83 to 1998-99
Health	1.4	2.0	2.3	2.5	16.0
Education	0.7	0.9	1.1	1.2	8.4
Income security	0.1	0.3	0.6	0.7	1.7
Total federal cuts	2.2	3.2	4.0	4.4	26.1

¹ The apportionment of cuts in Established Programs Financing (EPF) between the health and post-secondary education sectors is based on the historical share of those components. In the CHST, the apportionment is based on the distribution of cash transfers between the EPF and the CAP in 1995-1996.

Impact on the deficit of the Québec government

Because of federal cuts, federal transfers to Québec will continue to decrease over the next few years. From 1993-1994 to 1998-1999, they will have fallen by close to \$2.2 billion, which represents an average annual reduction of 6.4%. In 1997-1998 alone, federal transfers fell by \$1.1 billion.

The gradual drop in federal transfers makes it particularly difficult for the Québec government to carry out the plan it initiated three years ago to put public finances in order. In fact, Québec must reduce its deficit while the portion of its revenue derived from federal transfers, roughly 15% in 1998-1999, constantly dwindles from one year to the next.

The objective of eliminating the deficit would be much easier to achieve if federal transfers did not decrease year after year. For instance, if federal transfers had remained at their 1993-1994 level, the Québec government would have had \$2.1 billion more in revenue in 1997-1998, or the equivalent of the deficit for that year. In other words, the deficit-zero objective would have been reached two years early.

TABLE 3.3.3

FEDERAL TRANSFERS TO QUÉBEC ACCORDING TO VARIOUS HYPOTHESES: IMPACT ON GOVERNMENT REVENUE (in billions of dollars)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Federal transfers 1998-1999 Budget ¹	7.8	7.5	8.1	6.7	5.7	5.6
Hypothesis 1						
Federal transfers maintained at their 1993-1994 level	7.8	7.8	7.8	7.8	7.8	7.8
Discrepancy	—	0.3	— 0.3	1.1	2.1	2.2
Hypothesis 2						
Federal transfers growing at the same rate as GDP as of 1994-1995	7.8	8.1	8.4	8.6	9.0	9.3
Discrepancy	—	0.6	0.3	1.9	3.3	3.7

1 Excluding income resulting from the Canada-Québec agreement on the labour market.

As another example, if the federal transfers had grown at the same rate as the gross domestic product, which is an indicator of growth in tax bases, the Québec government would have enjoyed additional income of \$3.3 billion in 1997-1998, and posted a budgetary surplus of \$1.2 billion for that year.

It is interesting to note that by failing to give these additional revenues to Québec the federal government acquires more flexibility for itself.

In short, cuts in federal transfers have a significant impact on public finances in Québec and make it much more difficult to reach the deficit-zero objective.

Section 3

Appendix 3.4

Additional information on the Québec government's financial position

TABLE 3.4.1

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS^{1, 2}
(in millions of dollars)

	Budgetary transactions				
	Own-source revenue	Federal transfers	Total revenue	Expenditure	Deficit
1970-1971	2 747	1 095	3 842	- 3 987	- 145
1971-1972	3 183	1 294	4 477	- 4 832	- 355
1972-1973	3 743	1 262	5 005	- 5 352	- 347
1973-1974	4 355	1 377	5 732	- 6 391	- 659
1974-1975	5 346	1 872	7 218	- 7 660	- 442
1975-1976	6 086	2 224	8 310	- 9 261	- 951
1976-1977	7 101	2 523	9 624	- 10 800	- 1 176
1977-1978	7 976	3 090	11 066	- 11 770	- 704
1978-1979	8 496	3 271	11 767	- 13 265	- 1 498
1979-1980	9 430	3 757	13 187	- 15 587	- 2 400
1980-1981	10 722	3 899	14 621	- 18 102	- 3 481
1981-1982	13 414	4 479	17 893	- 20 514	- 2 621
1982-1983	14 594	5 178	19 772	- 22 235	- 2 463
1983-1984	15 617	6 235	21 852	- 24 016	- 2 164
1984-1985	16 047	6 247	22 294	- 26 167	- 3 873
1985-1986	17 987	6 190	24 177	- 27 650	- 3 473
1986-1987	19 743	5 839	25 582	- 28 554	- 2 972
1987-1988	22 198	6 131	28 329	- 30 725	- 2 396
1988-1989	23 594	6 403	29 997	- 31 701	- 1 704
1989-1990	24 677	6 693	31 370	- 33 134	- 1 764
1990-1991	26 431	6 992	33 423	- 36 398	- 2 975
1991-1992	28 130	6 766	34 896	- 39 197	- 4 301
1992-1993	28 077	7 782	35 859	- 40 889	- 5 030
1993-1994	28 723	7 780	36 503	- 41 426	- 4 923
1994-1995	29 370	7 510	36 880	- 42 694	- 5 814
1995-1996	30 557	8 142	38 699	- 42 650	- 3 951
1996-1997	31 087	6 719	37 806	- 41 023	- 3 217
1997-1998 ^P	33 084	5 666	38 750	- 40 819	- 2 069

P: Preliminary results for 1997-1998

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

2 Prior to the reform of government accounting.

Non-budgetary transactions				Net financial requirements
Investments, loans and advances	Retirement plans	Other accounts	Surplus	
- 73	2	26	- 45	- 190
- 63	1	113	51	- 304
- 53	- 1	18	- 36	- 383
- 122	25	459	362	- 297
- 146	104	319	277	- 165
- 186	109	622	545	- 406
- 183	187	- 161	- 157	- 1 333
- 229	265	- 488	- 452	- 1 156
- 189	316	119	246	- 1 252
- 188	683	551	1 046	- 1 354
- 56	822	416	1 182	- 2 299
- 586	1 007	71	492	- 2 129
- 761	1 051	- 40	250	- 2 213
- 672	1 057	- 436	- 51	- 2 215
- 167	1 183	887	1 903	- 1 970
40	1 269	493	1 802	- 1 671
- 380	1 355	260	1 235	- 1 737
- 680	2 203	- 493	1 030	- 1 366
- 670	1 634	- 265	699	- 1 005
- 516	1 164	300	948	- 816
- 458	1 874	77	1 493	- 1 482
- 411	1 916	141	1 646	- 2 655
- 490	1 525	82	1 117	- 3 913
- 623	1 668	52	1 097	- 3 826
- 1 142	1 509	571	938	- 4 876
- 287	1 701	- 411	1 003	- 2 948
- 792	1 928	- 55	1 081	- 2 136
- 420	1 789	- 280	1 089	- 980

TABLE 3.4.2

GOUVERNEMENT DU QUÉBEC**TOTAL DEBT AT THE END OF THE FISCAL YEAR^{1, 2}**

	Direct debt ³		Retirement plans ⁴		Total debt	
	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP
1970-1971	2 478	10.7	—	—	2 478	10.7
1971-1972	2 920	11.6	—	—	2 920	11.6
1972-1973	3 309	11.8	—	—	3 309	11.8
1973-1974	3 679	11.5	—	—	3 679	11.5
1974-1975	4 030	10.7	67	0.2	4 097	10.9
1975-1976	4 955	11.7	179	0.4	5 134	12.1
1976-1977	6 035	12.2	354	0.7	6 389	13.0
1977-1978	7 111	13.2	620	1.1	7 731	14.3
1978-1979	8 325	13.9	915	1.5	9 240	15.4
1979-1980	9 472	14.1	1 598	2.4	11 070	16.5
1980-1981	12 247	16.4	2 420	3.2	14 667	19.7
1981-1982	14 184	17.2	3 428	4.2	17 612	21.3
1982-1983	16 485	18.9	4 489	5.1	20 974	24.0
1983-1984	18 880	20.2	5 545	5.9	24 425	26.2
1984-1985	21 216	20.9	6 729	6.6	27 945	27.5
1985-1986	23 633	21.6	7 998	7.3	31 631	28.9
1986-1987	25 606	21.5	9 353	7.9	34 959	29.4
1987-1988	26 819	20.5	10 883	8.3	37 702	28.8
1988-1989	27 091	18.9	12 597	8.8	39 688	27.7
1989-1990	27 699	18.4	14 320	9.5	42 019	27.9
1990-1991	29 637	19.0	16 227	10.4	45 864	29.3
1991-1992	33 106	20.9	18 143	11.4	51 249	32.3
1992-1993	39 231	24.5	19 668	12.3	58 899	36.7
1993-1994	45 160	27.5	20 483	12.5	65 643	40.0
1994-1995	52 468	30.9	21 997	12.9	74 465	43.8
1995-1996	52 886	29.7	23 624	13.2	76 510	42.9
1996-1997	52 625	29.1	25 461	14.1	78 086	43.1
1997-1998 ^P	53 821	28.6	27 177	14.4	80 998	43.0

P: Preliminary results for 1997-1998

1 Adjusted data excluding the impact of pre-recording expenditures from 1987-1988 to 1989-1990.

2 Prior to the reform of government accounting.

3 Including Treasury bills, Treasury notes and long-term debt. As of 1976-1977, the debt in foreign currency has been expressed in the Canadian equivalent, based on the exchange rate at March 31 of the fiscal year under consideration.

4 Balance of retirement plans account less amount accumulated in the retirement plans sinking fund.

TABLE 3.4.3

GOUVERNEMENT DU QUÉBEC
DEBT SERVICE^{1, 2}

	Direct debt service		Interest on the retirement plans account ³		Total debt service	
	In millions of dollars	As a % of budgetary revenue	In millions of dollars	As a % of budgetary revenue	In millions of dollars	As a % of budgetary revenue
1970-1971	197	5.1	—	—	197	5.1
1971-1972	210	4.7	—	—	210	4.7
1972-1973	242	4.8	—	—	242	4.8
1973-1974	288	5.0	—	—	288	5.0
1974-1975	296	4.1	—	—	296	4.1
1975-1976	368	4.4	—	—	368	4.4
1976-1977	456	4.7	—	—	456	4.7
1977-1978	606	5.5	—	—	606	5.5
1978-1979	763	6.5	54	0.5	817	6.9
1979-1980	882	6.7	88	0.7	970	7.4
1980-1981	1 217	8.3	165	1.1	1 382	9.5
1981-1982	1 686	9.4	264	1.5	1 950	10.9
1982-1983	1 921	9.7	379	1.9	2 300	11.6
1983-1984	2 031	9.3	480	2.2	2 511	11.5
1984-1985	2 414	10.8	598	2.7	3 012	13.5
1985-1986	2 648	11.0	706	2.9	3 354	13.9
1986-1987	2 754	10.8	802	3.1	3 556	13.9
1987-1988	2 751	9.7	924	3.3	3 675	13.0
1988-1989	2 665	8.9	1 071	3.6	3 736	12.5
1989-1990	2 829	9.0	1 252	4.0	4 081	13.0
1990-1991	3 026	9.1	1 411	4.2	4 437	13.3
1991-1992	3 222	9.2	1 444	4.1	4 666	13.4
1992-1993	3 475	9.7	1 281	3.6	4 756	13.3
1993-1994	3 750	10.3	1 566	4.3	5 316	14.6
1994-1995	4 325	11.7	1 549	4.2	5 874	15.9
1995-1996	4 291	11.1	1 747	4.5	6 038	15.6
1996-1997	3 911	10.3	1 949	5.2	5 860	15.5
1997-1998 ^P	3 752	9.7	2 106	5.4	5 858	15.1

P: Preliminary results for 1997-1998

1 Adjusted data excluding the impact of pre-recording expenditures from 1987-1988 to 1989-1990.

2 Prior to the reform of government accounting.

3 Amount of interest ascribed to the retirement plans account less income from the retirement plans sinking fund.

TABLE 3.4.4

GOUVERNEMENT DU QUÉBEC
CURRENT ACCOUNT BALANCE¹
(in millions of dollars)

	Budgetary expenditure	(-)	Total capital expenditure ²	(=)	Current expenditure	(+)	Budgetary revenue	(=)	Current account balance
1970-1971	- 3 987		- 461		- 3 526		3 842		316
1971-1972	- 4 832		- 682		- 4 150		4 477		327
1972-1973	- 5 352		- 710		- 4 642		5 005		363
1973-1974	- 6 391		- 771		- 5 620		5 732		112
1974-1975	- 7 660		- 944		- 6 716		7 218		502
1975-1976	- 9 261		- 1 044		- 8 217		8 310		93
1976-1977	- 10 800		- 886		- 9 914		9 624		- 290
1977-1978	- 11 770		- 910		- 10 860		11 066		206
1978-1979	- 13 265		- 1 011		- 12 254		11 767		- 487
1979-1980	- 15 587		- 1 002		- 14 585		13 187		- 1 398
1980-1981	- 18 102		- 1 004		- 17 098		14 621		- 2 477
1981-1982	- 20 514		- 1 054		- 19 460		17 893		- 1 567
1982-1983	- 22 235		- 1 191		- 21 044		19 772		- 1 272
1983-1984	- 24 016		- 1 242		- 22 774		21 852		- 922
1984-1985	- 26 167		- 1 361		- 24 806		22 294		- 2 512
1985-1986	- 27 650		- 1 358		- 26 292		24 177		- 2 115
1986-1987	- 28 554		- 1 137		- 27 417		25 582		- 1 835
1987-1988	- 30 725		- 1 194		- 29 531		28 329		- 1 202
1988-1989	- 31 701		- 1 396		- 30 305		29 997		- 308
1989-1990	- 33 134		- 1 320		- 31 814		31 370		- 444
1990-1991	- 36 398		- 1 386		- 35 012		33 423		- 1 589
1991-1992	- 39 197		- 1 368		- 37 829		34 896		- 2 933
1992-1993	- 40 889		- 1 633		- 39 256		35 859		- 3 397
1993-1994	- 41 426		- 1 523		- 39 903		36 503		- 3 400
1994-1995	- 42 694		- 1 703		- 40 991		36 880		- 4 111
1995-1996	- 42 650		- 1 756		- 40 894		38 699		- 2 195
1996-1997	- 41 023		- 1 214		- 39 809		37 806		- 2 003
1997-1998 ^P	- 40 819		- 1 272		- 39 547		38 750		- 797

P: Preliminary results for 1997-1998

1 Prior to the reform of government accounting.

2 Total capital expenditure includes direct government capital expenditure, subsidies for capital expenditure and the portion of debt service subsidies consisting of capital repayment.

Section 4

Report on the application of the *Act respecting the elimination of the deficit and a balanced budget*

Summary of the provisions of the Act3

Compliance with the requirements of the Act.4

The *Act respecting the elimination of the deficit and a balanced budget* (S.Q. 1996, chapter 55) was unanimously assented to by the Québec National Assembly on December 19, 1996.

Under section 15 of the Act, the Minister of Finance must report annually on its application.¹

Summary of the provisions of the Act

The Act stipulates the Budget deficit amounts not to be exceeded. The deficit targets are:

- \$3 275 million in 1996-1997;
- \$2.2 billion in 1997-1998;
- \$1.2 billion in 1998-1999;
- zero as of 1999-2000.

The Act gives the government sufficient flexibility to deal with contingencies or exceptional circumstances. An overrun of under \$1 billion must be offset the following year. Furthermore, any surplus compared with the deficit target may be used to compensate for overruns in the following years, up to the amount of the surplus.

The government may, for more than one year, exceed the deficit target set by law if an overrun of more than \$1 billion is anticipated or incurred because of the following circumstances:

- a disaster having a major impact on revenue or expenditure;
- a significant deterioration of economic conditions;
- a substantial reduction in federal transfer payments to Québec.

¹ Section 15 stipulates that “the Minister shall report to the National Assembly, in the Budget Speech, on the levels of deficit incurred and on the budgetary balance prescribed or the deficit levels authorized under this Act and, where applicable, on any variance between them. The Minister shall report annually to the National Assembly on the impact which any changes in accounting policies in relation to the accounting policies in force for the fiscal year 1996-97 have upon the financial results of the Government”.

If the government fails to meet the deficit targets for one of these reasons, the Minister of Finance must, at the time of the Budget Speech:

- report to the National Assembly on the circumstances making it necessary for the government to exceed the budgetary objective;
- present a financial plan to offset overruns over a maximum period of five years;
- implement measures to offset at least \$1 billion during the year covered by the Budget;
- not offset more than 25% of the overruns in the fifth year of the plan.

If an overrun of at least \$1 billion is noted or anticipated during the period to which the financial plan applies, it must be offset during the remaining years of the plan, according to the above terms.

Compliance with the requirements of the Act

The deficit for fiscal 1996-1997 was \$3 217 million, \$58 million below the limit set by law.

In 1997-1998, the government must respect the deficit limit set by law, considering the implementation and impact of the reform of government accounting. Although the reform increases the deficit by \$125 million, the deficit for fiscal 1997-1998, calculated according to the new accounting policy, should stand at \$2 194 million, which is \$6 million less than the \$2.2-billion limit set by law.

The requirements of the law are respected even without the reform of government accounting since, on those terms, the deficit will be \$2 069 million in 1997-1998.

Since the coming into effect of the *Act respecting the elimination of the deficit and a balanced budget*, the government deficit has remained below the limit set by law. Therefore, in 1998-1999 and subsequent fiscal years, in keeping with the provisions of the Act, the government may record a Budget deficit beyond the amounts provided for by law, up to the \$64-million accumulated surplus recorded taking into account the reform of government accounting.

**DEFICIT RECORDED AND DEFICIT AUTHORIZED BY THE ACT
RESPECTING THE ELIMINATION OF THE DEFICIT AND
A BALANCED BUDGET**

(in millions of dollars)

	1996-1997	1997-1998 ^P	
		Before the reform of government accounting	After the reform of government accounting
Deficit recorded	– 3 217	– 2 069	– 2 194
Deficit authorized ¹	– 3 275	– 2 200	– 2 200
Discrepancy	58	131	6
Accumulated discrepancy	58	189	64

P: Preliminary results

1 Limit set by the *Act respecting the elimination of the deficit and a balanced budget*.