2003 ⚜ 2004 BUDGET

Budget Plan

Finances
Québec

2003-2004 Budget
Budget Plan

ISBN 2-551-21828-4
Legal deposit
Bibliothèque nationale du Québec, 2003
Publication date: June 2003

2003-2004 Budget Plan

Section 1

The Québec Economy: Recent Developments and Outlook for 2003

The Québec Economy: Recent Developments and Outlook for 2003

This section presents the economic forecasts used to update financial projections.

Highlights

Global economic recovery was moderate in 2002. Despite highly expansionary monetary and fiscal policies, growth in the main industrial countries was limited to 1.8%.

Growth was nevertheless strong in Québec, reaching 4.3%, and resulted in the creation of 118 200 jobs and the highest number of housing starts—42 500 units—since 1991.

However, economic growth slowed as the year progressed, due to the gradual decrease in business nonresidential investment and weak exports.

The economic slowdown that started in 2002 will worsen in 2003. Québec's domestic demand will be affected in particular by higher interest rates, the end of certain economic stimuli, the impact of severe acute respiratory syndrome (SARS), and the measures implemented to put government finances in order. Nonetheless, residential construction will continue to sustain durable goods consumption and business nonresidential investment will accelerate.

Exports will contribute little to Québec's economic growth in 2003, because of a moderate upswing in the U.S. economy, the appreciation of the Canadian dollar and the decrease in automobile exports. Thus, Québec's real GDP growth should be 2.5% in 2003.

World Economic Outlook

Moderate economic recovery in the major industrial countries

After dropping to 0.9% in 2001, economic activity in the industrial countries rallied somewhat in 2002, reaching 1.8%. That anticipated recovery was spurred by various factors, including substantial monetary easing by the central banks, which cut key rates to their lowest level in 40 years. Government authorities also helped support economic growth through the introduction of expansionary fiscal and monetary measures.

The recovery lost steam in late 2002, however, at the same time as oil prices rose, stock markets plummeted anew and the threat of war in Iraq eroded the confidence of economic agents. Monetary easing, coupled with the expansionary fiscal policies of some countries, notably the United States, nevertheless continue to sustain economic activity in the industrial countries, which should increase by 1.9% in 2003—a rate well below that of the late 1990s.

TABLE 1.1

ECONOMIC RECORD AND OUTLOOK IN THE INDUSTRIAL COUNTRIES
(real GDP, percentage change)

	1996-2000[1]	**2001**	**2002**	**2003**
Industrial countries	3.3	0.9	1.8	1.9
Japan	1.4	0.4	0.3	0.8
European Union	2.8	1.6	1.0	1.3
- Germany	1.8	0.6	0.2	0.5
- France	2.8	1.8	1.2	1.2
- United Kingdom	2.9	2.0	1.6	1.9
United States	4.0	0.3	2.4	2.2
Canada	4.1	1.9	3.3	2.3

Sources: International Monetary Fund, Consensus Economics. Statistics Canada and ministère des Finances du Québec.

1 Average annual growth rate.

Economic growth in Japan and Europe will be slower than in North America due to persistent imbalances.

Given the slow, inefficient structural reforms implemented in Japan, there will be no real improvement in its economic situation. Despite short-term interest rates near zero, business investment will contribute little to economic growth as a result of the decreased demand for high-tech products. Furthermore, faced with declining real personal income and ongoing deflation, households will continue to hold back on their spending. Thus, after 0.3% growth in 2002, economic activity will increase by only 0.8% in 2003.

Similarly, several countries in the European Union are grappling with budget deficits that will prevent them from introducing additional stimuli to bolster recovery. In particular, Germany, which accounts for 23% of the European Union's economy, is not yet on track after reunification and is struggling with stubborn structural problems. The high labour costs in its large industrial sector, which is focused on capital goods production, make it hard to compete with the Asian and Eastern European economies.

Consequently, after a rise of just 1.0% in 2002, economic growth in the European Union will improve somewhat in 2003, with real GDP increasing by 1.3%.

Recovery still tenuous in the United States

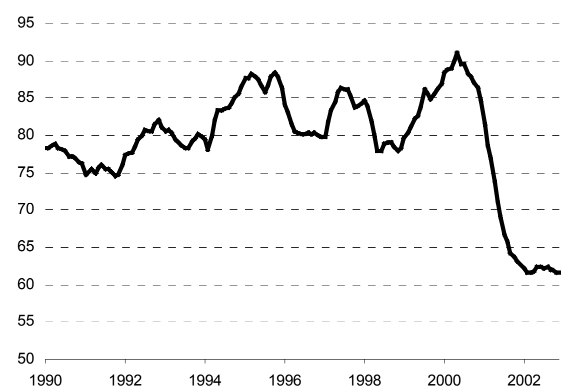
In the United States, output and personal income continued to grow, despite the loss of more than two million jobs in the last two years. That performance is attributable to significant productivity gains, which were reflected in salaries, and to consumption-oriented financial and fiscal factors.

To wit, U.S. households, the engine of economic growth, acted on the low interest rates in effect by taking advantage of mortgage refinancing programs and promotional campaigns for zero-interest car loans. In addition to these financial incentives, the U.S. government has been introducing major tax cuts since 2001.

However, the U.S. economy's recovery has been tenuous to date. The country is still coping with major overproduction, particularly in the new-technology sector, as well as with high debt loads and trade and federal government deficits.

GRAPH 1.1

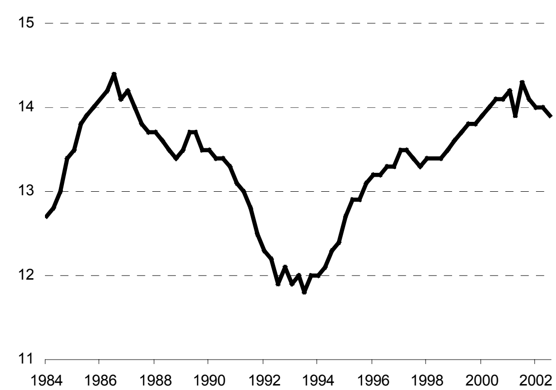
MAJOR OVERPRODUCTION IN HIGH-TECHNOLOGY SECTOR — UNITED STATES
(capacity utilization rate, in percent)



Source: Global Insight.

GRAPH 1.2

HIGH DEBT SERVICE LEVEL FOR U.S. HOUSEHOLDS
(household debt service as a percentage of disposable personal income)



Source: Global Insight.

Thus, because of ongoing macroeconomic imbalances, real GDP is expected to grow by 2.2% in 2003, a rate comparable to that of 2002 but significantly below the average rate of 4.0% posted between 1996 and 2000.

Under the combined effect of a number of factors, the U.S. economy will begin a gradual recovery as of the second half of 2003. The fiscal stimuli already in place and the new economic recovery plan adopted by Congress in May will ensure ongoing support for economic activity.

Moreover, low interest rates will continue to allow households to borrow at a low cost, while depreciation of the U.S. dollar will render the manufacturing sector more competitive. Also, a gradual rebound in employment and higher salaries will help sustain consumer spending.

Finally, the control of production costs and the sustained productivity gains of 2002 will enable businesses to improve their balance sheets and gradually begin investing again.

Tighter monetary conditions in Canada

Buoyed by vigorous domestic demand, Canada's economy grew 3.3% in 2002. According to the Bank of Canada, the economy is now almost on a par with its potential level, thereby increasing the risk of renewed inflation.

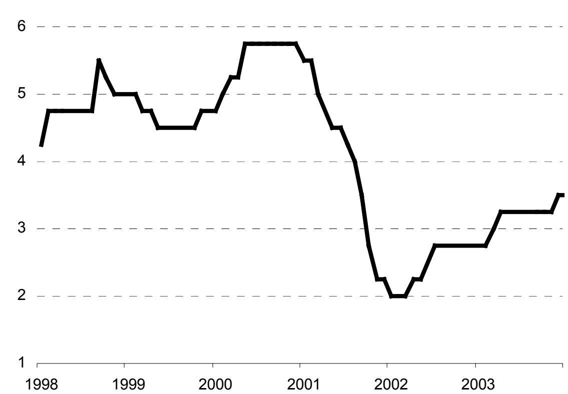
In response, the Bank has already raised its overnight financing rate 125 basis points to 3.25%. It should continue to gradually tighten its monetary policy given its desire to maintain inflation at around 2.0%, the mid-point of its target band.

In 2002, the Canadian dollar continued to depreciate against the U.S. dollar, notably as a result of the safe haven role played by the U.S. dollar in the wake of the Sept. 11 terrorist attacks and the increased volatility in international financial markets. However, in 2003, higher interest rates in Canada than in the United States have resulted in a substantial appreciation of the Canadian dollar relative to the U.S. dollar.

Given this tightening of monetary conditions and a lacklustre global context, the Canadian economy should slow to 2.3% in 2003.

GRAPH 1.3

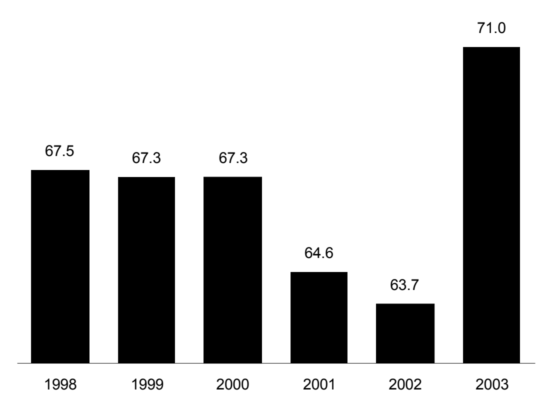
GRADUAL INCREASE IN INTEREST RATES
(overnight financing rate, in percent)



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

GRAPH 1.4

INCREASE IN THE CANADIAN DOLLAR
(US cents)



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

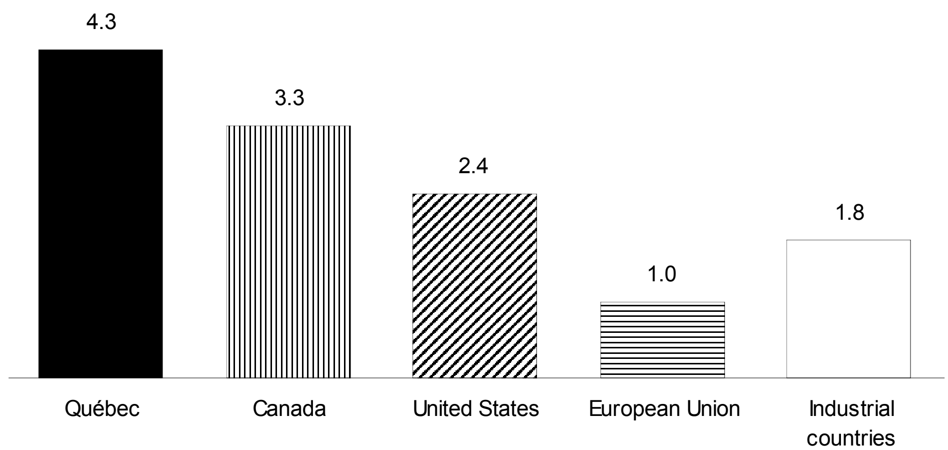
Québec's Economic Record in 2002

Strong economic growth in Québec

While economic recovery was moderate in the industrial countries, Québec's economy thrived in 2002. Real GDP grew 4.3%, compared with 3.3% in Canada, 2.4% in the United States and 1.8% in the industrial countries as a whole. As a result of Québec's economic performance, 118 200 jobs were created in Québec in 2002.

GRAPH 1.5

THE QUÉBEC ECONOMY OUTSTRIPPED OTHER ECONOMIES
(real GDP, percentage change)



Sources: International Monetary Fund and Institut de la statistique du Québec.

Domestic demand bolstered by major stimuli

The Québec economy outstripped other economies in 2002 notably because of a set of factors that cannot be maintained. Chief among them are the Public Investment Acceleration Plan (PIAP), which generated $1.5 billion in public spending in 2002, the more than 20% increase in investments by Hydro-Québec and other government corporations, and the implementation of the last phase of the tax cuts announced in the 2001-2002 Budget. Together, these factors increased economic growth by almost one percentage point in 2002.

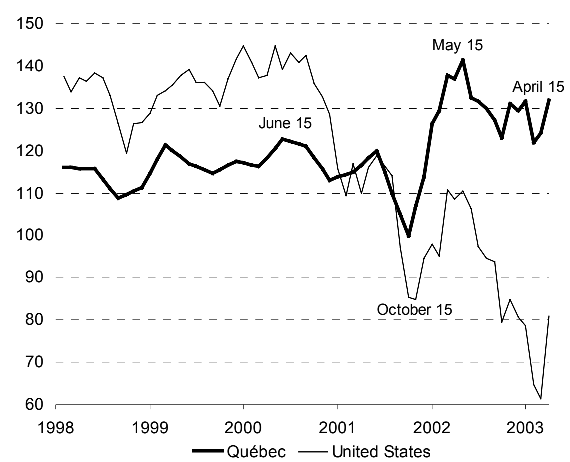
An especially expansionary monetary policy, along with very low interest rates, was another important stimulus in 2002, encouraging durable goods consumption in particular and housing starts. The residential sector was especially vibrant, posting a 53% rise in housing starts, which contributed to economic growth by more than one percentage point.

Marked increase in retail sales

Strong job creation enabled a 3.6% rise in personal income. Moreover, contrary to the United States, household confidence remained high. These factors, coupled with a dynamic residential sector, led to a 5.9% gain in retail sales in 2002. Demand for durable goods—particularly furniture, household appliances and automobiles—rose sharply, due primarily to attractive financing packages.

GRAPH 1.6

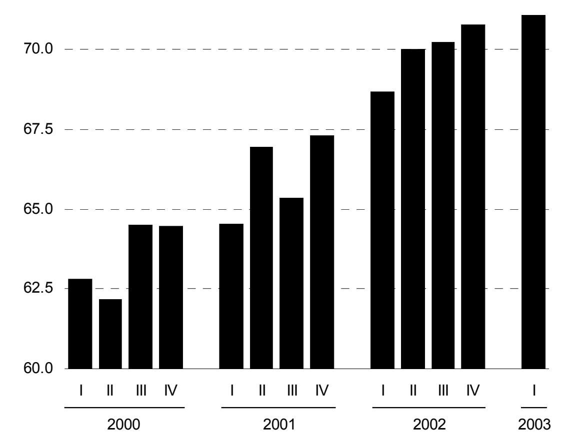
HOUSEHOLD CONFIDENCE INDICES
(indices)



Sources: Conference Board of Canada and Conference Board of the United States.

GRAPH 1.7

RETAIL SALES IN QUÉBEC
(in billions of dollars)



Source: Statistics Canada.

Decline in exports

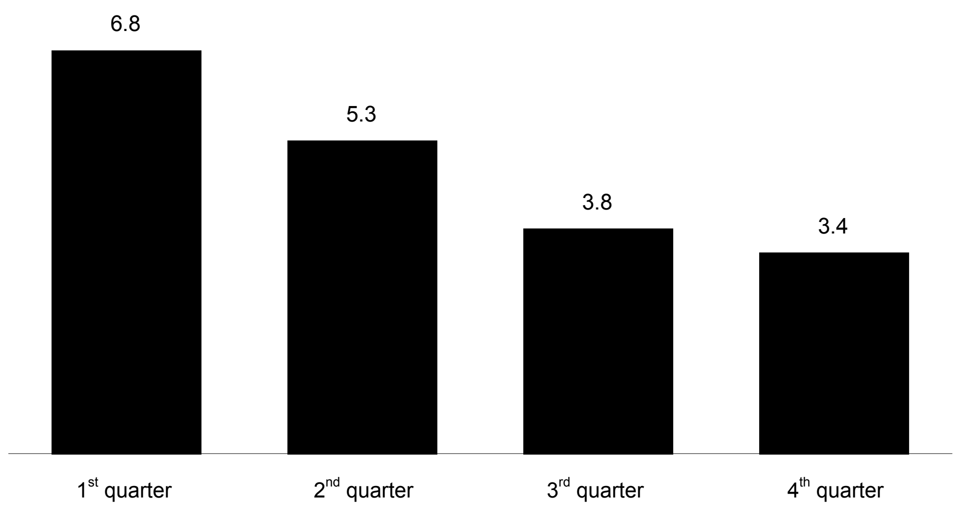
While domestic demand was vigorous, exports curtailed growth in 2002 given the sluggish U.S. economy. The problems of the airline industry and the information technology sector, along with the closure of the GM plant in Boisbriand, also adversely affected growth.

Slowdown in quarterly economic growth

Québec's strong economic growth in 2002 masks the fact that the economy gradually ran out of steam during the year. The 6.8% annual rate of growth in the first quarter dwindled to 3.4% in the fourth quarter. That slowdown was primarily due to the steady decline in nonresidential investment and a drop in exports.

GRAPH 1.8

SLOWDOWN IN QUÉBEC'S ECONOMIC GROWTH DURING 2002
(annualized real GDP growth)



Source: Institut de la statistique du Québec.

Economic Outlook for Québec in 2003

Continuation of the slowdown begun in 2002

The gradual rise in interest rates, the weakening of certain stimuli that had spurred growth in 2002, the impact of SARS on tourism and the measures introduced to put government finances in order will all curtail economic growth in 2003.

However, businesses will step up their investments, thanks to higher profits and high industrial capacity utilization, thereby curbing the slowdown in Québec's economic growth, which should reach 2.5%. Exports will not be very effective in promoting growth, primarily because of the weak U.S. economy.

Housing starts remain high despite decline

2002 was an exceptional year for housing starts, with 42 500 new units being built. Current economic conditions are still favourable to residential construction. Employment will continue to rise in 2003, which will ensure ongoing household formation. Moreover, the low vacancy rate, the limited housing availability on the resale market and higher prices for existing houses are conducive to the construction of new housing. The number of housing starts will therefore remain high, but will decline to 40 200 in 2003.

High household confidence mitigates consumer-spending slowdown

Consumer spending will rise 4.7% in 2003, due to ongoing high household confidence and continued economic and employment growth. Demand for durable goods will remain particularly strong because of the high number of housing starts.

Slow recovery of exports

Exports are expected to contribute only slightly to Québec's economic growth in 2003, due to the sluggish recovery of the U.S. economy, the appreciation of the Canadian dollar and the more than 40% drop in automobile exports caused primarily by the August 2002 closure of the GM plant in Boisbriand. The closure will reduce the total volume of Québec exports by nearly 1.5%.

Increased business nonresidential investment

Bolstered by low interest rates, high industrial capacity utilization and moderate growth of wages and salaries, businesses should continue to improve their financial performance, with their profits climbing 11.6 % in 2003. The expected increase in profits, as well as the upward trend in industrial capacity utilization observed in recent quarters, will result in 4.1% growth in business nonresidential investment.

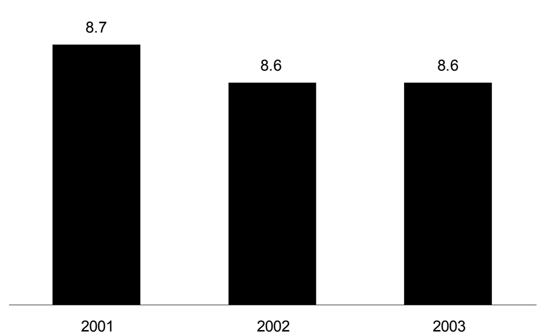
Employment growth more moderate

Given the economic slowdown in 2003, job creation will not be as robust as in 2002. Nevertheless, 61 000 jobs will be created.

Growth in employment will continue to encourage increased participation in the labour market, with the participation rate expected to reach 65.8% in 2003. As a result of the higher participation rate, the unemployment rate should hold steady at 8.6%.

GRAPH 1.9

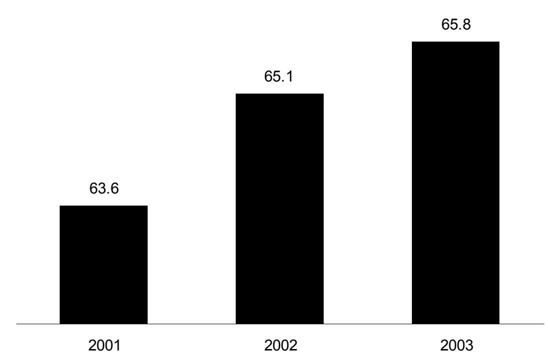
UNEMPLOYMENT RATE IN QUÉBEC
(in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

GRAPH 1.10

LABOUR FORCE PARTICIPATION RATE IN QUÉBEC
(in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

TABLE 1.2

ECONOMIC OUTLOOK FOR QUÉBEC
(percentage change)

	2002	2003
OUTPUT		
— Real gross domestic product	4.3	2.5
— Gross domestic product	5.8	5.2
COMPONENTS OF EXPENDITURE		
— Consumption	4.5	4.7
— Housing starts (in thousands)	42.5	40.2
— Business nonresidential investment	-1.0	4.1
— International exports of goods[1]	-0.8	0.8
COMPONENTS OF INCOME AND PRICES		
— Wages and salaries	5.5	4.2
— Personal income	3.6	4.0
— Corporate profits	16.3	11.6
— Consumer prices	2.0	3.0
LABOUR MARKET		
— Labour force	3.2	1.8
— Employment	3.4	1.7
— in thousands	118	61
— Unemployment rate[2]	8.6	8.6
FINANCIAL MARKETS – CANADA		
— 3-month Treasury bills[2]	2.6	3.2
— 10-year Canadian bonds[2]	5.3	5.2
— Exchange rate (CAN$ in US¢)	63.7	71.2

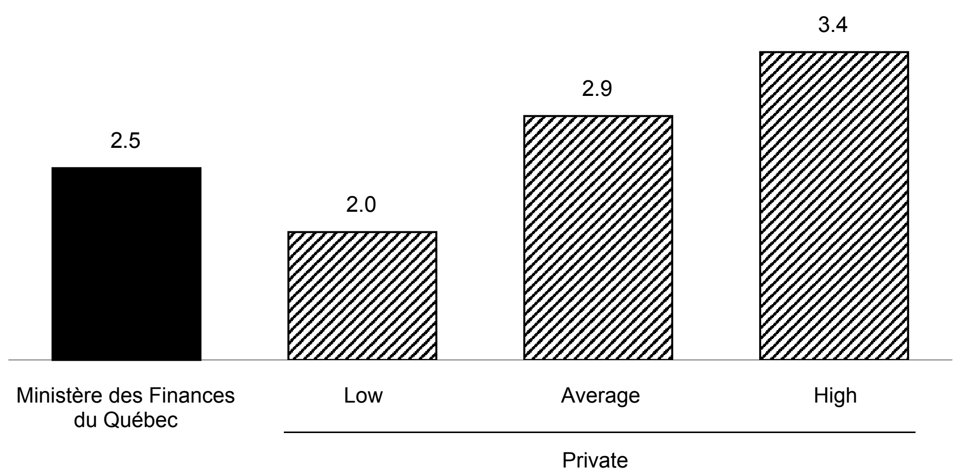
1 Constant 1997 dollars.
2 Level in percent.

Comparison with private-sector forecasts

The 2003-2004 Budget outlook is at the low end of the forecasts by private-sector economists. That said, the private-sector forecasts were made between January and May 2003. Most of them therefore do not take into account certain impacts, such as SARS, the appreciation of the Canadian dollar or the budgetary measures in this Budget.

GRAPH 1.11

ECONOMIC GROWTH IN QUÉBEC IN 2003 – COMPARISON WITH PRIVATE-SECTOR FORECASTS
(percentage change)



Source: Ministère des Finances du Québec.

Section 2

The Government's Financial Position in 2002-2003 and Public Sector Borrowings

The government's financial transactions[1]

Preliminary results for the government's financial transactions in fiscal 2002-2003 indicate that a balanced budget should be achieved.

Consolidated budgetary revenue for fiscal 2002-2003 is revised to $52 706 million, $114 million less than anticipated in March 2003. This decrease in revenue can be explained by a $309-million decline in own-source revenue and a $195-million increase in federal transfers.

Consolidated budgetary expenditure amounts to $52 706 million in 2002-2003, a downward adjustment of $114 million compared with the forecast of March 11, 2003. This drop in expenditure stems from a $30-million rise in operating expenditure and a $144-million decrease in debt service.

Consolidated net financial requirements are revised to $1 585 million, a decline of $342 million. The net financial requirements of consolidated organizations thus amount to $1 263 million and those of the Consolidated Revenue Fund to $322 million.

With regard to financing transactions, the change in direct debt is adjusted downward by $123 million compared with the figure anticipated last March.

1 The data in this section have been adjusted, for purposes of comparison, on the basis of the 2003-2004 budgetary and financial structure.

TABLE 2.1

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS[1]
(in millions of dollars)

	2001-2002	2002-2003		
	Actual results	Financial position as at March 11, 2003	Preliminary results	Change compared with March 11
Budgetary transactions				
Own-source revenue	41 004	43 712	43 403	- 309
Federal transfers	9 305	9 108	9 303	195
Total revenue	50 309	52 820	52 706	- 114
Operating expenditure	- 43 976	- 45 540	- 45 570	- 30
Debt service	- 7 261	- 7 280	- 7 136	144
Total expenditure	- 51 237	- 52 820	- 52 706	114
Budgetary reserve				
Use of funds allocated to the reserve to finance spending and maintain a balanced budget	950	—	—	—
Budgetary surplus	**22**	**0**	**0**	**0**
Non-budgetary transactions				
Investments, loans and advances	- 1 142	- 1 966	- 1 801	165
Capital expenditures	- 995	- 1 642	- 1 471	171
Retirement plans	2 089	1 987	2 007	20
Other accounts	- 589	- 306	- 320	- 14
Non-budgetary requirements	**- 637**	**- 1 927**	**- 1 585**	**342**
Net financial requirements	**- 615**	**- 1 927**	**- 1 585**	**342**
Financing transactions				
Change in cash position	132	- 2 043	- 2 279	- 236
Change in direct debt[2]	3 623	5 628	5 505	- 123
Retirement plans sinking fund[3]	- 3 140	- 1 658	- 1 641	17
Total financing of transactions	**615**	**1 927**	**1 585**	**- 342**

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 The data have been adjusted, for purposes of comparison, on the basis of the 2003-2004 budgetary and financial structure.
2 The change in direct debt includes new borrowings less repayment of borrowings.
3 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. Revenue generated by this fund is accumulated in it and subtracted from the interest expenditure recorded with regard to the retirement plans liability.

Budgetary revenue

In regard to budgetary revenue, the March 2003 forecast projected $43 712 million in own-source revenue and $9 108 million in federal transfers. Preliminary results indicate that own-source revenue is down $309 million, while federal transfers are up $195 million.

Own-source revenue

As for own-source revenue, the decline in revenue from personal income tax, consumption taxes and consolidated organizations is offset only partly by the higher results of other revenue sources.

TABLE 2.2

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

	2001-2002				2002-2003
	Actual results	Financial position as at March 11, 2003	Preliminary results	Change compared with March 11	Change compared with 2001-2002
					%
Personal income tax	15 923	16 207	16 081	– 126	1.0
Health Services Fund	4 291	4 496	4 479	– 17	4.4
Corporate taxes	4 029	3 681	3 735	54	– 7.3
Consumption taxes	9 745	11 100	10 839	– 261	11.2
Government enterprises	2 731	3 817	3 907	90	43.1
Consolidated organizations	1 940	2 072	1 943	– 129	0.2
Other sources	2 345	2 339	2 419	80	3.2
Total own-source revenue	**41 004**	**43 712**	**43 403**	**– 309**	**5.9**

Revenue from personal income tax is down $126 million, reflecting essentially the results of the latest adjustments made with respect to income tax returns for the 2001 taxation year.

Revenue from consumption taxes is also down $261 million, mainly because of sales tax results. In this regard, remittances made by government mandataries in April for amounts collected in March mirrored the weaker-than-anticipated growth of the tax base. The tax on tobacco products also contributed to the negative revisions owing to a slightly steeper-than-expected decline in consumption. In addition, a delay in remittances by mandataries, stemming in particular from ad hoc adjustments to their inventories, amplified the revision.

Revenue from consolidated organizations is adjusted downward by $129 million, mainly because of a lower-than-anticipated volume of transactions conducted outside the reporting entity.

Corporate tax revenue is up $54 million. In this regard, more-sustained-than-forecast growth in profits reduced requests for overpayment refunds.

Results for other sources as a whole are also revised upward by $80 million, primarily because of higher-than-expected revenue from natural resources. This rise in revenue stems essentially from increased stumpage fees, which in turn result from the fact that a larger volume of timber was cut than initially anticipated.

Revenue from government enterprises is revised to $3 907 million, an increase of $90 million.

This adjustment can be attributed notably to a $355-million climb in Hydro-Québec's net profits. This difference, which is due essentially to higher-than-expected results for the first quarter of 2003, stems from increased sales in Québec because of colder temperatures as well as from more profitable transactions on foreign markets.

However, this growth is offset by the downward revision of revenue from other enterprises as a whole, particularly the Société générale de financement du Québec and the Société Innovatech du Grand Montréal, which account for $64 million and $37 million of the adjustment respectively. In addition, revenue from the Société de l'assurance automobile du Québec is down $167 million mainly because of the deterioration of the highway safety record, the increase in the average cost per accident victim and a decline in investment income.

Federal transfers

Federal transfers should amount to $9 303 million in 2002-2003, an increase of $195 million compared with the March 2003 forecast.

Revenue from other programs is adjusted upward by $291 million owing to the refund at the beginning of 2003-2004, rather than at the end of 2002-2003, of part of the tax transfer for youth allowances. In addition, revenue from the Canada Health and Social Transfer (CHST) is revised downward by $79 million, reflecting the fact that interest from the CHST trust accounts was withdrawn in 2003-2004 rather than in 2002-2003 as initially planned.

TABLE 2.3

SUMMARY OF THE CHANGE IN FEDERAL TRANSFERS
(in millions of dollars)

	2001-2002				2002-2003
	Actual results	Financial position as at March 11, 2003	Preliminary results	Change compared with March 11	Change compared with 2001-2002
					%
Equalization	5 336	5 315	5 315	0	– 0.4
Canada Health and Social Transfer (CHST)	2 958	2 727	2 648	– 79	– 10.5
Other transfers related to fiscal arrangements	27	34	34	0	25.9
Other programs	564	644	935	291	65.8
Consolidated organizations	420	388	371	– 17	– 11.7
Total federal transfers	**9 305**	**9 108**	**9 303**	**195**	—

Budgetary expenditure

Budgetary expenditure for fiscal 2002-2003 amounts to $52 706 million, $114 million less than forecast in March 2003. In all, there is a 2.9% increase in budgetary expenditure compared with 2001-2002.

TABLE 2.4

SUMMARY OF THE CHANGE IN BUDGETARY EXPENDITURE
(in millions of dollars)

	2001-2002				2002-2003
	Actual results	**Financial position as at March 11, 2003**	**Preliminary results**	**Change compared with March 11**	**Change compared with 2001-2002**
					%
Program spending objective	42 512	44 104	44 104	—	3.7
Increase in objective	—	—	22	22	—
Program spending	42 512	44 104	44 126	22	3.8
Consolidated organizations	1 464	1 436	1 444	8	– 1.4
Total operating expenditure	**43 976**	**45 540**	**45 570**	**30**	**3.6**
Debt service					
Consolidated Revenue Fund					
Direct debt service	3 970	3 927	3 888	– 39	– 2.1
Retirement plans	2 717	2 706	2 648	– 58	– 2.5
	6 687	6 633	6 536	– 97	– 2.3
Consolidated organizations	574	647	600	– 47	4.5
Total debt service	**7 261**	**7 280**	**7 136**	**– 144**	**– 1.7**
Total budgetary expenditure	**51 237**	**52 820**	**52 706**	**– 114**	**2.9**

The $114-million decrease in budgetary expenditure results from a $30-million increase in operating expenditure, which is more than offset by a $144-million decline in debt service.

As a result, debt service now amounts to $7 136 million, of which $3 888 million is for direct debt service, $2 648 million for interest on the net retirement plans liability and $600 million for the debt service of consolidated organizations. The decline in the debt service of the Consolidated Revenue Fund is due for the most part to a decrease in interest on the government's actuarial obligations in respect of its employees' retirement plans. The interest rates on these two plans were not known until April 2003.

Non-budgetary transactions

Financial requirements stemming from non-budgetary transactions amount to $1 585 million, $342 million less than forecast on March 11, 2003.

TABLE 2.5

SUMMARY OF NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	2002-2003		
	Financial position as at March 11, 2003	**Preliminary results**	**Change**
Consolidated Revenue Fund			
Investments, loans and advances			
Government enterprises	– 1 653	– 1 623	30
Municipalities, municipal bodies, individuals, corporations and others	– 207	– 43	164
	– 1 860	– 1 666	194
Capital expenditures	– 53	2	55
Retirement plans	1 987	2 007	20
Other accounts	3	– 395	– 398
Total Consolidated Revenue Fund	**77**	**– 52**	**– 129**
Consolidated organizations	**– 2 004**	**– 1 533**	**471**
Non-budgetary requirements	**– 1 927**	**– 1 585**	**342**

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

Preliminary results for investments, loans and advances indicate a $194-million decrease in financing requirements compared with the March 2003 forecast. This difference can be attributed mainly to weaker-than-anticipated investments in government enterprises and a reduction in advances to certain special funds, particularly because of lower-than-expected capital expenditures.

The $55-million decline in financing requirements for capital expenditures stems essentially from the fact that net investments by departments and agencies were lower than forecast last March.

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 2002-2003, the balance of the other accounts shows a decrease of $398 million in sources of funding compared with the forecast of March 2003.

The financial requirements of consolidated organizations stemming from non-budgetary transactions are adjusted downward by $471 million, particularly because capital expenditures were less than anticipated.

Financing

Preliminary results for 2002-2003 show that the change in direct debt amounts to $5 505 million, or $4 754 million for the Consolidated Revenue Fund and $751 million for consolidated organizations. Borrowings in fiscal 2002-2003 amount to $10 536 million ($8 697 million for the Consolidated Revenue Fund and $1 839 million for consolidated organizations). It should be noted that the Consolidated Revenue Fund obtained $3 945 million in pre-financing.

TABLE 2.6

SUMMARY OF CONSOLIDATED FINANCING TRANSACTIONS
(in millions of dollars)

	2002-2003		
	Financial position as at March 11, 2003	**Preliminary results**	**Change**
Change in cash position			
Consolidated Revenue Fund	– 2 899	– 2 791	108
Consolidated organizations	856	512	– 344
Total change in cash position	**– 2 043**	**– 2 279**	**– 236**
Change in direct debt			
Consolidated Revenue Fund			
New borrowings	8 614	8 697	83
Repayment of borrowings	– 3 757	– 3 943	– 186
	4 857	4 754	– 103
Consolidated organizations			
New borrowings	1 839	1 839	—
Repayment of borrowings	– 1 068	– 1 088	– 20
	771	751	– 20
Total change in direct debt	**5 628**	**5 505**	**– 123**
Retirement plans sinking fund	**– 1 658**	**– 1 641**	**17**
Total financing of transactions	**1 927**	**1 585**	**– 342**

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.

Borrowings

In all, the government contracted borrowings of $10 699 million in 2002-2003, of which $8 697 million was for Consolidated Revenue Fund needs and $2 002 million for the Financing Fund. The borrowings of the Financing Fund are used to meet the financial requirements of consolidated organizations ($1 839 million) and certain government enterprises ($163 million).

In all, 74% of the financing program, or $7 877 million, was conducted in Canadian dollars. In regard to the main financial instruments used, the government carried out six public bond issues on the Canadian domestic market for a total of $3 038 million, and real return issues for a total of $833 million. In addition, two public issues in Canadian dollars were made on the European market for $300 million, and private-contract financing worth $638 million was carried out with the Caisse de dépôt et placement du Québec. Lastly, savings products sold by Épargne Placements Québec provided the government with $658 million in financing.

Borrowings totalling $2 822 million, or 26% of the financing program, were contracted in foreign currency as part of the government's financing sources diversification strategy. Two public bond issues and one private issue were made in foreign currency in 2002-2003. A global bond issue in US dollars for US$750 million (CAN$1 148 million, or $748 million for the needs of the Consolidated Revenue Fund and $400 million for those of consolidated organizations) was carried out in July 2002. As well, a private issue for US$50 million (CAN$76 million) and a public bond issue for 1 billion euros (CAN$1 598 million) on the euro market were carried out in February 2003.

TABLE 2.7

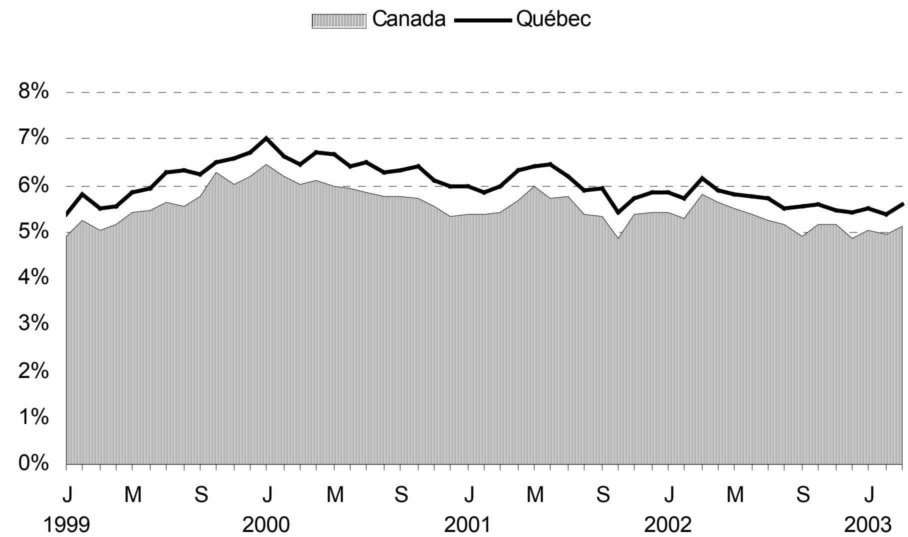
SUMMARY OF BORROWINGS IN 2002-2003
(in millions of dollars)

Currency	Consolidated Revenue Fund	Consolidated organizations	Government enterprises	Total	
					%
Canadian dollar					
Public issues					
Negotiable bonds	2 025	1 013	—	3 038	38.6
Real return bonds	833	—	—	833	10.6
Medium-term notes					
On the Canadian market	853	—	—	853	10.8
On the European market	200	100	—	300	3.8
Private issues					
Caisse de dépôt et placement du Québec	149	326	163	638	8.1
Canada Pension Plan Investment Fund	5	—	—	5	0.1
Savings products	658	—	—	658	8.3
Immigrant Investor Program	268	—	—	268	3.4
Change in Treasury bills outstanding	323	—	—	323	4.1
Change in debt resulting from currency swaps	961	—	—	961	12.2
Sub-total	**6 275**	**1 439**	**163**	**7 877**	**73.7**
US dollar					
Public issue					
Negotiable bonds	748[1]	400[1]	—	1 148	93.8
Private issue	76	—	—	76	6.2
Sub-total	**824**	**400**	**—**	**1 224**	**11.4**
Euro					
Public issue	1 598	—	—	1 598	100.0
Sub-total	**1 598**	—	—	**1 598**	**14.9**
Total	**8 697**	**1 839**	**163**	**10 699**	**100.0**

1 The original borrowing was for US$750 million (CAN$1 148 million). An amount of CAN$400 million derived from this borrowing was advanced to the Financing Fund in order to be loaned to consolidated organizations.

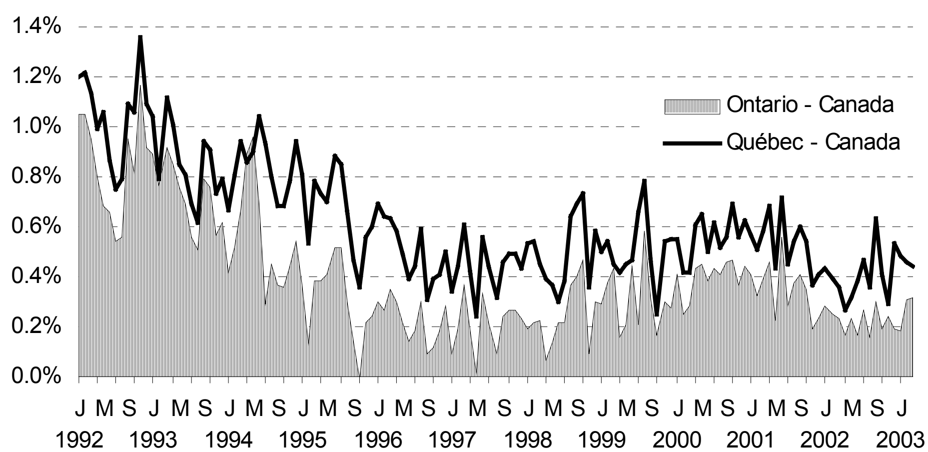
GRAPH 2.1

YIELD ON LONG-TERM (10-YEAR) SECURITIES



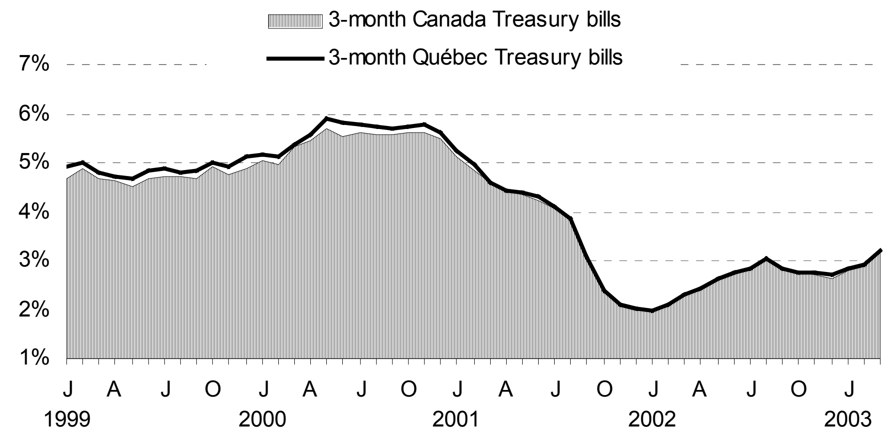
GRAPH 2.2

YIELD SPREAD ON LONG-TERM (10-YEAR) SECURITIES



GRAPH 2.3

YIELD ON SHORT-TERM SECURITIES



Total government debt

The government's total debt consists of the consolidated direct debt and the net retirement plans liability. The consolidated direct debt is the sum of the direct debt of the Consolidated Revenue Fund and the debt of consolidated organizations. As for the net retirement plans liability, it consists of the retirement plans liability minus the balance of the retirement plans sinking fund (RPSF), an asset that will eventually be used to pay the retirement benefits of public and parapublic sector employees.

Preliminary results indicate that the government's consolidated direct debt amounted to $74 121 million as at March 31, 2003, or $68 697 million as direct debt of the Consolidated Revenue Fund and $5 424 million as debt of the consolidated organizations.

It should be noted that an amount of $3 945 million included in the consolidated direct debt represents pre-financing obtained in 2002-2003 that will cover part of the borrowings to be made in 2003-2004.

The net retirement plans liability totalled $38 426 million as at March 31, 2003 and consists of $50 266 million as the retirement plans liability minus the balance of the RPSF, or $11 840 million.

Excluding pre-financing, the government's total debt was $108 602 million as at March 31, 2003.

TABLE 2.8

TOTAL GOVERNMENT DEBT AS AT MARCH 31, 2003[1]
(in millions of dollars)

	Consolidated direct debt				
	Consolidated Revenue Fund	**Consolidated organizations**	**Total**	**Net retirement plans liability**	**Total debt**
Debt as at March 31, 2003	68 697	5 424	74 121	50 266	124 387
Retirement plans sinking fund	—	—	—	– 11 840	– 11 840
Sub-total	**68 697**	**5 424**	**74 121**	**38 426**	**112 547**
Pre-financing	– 3 945	—	– 3 945	—	– 3 945
Total	**64 752**	**5 424**	**70 176**	**38 426**	**108 602**

1 Preliminary results.

Change in total government debt

The $3 430-million increase in the government's total debt in 2002-2003 can be attributed mainly to financial requirements relating to investments, loans and advances and capital expenditures.

Preliminary results show that financial requirements for investments, loans and advances amount to $1 801 million. These requirements stem in particular from the profits of certain government enterprises that were recorded as government revenue but were not paid in the form of dividends. These unpaid dividends thus represent an additional investment by the government in its government enterprises. Financial requirements for investments, loans and advances also result from investments made by the government in its enterprises.

As for capital expenditures, they entail an estimated $1 471 million in financial requirements in 2002-2003. These capital expenditures were charged to expenditure by amortizing their cost over their useful life.

TABLE 2.9

CHANGE IN TOTAL GOVERNMENT DEBT
(in millions of dollars)

		2002-2003[1]
Total debt, beginning of year		**105 172**
Financial requirements		
Investments, loans and advances	1 801	
Capital expenditures	1 471	
Other factors[2]	158	
		3 430
Total debt, end of year[3]		**108 602**

1 Preliminary results.
2 Includes notably the change in other accounts, as well as foreign exchange losses (gains) following a revaluation of the debt in foreign currency.
3 Excluding pre-financing totalling $3 945 million in 2002-2003.

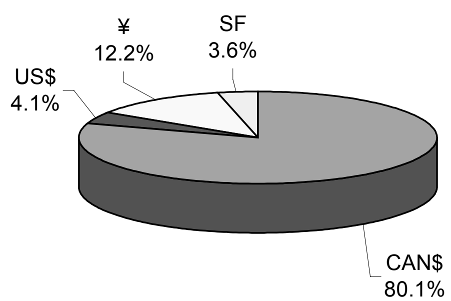
Structure of debt

As at March 31, 2003, the proportion of the direct debt of the Consolidated Revenue Fund in Canadian dollars stood at 80.1% and the proportion in foreign currency, 19.9%. In addition, as at March 31, 2003, the share at fixed interest rates and the share at variable interest rates were 67.2% and 32.8% respectively.

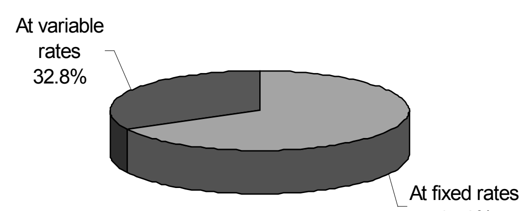
GRAPH 2.4

STRUCTURE OF THE DIRECT DEBT OF THE CONSOLIDATED REVENUE FUND AS AT MARCH 31, 2003[1, 2]

BY CURRENCY



BY INTEREST RATE



1 Preliminary results.
2 As at March 31, 2003, the proportion of managed debt (direct debt of the Consolidated Revenue Fund and that incurred for the Financing Fund) in Canadian dollars amounted to 82.8% and the proportion at fixed rates, 69.5%.

Including the debt of consolidated organizations and the net retirement plans liability, the proportion of the total debt in Canadian dollars was 87.7% and that in foreign currency, 12.3% as at March 31, 2003.

TABLE 2.10

STRUCTURE OF THE TOTAL DEBT AS AT MARCH 31, 2003[1]
(in millions of dollars)

	Consolidated direct debt							
Currency	**Consolidated Revenue Fund**	**%**	**Consolidated organizations**	**Total**	**%**	**Net retirement plans liability**	**Total debt**	**%**
Canadian dollar	55 020	80.1	5 311	60 331	81.4	38 426	98 757	87.7
US dollar	2 781	4.1	113	2 894	3.9	—	2 894	2.6
Yen	8 389	12.2	—	8 389	11.3	—	8 389	7.5
Swiss franc	2 506	3.6	—	2 506	3.4	—	2 506	2.2
Pound sterling	1	0.0	—	1	0.0	—	1	0.0
Sub-total	**68 697**	**100.0**	**5 424**	**74 121**	**100.0**	**38 426**	**112 547**	**100.0**
Pre-financing	– 3 945		—	– 3 945		—	– 3 945	
Total	**64 752**		**5 424**	**70 176**		**38 426**	**108 602**	

1 Preliminary results.

Public sector borrowings, investments and debt

Public sector borrowings and investments

Preliminary results for 2002-2003 show that gross long-term public sector borrowings amount to $17 031 million.

Gross borrowings in Canadian dollars total $12 873 million, or 75.6% of total borrowings by the public sector. Gross borrowings in US dollars total $2 109 million, or 12.4% of the total, while those in other currencies amount to $2 049 million, or 12.0% of public sector borrowings as a whole.

TABLE 2.11

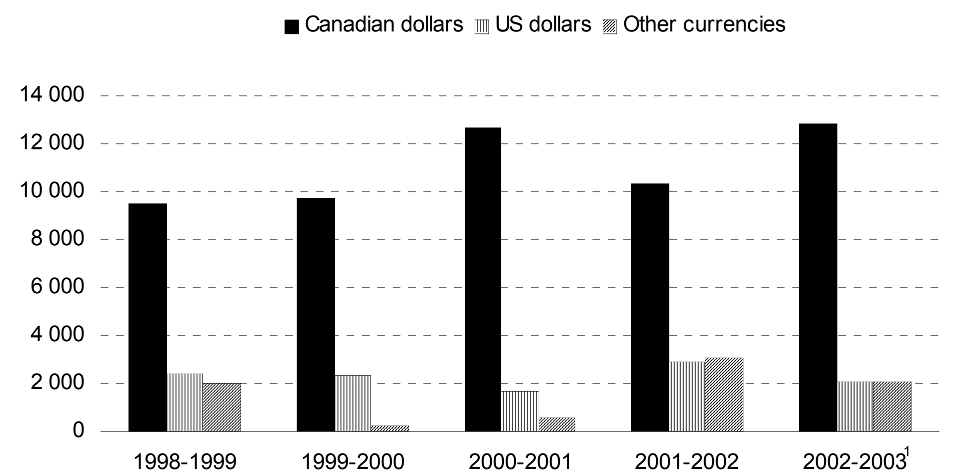
NET LONG-TERM PUBLIC SECTOR BORROWINGS
(in millions of dollars)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003[1]
Gross borrowings					
Government[2]	8 670	5 644	8 224	8 438	8 897
Educational institutions	341	1 366	1 540	1 179	2 012
Health and social services institutions	80	66	528	429	1 127
Hydro-Québec[3]	1 961	2 212	2 124	3 388	1 923
Other government enterprises	500	488	16	274	192
Municipalities and municipal bodies	2 409	2 594	2 488	2 595	2 880
Total gross borrowings	**13 961**	**12 370**	**14 920**	**16 303**	**17 031**
Repayment of borrowings	**11 362**	**12 473**	**13 103**	**12 956**	**11 275**
Sub-total	**2 599**	**– 103**	**1 817**	**3 347**	**5 756**
Pre-financing					
for the current year	– 2 831	– 506	– 1 475	– 1 154	– 3 945
for the previous year	—	2 831	506	1 475	1 154
Net long-term borrowings	**– 232**	**2 222**	**848**	**3 668**	**2 965**

1 Preliminary results.
2 Amounts borrowed to cover the requirements of the Consolidated Revenue Fund and consolidated organizations, excluding net amounts received under interest rate and currency swap agreements, which explains the difference between this list and the list of borrowings given later in this text. These amounts also exclude borrowings made to cover the requirements of certain government enterprises and Financement-Québec, which are distributed among the organizations and networks for which they are intended.
3 Amounts borrowed as at December 31 of each year.

GRAPH 2.5

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



1 Preliminary results.

To ensure that borrowings in a given fiscal year are on a basis comparable with investments and gross domestic product, pre-financing must be considered in relation to the years to which it applies. Net long-term public sector borrowings for 2003-2003 amount to $2 965 million, a decrease of $703 million compared with the previous year. Consequently, the ratio of net long-term borrowings to gross domestic product fell from 1.60% of GDP in 2001-2002 to 1.22% in 2002-2003.

GRAPH 2.6

NET LONG-TERM PUBLIC SECTOR BORROWINGS[1]
(as a percentage of GDP)

1 Adjusted by pre-financing.
2 Preliminary results.

Preliminary results show that public sector investments amount to $8 969 million in 2002-2003, $1 487 million more than the previous year. This increase can be attributed mainly to the implementation of the public sector investment acceleration plan announced in the 2002-2003 Budget and to investments under Hydro-Québec's development plan.

TABLE 2.12

PUBLIC SECTOR INVESTMENTS
(in millions of dollars)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003[1]
Government[2]	1 037	1 085	1 448	1 614	2 052
Educational institutions[3]	639	702	691	710	800
Health and social services institutions[3]	628	615	699	706	841
Hydro-Québec[4]	1 986	1 457	1 632	1 660	1 976
Other government enterprises[5]	341	376	666	934	970
Municipalities and municipal bodies[6]	1 941	1 703	1 601	1 858	2 330
Total	**6 572**	**5 938**	**6 737**	**7 482**	**8 969**

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 for other components of the public sector are therefore excluded. Government investments also include investments by consolidated organizations.
Sources: Public accounts of the gouvernement du Québec, Secrétariat du Conseil du trésor and ministère des Finances.
3 Investments by school boards, colleges, universities and health and social services institutions include the share paid by the government and that paid by the institutions themselves. It should be noted that the share paid by the government is financed by subsidies for debt service.
Sources: Secrétariat du Conseil du trésor and ministère des Finances.
4 Investments by Hydro-Québec are shown on a calendar-year basis. They exclude financial investments and commercial programs.
Sources: Hydro-Québec and ministère des Finances.
5 Investments by government enterprises correspond to the increase in long-term assets. They exclude investments by consolidated organizations and the Société québécoise d'assainissement des eaux, which are included under "Government " and "Municipalities and municipal bodies" respectively.
Sources: Financial statements of the enterprises of the gouvernement du Québec and ministère des Finances.
6 Investments by municipalities and municipal bodies also include those related to water purification, public transportation and cultural and community facilities.
Sources: Secrétariat du Conseil du trésor, ministère des Affaires municipales, du Sport et du Loisir and ministère des Finances.

The following table presents a comparative analysis of borrowings and investments by the public sector as a whole. Total net public sector borrowings include the change in the government's net retirement plans liability. Total net public sector borrowings are lower than public sector investments. In 2002-2003, the ratio of net borrowings to investments is 0.37.

TABLE 2.13

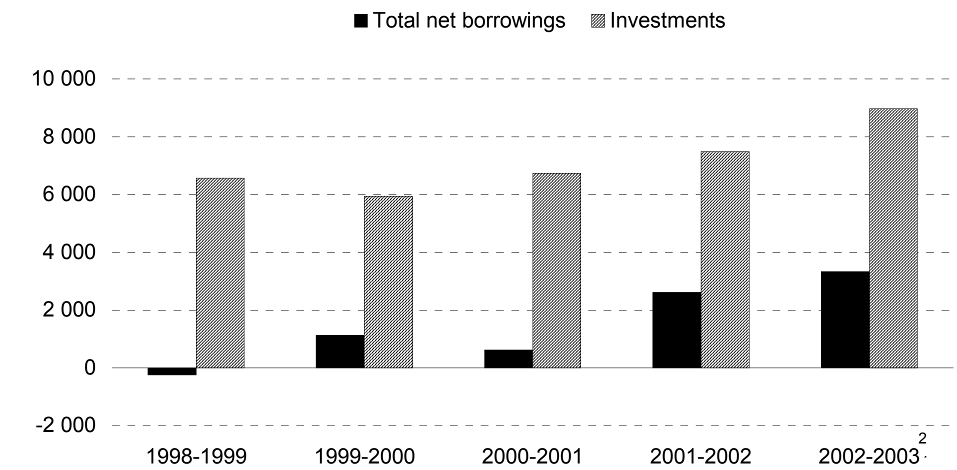
TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(in millions of dollars)

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003[1]
Net long-term borrowings[2]	– 232	2 222	848	3 668	2 965
Change in the government's net retirement plans liability[3]	– 10	– 1 091	– 226	– 1 051	366
Total net borrowings	**– 242**	**1 131**	**622**	**2 617**	**3 331**
Investments	**6 572**	**5 938**	**6 737**	**7 482**	**8 969**
Ratio	**– 0.04**	**0.19**	**0.09**	**0.35**	**0.37**

1 Preliminary results.
2 Adjusted by pre-financing.
3 This amount takes into account deposits made in the retirement plans sinking fund and the income of this fund.

GRAPH 2.7

TOTAL NET BORROWINGS[1] AND INVESTMENTS BY THE PUBLIC SECTOR
(in millions of dollars)



1 Adjusted by pre-financing.
2 Preliminary results.

Long-term public sector debt

Long-term public sector debt includes the government's total debt as well as the debts of the networks, Hydro-Québec, the municipalities and other government enterprises. In many cases, this debt has served to finance public infrastructures, such as roads, schools, hospitals, hydroelectric dams and water purification plants.

Preliminary results as at March 31, 2003 show that the public sector debt amounts to $175 673 million.

TABLE 2.14

LONG-TERM PUBLIC SECTOR DEBT[1]
(in millions of dollars)

	As at March 31				
	1999	**2000**	**2001**	**2002**	**2003[2]**
Total government debt[3]	99 572	100 546	102 741	105 172	108 602
Health and social services and education networks	7 582	7 645	8 787	9 588	11 008
Hydro-Québec	38 414	38 135	38 979	37 893	35 639
Other government enterprises	4 772	4 445	4 345	3 906	3 894
Municipalities and municipal bodies[4]	17 236	17 211	16 699	16 777	16 530
Total	**167 576**	**167 982**	**171 551**	**173 336**	**175 673**

1 Including Treasury bills outstanding of the Consolidated Revenue Fund and the Financing Fund. As at March 31, 2003, Treasury bills outstanding stood at $2 109 million for the Consolidated Revenue Fund and $1 195 million for the Financing Fund. The Treasury bills of the Financing Fund are used to meet the long-term financial requirements of consolidated organizations, the Société québécoise d'assainissement des eaux and certain government enterprises.
2 Preliminary results.
3 Consolidated direct debt and net retirement plans liability, excluding pre-financing totalling $2 831 million in 1998-1999, $506 million in 1999-2000, $1 475 million in 2000-2001, $1 154 million in 2001-2002 and $3 945 million in 2002-2003. These borrowings are attributed to the years to which they apply.
4 Includes the long-term debt of the Société québécoise d'assainissement des eaux.

Historical data and preliminary results

TABLE 2.15

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

	1999-2000	2000-2001	2001-2002	2002-2003 [1]
Budgetary transactions				
Own-source revenue	41 076	42 904	41 004	43 403
Federal transfers	6 334	8 145	9 305	9 303
Total revenue	47 410	51 049	50 309	52 706
Operating expenditure	- 40 031	- 42 066	- 43 976	- 45 570
Debt service	- 7 372	- 7 606	- 7 261	- 7 136
Total expenditure	- 47 403	- 49 672	- 51 237	- 52 706
Budgetary reserve				
Funds allocated to the reserve	—	- 950	—	—
Use of funds allocated to the reserve to finance spending and maintain a balanced budget	—	—	950	—
Budgetary surplus	**7**	**427**	**22**	**0**
Non-budgetary transactions				
Investments, loans and advances	- 2 006	- 1 632	- 1 142	- 1 801
Capital expenditures	- 359	- 473	- 995	- 1 471
Retirement plans	1 740	1 793	2 089	2 007
Other accounts	1 328	- 631	- 589	- 320
Non-budgetary surplus (requirements)	**703**	**- 943**	**- 637**	**- 1 585**
Net financial surplus (requirements)	**710**	**- 516**	**- 615**	**- 1 585**
Financing transactions				
Change in cash position	2 253	- 473	132	- 2 279
Change in direct debt[2]	- 132	3 008	3 623	5 505
Retirement plans sinking fund[3]	- 2 831	- 2 019	- 3 140	- 1 641
Total financing of transactions	**- 710**	**516**	**615**	**1 585**

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 purposes of comparison, the data are presented on the basis of the 2003-2004 budgetary and financial structure.

1 Preliminary results.

2 The change in direct debt includes new borrowings less repayment of borrowings.

3 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. Revenue generated by this fund is accumulated in it and subtracted from the interest expenditure recorded with regard to the retirement plans liability.

TABLE 2.16

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
(in millions of dollars)

	1999-2000	2000-2001	2001-2002	2002-2003 [1]
Own-source revenue				
Income and property taxes				
Personal income tax	16 074	17 116	15 923	16 081
Contributions to Health Services Fund	4 291	4 488	4 291	4 479
Corporate taxes[2]	3 643	4 217	4 029	3 735
	24 008	25 821	24 243	24 295
Consumption taxes				
Sales	6 761	7 374	7 557	8 327
Fuel	1 560	1 536	1 536	1 645
Tobacco	498	483	652	867
	8 819	9 393	9 745	10 839
Duties and permits				
Motor vehicles	667	646	662	690
Alcoholic beverages	139	146	140	157
Natural resources[3]	354	265	188	201
Other	182	180	177	178
	1 342	1 237	1 167	1 226
Miscellaneous				
Sales of goods and services	422	406	412	441
Interest	363	390	395	331
Fines, forfeitures and recoveries	345	310	371	421
	1 130	1 106	1 178	1 193
Revenue from government enterprises				
Société des alcools du Québec	442	471	489	540
Loto-Québec	1 289	1 358	1 352	1 353
Hydro-Québec	1 090	1 160	1 041	1 840
Other	1 106	507	- 151	174
	3 927	3 496	2 731	3 907
Consolidated organizations	1 850	1 851	1 940	1 943
Total own-source revenue	**41 076**	**42 904**	**41 004**	**43 403**
Federal transfers				
Programs				
Equalization	4 387	5 650	5 336	5 315
Canada Health and Social Transfer	1 120	1 597	2 958	2 648
Contributions to welfare programs	11	—	—	—
Other transfers related to fiscal arrangements	11	30	27	34
Other programs	535	618	564	935
Consolidated organizations	270	250	420	371
Total federal transfers	**6 334**	**8 145**	**9 305**	**9 303**
Total budgetary revenue	**47 410**	**51 049**	**50 309**	**52 706**

1 Preliminary results.
2 Includes tax on corporate profits, tax on capital and tax on insurance company premiums, as well as tax on telecommunications, gas and electricity beginning in 2000-2001.
3 Includes forest, mining and hydraulic resources.

TABLE 2.17

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
(in millions of dollars)

Departments and agencies	1999-2000	2000-2001	2001-2002	2002-2003 [1]
Operating expenditure				
Assemblée nationale	74	80	88	92
Personnes désignées par l'Assemblée nationale	41	42	50	63
Affaires municipales, Sport et Loisir	1 140	1 391	1 629	1 588
Agriculture, Pêcheries et Alimentation	513	714	651	641
Conseil du trésor et Administration gouvernementale	384	446	471	450 [2]
Conseil exécutif	179	61	72	115
Culture et Communications	484	530	484	492
Développement économique et régional	961	1 093	1 004	1 065
Education	9 825	10 130	10 549	11 088
Emploi, Solidarité sociale et Famille	5 598	5 659	5 766	5 952
Environnement	223	158	180	177
Finances (excluding debt service)	90	115	118	147 [2]
Justice	459	468	509	542
Relations avec les citoyens et Immigration	149	185	220	246
Relations internationales	98	104	111	110
Ressources naturelles, Faune et Parcs	601	561	501	507
Revenu	721	715	613	655
Santé et Services sociaux	14 831	16 101	17 196	17 828
Sécurité publique	701	744	800	871
Transports	1 578	1 507	1 412	1 427
Travail	81	79	88	70
Program spending	38 731	40 883	42 512	44 126
Consolidated organizations	1 300	1 183	1 464	1 444
Total operating expenditure	**40 031**	**42 066**	**43 976**	**45 570**
Debt service				
Consolidated Revenue Fund	6 751	6 972	6 687	6 536
Consolidated organizations	621	634	574	600
Total debt service	**7 372**	**7 606**	**7 261**	**7 136**
Total budgetary expenditure	**47 403**	**49 672**	**51 237**	**52 706**

1 Preliminary results.
2 These amounts contain provisions that allow appropriations to be transferred to other departments and agencies between the date the Budget documents are produced and the end of the fiscal year.

TABLE 2.18

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

	1999-2000	2000-2001	2001-2002	2002-2003 [1]
Investments, loans and advances				
Consolidated Revenue Fund				
GOVERNMENT ENTERPRISES				
Shares and investments				
Société générale de financement du Québec	- 150	- 350	- 550	- 200
Société Innovatech du Grand Montréal	- 35	- 42	- 20	- 50
Société Innovatech Québec et Chaudière-Appalaches	- 9	- 11	- 29	- 30
Société Innovatech Sud du Québec	- 4	- 6	- 19	- 11
Société Innovatech Régions ressources	- 8	- 13	- 12	- 8
Other	- 1	- 3	- 18	- 41
	- 207	- 425	- 648	- 340
Change in the equity value of investments	- 1 782	- 1 157	- 371	- 1 283
Loans and advances				
Société générale de financement du Québec	14	—	—	—
Other	10	—	—	—
	24	—	—	—
Total government enterprises	- 1 965	- 1 582	- 1 019	- 1 623
INDIVIDUALS, CORPORATIONS AND OTHERS	- 53	- 20	- 173	- 46
MUNICIPALITIES AND MUNICIPAL BODIES	6	1	4	3
	- 2 012	- 1 601	- 1 188	- 1 666
Consolidated organizations	6	- 31	46	- 135
Total investments, loans and advances	**- 2 006**	**- 1 632**	**- 1 142**	**- 1 801**

Capital expenditures				
Consolidated Revenue Fund				
Net investments	- 85	- 144	- 135	- 205
Amortization	354	334	193	207
	269	190	58	2
Consolidated organizations	- 628	- 663	- 1 053	- 1 473
Total capital expenditures	**- 359**	**- 473**	**- 995**	**- 1 471**

TABLE 2.18 (CONT.)

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

	1999-2000	2000-2001	2001-2002	2002-2003 [1]
Retirement plans				
Contributions by the government as employer:				
RREGOP and PPMP:				
Cost of vested benefits[2]	743	990	1 014	1 084
Amortization of actuarial gain (-) or loss	82	66	141	155
Cost of changes	44	—	—	—
Other plans:				
Cost of vested benefits[2]	151	166	147	142
Amortization of actuarial gain (-) or loss	57	26	65	70
Cost of changes	—	—	28	3
Total government contribution	1 077	1 248	1 395	1 454
Contributions by independent employers	24	—	4	4
Participants' contributions	124	106	88	73
Total contributions	148	106	92	77
Benefits, repayments and administrative expenses	- 2 336	- 2 567	- 2 720	- 2 913
Interest on retirement plans liability charged to debt service[3]	2 851	3 006	3 322	3 389
Total retirement plans	**1 740**	**1 793**	**2 089**	**2 007**
Other accounts				
Consolidated Revenue Fund	1 021	- 490	- 652	- 395
Consolidated organizations	307	- 141	63	75
Total other accounts	**1 328**	**- 631**	**- 589**	**- 320**
Total non-budgetary transactions	**703**	**- 943**	**- 637**	**- 1 585**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.
1 Preliminary results.
2 Cost of retirement benefits vested during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.
3 Excluding revenue generated by the retirement plans sinking fund.

TABLE 2.19

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
(in millions of dollars)

	1999-2000	2000-2001	2001-2002	2002-2003 [1]
Change in cash position				
Consolidated Revenue Fund	2 325	- 969	323	-2 791
Consolidated organizations	- 72	496	- 191	512
Total change in cash position	**2 253**	**- 473**	**132**	**-2 279**
Change in direct debt				
Consolidated Revenue Fund				
New borrowings	5 189	7 569	7 700	8 697
Repayment of borrowings	- 5 509	- 4 616	- 4 890	- 3 943
	- 320	2 953	2 810	4 754
Consolidated organizations				
New borrowings	891	1 025	1 311	1 839
Repayment of borrowings	- 703	- 970	- 498	- 1 088
	188	55	813	751
Total change in direct debt	**- 132**	**3 008**	**3 623**	**5 505**
Retirement plans sinking fund[2]	**- 2 831**	**- 2 019**	**- 3 140**	**- 1 641**
Total financing of transactions	**- 710**	**516**	**615**	**1 585**

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 Preliminary results.

2 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. Revenue generated by this fund is accumulated in it and subtracted from the interest expenditure recorded with regard to the retirement plans liability.

TABLE 2.20

BORROWINGS FOR THE CONSOLIDATED REVENUE FUND IN 2002-2003

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)		%			$	%
493	-	6.00	April 8	2012-10-01	98.685	6.172
484	-	6.25	May 21	2032-06-01	96.727	6.499
748	US$489 [4]	5.00	July 17	2009-07-17	99.417	5.100
104	-	6.00	November 15	2012-10-01	104.251	5.437
200 [5]	-	4.50 [6]	November 29	2007-11-29	99.740	4.559
526	-	6.00	January 13	2012-10-01	105.120	5.317
418	-	6.25	January 27	2032-06-01	103.647	5.984
76 [7]	US$50	Variable	February 7	2013-02-07	100.000	Variable
1 598	€1 000	4.25 [6]	February 27	2013-02-27	99.322	4.335
833 [8]	-	Varied	Varied	Varied	Varied	Varied
149 [9]	-	Varied	Varied	Varied	Varied	Varied
853 [10]	-	Varied	Varied	Varied	Varied	Varied
658 [11]	-	Varied	Varied	Varied	Varied	Varied
5 [12]	-	Varied	Varied	Varied	Varied	Varied
268 [13]	-	Varied	Varied	Varied	Varied	Varied
323 [14]	-	Varied	Varied	Varied	Varied	Varied
961 [15]	Varied	Varied	Varied	Varied	Varied	Varied
8 697						

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 The original borrowing totalled US$750 million, or CAN$1 148 million. An amount of CAN$400 million derived from this borrowing was advanced to the Financing Fund in order to be loaned to consolidated organizations.
5 Medium-term notes on the European market.
6 Interest payable annually.
7 Private borrowing.
8 Real return bonds. The principal and the interest rate of these bonds are adjusted according to the change in the Consumer Price Index in Canada.
9 Borrowings fully subscribed by the Caisse de dépôt et placement du Québec.
10 Medium-term notes on the Canadian market.
11 Savings products issued by Épargne Placements Québec.
12 Borrowings from the Canada Pension Plan Investment Fund.
13 Immigrant Investor Program.
14 Represents the net increase in Treasury bills outstanding during the fiscal year.
15 Amount received under interest rate and currency swap agreements.
Note: The Québec government has credit agreements with various banks and financial institutions for a total of US$3 500 million. None of these credit agreements is being drawn upon.

TABLE 2.21

BORROWINGS FOR THE FINANCING FUND IN 2002-2003

	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)		%			$	%
A. Borrowings for consolidated organizations							
	496	-	6.00	April 26	2012-10-01	99.277	6.094
	50 [4]	-	6.00	May 3	2012-10-01	99.596	6.052
	55 [4]	-	6.00	May 10	2029-10-01	94.955	6.392
	22 [4]	-	6.00	June 12	2012-10-01	100.409	5.945
	400	US$261 [5]	5.00	July 17	2009-07-17	99.417	5.100
	53 [4]	-	6.25	September 6	2010-12-01	106.889	5.209
	52 [4]	-	6.00	September 6	2012-10-01	104.727	5.385
	75 [4]	-	Variable	October 15	2007-10-01	100.000	Variable
	19 [4]	-	6.50	October 15	2007-10-01	108.979	4.462
	417	-	6.00	November 15	2012-10-01	104.251	5.437
	100	-	6.25	January 27	2032-06-01	103.647	5.984
	100 [6]	-	4.50 [7]	February 6	2007-11-29	100.216	4.446
Sub-total	**1 839**						
B. Borrowings for certain government enterprises							
	101 [4]	-	6.25	June 19	2032-06-01	100.564	6.208
	62 [4]	-	6.00	September 19	2029-10-01	100.612	5.954
Sous-total	**163**						
Total	**2 002**						

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Borrowings fully subscribed by the Caisse de dépôt et placement du Québec.
5 Amount derived from the borrowing of US$750 million (CAN$1 148 million) contracted by the Consolidated Revenue Fund.
6 Medium-term notes on the European market.
7 Interest payable annually.

TABLE 2.22

BORROWINGS BY FINANCEMENT-QUÉBEC IN 2002-2003

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)		%			$	%
495	—	5.75	April 2	2008-12-01	99.114	5.911
450[4]	€300	Variable[5]	July 3	2008-12-03	99.892	Variable
525	—	5.75	September 17	2008-12-01	104.950	4.816
778	US$500	5.00	October 25	2012-10-25	99.232	5.099
– 4[6]	Varied	Varied	Varied	Varied	Varied	Varied
2 244						

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Medium-term notes on the European market.
5 Interest payable quarterly.
6 Amount received (disbursed) under interest rate and currency swap agreements.

TABLE 2.23

BORROWINGS BY HYDRO-QUÉBEC IN 2002[1]

Amount in Canadian dollars [2]	Face value in foreign currency	Interest rate[3]	Date of issue	Date of maturity	Price to investor	Yield to investor[4]
(in millions)		%			$	%
1 861[5]	—	Varied	Varied	Varied	Varied	Varied
62[6]	Varied	Varied	Varied	Varied	Varied	Varied
1 923						

1 Borrowings contracted as at December 31, 2002.
2 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
3 Interest payable semi-annually except if another frequency is indicated in a note.
4 Yield to investor is determined on the basis of interest payable semi-annually.
5 Medium-term notes on the Canadian market.
6 Amount received under interest rate and currency swap agreements.
Note: Hydro-Québec has credit agreements with various banks and financial institutions for a total of US$1 500 million. None of the credit agreements was being drawn upon at December 31, 2002.

Section 3

The Government's Budgetary and Financial Stance

Appendix

Financial outlook for 2003-2004

The government's Budget Plan provides for a balanced budget in 2003-2004.

TABLE 3.1

SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS[1, 2]
(in millions of dollars)

	2002-2003 P	2003-2004
Budgetary transactions		
Own-source revenue	43 403	45 365
Federal transfers	9 303	9 584
Total revenue	**52 706**	**54 949**
Operating expenditure	– 45 570	– 47 437
Debt service	– 7 136	– 7 512
Total expenditure	**– 52 706**	**– 54 949**
Budgetary surplus	**0**	**0**
Non-budgetary requirements	**– 1 585**	**– 1 823**
Net financial requirements		
Consolidated Revenue Fund	– 322	– 300
Consolidated organizations	– 1 263	– 1 523
Total	**– 1 585**	**– 1 823**

P: Preliminary results.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.
2 Based on the budgetary and financial structure in effect in 2003-2004.

Net financial requirements will total $1 823 million in 2003-2004.

The net financial requirements of the Consolidated Revenue Fund for fiscal 2003-2004 will be $300 million.

As for the net financial requirements of consolidated organizations, they will amount to $1 523 million in 2003-2004. These requirements stem mainly from investments by the Fonds de conservation et d'amélioration du réseau routier.

Government revenue

Budgetary revenue

The government's budgetary revenue should total $54 949 million in 2003-2004, i.e. $45 365 million in own-source revenue and $9 584 million in federal transfers. Budgetary revenue should increase by 4.3% in 2003-2004.

TABLE 3.2

CHANGE IN BUDGETARY REVENUE
(in millions of dollars)

	2002-2003 P	2003-2004
Own-source revenue	43 403	45 365
% change	5.9	4.5
Federal transfers	9 303	9 584
% change	—	3.0
Budgetary revenue	**52 706**	**54 949**
% change	4.8	4.3
Nominal GDP growth rate in %	5.8	5.2
Inflation rate in Canada in %	2.2	3.0

P: Preliminary results.

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

Own-source revenue

Own-source revenue should climb by 4.5% in 2003-2004 compared with the previous year. Excluding government enterprises and consolidated organizations, revenue growth is 4.9%, or slightly less than the increase in nominal GDP.

TABLE 3.3

CHANGE IN OWN-SOURCE REVENUE BY SOURCE
(in millions of dollars)

	2002-2003 P	2003-2004
Personal income tax	16 081	16 891
% change	1.0	5.0
Health Services Fund	4 479	4 640
% change	4.4	3.6
Corporate taxes	3 735	3 926
% change	– 7.3	5.1
Consumption taxes	10 839	11 567
% change	11.2	6.7
Other revenue	2 419	2 364
% change	3.2	– 2.3
Sub-total	**37 553**	**39 388**
% change	**3.4**	**4.9**
Government enterprises	3 907	3 942
% change	43.1	0.9
Consolidated organizations	1 943	2 035
% change	0.2	4.7
Own-source revenue	**43 403**	**45 365**
% change	**5.9**	**4.5**
Nominal GDP growth rate in %[1]	5.8	5.2

P: Preliminary results.
1 For the calendar year ending three months before the end of the fiscal year.

More specifically, the growth rate of revenue from personal income tax should be 5.0% in 2003-2004, which, given the progressive nature of the tax system, is compatible with the increase in revenue subject to tax. As for the growth rate of the Health Services Fund, it should be 3.6%, which is comparable to that of wages and salaries over the same period. The 5.1% increase anticipated in revenue from corporate taxes reflects the robustness of profits, the tightening measures announced in this Budget and the impact of fiscal measures implemented by previous budgets.

The 6.7% rise in consumption tax revenue reflects essentially the growth in household consumer spending. This rise also reflects the impact of the improvement to the method used to establish revenue from these taxes for the purpose of considering all remittances related to sales made prior to March 31.

Revenue from government enterprises should grow by $35 million in 2003-2004. The $715-million increase in revenue from government enterprises as a whole in 2003-2004 more than offsets the decline in revenue stemming from eliminating the investment in the CSST, which generated $680 million in revenue in 2002-2003.

Federal transfers

After remaining stable in 2002-2003, federal transfers should climb by 3.0% in 2003-2004, since the increase in CHST revenue resulting from the federal government's February 2003 announcement on health care is largely offset by a substantial reduction in equalization revenue.

The 22% decline in equalization revenue in 2003-2004 can be attributed mainly to Québec's good economic performance in 2002 and to the repayment of a shortfall stemming from the use of new data on residential capital stock for the purposes of the property tax base. It should be noted that the federal government indicated in February 2002 that Québec would suffer a shortfall of $655 million in equalization because of the use of this new data. To limit the impact on the Québec government's financial framework of this change in the program, made between two renewals, the federal government agreed to defer and spread the impact over five years, beginning in 2003-2004.

TABLE 3.4

CHANGE IN FEDERAL TRANSFER REVENUE
(in millions of dollars)

	2002-2003^P	2003-2004
Equalization	5 315	4 145
Canada Health and Social Transfer (CHST)	2 648	4 133[1]
Other transfers related to fiscal arrangements	34	15
Other programs	935	895
Consolidated organizations	371	396
Total federal transfers	**9 303**	**9 584**
% change	—	3.0

P: Preliminary results.
1 Including $1 647 million relating to the federal announcement of February 2003 on health care.

A still substantial fiscal imbalance

During the First Minister's meeting in February 2003, the federal government announced a $10-billion increase in its transfers to the provinces over three years. Furthermore, an additional $2 billion will be paid to the provinces in 2003-2004 if the federal surplus reaches $5 billion. For Québec, the federal announcement represents an additional $2.8 billion for the next three years. This amount includes Québec's share of the additional $2 billion in 2003-2004, i.e. $472 million.

TABLE 3.5

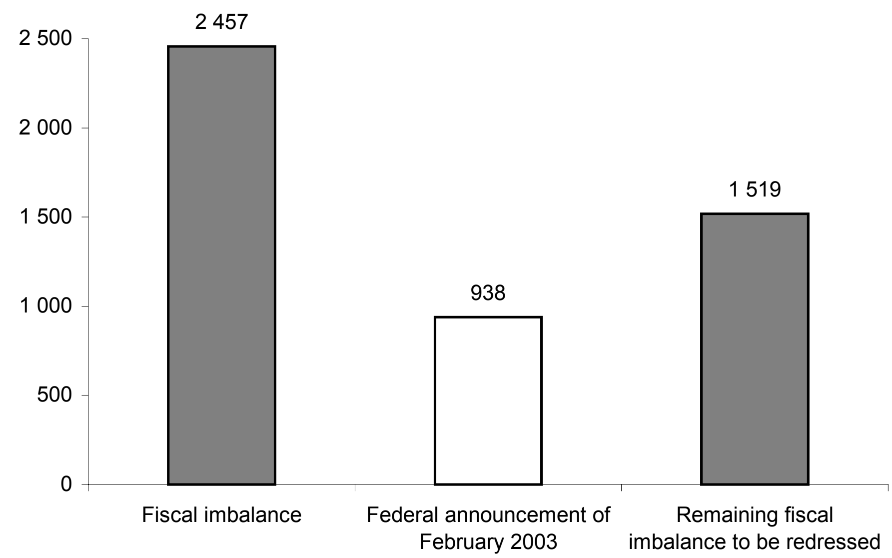
IMPACT IN QUÉBEC OF THE FEDERAL ANNOUNCEMENT OF FEBRUARY 2003 ON HEALTH CARE
(in millions of dollars)

	2003-2004	2004-2005	2005-2006	Total
Health Reform Fund	**236**	**352**	**816**	**1 404**
Trust accounts				
CHST supplement	587	—	—	587
Diagnostic/Medical Equipment Fund	352	—	—	352
Sub-total	**939**	**—**	**—**	**939**
Total	**1 175**	**352**	**816**	**2 343**
Québec's share of the additional $2 billion to be granted if the federal surplus reaches $5 billion in 2003-2004	472	—	—	472
Total	**1 647**	**352**	**816**	**2 815**

The announcement of February 2003 thus represents, on average, an annual increase of $938 million in federal funding between now and 2005-2006. The federal announcement is less than the amount needed to correct the current fiscal imbalance between the federal government and Québec. An additional increase of roughly $1.5 billion in federal transfers would still be needed on average every year to correct the $2.5-billion fiscal imbalance identified by the Commission sur le déséquilibre fiscal.

GRAPH 3.1

COMPARISON BETWEEN THE SCOPE OF THE FISCAL IMBALANCE IN QUÉBEC AND THE FEDERAL ANNOUNCEMENT OF FEBRUARY 2003, AVERAGE FOR 2003-2004 TO 2005-2006
(in millions of dollars)



Sources: Conference Board of Canada, Fiscal Prospects for the Federal and Québec Governments, and Finance Canada, The Budget Plan 2003.

Government expenditure

The government's budgetary expenditure should total $54 949 million in 2003-2004. Operating expenditure will amount to $47 437 million, while debt service will total $7 512 million.

Operating expenditure includes the program spending of government departments and the expenditures of consolidated organizations. It will rise by 4.1% in 2003-2004, which is less than the anticipated growth of GDP, i.e. 5.2%. Program spending will climb by 3.8% in 2003-2004.

The anticipated increase in debt service as of 2003-2004 is due in particular to the expected hike in interest rates.

TABLE 3.6

CHANGE IN BUDGETARY EXPENDITURE
(in millions of dollars)

	2002-2003P	2003-2004
Operating expenditure		
Program spending forecast on March 11, 2003	– 44 104	– 46 593
% change	3.7	5.6
Additional spending	– 22	—
Revision of objective	—	793
Program spending	**– 44 126**	**– 45 800**
% change	3.8	3.8
Consolidated organizations	– 1 444	– 1 637
Total operating expenditure	**– 45 570**	**– 47 437**
% change	3.6	4.1
Debt service		
Consolidated Revenue Fund	– 6 536	– 6 862
% change	– 2.3	5.0
Consolidated organizations	– 600	– 650
Total debt service	**– 7 136**	**– 7 512**
% change	– 1.7	5.3
Budgetary expenditure	**– 52 706**	**– 54 949**
% change	2.9	4.3
Nominal GDP growth rate in %[1]	5.8	5.2
Inflation rate in Canada in %	2.2	3.0

P: Preliminary results.
1 For the calendar year ending three months before the end of the fiscal year.

The total debt continues to increase despite the achievement of a balanced budget

The government's total debt, which was $97 732 million as at March 31, 1998 should reach $111 543 million as at March 31, 2004. This represents an increase of $13 811 million, or 14.1%, despite the fact that a balanced budget has been achieved since 1998-1999.

This substantial growth is due primarily to two factors: a $9 797-million rise in the value of the government's investments in its enterprises and a $4 849-million increase in capital investments.

TABLE 3.7

FACTORS RESPONSIBLE FOR GROWTH OF TOTAL DEBT
(in millions of dollars)

	Debt at beginning of year	Investments, loans and advances	Capital expenditures	Deficit (surplus)	Other factors[1]	Debt at end of year[2]	Change
1998-1999	97 732	1 402	217	– 126	347	99 572	1 840
1999-2000	99 572	2 006	359	– 7	– 1 384	100 546	974
2000-2001	100 546	1 632	473	– 427	517	102 741	2 195
2001-2002	102 741	1 142	995	– 22	316	105 172	2 431
2002-2003[P]	105 172	1 801	1 471	0	158	108 602	3 430
Sub-total		7 983	3 515	– 582	– 46		10 870
2003-2004	108 602	1 814	1 334	0	– 207	111 543	2 941
Total		**9 797**	**4 849**	**– 582**	**– 253**		**13 811**

P: Preliminary results.
1 Includes notably the change in other accounts as well as foreign exchange losses (gains) following a revaluation of the debt in foreign currency.
2 Excluding pre-financing obtained during the year.

The $9 797-million increase in investments, loans and advances can be attributed mainly to the nearly $7-billion climb in the equity value of the government's investments in its enterprises, particularly Hydro-Québec, and to investments of close to $2.1 billion in its enterprises.

TABLE 3.8

CHANGE IN INVESTMENTS, LOANS AND ADVANCES
(in millions de dollars)

	Investments and change in equity value				
	Investments in government enterprises[1]	Hydro-Québec	Other enterprises	Loans and advances	Total
1998-1999	184	475	807	– 64	1 402
1999-2000	207	637	1 145	17	2 006
2000-2001	425	621	536	50	1 632
2001-2002	648	487	– 116	123	1 142
2002-2003[P]	340	1 077	206	178	1 801
2003-2004	300	1 225	– 222	511	1 814
Total	**2 104**	**4 522**	**2 356**	**815**	**9 797**

P: Preliminary results.
1 Including mainly investments in the Société générale de financement (SGF) and the Innovatech corporations.

Last March 11, it was forecast that investments in government corporations would amount to $646 million in 2003-2004. Since the government will embark on in-depth review of the mandates of its corporations, particularly the SGF and the Innovatech corporations, in order to reduce their interventions, this amount is revised preliminarily to $300 million.

The review will also cover all loans and advances granted. The forecasted amount of these loans and advances in 2003-2004 will be revised after all issues have been examined.

Section 3 Appendix 3.1

Additional information on the government's financial position

TABLE 3.1.1

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS[1]
(in millions of dollars)

	Budgetary transactions							
	Own-source revenue	Federal transfers	Budgetary revenue	Operating expenditure	Debt service	Budgetary expenditure	Budgetary reserve	Surplus (deficit) after reserve
Before reform of government accounting								
1970-1971	2 748	1 094	3 842	– 3 790	– 197	– 3 987		– 145
1971-1972	3 183	1 293	4 476	– 4 621	– 210	– 4 831		– 355
1972-1973	3 743	1 261	5 004	– 5 109	– 242	– 5 351		– 347
1973-1974	4 371	1 376	5 747	– 6 118	– 288	– 6 406		– 659
1974-1975	5 367	1 871	7 238	– 7 384	– 296	– 7 680		– 442
1975-1976	6 110	2 222	8 332	– 8 915	– 368	– 9 283		– 951
1976-1977	7 131	2 520	9 651	– 10 371	– 456	– 10 827		– 1 176
1977-1978	8 012	3 088	11 100	– 11 198	– 606	– 11 804		– 704
1978-1979	8 535	3 268	11 803	– 12 484	– 817	– 13 301		– 1 498
1979-1980	9 472	3 754	13 226	– 14 656	– 970	– 15 626		– 2 400
1980-1981	10 772	3 894	14 666	– 16 765	– 1 382	– 18 147		– 3 481
1981-1982	13 471	4 473	17 944	– 18 615	– 1 950	– 20 565		– 2 621
1982-1983	14 756	5 172	19 928	– 20 091	– 2 300	– 22 391		– 2 463
1983-1984	15 766	6 227	21 993	– 21 646	– 2 511	– 24 157		– 2 164
1984-1985	16 215	6 236	22 451	– 23 312	– 3 012	– 26 324		– 3 873
1985-1986	18 129	6 178	24 307	– 24 426	– 3 354	– 27 780		– 3 473
1986-1987	19 919	5 828	25 747	– 25 163	– 3 556	– 28 719		– 2 972
1987-1988	22 366	6 117	28 483	– 27 204	– 3 675	– 30 879		– 2 396
1988-1989	23 772	6 386	30 158	– 28 060	– 3 802	– 31 862		– 1 704
1989-1990	24 845	6 674	31 519	– 29 268	– 4 015	– 33 283		– 1 764
1990-1991	26 632	6 972	33 604	– 32 142	– 4 437	– 36 579		– 2 975
1991-1992	28 329	6 747	35 076	– 34 711	– 4 666	– 39 377		– 4 301
1992-1993	28 237	7 764	36 001	– 36 275	– 4 756	– 41 031		– 5 030
1993-1994	28 899	7 762	36 661	– 36 268	– 5 316	– 41 584		– 4 923
1994-1995	29 543	7 494	37 037	– 36 976	– 5 882	– 42 858		– 5 821
1995-1996	30 736	8 126	38 862	– 36 775	– 6 034	– 42 809		– 3 947
1996-1997	31 266	6 704	37 970	– 35 327	– 5 855	– 41 182		– 3 212
After reform of government accounting								
1997-1998	35 886	5 974	41 860	– 36 675	– 7 342	– 44 017		– 2 157
1998-1999	38 649	8 071	46 720	– 39 407	– 7 187	– 46 594		126
1999-2000	41 076	6 334	47 410	– 40 031	– 7 372	– 47 403		7
2000-2001	42 904	8 145	51 049	– 42 066	– 7 606	– 49 672	– 950	427
2001-2002	41 004	9 305	50 309	– 43 976	– 7 261	– 51 237	950	22
2002-2003 P	43 403	9 303	52 706	– 45 570	– 7 136	– 52 706		0

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

Non-budgetary transactions					
Investments, loans and advances	**Capital expenditures**	**Retirement plans**	**Other accounts**	**Excess amount (shortfall)**	**Net financial surplus (requirements)**
– 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	578	945	– 4 876
– 287		1 701	– 415	999	– 2 948
– 792		1 928	– 60	1 076	– 2 136
– 1 315	– 209	1 888	109	473	– 1 684
– 1 402	– 217	1 020	996	397	523
– 2 006	– 359	1 740	1 328	703	710
– 1 632	– 473	1 793	– 631	– 943	– 516
– 1 142	– 995	2 089	– 589	– 637	– 615
– 1 801	– 1 471	2 007	– 320	– 1 585	– 1 585

TABLE 3.1.2

GOUVERNEMENT DU QUÉBEC
DEBT AT THE END OF THE FISCAL YEAR

	Total debt					
	Direct debt[1, 2]		Net retirement plans liability[3]		Total	
	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP
Before reform of government accounting						
1970-1971	2 478	10.9			2 478	10.9
1971-1972	2 920	11.9			2 920	11.9
1972-1973	3 309	12.0			3 309	12.0
1973-1974	3 679	11.8			3 679	11.8
1974-1975	4 030	11.0	67	0.2	4 097	11.1
1975-1976	4 955	12.0	179	0.4	5 134	12.4
1976-1977	6 035	12.5	354	0.7	6 389	13.2
1977-1978	7 111	13.4	620	1.2	7 731	14.6
1978-1979	8 325	14.1	915	1.6	9 240	15.7
1979-1980	9 472	14.4	1 598	2.5	11 070	16.9
1980-1981	12 247	16.8	2 420	3.3	14 667	20.1
1981-1982	14 184	17.6	3 428	4.3	17 612	21.9
1982-1983	16 485	19.3	4 489	5.3	20 974	24.6
1983-1984	18 880	20.6	5 545	6.0	24 425	26.6
1984-1985	21 216	21.2	6 729	6.7	27 945	27.9
1985-1986	23 633	22.0	7 998	7.5	31 631	29.5
1986-1987	25 606	21.9	9 353	7.9	34 959	29.8
1987-1988	26 819	20.9	10 883	8.5	37 702	29.4
1988-1989	27 091	19.2	12 597	9.0	39 688	28.2
1989-1990	27 699	18.7	14 320	9.6	42 019	28.3
1990-1991	29 637	19.3	16 227	10.6	45 864	29.9
1991-1992	33 106	21.3	18 143	11.7	51 249	33.0
1992-1993	39 231	24.8	19 668	12.4	58 899	37.2
1993-1994	45 160	27.8	20 483	12.7	65 643	40.5
1994-1995	52 468	30.8	21 997	12.9	74 465	43.7
1995-1996	52 886	29.8	23 624	13.3	76 510	43.1
1996-1997	52 625	29.2	25 461	14.1	78 086	43.3
After reform of government accounting						
1997-1998	57 294	30.4	40 438	21.5	97 732	51.9
1998-1999	59 144[4]	30.1	40 428	20.6	99 572[4]	50.7
1999-2000	61 209[4]	29.1	39 337	18.7	100 546[4]	47.8
2000-2001	63 630[4]	28.4	39 111	17.4	102 741[4]	45.8
2001-2002	67 112[4]	29.2	38 060	16.6	105 172[4]	45.8
2002-2003[P]	70 176[4]	28.9	38 426	15.8	108 602[4]	44.7

P: Preliminary results.
1 Including Treasury bills and long-term debt. As of 1976-1977, the debt in foreign currency has been expressed in the Canadian equivalent based on the exchange rates effective on March 31 of the fiscal year under consideration.
2 Excluding deferred foreign exchange gains or losses.
3 Balance of the retirement plans liability less amount accumulated in the retirement plans sinking fund.
4 Excluding pre-financing totalling $2 831 million in 1998-1999, $506 million in 1999-2000, $1 475 million in 2000-2001, $1 154 million in 2001-2002 and $3 945 million in 2002-2003. Including pre-financing, the total debt reached $102 403 million in 1998-1999, $101 052 million in 1999-2000, $104 216 million in 2000-2001, $106 326 million in 2001-2002 and $112 547 million in 2002-2003.

Financial assets net of other liabilities[5]		Net debt		Capital expenditures		Debt representing accumulated deficits[6]	
In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP
188	0.8	2 290	10.1			2 290	10.1
275	1.1	2 645	10.8			2 645	10.8
317	1.2	2 992	10.9			2 992	10.9
28	0.1	3 651	11.7			3 651	11.7
4	0.0	4 093	11.1			4 093	11.1
90	0.2	5 044	12.2			5 044	12.2
36	0.1	6 353	13.2			6 353	13.2
673	1.3	7 058	13.4			7 058	13.4
780	1.3	8 460	14.4			8 460	14.4
234	0.4	10 836	16.5			10 836	16.5
341	0.5	14 326	19.6			14 326	19.6
5 043	6.3	12 569	15.6			12 569	15.6
5 936	7.0	15 038	17.6			15 038	17.6
7 127	7.8	17 298	18.8			17 298	18.8
6 490	6.5	21 455	21.4			21 455	21.4
5 896	5.5	25 735	24.0			25 735	24.0
6 243	5.3	28 716	24.5			28 716	24.5
6 587	5.1	31 115	24.2			31 115	24.2
6 869	4.9	32 819	23.3			32 819	23.3
7 436	5.0	34 583	23.3			34 583	23.3
8 306	5.4	37 558	24.5			37 558	24.5
9 364	6.0	41 885	27.0			41 885	27.0
11 985	7.6	46 914	29.6			46 914	29.6
13 806	8.5	51 837	32.0			51 837	32.0
16 788	9.8	57 677	33.8			57 677	33.8
14 886	8.4	61 624	34.8			61 624	34.8
13 253	7.3	64 833	35.9			64 833	35.9
9 135	4.8	88 597	47.0	6 016	3.2	82 581	43.8
13 593[7]	6.9	88 810	45.3	6 233	3.2	82 577	42.1
11 890[7]	5.7	89 162	42.4	6 693	3.2	82 469	39.2
15 058[7, 8]	6.7	89 158	39.8	7 166	3.2	81 992[8]	36.6
14 065[7]	6.1	92 261	40.2	8 161	3.6	84 100	36.6
18 600[7]	7.7	93 947	38.7	9 632	4.0	84 315[9]	34.7

5 Including deferred foreign exchange gains or losses.
6 Including various accounting adjustments that have not undergone a surplus (deficit) adjustment for previous years.
7 Taking into account pre-financing totalling $2 831 million in 1998-1999, $506 million in 1999-2000, $1 475 million in 2000-2001, $1 154 million in 2001-2002 and $3 945 million in 2002-2003.
8 Including $950 million placed in reserve.
9 Including $215 million stemming from the correction of CCRA's error, posted to the debt representing accumulated deficits.

TABLE 3.1.3

GOUVERNEMENT DU QUÉBEC
CONSOLIDATED DEBT SERVICE

	Consolidated direct debt service		Interest on the net retirement plans liability[1]		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
Before reform of government accounting						
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	0.4	817	6.9
1979-1980	882	6.7	88	0.6	970	7.3
1980-1981	1 217	8.3	165	1.1	1 382	9.4
1981-1982	1 686	9.4	264	1.5	1 950	10.9
1982-1983	1 921	9.6	379	1.9	2 300	11.5
1983-1984	2 031	9.2	480	2.2	2 511	11.4
1984-1985	2 414	10.8	598	2.6	3 012	13.4
1985-1986	2 648	10.9	706	2.9	3 354	13.8
1986-1987	2 754	10.7	802	3.1	3 556	13.8
1987-1988	2 751	9.7	924	3.2	3 675	12.9
1988-1989	2 665	8.8	1 137	3.8	3 802	12.6
1989-1990	2 829	9.0	1 186	3.7	4 015	12.7
1990-1991	3 026	9.0	1 411	4.2	4 437	13.2
1991-1992	3 222	9.2	1 444	4.1	4 666	13.3
1992-1993	3 475	9.7	1 281	3.5	4 756	13.2
1993-1994	3 750	10.2	1 566	4.3	5 316	14.5
1994-1995	4 333	11.7	1 549	4.2	5 882	15.9
1995-1996	4 287	11.0	1 747	4.5	6 034	15.5
1996-1997	3 906	10.3	1 949	5.1	5 855	15.4
After reform of government accounting						
1997-1998	4 377	10.5	2 965	7.0	7 342	17.5
1998-1999	4 773	10.2	2 414	5.2	7 187	15.4
1999-2000	4 740	10.0	2 632	5.5	7 372	15.5
2000-2001	5 012	9.8	2 594	5.1	7 606	14.9
2001-2002	4 544	9.0	2 717	5.4	7 261	14.4
2002-2003[P]	4 488	8.5	2 648	5.0	7 136	13.5

P: Preliminary results.
1 Amount of interest ascribed to the retirement plans liability less revenue from the retirement plans sinking fund.

Section 4

Measures to Absorb the Budgetary Shortfall

2003-2004 Budgetary Shortfall

On April 30, 2003, a committee of experts chaired by Guy Breton and mandated by the Premier, shortly after the April 14 election, to determine the Québec government's foreseeable financial position, announced a $4 387-million budgetary shortfall for 2003-2004.

To absorb the budgetary shortfall, the government is introducing a number of turnaround measures:

- expenditure measures;
- revenue measures;
  - fiscal measures;
  - stepping up of tax recovery activities;
  - improvement of the performance of government corporations;
  - other budgetary-receipt measures;
- utilization of the budgetary reserve in 2003-2004;
- offsetting of the negative impact of the preliminary census data, on federal transfers, further to the error made by Statistics Canada;
- changes to revenue and expenditure forecasts.

TABLE 4.1

MEASURES TO ABSORB THE 2003-2004 BUDGETARY SHORTFALL
(in millions de dollars)

Budgetary shortfall as at April 15, 2003, according to the Breton report	**– 4 387**
Expenditure measures	
Reduction in program spending from $46 593 million to $45 800 million	793
Absorption of potential spending overruns	354
Cancellation of the budgetary measures announced on March 11, 2003	400[1]
	1 547
Revenue measures	
(a) Fiscal measures	
Tightening of tax expenditures	626
Tax on capital	
Deferral of tax reduction	198
Increase in the exemption from $250 000 to $600 000	– 65
Impact of the fiscal measures over a full year	**759**
Gains on fiscal measures deferred to subsequent years because of collection time limits	– 620
	139
(b) Stepping up of tax recovery activities	**50**
(c) Improvement in the performance of government corporations	
Hydro-Québec	600
Loto-Québec	75
Société des alcools du Québec	20
	695
(d) Other budgetary-receipt measures	
Improvement of the method used to calculate consumption-tax revenue	300
Change to the schedule for refunds to the federal government under the former youth allowance program	305
	605
Sub-total — revenue measures	**1 489**
Utilization of the budgetary reserve in 2003-2004	**809**
Offsetting of the negative impact of the preliminary census data, on federal transfers, further to the error made by Statistics Canada	**294**
Changes to revenue and expenditure measures	
Budgetary receipts	33
Operating expenditure	– 68
Debt service	283
	248
Total amount of measures	**4 387**
Budget balance	**—**

1 Including fiscal measures totalling $39 million.

Expenditure Measures

The March 11 program-spending objective has been cut by $793 million, from $46 593 million to $45 800 million. Program-spending growth in 2003-2004 is therefore reduced from 5.6% to 3.8%.

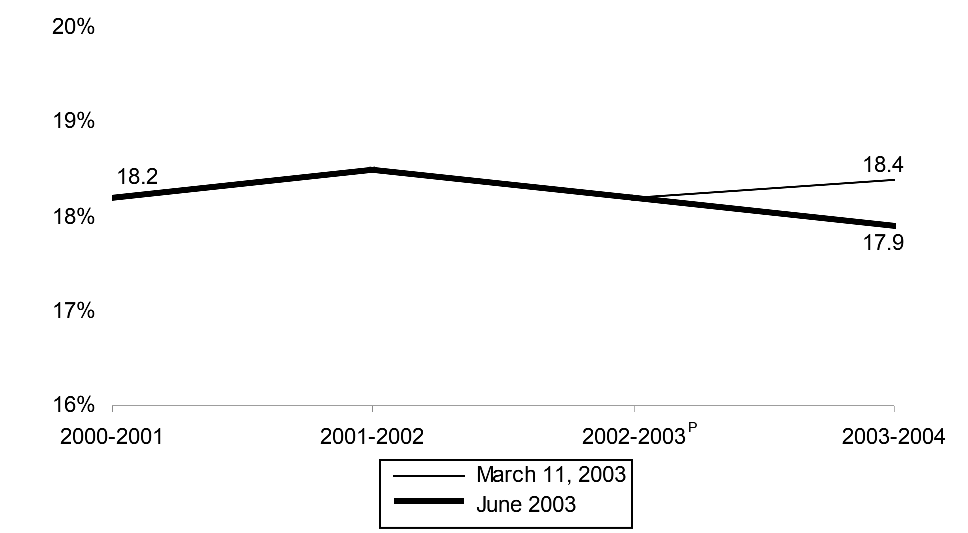
The Breton report also identified $354 million in potential overruns stemming from commitments, primarily in the health and social services sector, that were not funded in the March 11 expenditure budget. The departments concerned determined the appropriate measures for absorbing the possible overruns.

The measures totalling $400 million announced on March 11, 2003 have been cancelled. The budgetary documents tabled on March 11 were not passed by the National Assembly because an election was called on March 12, 2003. The measures set forth in those documents therefore did not come into force, with the exception of certain fiscal measures, for which transitional provisions are contained in this Budget.

As a result of the measures contained in this Budget, the weight of program spending in the economy will drop to 17.9% in 2003-2004. That figure is down from the 18.4% forecast on March 11.

GRAPH 4.1

PROGRAM SPENDING
(as a percentage of GDP)



P: Preliminary results.

Revenue Measures

(a) Fiscal measures

The 2003-2004 Budget Speech announces a series of measures to tighten tax expenditures, particularly those relating to businesses. These measures, which are explained in detail in section 5, "Measures to Tighten Tax Expenditures", will generate $107 million in additional revenue in 2003-2004 and $626 million over a full fiscal year.

Furthermore, the government is maintaining its commitment to substantially reduce tax on capital. On January 1, 2004, nearly 70% of Québec businesses will be exempt from tax on capital, thanks to an increase in the paid-up capital limit below which the tax does not apply. The limit will be raised from $250 000 to $600 000, reducing the tax burden of SMEs by $65 million over a full year. However, the government is deferring the reduction in tax on capital initially announced by the previous administration. These measures will result in savings of $32 million in 2003-2004 and $133 million over a full year.

The fiscal measures total $139 million in 2003-2004 and $759 million over a full year.

(b) Stepping up of tax recovery activities

To safeguard the integrity and fairness of the taxation system, all taxpayers must fulfil their fiscal obligations and contribute to the funding of public services. Consequently, additional measures to fight tax evasion and the underground economy will be implemented.

First, the ministère du Revenu will be granted supplementary resources as of this year to step up its audits of companies in the Montréal area and of companies that do business in Québec but have their head office outside the province. Second, given the vitality of new housing construction, the government will provide additional support to the Commission de la construction du Québec so that it can increase the number of inspections and investigations carried out.

These measures will enable the government to increase its revenue by $50 million in 2003-2004 and, subsequently, by $100 million over a full year.

(c) Improvement of the performance of government corporations

Government corporations will also be called upon to absorb the budgetary shortfall. The three major government corporations—Hydro-Québec, Loto-Québec and Société des alcools du Québec—have agreed to meet additional net-profit objectives of $695 million for 2003-2004, compared with the March 11, 2003 forecast.

TABLE 4.2

ADDITIONAL PROFIT OBJECTIVES FOR CERTAIN GOVERNMENT CORPORATIONS
(in millions of dollars)

	2002-2003	2003-2004			
	Preliminary results (1)	Situation as at March 11, 2003	2003-2004 Budget	Gap compared with March 11	Gap compared with 2002-2003
Hydro-Québec	1 840	1 530	2 130	600	290
Loto-Québec	1 353	1 389	1 464	75	111
Société des alcools du Québec	540	550	570	20	30
Total	**3 733**	**3 469**	**4 164**	**695**	**431**

1 The 2002-2003 preliminary results were updated after March 11.

Hydro-Québec's projected net profit for 2003-2004 is $2 130 million, that is, $600 million more than the amount forecast on March 11, for a $290-million increase over the 2002-2003 preliminary results, now estimated to be $1 840 million.

(d) Other budgetary-receipt measures

The method used to calculate consumption-tax revenue from agents will be improved in order to take into consideration all of the remittances on sales made before March 31 each year. In addition, the youth allowance refund schedule will be changed to coincide, as of 2004-2005, with the year in which refunds become payable to the federal government. These measures will net the government a one-time gain of $605 million in 2003-2004.

Utilization of the budgetary reserve in 2003-2004

The March 11, 2003 Budget provided for the creation of an $809-million reserve to meet health needs in 2004-2005 and 2005-2006. Given the scale of the budgetary shortfall, that reserve will be utilized in 2003-2004. However, the government is committed to adequately meeting health needs in 2004-2005 and 2005-2006 through a reallocation of the required resources to the health sector—$503 million in 2004-2005 and $306 million in 2005-2006—in replacement of the funds that were to have come out of the reserve.

TABLE 4.3

UTILIZATION OF THE BUDGETARY RESERVE IN 2003-2004
(in millions of dollars)

	2003-2004	2004-2005	2005-2006
Cancellation of the budgetary reserve	809	– 503	– 306

Offsetting of the Negative Impact of the Preliminary Census Data, on Federal Transfers, Further to the Error Made by Statistics Canada

A $788-million gain in federal transfers was forecast on March 11, 2003, based on the 2001 census. However, the preliminary data released on March 27, 2003 showed a $294-million decrease, which resulted in the $1 082-million shortfall indicated for 2003-2004 in the Breton report.

The Institut de la Statistique du Québec undertook a complete examination of the 2001 census data. Talks were begun with the Department of Finance Canada in this regard. On May 29, Statistics Canada announced that an error was made in the preliminary population data. The government therefore no longer has the data necessary to recalculate the impact of the census. As a result, there is a $294-million gain over the March 27 data, which reduces the shortfall identifed by the Breton committee to $788 million.

TABLE 4.4

IMPACT OF THE 2001 CENSUS ON FEDERAL TRANSFERS TO QUÉBEC
(in millions of dollars)

	2003-2004
Non-realization of the gain anticipated on March 11, 2003	– 788
Estimated impact according to the preliminary data of March 27, 2003	– 294
Shortfall indicated in the Breton report	– 1 082
Offsetting of the estimated impact according to the preliminary data of March 27, 2003	294
Gap compared with March 11, 2003	– 788

Québec was assured by the federal government that, if the impact of the 2001 census were negative, a mechanism similar to the one from the last census could be implemented. Accordingly, a large share of the impact of the census would be deferred to 2004-2005 and spread over five years.

Changes to Revenue and Expenditure Forecasts

A downward revision of the economic outlook for 2003—from 3.5% to 3.0%—which created an own-source revenue shortfall of $200 million, was taken into account in the budgetary shortfall indicated in the Breton report. Due to the ongoing sluggishness of the U.S. economy and the impact of the recent appreciation of the Canadian dollar on exports, an additional reduction of real GDP growth—0.5 percentage points, for 2.5% growth—was incorporated into the 2003-2004 Budget outlook.

As a result of the growth slowdown, own-source revenue in 2003-2004 should normally be adjusted downward. However, this impact on the financial framework was offset by a number of factors, in particular higher prices; consequently, tax bases were not adjusted as much as real GDP. For its part, the $283-million decrease in the debt-service load stems primarily from the recent appreciation of the Canadian dollar relative to the U.S. dollar and the yen.

Thus, taking into account a $68-million increase in operating expenditure, the adjustments made to the budget balance after the Breton report reduce the budgetary shortfall by a total of $248 million.

TABLE 4.5

ADJUSTMENTS TO THE BUDGET BALANCE AFTER APRIL 15, 2003
(in millions of dollars)

	2003-2004
Own-source revenue excluding government enterprises	65
Revenue from government enterprises	– 18
Federal transfers	– 14
Sub-total – adjustments to budgetary receipts	**33**
Operating expenditure	– 68
Debt service	283
Total	**248**

Section 5

Measures to Tighten Tax Expenditures

Introduction

In recent years, the number of fiscal measures introduced by the government to assist businesses has multiplied, and the cost of those measures has increased substantially.

— Since 1997-1998, the amount of tax assistance for businesses has more than doubled, from $786 million to $1.9 billion.[1]

— In 2003, tax expenditures should amount to 21% of total levies on businesses and 100% of the income tax collected from these same businesses.

— According to forecasts, tax expenditures would have continued to grow in coming years, increasing by more than 9% over the next two years.

— Tax expenditures in favour of businesses in Québec were much higher than in other Canadian jurisdictions. In 2000-2001, the tax expenditures introduced for businesses in Québec were twice as high as in Ontario.

1 To assess as accurately as possible the tax expenditures introduced to support businesses, the term "tax assistance," in this text, refers solely to tax expenditures defined for the purpose of providing such support. Therefore, the concept of tax assistance excludes tax expenditures such as those that allow for the spreading of losses or the deduction of depreciation expenses in calculating income. Furthermore, certain personal income tax expenditures designed to facilitate business capitalization have been added.

Note: The measures set out in this section are explained in detail in *Additional Information on the Fiscal Measures 2003-2004*, which is the reference in this regard.

Issues

Irrespective of their cost, which on the whole is very high and continues to grow, the tax expenditures incurred in favour of businesses give rise to a number of problems.

— Certain tax expenditures call into question the neutrality of the corporate tax system by favouring some businesses over others.

— These measures are often very complex to apply, which entails costs both for the State and for the businesses that wish to benefit from them.

— In many cases, the benefits derived for society as a whole do not justify the amount granted in this respect by the government.

— Tax expenditures may cause the government to take higher risks than entrepreneurs.

— These same tax expenditures often make entrepreneurs dependent on government support, rather than stimulating entrepreneurship and initiative.

Tax expenditures[2]

Tax expenditures are tax revenues that the government agrees to forego in order to reduce the burden of taxpayers, i.e. businesses and individuals, by exempting them from certain provisions of the basic tax system.

There are many forms of tax expenditures, including exemptions, deductions used in calculating income and tax credits.

Tax credits reduce or cancel out the amount of tax payable. A tax credit is refundable if, in cases where its value exceeds the amount of income tax payable, this excess amount is refunded to the taxpayer. The R&D tax credit, for example, is a refundable tax credit.

In the government's financial statements, tax expenditures are recorded as budgetary revenue rather than as expenditure, because they reduce the tax revenues collected from businesses and individuals.

2 Tax expenditures are quantified and set out in detail in *Tax Expenditures – 2003 Edition*, ministère des Finances du Québec, 184 pages.

Ease the tax burden of all businesses

The new government has chosen to give priority to general-application measures in terms of business taxation.

The government is convinced that the best way to stimulate initiative and hone competitiveness is to ease the tax burden of all businesses.

— The advantage of fiscal measures that are general in application is that they are easy to administer.

— They respect the principle of fiscal neutrality.

— They boost corporate competitiveness while maintaining an arm's-length relationship between entrepreneurs and the State.

Government priorities

For all these reasons, the government will give priority, in coming years, to tax cuts for all businesses, rather than to tax exemptions or benefits that are accessible only to some of them.

The government will reduce taxes primarily by lowering the fixed costs of businesses, owing to their counterproductive nature and the substantial amounts levied in this respect in Québec as compared with other jurisdictions.

Tax expenditures will be limited to the following specific situations.

— Tax expenditures that support activities or sectors that Québec considers strategic and pivotal, such as R&D and culture. In these activities and sectors, the government wants to continue defining specific tax benefits.

— In matters of corporate taxation, and of taxation in general, Québec is seeking to harmonize its system as closely as possible with that of the federal government, with a view to greater simplification and efficiency. This harmonization applies to tax expenditures such as the spreading of losses and deductions for depreciation. Harmonization with the federal government may lead to the introduction of tax benefits for certain categories of businesses.

— The government also wants to keep its options open with regard to defining tax assistance measures, in cases where they constitute a more appropriate means of support than a tax reduction that is general in application.

Stabilize the financial situation

The rethinking of the tax expenditures made in favour of businesses corresponds to a clear policy direction set by the new government. The difficult budgetary situation, a legacy of the previous administration, has forced the government to step up this review and delay the tax relief it planned to introduce in the very short term.

— Accordingly, this Budget Speech also includes the elimination of certain tax expenditures, which will result in a financial gain of $51 million in 2003-2004 and $248 million over a full year.

— The government is applying certain limits to the fiscal measures which are undergoing an in-depth review. These limits will entail a financial gain of $56 million in 2003-2004 and $378 million over a full year.

— The government is maintaining its commitment to ultimately introduce a significant reduction in the tax on capital. The first step is being taken immediately.

  Thus, as at January 1, 2004, close to 70% of Québec businesses will be exempt from paying the tax on capital, thanks to the raising of the threshold on paid-up capital below which this tax does not apply. The threshold will be raised from $250 000 to $600 000, thereby easing the tax burden of SMEs by $65 million over a full year. However, owing to the current context, the government is forced to defer the tax reduction announced by the previous government. All told, these measures will result in savings of $32 million in 2003-2004 and $133 million over a full year.

  The government is thus sending a clear message as to its commitment to reduce the tax on capital, while responding to the difficult financial context that currently prevails.

TABLE 1

INCREASE, AT JANUARY 1, 2004, IN THE EXEMPTION FROM TAX ON CAPITAL AND NUMBER OF FULLY EXEMPT BUSINESSES

	2003	2004
▪ Exemption (in dollars)	250 000	600 000
▪ Number of exempt businesses	162 000	195 000
– As a percentage of total businesses	58.1	69.8

Source: Ministère des Finances du Québec.

Savings of $139 million in 2003-2004 and $759 million over a full year

The fiscal tightening measures announced in the 2003-2004 Budget Speech will result in total savings of $139 million in 2003-2004 and $759 million over a full year.

TABLE 2

TIGHTENING OF FISCAL MEASURES: FINANCIAL IMPACT FOR THE GOVERNMENT
(in millions of dollars)

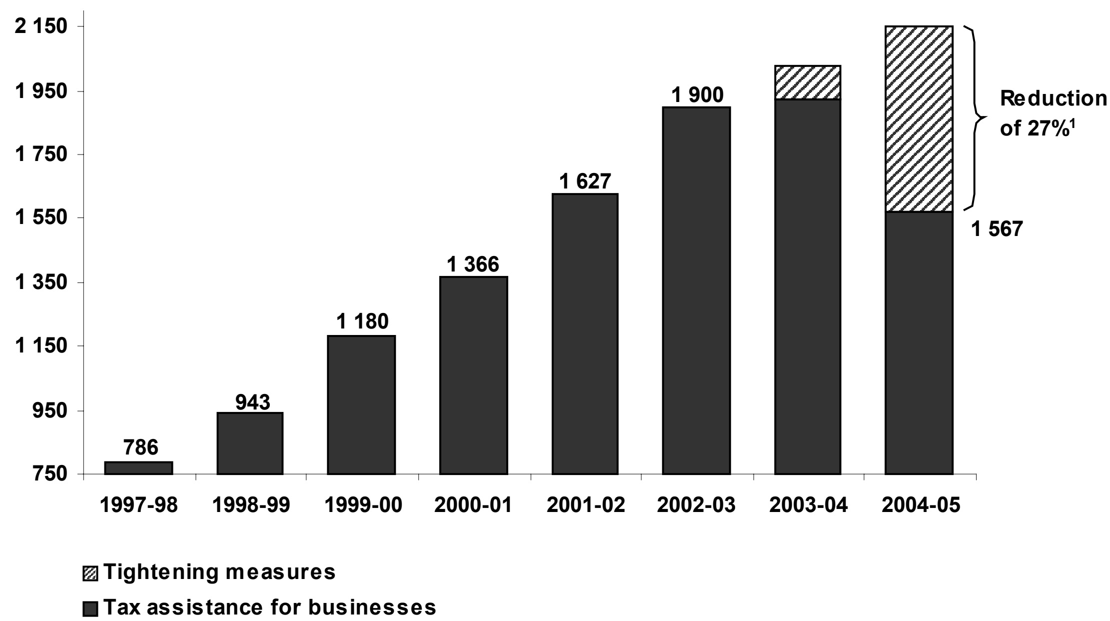
	2003-2004	Full year
Elimination of certain fiscal measures		
▪ Termination of designated sites: cessation of new certificates	27	114
▪ Elimination of certain fiscal measures regarding investment	18	108
▪ Elimination of certain exemptions granted to financial institutions and investment funds	6	26
Sub-total – elimination	51	248
Limits applied to certain fiscal measures		
▪ Reduction in tax credits, deductions and tax holidays	38	202
▪ Limits on tax expenditures for business capitalization and major investment projects	18	153
▪ Reduction in tax benefits, particularly those regarding high-income earners	—	23
Sub-total – limits	56	378
Total – tax expenditures	**107**	**626**
Tax on capital		
▪ Deferral of tax reduction	47	198
▪ Increase in the exemption from $250 000 to $600 000	-15	-65
Sub-total – tax on capital	32	133
TOTAL	**139**	**759**

Reduction of 27% in tax assistance for businesses

These measures entail a reduction of 27% in tax assistance for businesses from the level originally announced.

GRAPH 1

TAX ASSISTANCE FOR BUSINESSES – 1997-1998—2004-2005
(in millions of dollars)



Note: Tax assistance for businesses is a sub-group of corporate tax expenditures, to which are added certain personal income tax expenditures designed to facilitate business capitalization.

1 Illustration of the full-year impact of the tightening measures applied to the estimated amount of tax assistance for 2004-2005. Does not include the changes made to the tax on capital, the reduction in tax benefits regarding high-income earners, or other corporate income tax measures (see Table 11).

The following sections contain a number of clarifications concerning:

— the tax expenditures that are being eliminated by the government;

— the tax benefits to which certain limits are being applied.

1. Elimination of certain tax expenditures

The government is immediately eliminating certain tax expenditures relating to initiatives it considers to be no longer appropriate.

These tax expenditures can be divided into three categories:

— Designated sites, which the government is terminating, but for which it will honour previous commitments made to businesses established in such sites.

— Fiscal measures aimed at fostering investment, some of which are being eliminated.

— Exemptions granted to financial institutions and investment funds, which the government is eliminating.

1.1 Termination of designated sites: no new certificates

Numerous fiscal measures have been introduced in recent years to assist businesses operating in specific sectors and carrying out activities in designated sites.

The special benefits granted to businesses carrying out activities in these sites generally take the form of a refundable tax credit equal to 40% of salaries. A business may receive tax credits for a maximum of ten years.

Problems encountered

The measures relating to designated sites were raising a number of problems.

— Their cost to the government was very high in relation to the number of jobs created.

— In several cases, the tax credit applied to existing jobs rather than to new ones.

— The system of designated sites led businesses seeking access to one of these sites to pay a much higher rent than they would otherwise have agreed to pay.

— The cost of relocating to a designated site was sometimes a deterrent for small businesses, thereby making these sites – and, consequently, the support measure – less accessible.

Owing to these problems, the government has decided not to issue any new eligibility certificates for applications submitted as of the day of this Budget Speech. This measure applies to the designated sites listed in the following table.

TABLE 3

TERMINATION OF DESIGNATED SITES: IMPACT OF THE CESSATION OF NEW CERTIFICATES

	Tax assistance parameters		Full-year financial impact (in millions of $)
	Rate and annual ceiling per job	Base	
▪ Cité du multimédia	40% (max. $15 000)	Salaries paid	18
▪ New economy centres	40% (max. $15 000)	Salaries paid	30
▪ E-Commerce Place	35% (max. $12 500)	Salaries paid	11
▪ Information technology development centres[1]	40% (max. $15 000) 40%	Salaries paid Cost of equipment	9
▪ Centre national des nouvelles technologies de Québec	40% (max. $15 000)	Salaries paid	3
▪ Cité de l'optique	40% (no ceiling)	Increase in payroll	2
▪ Technopôle Angus	40% (no ceiling)	Increase in payroll	1
▪ E-Commerce Zone	35% (no ceiling)	Increase in payroll	21
▪ Biotechnology development zones	40% (no ceiling)	Increase in payroll	1
▪ Nutraceuticals and functional foods	40% (no ceiling)	Increase in payroll	1
▪ Innovation centres	40% (no ceiling)	Increase in payroll	1
▪ Montréal Foreign Trade Zone at Mirabel[1]	30% (max. $12 000)	Salaries paid	16
	25%	Cost of equipment and cost of construction of a strategic building	
TOTAL			**114**

1 Other assistance includes a tax holiday from income tax, tax on capital and employer contributions to the Health Services Fund (HSF).

Honouring of previous commitments

Although no new certificates will be issued for designated sites, the government will honour previous commitments.

Businesses currently holding a certificate for a designated site will continue to receive the tax benefits defined by the government. Roughly 550 businesses, nearly 80% of which are SMEs, may thus continue to receive these tax benefits.

This flexibility is necessary given that the businesses concerned have already assumed sometimes hefty installation costs in return for the tax assistance promised by the government. They have also established business plans based in part on the tax assistance they receive.

Furthermore, it is important to the new government that it honour the commitments made on Québec's behalf, even if the policies implemented have since changed. It is not just a matter of simple ethics towards the various private partners that have already invested in these sites, but also of demonstrating the value of Québec's commitments to the international community.

1.2 Elimination of certain fiscal measures regarding investment

To encourage businesses to invest, Québec has until now offered two measures that are generally related, namely, accelerated depreciation and the two-year holiday from tax on capital.

Accelerated depreciation of certain assets

This measure consisted in allowing taxpayers to claim, in the first year of the investment, a depreciation deduction equal to 125% of the capital cost of certain assets, in particular, manufacturing and processing equipment.

This measure has not had the intended effects.

— It has had a minor financial impact on the targeted businesses, owing to Québec's low corporate income tax rate (8.9%).

— By definition, this measure benefits businesses only when they make a profit. In other words, it benefits profitable businesses, which would have made the investment anyway, because they were in a financial position to do so.

— Since the accelerated depreciation measure was implemented, no marked change has been observed in the acquisition of machinery and equipment by Québec businesses.

For these reasons, the government has decided to eliminate the accelerated depreciation deduction and align the Québec system with the one in effect elsewhere in Canada for the targeted equipment, by generally allowing depreciation at a rate of 15% the first year of the investment and 30% subsequently, up to the cost of the asset.

Two-year holiday from tax on capital

A two-year holiday from tax on capital is granted for the same assets as those targeted by the accelerated depreciation deduction.

The government has decided to terminate this measure for similar reasons.

The Québec system will thus be the same as that in the provinces that collect tax on capital.

Ultimately, the government's goal of substantially reducing tax on capital will have a much broader effect and be more effective in stimulating investment.

Tax credit based on the increase in R&D expenditures

In addition to the two previous measures, the government had introduced another tax provision regarding investment, namely, the tax credit based on the increase in R&D expenditures.

This measure further enhanced the tax provisions in favour of R&D. The 2003-2004 Budget Speech announces the end of this measure.

— Normally, the measure was to have ended on June 30, 2004. The government is thus ending it earlier.

— For the government, the risk associated with this measure corresponded to more than half of the eligible R&D expenditures. For businesses, the risk was very low, considering the federal government's participation. This situation was not acceptable and could not be sustained.

TABLE 4

IMPACT OF THE ELIMINATION OF CERTAIN FISCAL MEASURES REGARDING INVESTMENT

	Tax assistance parameters		Full-year financial impact
	Rate	**Base**	**(in millions of $)**
▪ Elimination of the accelerated depreciation deduction		Cost of equipment	76
– Current rate[1]	125%		
– New rates[2]			
• 1st year	15%		
• Subsequent years	30%		
▪ Elimination of the two-year holiday from tax on capital	0% to 0.6%	Cost of equipment and other assets	10
▪ Elimination of the tax credit based on the increase in R&D expenditures	15%	Increase in R&D expenditures[3]	22
TOTAL			**108**

1 Compounding effect of the 100% basic deduction for accelerated depreciation and the additional deduction of 25%. Applicable in the year assets are acquired.
2 Rates applicable to manufacturing and processing equipment.
3 Increase in relation to the average of the three previous years.

1.3 Elimination of certain exemptions granted to financial institutions and investment funds

To date, certain financial institutions and investment funds have been receiving tax exemptions. These exemptions are being eliminated.

Financial institutions

Tax exemptions were granted to savings and credit unions and certain banks to allow them to improve their performance.

— Savings and credit unions paid a lower tax rate (5.75% instead of 8.9%) on a portion of their taxable income and could claim a basic deduction for paid-up capital ($300 000 per credit union).

— Some banks could claim an exemption of $500 million on paid-up capital.

The 2003-2004 Budget Speech announces the elimination of these measures. The current performance of these financial institutions does not justify the benefits they enjoy in relation to their competitors.

Labour-sponsored funds and Capital régional et coopératif Desjardins

To date, labour-sponsored funds and Capital régional et coopératif Desjardins have enjoyed an exemption from income tax. This exemption was introduced to facilitate the start-up of these funds.

Since there is no longer any reason to continue this special treatment, the government is eliminating it.

— Both labour-sponsored funds and Capital régional et coopératif Desjardins have progressed well beyond the start-up phase.

— The other provinces, like the federal government, tax these types of funds.

— In fact, as is already the case, the development of these funds should be based on active and aggressive management of their financial portfolio, rather than on the tax benefits the government has decided to terminate.

TABLE 5

IMPACT OF THE ELIMINATION OF CERTAIN EXEMPTIONS GRANTED TO FINANCIAL INSTITUTIONS AND INVESTMENT FUNDS

	Tax assistance parameters		Full-year financial impact
	Rate	Base	(in millions of $)
▪ Elimination of the paid-up capital deduction granted to certain banks[1]	0% to 1.2%	$500 million of paid-up capital	8
▪ Savings and credit unions:			
– Elimination of the reduced income tax rate	5.75% to 8.9%	Portion of earnings below 5% of its deposits and membership shares	6
– Elimination of the basic paid-up capital deduction	0% to 1.2%	$300 000 of paid-up capital	2
▪ Elimination of the income tax exemption for labour-sponsored funds and Capital régional et coopératif Desjardins	0% to 8.9%	Taxable income	10
TOTAL			**26**

1 World assets less than $100 billion.

2. Limits applied to certain tax expenditures

As we have just seen, the fiscal measures being eliminated by the government cover a wide range of activities. A limit is immediately being applied to almost all of the remaining tax expenditures to allow the government to examine their scope and effectiveness more thoroughly.

These expenditures can be divided into two categories:

— Tax credits, deductions and tax holidays for businesses, all of which are being reduced.

— Tax expenditures aimed at facilitating business capitalization, which the government is capping, and assistance for major investment projects, to which a moratorium is being applied.

In addition, the government intends to reduce other tax benefits, particularly those regarding high-income earners.

2.1 Reduction in tax credits, deductions and tax holidays

Québec grants tax benefits to businesses in several sectors or types of activity. These benefits take the form of tax credits, deductions or tax holidays, and are generally higher than those offered by other jurisdictions. In fact, some are offered only in Québec.

It is important for the government to rethink these tax benefits, and in order to stabilize public finances, the government is immediately introducing a general reduction in the applicable rates.

— The rates of 15 tax credits or deductions are being reduced by 25%. Seven tax holidays are also being reduced by 25%.

— The rate of the tax credits regarding R&D and culture are being lowered by 12.5%.

25% reduction in certain tax credits, deductions and tax holidays

The 25% reduction in tax assistance is a comprehensive measure that applies to 22 tax benefits whose effectiveness needs to be reassessed. These benefits apply to an array of activity sectors, from the production of multimedia titles to on-the-job training to the financial sector to processing activities in the resource regions. Five of them are tax expenditures implemented under the personal income tax system.[3]

— The rate of the tax credit for processing activities in the resource regions, for example, is being lowered from 40% to 30%.

— Tax holidays are being reduced by 25%. Corporations that are eligible for any of these tax holidays will receive a tax benefit corresponding to 75% of what they have been receiving to date.

This 25% reduction in certain tax credits and tax holidays does not affect the competitiveness of the businesses concerned.

For example, Québec's resource tax credit remains the most generous in Canada. After applying the 25% reduction, the rate of Québec's resource tax credit could reach 45%. Elsewhere in Canada, only the Yukon and British Columbia grant businesses a tax credit for exploration, and their rates are 25% and 20%, respectively.

3 The five benefits are: the Cooperative Investment Plan for work cooperatives, flow-through shares (mining industry), tax holidays granted to certain foreign employees, the tax holiday for seamen engaged in the international transportation of goods, and the partial tax holiday for employees of international financial centres.

TABLE 6

IMPACT OF THE 25% REDUCTION IN TAX CREDITS, DEDUCTIONS AND TAX HOLIDAYS

	Tax assistance parameters		Full-year financial impact
	Rate	Base	(in millions of $)
Tax credits			
▪ Technology adaptation services	40% to 30%	Expenditures incurred for technology watch and transfer services	1
▪ Design			2
– SMEs	40% to 30%	Salaries paid	
– Large businesses	20% to 15%	Salaries paid	
▪ On-the-job training	40% to 30%	Salaries paid	4
▪ Production of multimedia titles			6
– French	50% to 38%	Salaries paid	
– Other languages	40% to 30%	Salaries paid	
▪ Railway companies	75% to 57%	Property tax paid	4
▪ Construction or conversion of vessels	50% to 38%	Salaries paid	3
▪ Resource tax credit	60% to 45%	Exploration expenses	11
▪ Vallée de l'aluminium[1]	40% to 30%	Increase in payroll	3
▪ Gaspésie and certain maritime regions of Québec[1]	40% to 30%	Increase in payroll	1
▪ Processing activities in the resource regions[1]	40% to 30%	Increase in payroll	19
▪ Declaration of tips	100% to 75%	Employer contributions paid[2]	9
▪ Measures concerning the financial sector[3]	40% to 30%	Salaries paid	1
▪ Biotechnology development centres[4]	40% to 30%	Salaries paid, cost of equipment and costs of using research facilities	3
Deductions			
▪ Cooperative Investment Plan for work cooperatives[5]		Value of the investment	1
– SMEs	125% to 94%		
– Large businesses	100% to 75%		
▪ Flow-through shares	175% to 131%	Shares subscribed for until December 31, 2004	2
Tax holidays			
▪ New corporations	100% to 75%	Full 5-year tax holiday[6]	16
▪ Manufacturing SMEs in remote resource regions	100% to 75%	Full 10-year tax holiday[7]	13
▪ International financial centres (IFC)	100% to 75%	Full tax holiday[7]	7
▪ Stock exchange or securities clearing-house corporation	100% to 75%	Full tax holiday[7]	1
▪ Tax holidays for certain foreign employees	100% to 75%	Salaries paid	3
▪ Tax holiday for seamen engaged in the international transportation of goods	100% to 75%	Salaries paid	1
▪ Partial tax holiday for IFC employees	50% to 38%	Salaries paid	3
TOTAL			**114**

Note: For the purposes of this table, the rates resulting from the tightening measures have been rounded off.
1 Including the financial impact of the elimination of the "manufacturing of specialized equipment" component of the tax credit.
2 Includes employer contributions to the Régie des rentes du Québec, the HSF, Employment Insurance, the Commission des normes du travail and the Commission de la santé et de la sécurité du travail, and other contributions relating to tips.
3 Refundable tax credits for training specialized IFC employees, for fund managers and for financial analysts specializing in the securities of Québec corporations or in financial derivatives.
4 Other assistance includes a tax holiday from income tax, tax on capital and contributions to the HSF.
5 Rates for worker investment programs are higher.
6 Certain limits apply in the calculation of tax assistance relating to income tax, tax on capital and contributions to the HSF.
7 Income tax, tax on capital and contributions to the HSF.

Reduction of 12.5% in the tax credits relating to R&D and culture

In two sectors of activity, R&D and culture, tax assistance is being reduced by 12.5%. The government considers these sectors to be highly strategic and pivotal and wants Québec businesses operating therein to continue to enjoy a significant advantage.

R&D activities

The government is reducing the rate of tax credits for SMEs from 40% to 35% and the tax credits for large businesses, from 20% to 17.5%. Despite this reduction, the Québec system remains one of the most competitive, as illustrated in graphs 2 and 3.

Assistance for research and development (R&D) is essential because of the risks incurred by businesses and the impact of research and development activities on productivity – and thereby on the creation of wealth.

- Businesses that invest in R&D run higher risks than businesses that invest in marketing.
- However, R&D is vital to ensuring technological change, which in itself is one of the chief factors in productivity growth. Thus, it is easy to understand why all industrialized countries support R&D.

The decrease does not call into question the government's goal of increasing the share of GDP devoted to R&D. Taxation is not the only means of achieving this goal. Other means are available and they will be thoroughly examined and reviewed.

Culture

Tax credits relating to culture are a crucial lever for the growth and development of activities. That is why the government is reducing the rates of five existing tax credits by only 12.5%.

TABLE 7

IMPACT OF THE 12.5% REDUCTION IN TAX CREDIT RATES

	Tax assistance parameters		Full-year financial impact (in millions of $)
	Rate	Base	
▪ Scientific research and experimental development		Salaries paid/ Research contracts	63
– SMEs[1]	40% to 35%		
– Large businesses	20% to 17.5%		
▪ Culture			
– Québec film and television production[2]			21
• Feature film	45% to 39%	Salaries paid	
• Television	$33^1/_3$% to 29%	Salaries paid	
– Film dubbing	$33^1/_3$% to 29%	Salaries paid	1
– Production of sound recordings	$33^1/_3$% to 29%	Salaries paid	1
– Production of shows	$33^1/_3$% to 29%	Salaries paid	1
– Book publishing			1
• Preparation costs	40% to 35%	Salaries paid	
• Printing costs	30% to 26%	Salaries paid	
TOTAL			**88**

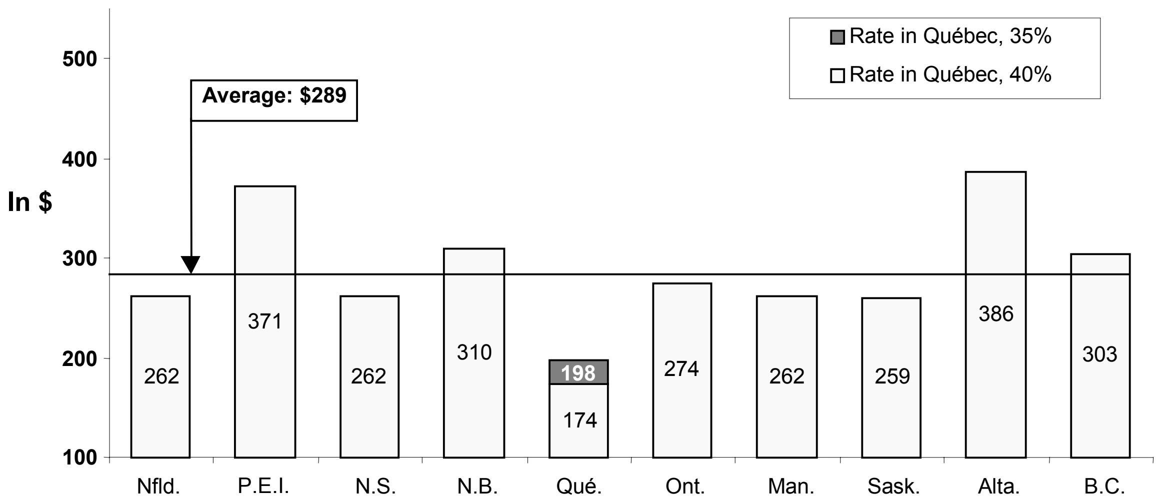
Note: For the purposes of this table, the rates resulting from the tightening measures have been rounded off.

1 An SME is a corporation with assets of less than $25 million.

2 Including the impact of the exclusion from eligible productions of activities such as reality TV, stock footage and certain variety and television magazine shows.

GRAPH 2

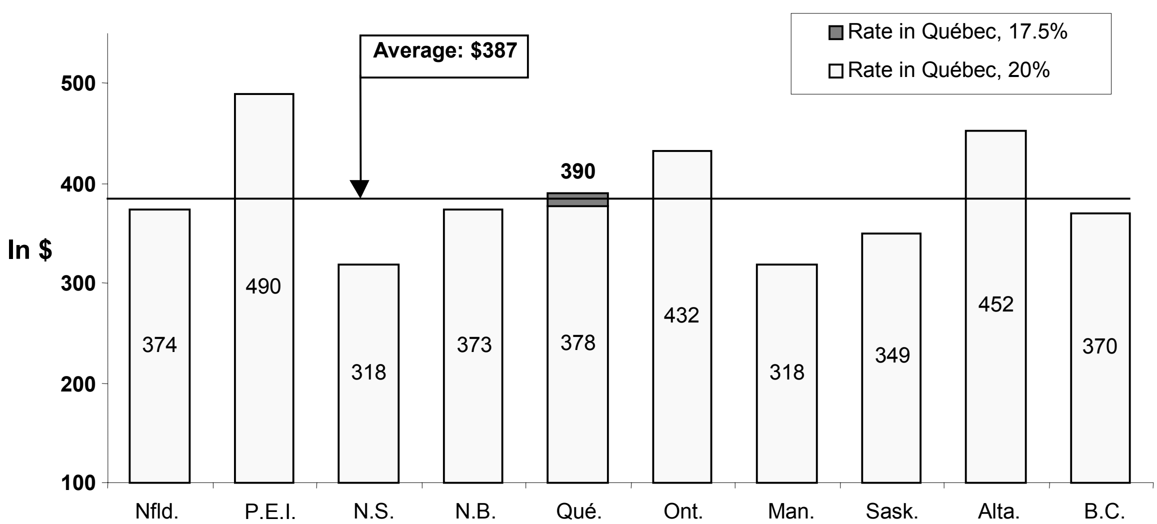
NET COST OF $1 000 IN R&D SPENDING (AFTER TAX) FOR SMEs



Assumptions: 1) Profitable businesses.
2) R&D investment of $800 in salaries and wages and $200 in equipment.

GRAPH 3

NET COST OF $1 000 IN R&D SPENDING (AFTER TAX) FOR LARGE BUSINESSES



Assumptions: 1) Profitable businesses.
2) R&D investment of $800 in salaries and wages and $200 in equipment.

2.2 Limit on tax expenditures for business capitalization and major investment projects

To help stabilize the financial situation, the government is introducing two sets of limits on tax expenditures aimed at fostering the capitalization of businesses.

Benefits granted to labour-sponsored funds and Capital régional et coopératif Desjardins

The purpose of government support for the start-up and development of labour-sponsored funds and Capital régional et coopératif Desjardins was to amass a pool of venture capital in Québec.

One type of support granted to these organizations consisted of a tax benefit granted to individuals who invested in them. However, the growth of labour-sponsored funds and Capital régional et coopératif Desjardins also led to rapid growth in the related tax expenditures.

To curb the cost of tax assistance, the government has decided to limit the amount of issues by these funds for one year. However, this measure is being applied concurrently with the relaxation of the investment rules applicable to these funds, so as to minimize the effect on investments.

Investment incentives for individuals

The Québec government introduced three incentives to encourage individuals to invest in Québec businesses. They are the deductions granted to individuals who invest under the Québec Stock Savings Plan, a Québec Business Investment Company or a Cooperative Investment Plan.

The government is applying a moratorium to issues made under these plans, except those made by work cooperatives.

This moratorium will enable savings that will help stabilize Québec's financial situation. In addition, the government is undertaking a review of these business capitalization assistance measures to ascertain their relevance and complementarity.

Tax holiday for major investment projects

This measure grants a ten-year tax holiday to businesses that carry out a major investment project in Québec.

— A “major investment project” is a project involving an investment of at least $300 million or a minimum increase in payroll of $15 million.

— The holiday consists of an exemption from income tax, tax on capital and employer contributions to the Health Services Fund for activities related to the investment project.

The government will honour commitments already made. However, no tax holiday will be granted for new projects submitted as of the day of this Budget Speech.

Along with this moratorium, there will be an exhaustive review of the measure’s effectiveness and scope.

TABLE 8

IMPACTS OF THE LIMIT ON TAX EXPENDITURES FOR BUSINESS CAPITALIZATION AND MAJOR INVESTMENT PROJECTS

	Tax assistance parameters		Full-year financial impact
	Rate	**Base**	**(in millions of $)**
Business capitalization			
Tax credits			
▪ Labour-sponsored funds	15%	1-year cap on issues FSTQ: $600 million Fondaction: $50 million	41
▪ Capital régional et coopératif Desjardins	50%	1-year cap on issues: $75 million	37
Deductions			
▪ Québec Stock Savings Plan		Moratorium on new investments	20
– Securities of a corporation with assets of less than $350 million	100%		
– Securities of a regional venture capital corporation	150%		
▪ Québec Business Investment Companies		Moratorium on new investments	8
– Securities of an SME with assets of less than $25 million	150%		
– Securities of an SME with assets between $25 million and $50 million	125%		
▪ Cooperative Investment Plan, except for work cooperatives		Moratorium on new investments	7
– SMEs	125%		
– Large businesses	100%		
Major investment projects			
▪ Major investment projects	Full tax holiday[1]	Moratorium on new projects	40
TOTAL			**153**

Note: For the purposes of this table, the rates resulting from the tightening measures have been rounded off.
1 Income tax, tax on capital and contributions to the HSF.

2.3 Reduction in other tax benefits, particularly those regarding high-income earners

Certain tax expenditures introduced for individuals are closely linked to the operation of businesses. As part of its efforts to tighten tax expenditures, the government has decided to place limits on two such expenditures: the deduction for securities options and the deduction for entertainment expenses.

Deductions for securities options

Currently, businesses may offer their employees, under their remuneration policy, options to purchase stock or securities of a mutual fund trust. Employees who take advantage of this system must include, in calculating their income, a benefit equal to the difference between the value of the securities at the time of their acquisition and the amount paid to acquire them. However, the employees may deduct an amount equal to half the value of the benefit.

Basically, there are many arguments in favour of remuneration through securities options. It allows businesses to stimulate initiative as well as attract and keep skilled staff by giving employees a share in the fruits of their efforts.

In recent years, however, some businesses have granted managers extraordinary benefits through securities options. In the government's view, the principle of remuneration by means of securities options must not apply at the expense of fiscal fairness, especially since the salaries of businesses' employees are fully taxed.

Therefore, in the 2003-2004 Budget Speech, the government has decided to reduce the deduction for securities options by 25%, from 50% to 37.5%.

Introduction of a cap on entertainment expenses

Both the personal and the corporate tax system allow for the deduction of entertainment expenses. This deduction makes it possible to recognize that expenses have been incurred to earn income and to deduct them in calculating such income. Currently, taxpayers, whether individuals in business or corporations, may, with certain exceptions, deduct 50% of their expenses for food, beverages and entertainment from their income.

The mere fact that entertainment expenses can be deducted should not encourage eligible taxpayers to take undue advantage of this tax benefit. Therefore, the government has decided to maintain the deduction, but to henceforth apply a ceiling: the 50% deduction will apply as long as expenses represent less than 1% of a taxpayer's annual sales. Special rules will be introduced to ensure that certain economic sectors are not unduly penalized.

TABLE 9

IMPACT OF THE REDUCTION IN OTHER TAX BENEFITS, PARTICULARLY THOSE REGARDING HIGH-INCOME EARNERS

	Tax assistance parameters		Full-year financial impact (in millions of $)
	Rate	Base	
Deductions			
▪ Securities options	50% to 37.5%	Taxable benefit: difference between the value of a security at the time of acquisition and the amount paid to acquire it	13
▪ Entertainment expenses	50% of deductible expenses,[1] introduction of a cap of 1% of annual sales	Expenses for food, beverages and entertainment	10
TOTAL			**23**

1 Certain expenses relating to cultural activities are fully deductible, such as subscriptions to concerts given in Québec.

Conclusion

By rethinking tax expenditures for businesses, the government is implementing the policy directions it clearly announced in regard to the role of taxation in supporting business development.

In the government's view, the best way to help businesses conduct their activities and grow is to ease their tax burden. Relief must be granted in a non-discriminatory manner by defining general-application measures. This tax relief policy will make businesses more competitive, while maintaining the neutrality of the income tax system.

The possibility of taking more specific support measures must not be ruled out if it becomes obvious that global tax relief does not meet certain special needs. Nevertheless, the use of tax expenditures – since this is what is in question here – must be limited and the results of such measures, constantly reassessed.

The 2003-2004 Budget Speech allows the government to start implementing these policy directions immediately. Some measures have had to be accelerated and others delayed, because it was absolutely necessary to stabilize public finances first.

However, the in-depth review of tax expenditures has only just begun. As of the fall, the government will embark on a reengineering of the Québec State, and one of the six major initiatives that will define the terms and conditions of this process will aim to simplify and ease the tax burden. In other words, tax expenditure analysis will be an integral part of the State reform process.

TABLE 10

FINANCIAL IMPACT OF FISCAL MEASURES
(in millions of dollars)

	Financial impact for the government	
	2003-2004	**Full year**
ELIMINATION OF CERTAIN FISCAL MEASURES		
1. Termination of designated sites: cessation of new certificates		
Cité du multimédia	6	18
New economy centres	8	30
E-Commerce Place	3	11
Information technology development centres	4	9
Centre national des nouvelles technologies de Québec	–	3
Cité de l'optique	–	2
Technopôle Angus	–	1
E-Commerce Zone	6	21
Biotechnology development zones	–	1
Nutraceuticals and functional foods	–	1
Innovation centres	–	1
Montréal Foreign Trade Zone at Mirabel	–	16
Sub-total	**27**	**114**
2. Elimination of certain fiscal measures regarding investment		
Elimination of the accelerated depreciation deduction for certain assets	12	76
Elimination of the two-year tax holiday from tax on capital	2	10
Elimination of the tax credit based on the increase in R&D expenditures	4	22
Sub-total	**18**	**108**
3. Elimination of certain exemptions granted to financial institutions and investment funds		
Elimination of the deduction of the paid-up capital of certain financial institutions	3	8
Savings and credit unions:		
– Elimination of the reduced income tax rate	2	6
– Elimination of the basic paid-up capital deduction	1	2
Elimination of the income tax exemption for labour-sponsored funds and Capital régional et coopératif Desjardins	–	10
Sub-total	**6**	**26**
Sub-total - elimination of certain fiscal measures	**51**	**248**

FINANCIAL IMPACT OF FISCAL MEASURES (cont'd)
(in millions of dollars)

	Financial impact for the government	
	2003-2004	**Full year**
LIMITS APPLIED TO CERTAIN FISCAL MEASURES		
4. Reduction in tax credits, deductions and tax holidays		
4.1 25% reduction in tax assistance		
<u>Tax credits and deductions</u>		
Technology adaptation services	–	1
Design	–	2
On-the-job training	1	4
Production of multimedia titles	2	6
Railway companies	1	4
Construction or conversion of vessels	1	3
Resource tax credit (mining exploration)	3	11
Vallée de l'aluminium[1]	–	3
Gaspésie and certain maritime regions of Québec[1]	–	1
Processing activities in the resource regions[1]	2	19
Declaration of tips	2	9
Measures concerning the financial sector	–	1
Biotechnology development centres	–	3
Cooperative Investment Plan for work cooperatives	–	1
Flow-through shares	–	2
<u>Tax holidays</u>		
New corporations	5	16
Manufacturing SMEs in remote resource regions	2	13
International financial centres (IFC)	1	7
Stock exchange or securities clearing-house corporation	–	1
Tax holidays for certain foreign employees	–	3
Tax holiday for seamen engaged in the international transportation of goods	–	1
Partial tax holiday for IFC employees	1	3
4.2 12.5% reduction in tax credit rates		
Scientific research and experimental development	14	63
<u>Culture</u>		
Québec film and television production[2]	3	21
Film dubbing	–	1
Production of sound recordings	–	1
Production of shows	–	1
Book publishing	–	1
Sub-total	**38**	**202**

FINANCIAL IMPACT OF FISCAL MEASURES (cont'd)
(in millions of dollars)

	Financial impact for the government	
	2003-2004	**Full year**
5. Limits on fiscal measures for business capitalization and major investment projects		
Labour-sponsored funds: temporary limit on assistance	11	41
Capital régional et coopératif Desjardins: temporary limit on assistance	3	37
Québec Stock Savings Plan: moratorium	2	20
Québec Business Investment Companies: moratorium	1	8
Cooperative Investment Plan: moratorium, except for work cooperatives	1	7
Major investment projects – moratorium on new projects	–	40
Sub-total	**18**	**153**
6. Reduction in other tax benefits, particularly those regarding high-income earners		
Deduction for securities options	–	13
Entertainment expenses: cap of 1% of annual sales	–	10
Sub-total	**–**	**23**
Sub-total - limits applied to certain fiscal measures	**56**	**378**
Total - tightening measures	**107**	**626**
TAX ON CAPITAL		
Deferral of tax reduction	47	198
Increase in exemption from \$250 000 to \$600 000	-15	-65
Sub-total - tax on capital	**32**	**133**
TOTAL IMPACT OF FISCAL MEASURES	**139**	**759**

1 Including the tightening measure relating to the "manufacturing of specialized equipment" component of the tax credit.
2 Including the tightening measures relating to the tax credit for Québec film and television production.

TABLE 11

FINANCIAL IMPACT OF THE TIGHTENING MEASURES ON TAX ASSISTANCE FOR BUSINESSES
(in millions of dollars)

	Tax assistance before		Full-year impact[1]		
	2003	**2004-05[F]**	**Tightening measures**	**Tax assistance after**	**Reduction (%)**
Elimination of certain fiscal measures	**614**	**677**	-242	435	-36
▪ Termination of designated sites: cessation of new certificates	394	451	-114	337	-25
▪ Elimination of certain fiscal measures regarding investment	199	190	-108	82	-57
▪ Elimination of certain exemptions granted to financial institutions and investment funds	21	36	-20	16	-56
Limits applied to certain fiscal measures	**1 411**	**1 471**	**-339**	**1 132**	**-23**
▪ Reduction in tax credits, deductions and tax holidays	946	1 009	-186	823	-18
– Research and development	494	492	-63	429	-13
– Culture	110	112	-25	87	-22
– Regions	134	153	-39	114	-25
– Other tax credits	73	81	-22	59	-27
– Tax holidays	135	171	-37	134	-22
▪ Limit on measures for business capitalization and major investment projects	304	342	-153	189	-45
▪ Other fiscal measures for businesses	161	120	–	120	0
TOTAL – TAX ASSISTANCE FOR BUSINESSES	**2 025**	**2 148**	**-581**	**1 567**	**-27**
Other fiscal measures relating to the corporate tax system	**627**	**691**	**-19**	**672**	**-3**
▪ Measures to harmonize with the federal government[2]	247	248	–	248	0
▪ Measures presented for information purposes[3]	269	280	–	280	0
▪ Other measures	78	130	-15	115	-12
▪ Entertainment expenses: cap of 1% of annual sales	33	33	-4	29	-12
TOTAL – TAX EXPENDITURES FOR BUSINESSES	**2 652[4]**	**2 839**	**-600**	**2 239**	**-21**
Reduction in other tax benefits, particularly those regarding high-income earners	**140**	**143**	**-26**	**117**	**-18**
▪ Personal income tax system[5]	79	81	-20	61	-25
▪ Entertainment expenses: cap of 1% of annual sales	61	62	-6	56	-10
TOTAL	**2 792**	**2 982**	**-626**	**2 356**	**-21**
Tax on capital			**-133**		
TOTAL TIGHTENING MEASURES			**-759**		

F: Forecast.
1 Illustration of the full-year impact of the tightening measures applied to the estimated amount of tax assistance for 2004-2005.
2 For example, partial inclusion of capital gains ($213 million), deductibility of gifts: charitable gifts and government donations ($22 million).
3 For example, deferral of losses other than capital losses ($200 million), deferral of capital losses ($33 million).
4 Includes tax expenditures relating to the corporate tax system ($2 397 million), as set out in *Tax Expenditures – 2003 Edition*, as well as fiscal measures for business capitalization relating to the personal income tax system ($255 million).
5 Includes tax expenditures relating to tax holidays for certain foreign employees, the tax holiday for seamen engaged in the international transportation of goods, the partial tax holiday for employees of international financial centres and the deduction for securities options.