

2008-2009 BUDGET

Budget Plan

March 13, 2008



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2008-2009 Budget

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Budget Plan

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OVERVIEW

This section briefly explains the economic outlook and financial framework underpinning the 2008-2009 Budget.

Slowdown in the Québec economy

Overall, there will be a marked slowdown in economic activity around the world in 2008, mainly due to the severe weakening of the U.S. economy. Québec will not be an exception.

After growing 2.4% in 2007, the Québec economy will rise just 1.5% in 2008 and 2.0% in 2009.

In the past few years, the external sector has already come under numerous pressures from the demanding international context in which Québec evolves.

- Between 2002 and 2007, the Canadian dollar appreciated from 63.7 to 93.1 U.S. cents, even reaching parity with the greenback at the end of 2007. The rise in the dollar dulled the sharp competitive edge enjoyed by our exporting industries.
- Québec firms are competing more and more against new emerging economies, such as China and India, on both domestic and foreign markets, notably the U.S. market.
- More recently, export growth was dragged down by a major slowdown in the American economy, the United States being Québec's principal international trading partner.

Despite these constraints, strong domestic demand will sustain economic growth and minimize the negative impacts of the external sector on Québec's economy.

- Real growth in household personal spending, spurred by the strong labour market in 2007 and an increase in household disposable income, is expected to remain above 3% in 2008.
- Housing starts will remain at a high level. Unlike the United States, Québec and Canada are not affected by the decline in real estate investment.
- Strong growth is expected in investments by businesses and public administrations.

Government action is not a negligible factor in the strength of domestic demand. In 2008, the action taken by governments will add the equivalent of 1.3 percentage points to Québec's economic growth.

- The government reduced personal income tax by \$950 million in 2008. The federal government also introduced tax cuts, including a 1% reduction in the GST.
- To encourage business investment, the Québec government eliminated the capital tax for manufacturing companies and is on the way to eliminating the tax for all other businesses by January 1, 2011. It is also introducing a new investment tax credit for all regions of Québec.
- The 2007-2012 Québec Infrastructures Plan will contribute \$30 billion to our economy over the next five years.

More than 280 000 jobs, mostly full-time, have been created since 2002. A record number of Quebecers held jobs in 2007, raising the employment rate to 61%. As a result of the dynamic labour market, the unemployment rate dropped from 8.0% to 7.2% in 2007, its lowest level in 33 years.

A total of nearly 40 000 jobs, on average, will be created in 2008 and again in 2009, lowering the unemployment rate to an expected 7% in 2008 and 6.9% in 2009.

TABLE A.1

Economic outlook for Québec

(percentage change, unless otherwise indicated)

	2007	2008	2009
Gross domestic product	5.9	3.2	3.5
Real gross domestic product	2.4	1.5	2.0
Real consumption	3.6	3.1	2.2
Housing starts (thousands)	48.6	44.6	38.5
Real exports	- 3.0	- 0.6	3.3
Job creation (thousands)	86.3	45.0	34.2
Unemployment rate (%)	7.2	7.0	6.9

Source: Ministère des Finances du Québec.

Prudent management of public finances

The 2008-2009 Budget forecasts that a balanced budget will be achieved in each year of the financial framework.

- In 2007-2008, higher-than-anticipated tax receipts, coupled with Hydro-Québec's higher-than-expected profits, make it possible to achieve a surplus of \$717 million. This surplus will be allocated to the budgetary reserve and thus be added to the \$1.3 billion allocated to the reserve in 2006-2007. Taking into account a deposit of \$200 million in the Generations Fund from the reserve in 2007-2008, the balance of the budgetary reserve will reach \$1.8 billion as at March 31, 2008.
- Given the anticipated economic slowdown, the increase in budgetary revenue in 2008-2009 is being revised downward compared with last year's Budget. In addition, because of the uncertain economic situation, the government must be cautious and is therefore incorporating a contingency reserve of \$200 million into its financial framework.
- Before the use of the budgetary reserve, the financial framework shows shortfalls of \$1 370 million and \$447 million in 2008-2009 and 2009-2010 respectively. Using the budgetary reserve will make it possible to make up these shortfalls and maintain a balanced budget for these two years.

TABLE A.2

Summary of consolidated budgetary transactions – 2008-2009 Budget

(millions of dollars)

	Actual results	Preliminary	Forecast	
	2006-2007	2007-2008	2008-2009	2009-2010
BUDGETARY REVENUE	60 700	62 920	62 980	65 184
<i>% change</i>		3.7	0.1	3.5
BUDGETARY EXPENDITURE	- 58 796	- 61 638	- 63 855	- 65 648
<i>% change</i>		4.8	3.6	2.8
NET RESULTS OF CONSOLIDATED ENTITIES	89	- 162	447	833
Contingency reserve		—	- 200	—
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	1 993	1 120	- 628	369
Deposit of dedicated revenues in the Generations Fund	- 584 ¹	- 403	- 742	- 816
BUDGETARY BALANCE BEFORE USE OF BUDGETARY RESERVE	1 409	717	- 1 370	- 447
Deposit in the Generations Fund from the budgetary reserve		- 200		
Budgetary reserve	- 1 300	- 517	1 370	447
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	109	0	0	0

1 Including an additional deposit of \$500 million in the Generations Fund in 2006-2007.

Keeping health and education as priorities

In 2008-2009, program spending, including the cost of the measures announced in this Budget, will grow by 4.2%, or \$2.3 billion, to \$56.9 billion. Most of this increase will be used to fund the priorities of health and education.

The government has set itself the objective of limiting program spending growth in 2009-2010 to 3.0%.

TABLE A.3

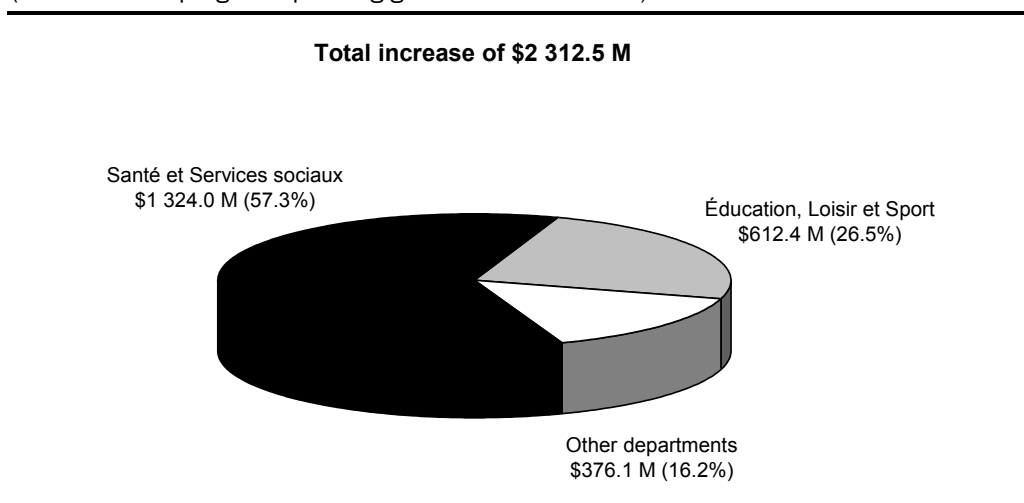
Changes in program spending^P (millions de dollars)

	2007-2008	2008-2009	2009-2010
Program spending	54 635	56 948	58 629
% change	5.5	4.2	3.0

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

CHART A.1

Giving priority to health and education (breakdown of program spending growth in 2008-2009^F)



F: Forecasts.

Source: Secrétariat du Conseil du trésor.

❑ Health: 5.5% increase in 2008-2009

Nearly 60% of the growth in program spending in 2008-2009 is being allocated to health and social services. This increase of \$1.3 billion, or 5.5%, will make it possible to cover health services needs. In particular, it will finance:

- the increase for maintaining and improving social health services, which is related, for example, to wage increases and population aging;
- health network costs, such as medication and new technology expenses;
- improving public access to services.

❑ Additional investment of \$1 billion in higher education by 2012

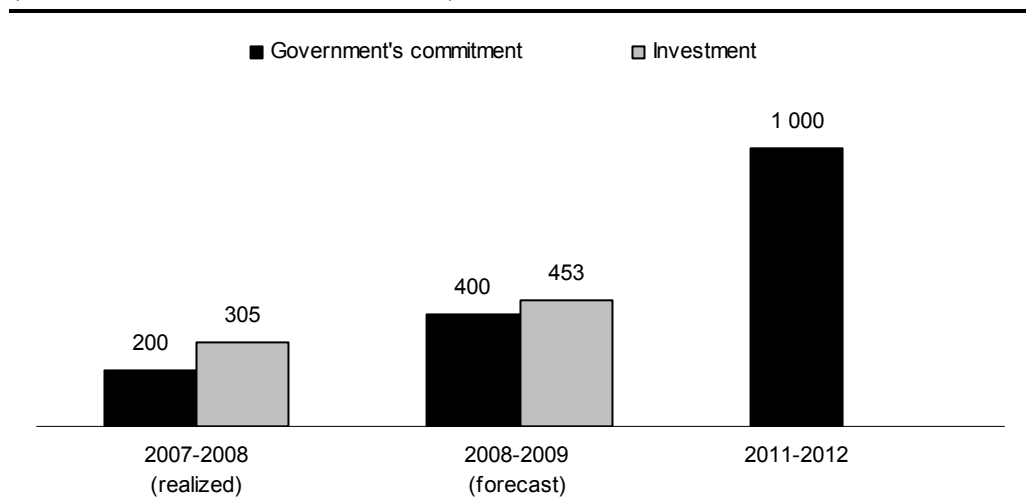
The budget of the ministère de l'Éducation, du Loisir et du Sport is also increasing by a substantial 4.6%, or \$612.4 million.

Since higher education is a collective priority, the government has pledged to invest, by 2012, \$1 billion over and above the budget envelope granted in 2006-2007. This commitment will be met through additional investments of \$200 million per year over five years.

CHART A.2

Additional annual investments in higher education^{1,2}

(cumulative amount, millions of dollars)



1 Including the increases in the budget envelope for higher education needed to maintain and improve the quality of services.

2 Plus the federal reinvestment of \$187 million as of 2008-2009.

High quality public infrastructure for a more prosperous Québec

☐ Investments of \$30 billion: 2007-2012 Québec Infrastructures Plan

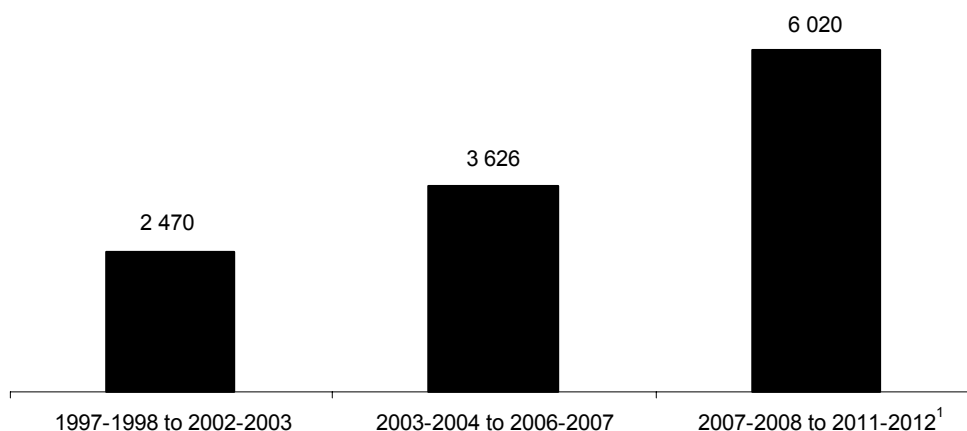
By launching the 2007-2012 Québec Infrastructures Plan, a five-year, \$30-billion¹ plan completed by an additional \$7.6 billion for continuing work currently under way, the government has taken an important step toward prosperity. This is the first phase of a project that, over 15 years, will make it possible to renovate and upgrade public infrastructure as a whole.

The implementation of this plan will result, notably, in: schools with a more welcoming environment; hospitals that are more functional and have cutting edge equipment; and roads that are in just as good condition as those of our neighbours. The plan also covers municipal infrastructures, including public transit, culture, research, public housing, justice and public safety.

Investment in public infrastructure will total \$6 billion annually until 2011-2012, or more than double the funds invested from 1997-1998 to 2002-2003.

CHART A.3

Average annual investments in the Québec government's fixed assets (millions of dollars)



¹ Plus \$7.6 billion over a five-year period beginning in 2008-2009 for the completion of development projects currently under way.

Source: Secrétariat du Conseil du trésor.

¹ Since the plan was announced, \$442 million has been added to these investments over a five-year period to enable the government to take over the management of bridges in municipalities with 100 000 inhabitants or less.

❑ Investment in the road system continues to rise

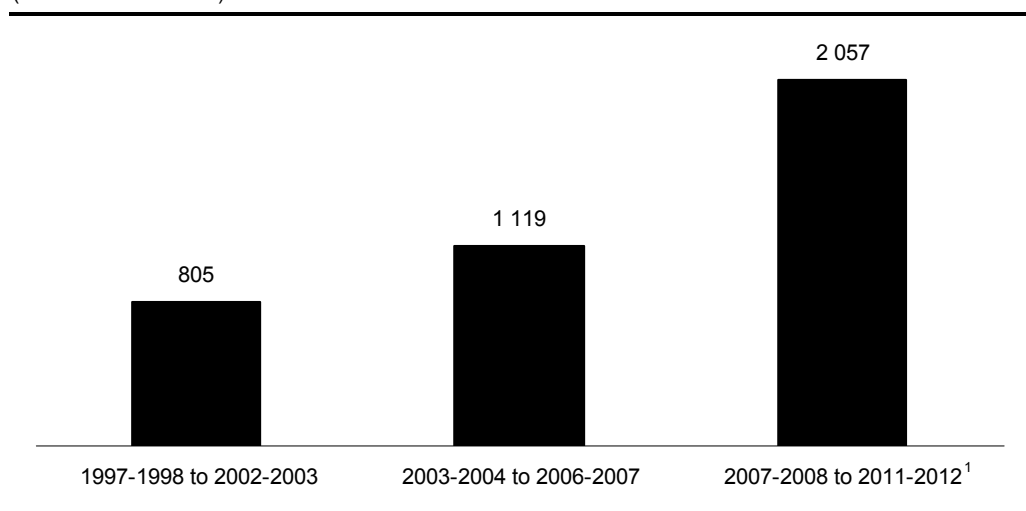
To improve road infrastructure, the government plans to invest \$10.3 billion by 2012, or an average of \$2.1 billion per year.

- Along with the contribution of partners, this will make it possible to accelerate the repair of Québec's road system over the next 15 years so that by 2022, 83% of roads and 80% of structures will have been brought up to par, thus complying with the highest quality standards in North America.

CHART A.4

Average annual investments in the road system

(millions of dollars)



1 Plus \$3.5 billion over a five-year period beginning in 2007-2008 for the completion of development projects currently under way.

Source: Ministère des Transports.

Maintaining disciplined management of spending

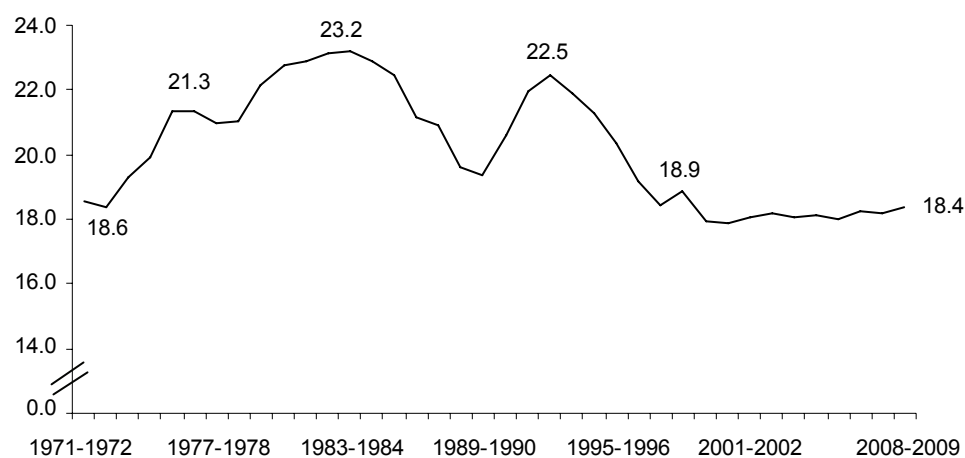
- ❑ **The weight of program spending in the economy shows one of its lowest levels since 1971-1972**

The forecast for program spending in 2008-2009 reflects the government's determination to pursue disciplined management of public spending while improving services for Quebecers.

On account of this budgetary discipline, the weight of program spending in relation to GDP in 2008-2009 will be 18.4%, one of the lowest levels in 35 years.

CHART A.5

Program spending (as a percentage of GDP)



Note: Preliminary results for 2007-2008 and forecasts for 2008-2009.

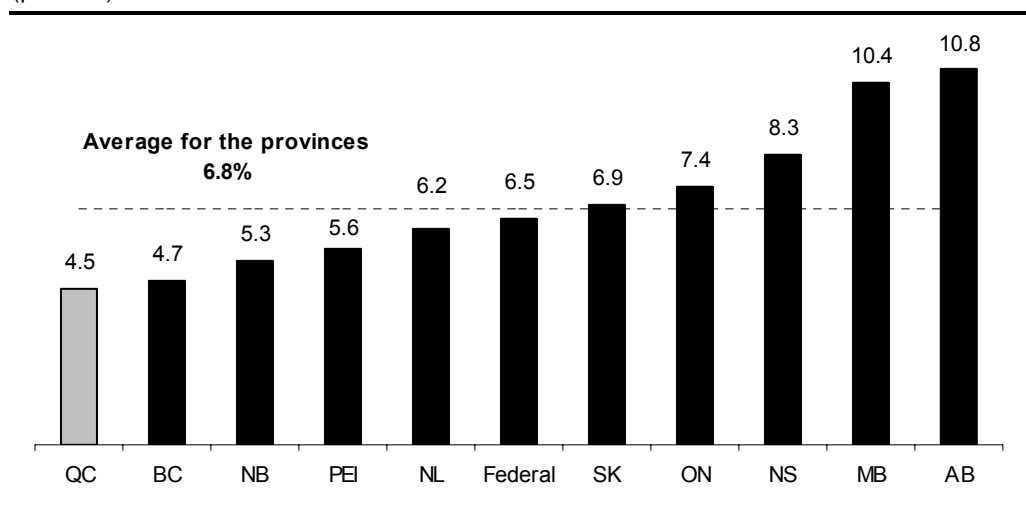
❑ Québec is the province that has best controlled its spending

Québec's program spending has increased by an average of 4.5% per year since 2003-2004. In comparison, average program spending by the provinces has grown 6.8% per year and that of the federal government, 6.5% per year.

In fact, Québec is the Canadian province that has posted the weakest growth in program spending between 2003-2004 and 2007-2008.

CHART A.6

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



Source: Statement of the ministère des Finances du Québec.

Continued efforts to reduce the weight of the debt

❑ Generations Fund: \$2.7 billion accumulated by March 2010

The creation of the Generations Fund in June 2006 clearly demonstrates the government's commitment to reduce the debt burden. Substantial sums are deposited in the fund each year.

- Deposits in the Generations Fund, including the additional deposit of \$200 million from the budgetary reserve, should reach \$603 million for 2007-2008.
- Total deposits of \$742 million are forecast for 2008-2009. The increase is mainly attributable to the full payment of water-power royalties by Hydro-Québec starting in 2008.
- In 2009-2010, total deposits are expected to be \$816 million.

The deposits since its creation and those projected for the coming years will raise the amount accumulated in the Generations Fund to:

- \$1 187 million as at March 31, 2008;
- \$1 929 million as at March 31, 2009;
- \$2 745 million as at March 31, 2010.

TABLE A.4

Generations Fund^P (millions of dollars)

	2007-2008	2008-2009	2009-2010
BALANCE, BEGINNING OF YEAR	584	1 187	1 929
DEDICATED REVENUE SOURCES			
Water-power royalties	364	625	647
Unclaimed property	15	15	15
Investment income	24	102	154
TOTAL	403	742	816
Deposit from the budgetary reserve	200	—	—
TOTAL	603	742	816
BALANCE, END OF YEAR	1 187	1 929	2 745

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

❑ The debt burden continues to decline

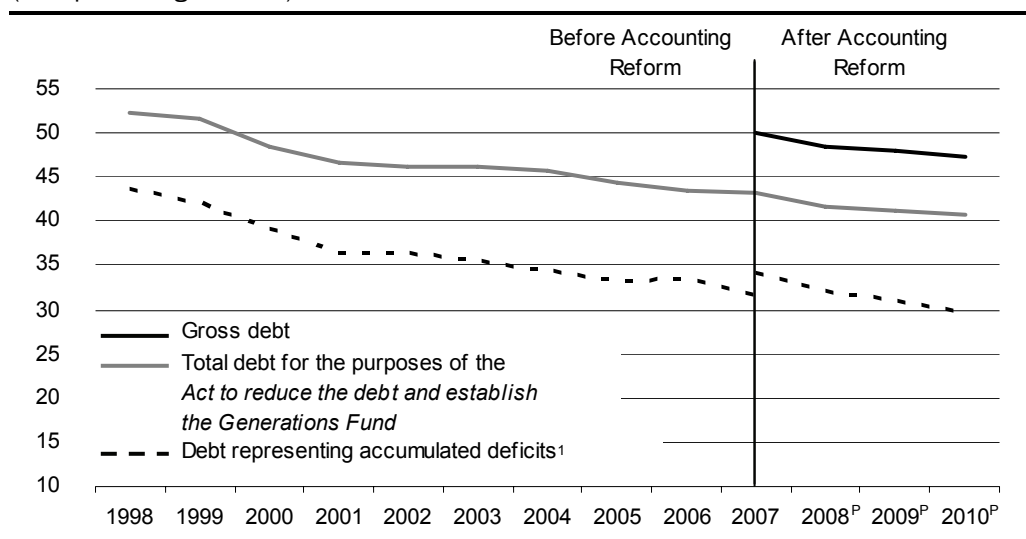
Disciplined spending management, maintenance of a balanced budget, creation of the Generations Fund and good economic performance in recent years have made it possible to reduce the weight of the debt.

As shown in the following chart, the Québec government's debt burden as a percentage of GDP is declining regardless of the debt concept used.

CHART A.7

Total debt of the government as at March 31

(as a percentage of GDP)



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

1. After taking the budgetary reserve into account.

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INTRODUCTION

This section presents the economic forecasts underpinning the 2008-2009 Budget.

Overall, the severe slowdown in the U.S. economy in 2008 will have a major impact around the world, including in Canada and Québec.

Already constrained by the higher Canadian dollar and increased competition from emerging economies, Québec exports, like elsewhere in the world, will be hurt in 2008 by the serious economic slowdown in the United States. This will slow economic activity.

However, Québec will gain from strong domestic demand fuelled in particular by government action, which will mitigate the negative impact of the external sector. Household spending and business investment, in particular, will remain high and support employment and government tax revenues.

Thus, after rising 2.4% in 2007, real gross domestic product (GDP) growth in Québec will slow to 1.5% in 2008 and 2.0% in 2009. Nearly 40 000 jobs a year, on average, should be created in 2008 and 2009.

Moreover, the current context is fraught with uncertainties, in particular, the possibility that the slowdown in the U.S. economy could last longer than predicted, which could further impact the economic outlook in Canada and Québec.

Generally speaking, the Québec economy is performing well, particularly in the labour market. To wit, 282 000 jobs have been created in the last five years. In 2007, the unemployment rate hit its lowest level in over 30 years, at 7.2%, and a record number of Quebecers had jobs.

This vigour conceals the major changes taking place in the economy as manufacturing jobs are being lost. Between 2002 and 2007, the sector shed 106 000 jobs. At the same time, Québec was creating nearly 400 000 jobs in the rest of the economy.

The loss of manufacturing jobs, mostly in less productive sectors, has been largely offset by well-paying jobs in a number of high-valued-added manufacturing sectors and in several high-wage services sectors. To ensure this trend continues, the 2008-2009 Budget provides support to improve productivity in all sectors of the economy.

1. GLOBAL ECONOMIC OUTLOOK

1.1 A two-tier global economy

In 2008, the marked slowdown in U.S. economic growth will be the primary drag on global economic activity, which will grow at its lowest rate since 2004. Following average growth in excess of 4.5% for the last four years, real world GDP will climb 4.0% this year.

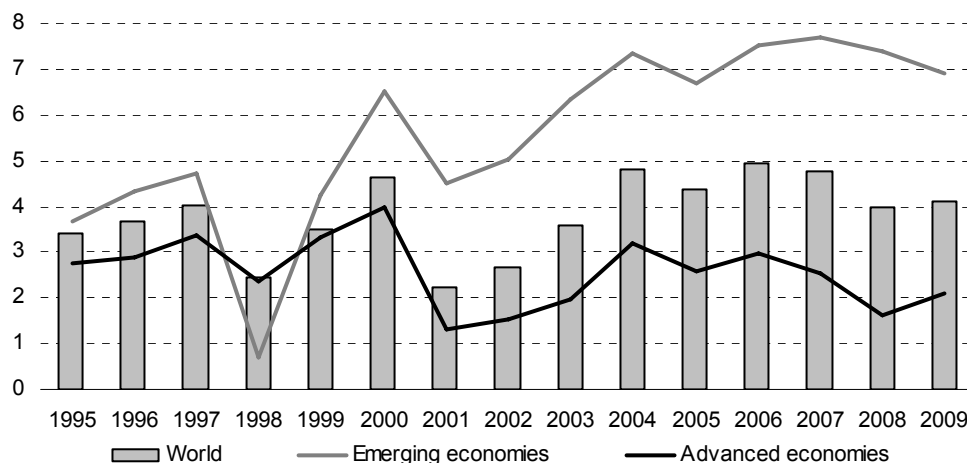
Overall, most of the world's economies will decelerate in 2008, but advanced nations will experience the sharpest slowdowns.

- The slowdown in advanced economies that began in 2007 will intensify in 2008 as a result of the weak U.S. economy, the turbulence in international financial markets and high oil prices.
- The deceleration in economic growth will be milder in emerging economies such as China and India, which will increase their market shares because of their cost advantage.

In 2009, global economic growth is expected to be 4.1%, with the anticipated recovery in several countries, notably the United States, being offset by a slowdown in the Chinese economy.

CHART B.1

Real world gross domestic product (percentage change)



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

1.2 Severe slowdown in the U.S. economy in 2008

In 2007, difficulties in the United States' real estate sector caused a sub-prime loan crisis, which weakened the American banking system. The crisis spread to the rest of the U.S. economy and even to most of the world's financial markets.

These events are already having numerous repercussions in the United States, particularly job losses in real estate-related sectors, tighter credit conditions for households and businesses, anaemic domestic demand and a decline in the profitability of businesses. As a result, real GDP growth declined from 2.9% in 2006 to 2.2% in 2007.

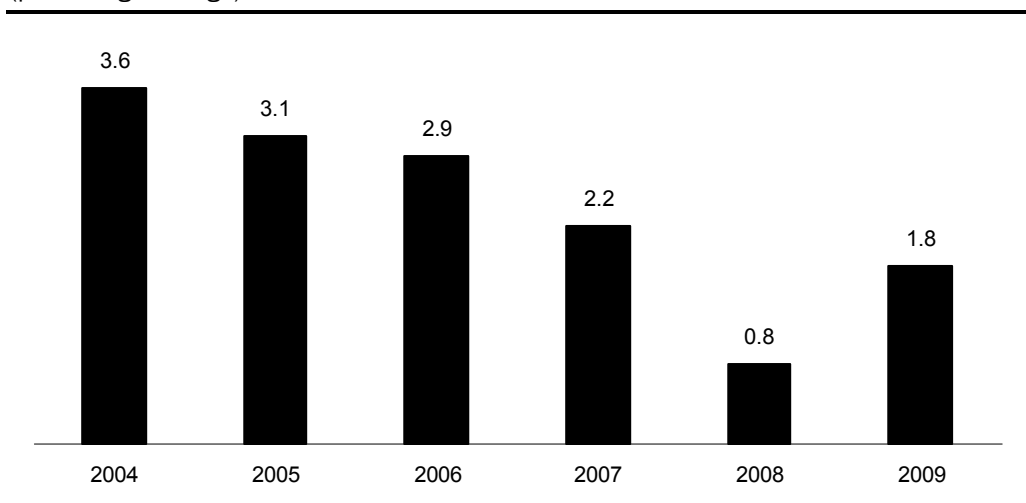
The worsening of these difficulties is expected to cause a severe slowdown in the U.S. economy in 2008, particularly in the first half of the year. There are already several signals.

— The consumer sentiment index is at its lowest level since 1992, employment declined in January and the purchasing managers' index, which measures activity in the manufacturing sector, is contracting.

However, thanks to vigorous monetary easing and the swift introduction of an economic stimulus package by the United States government, economic activity will gradually rebound in the second half of the year. Real GDP is expected to grow 0.8% in 2008, the lowest rate in seven years, and 1.8% in 2009.

CHART B.2

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



Sources: Global Insight and ministère des Finances du Québec.

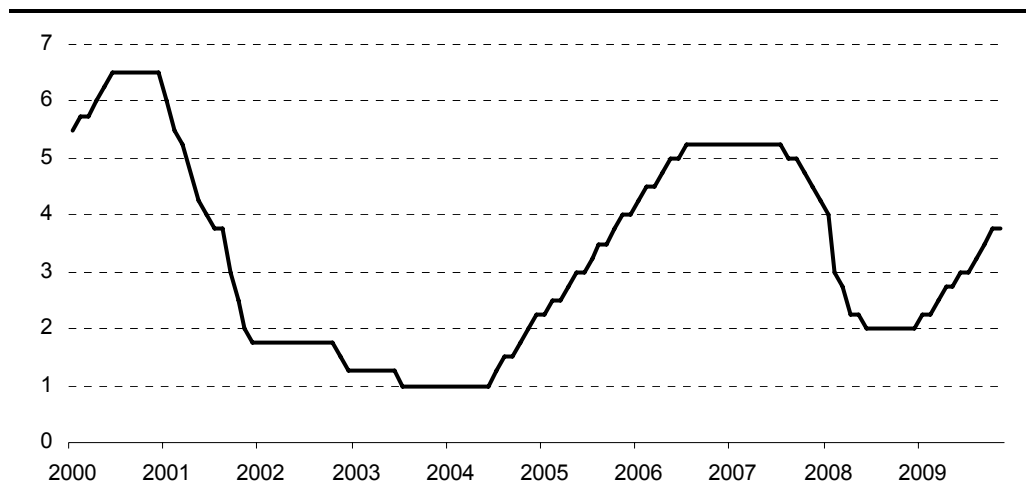
❑ Energetic intervention by the U.S. Federal Reserve to support the economy

The U.S. Federal Reserve has reacted vigorously since summer 2007 to offset the negative impact of tighter credit conditions and the crumbling real estate sector. It reduced the federal funds rate by 225 basis points, from 5.25% to 3.0%, and injected liquidity into money markets.

To foster a lasting economic recovery, the central bank is expected to again lower its benchmark interest rate by 100 basis points in spring 2008, to 2.0%. The federal funds rate should gradually increase as the economy strengthens in 2009.

CHART B.3

U.S. federal funds rate (in percent)



Sources: Global Insight and ministère des Finances du Québec.

❑ Major stimulus package to support economic growth in 2008 and 2009

Worried by signs of a major economic slowdown, Congress and the Bush administration swiftly approved a US\$168-billion fiscal stimulus package (1.2% of GDP) to revive the economy. Signed by the President on February 13, 2008, the package will boost economic activity at the appropriate time through measures to help workers and businesses.

- The aid will be granted in the second half of 2008 and should add three-tenths of a percentage point to the economic growth rate in 2008 and seven-tenths of a percentage point in 2009.

US\$168-billion fiscal stimulus plan

American taxpayers will receive rebates ranging from \$300 to \$600 per person, depending on their income, with an additional payment of \$300 per child. Rebates will be paid to taxpayers earning between \$3 000 and \$75 000 in 2007. Rebates paid to individuals earning more than \$75 000 will be gradually reduced at a rate of 5% of income above that amount.

- The Treasury Department estimates that 130 million people will receive tax rebates totalling US\$112 billion.

Business investment will be spurred by measures that reduce corporate income tax by a total of US\$56 billion:

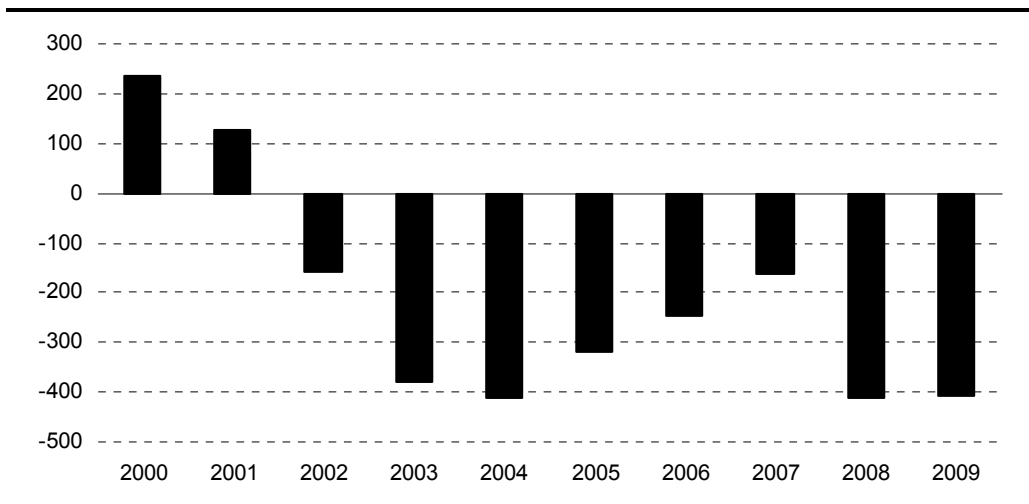
- an additional 50% amortization for certain types of equipment purchased in 2008;
- raising of the maximum amount that may be deducted from taxable income for the purchase of certain types of property in 2008 from \$128 000 to \$250 000.

However, the stimulus package is expected to swell the budget deficit from US\$162 billion in 2007 to US\$410 billion in fiscal 2008.

CHART B.4

U.S. budget deficit

(billions of U.S. dollars)



Source: Office of Management and Budget, Budget 2009.

□ Sources of the United States' economic difficulties

The marked slowdown in the U.S. economy is the culmination of twin blows from the accelerated slump in the residential sector and a more recent financial crisis.

■ Real estate crisis

The combination of low interest rates and easy access to credit boosted housing demand and prices in the early years of this decade. Between 2000 and 2005, housing starts rose 32% while the median price for existing homes climbed 49%.

The development of new financial products fostered credit access. These products increased the supply of credit to households, offered investors higher returns and made it possible to spread the United States' mortgage credit risk worldwide. However, the risks had been poorly assessed, since many households obtained loans beyond their ability to pay.

The increase in house prices and interest rates starting in 2004 gradually made it harder to purchase a home, leading to a real estate crisis. Residential investment declined 4.6% in 2006 and 17.1% in 2007, followed by a major decline in real estate prices starting in 2007. Depreciation in property values reduced the amount of financing granted to households which, coupled with higher interest rates, caused a sharp increase in defaults on sub-prime mortgage loans. The rate of late payments on sub-prime loans rose more than 40% from the start of 2006.

American households face a sharp decline in the value of their property and financial assets

To support their consumption growth, American households have been able to borrow against the value of their property in recent years, thanks to higher housing prices.

However, the hardships in the real estate sector have resulted in major losses for homeowners. Real estate losses, in addition to stock market declines, will continue to mount in 2008.

- These losses could lower the value of household assets by roughly US\$3 000 billion by the end of 2008, or double the figure in 2001, a period marked by huge stock market losses.

Because losses in real estate wealth have a larger short-term impact on households than financial losses, they should restrain domestic demand considerably in 2008.

■ A crisis that extends to financial markets

These events have caused a wave of mistrust regarding fixed-income securities backed by sub-prime mortgage loans and driven down the value of these securities. A number of American banks holding fixed-income securities have suffered substantial losses.

The real estate crisis has thus spread to the entire economy, weakening the American banking system and spurring a tightening of credit conditions for all types of loans. The outcome of these adjustments has been significant job losses in several real estate- and finance-related sectors. In addition, since over two thirds of households own property, the decline in property values will make households poorer and thereby curb their spending. All this will slow growth in consumption and investment up until 2009 and prolong the real estate correction accordingly.

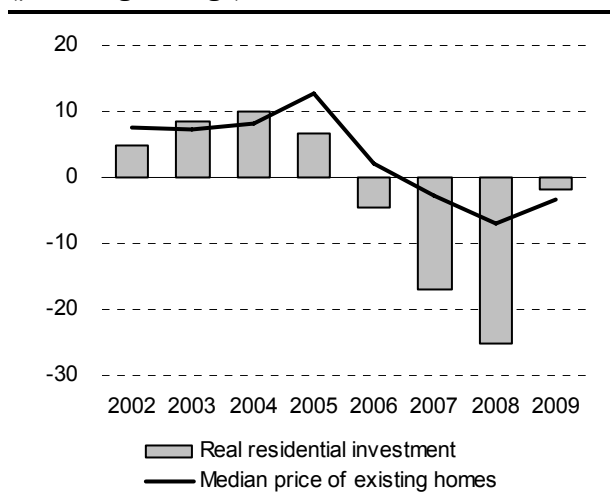
■ Continued adjustment by the real estate sector in 2008

The increase in the number of unsold houses reflects the imbalance between housing supply and demand in the United States. Restoring balance to the real estate market will require fewer housing starts and lower property prices in order to spur sales. Thus, property prices, housing starts and house sales will post further declines in 2008. Residential investment, in particular, will fall 25.1% in 2008 and 1.8% in 2009. After dipping 1.2% in 2007, the median price of a new house will drop 6.6% in 2008 and 7.7% in 2009.

CHART B.5

Real residential investment and property prices in the United States

(percentage change)

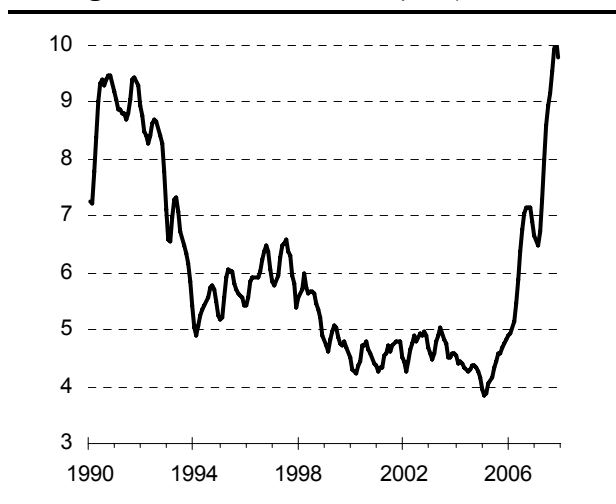


Sources: Global Insight and ministère des Finances du Québec.

CHART B.6

Inventory of existing houses in the United States

(number of months required to deplete the available housing stock at the current sales pace)



Source: Datastream.

❑ Consumers are more cautious in light of deteriorating economic conditions

Unlike in previous years, American consumers will not sustain economic activity in 2008 to any significant degree. Consumption growth will be restrained by very modest employment growth, lower consumer confidence and people's desire to rebuild part of their assets. As well, lasting high food and oil prices will curb household spending.

Thus, despite the positive impact of the economic stimulus plan, consumption will grow just 1.1% in 2008 as a whole. Consumption growth will pick up slightly in 2009, rising to 1.5% following the end of the real estate correction and a gradual recovery of the labour market.

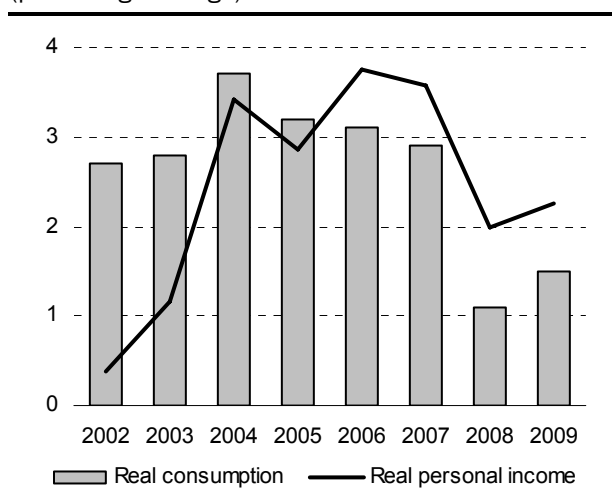
❑ Business investment will stagnate

U.S. companies will struggle in 2008, despite the US\$56-billion injection by the economic stimulus plan to spur investment. Stagnation of the domestic market and lower business profits will slow investment and curtail hiring. After climbing 4.7% in 2007, non-residential investment will grow just 0.1% in 2008 and 0.9% in 2009.

CHART B.7

Real personal consumption and income in the United States

(percentage change)

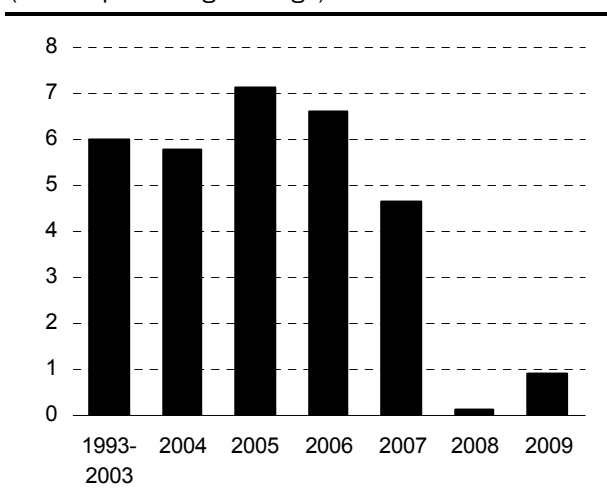


Sources: Global Insight and ministère des Finances du Québec.

CHART B.8

U.S. real business investment

(annual percentage change)



Sources: Global Insight and ministère des Finances du Québec.

❑ External sector to the rescue

Nevertheless, the United State's external sector will make a greater contribution to economic growth thanks to continually strong exports and a decline in imports. For many years, Americans have been buying a lot more foreign products, particularly products from China, than they have been selling to the rest of the world. They are also taking advantage of these countries' low production costs. The result, however, is a major U.S. trade deficit.

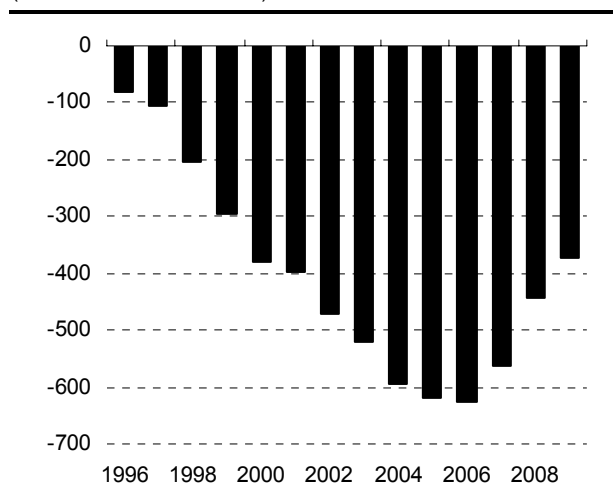
However, while more moderate consumption growth curtailed import growth in 2007, the sharp depreciation of the U.S. dollar made American products more competitive, thereby favouring exports. Consequently, after rising sharply for several years, the U.S. trade deficit fell 10.1% to US\$561 billion in 2007.

In 2008, a further 6.5% decline in the greenback against the currencies of the United States' major trading partners, coupled with stronger foreign demand than domestic demand, will continue to spur exports and restrain imports. After reaching a low of US\$624 billion in 2006, the real trade balance is expected to decrease to US\$442 billion in 2008 and US\$374 billion in 2009, supporting economic growth.

CHART B.9

U.S. trade deficit

(billions of U.S. dollars)

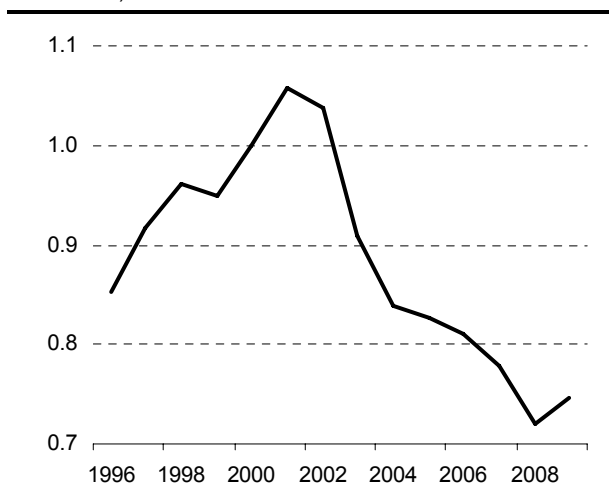


Sources: Global Insight and ministère des Finances du Québec.

CHART B.10

Effective exchange rate of the American dollar

(weighted index relative to principal currencies
2000 = 1)



Sources: Global Insight and ministère des Finances du Québec.

1.3 Moderate growth in advanced economies

After being affected in 2007 by the appreciation of their currency against the U.S. dollar and the worldwide spread of the sub-prime loan crisis, advanced economies will also be hurt by the U.S. demand slowdown in 2008.

□ The euro area

After increasing 2.6% in 2007, the euro area's economic growth is expected to slow to 1.6% in 2008. The slowdown will flow from tighter credit conditions, high oil prices, sharp appreciation of the euro and weaker foreign demand.

□ United Kingdom

Following robust growth of 3.1% in 2007, the UK's economy is expected to slow to 1.8% in 2008 and 2009. Tighter financing conditions, higher household indebtedness primarily from mortgage loans, and the modest increase in household disposable income are expected to have a downward effect on consumer spending, the key driver of economic growth in 2007.

□ Japan

In 2008, Japan will feel the effects of the economic slowdown in the United States and Europe. It will also be hurt by the rapid rise in the yen vis-à-vis the U.S. dollar. However, the dynamic labour market, supported by demand from emerging nations, should enable wage increases and higher household spending in Japan, which will partially offset sluggish exports to advanced economies and help solve the ongoing deflation problem. Economic growth is expected to fall from 2.1% in 2007 to 1.5% in 2008 and then edge up to 1.6% in 2009.

TABLE B.1

Real gross domestic product in selected regions (percentage change)

	2007	2008	2009
Euro area	2.6	1.6	1.9
United Kingdom	3.1	1.8	1.8
Japan	2.1	1.5	1.6

Source: Global Insight.

1.4 High growth in emerging economies

Even though emerging economies are also experiencing a slowdown, they will continue their vigorous economic growth. China, India, Russia and Latin America and Middle East countries will contribute significantly to global economic growth.

TABLE B.2

Real gross domestic product in select regions (percentage change)

	2007	2008	2009
China	11.4	9.9	8.9
India	8.5	8.0	8.4
Russia	8.1	7.0	6.4
Latin America	5.7	5.4	4.8
Middle East	5.0	6.0	5.4

Source: Global Insight.

□ China remains the main engine of global economic growth

Since the 1970s, but especially since joining the World Trade Organization in 2001, China has experienced high economic growth. Liberalization of trade in China, a surge in direct foreign investments, strong fixed capital formation and its international role as a platform in assembly and distribution have enabled the Chinese economy to grow at an average pace of over 10% during the last 25 years. Its share of global GDP rose from 4% in 1990 to 11% in 2007.

China has become a key player in the global economy, as much because of its contribution to global economic growth as its impact on commodity and manufactured product prices and its effect on capital markets. For the third consecutive year, China will be the main engine of global economic growth in 2008, contributing around 29%.

China's economy will slow from 11.4% growth in 2007 to 9.9% in 2008 and 8.9% in 2009 owing to more moderate global demand, appreciation of the renminbi and the various measures introduced by Chinese authorities to slow growth in overheating investment sectors and curb the inflationary pressure on Chinese output.

1.5 Canadian economy slowed by U.S. demand

Like most industrialized nations, Canada is affected by a downturn in U.S. demand for its products. It is also hurt by the strong Canadian dollar and increased competition from emerging economies, all of which caused Canadian exports to decline in the last quarter of 2007.

Furthermore, the strong Canadian dollar encourages Canadians to purchase foreign goods to the detriment of locally made products. The result has been a substantial increase in Canadian imports in the last few years and, consequently, slower economic growth.

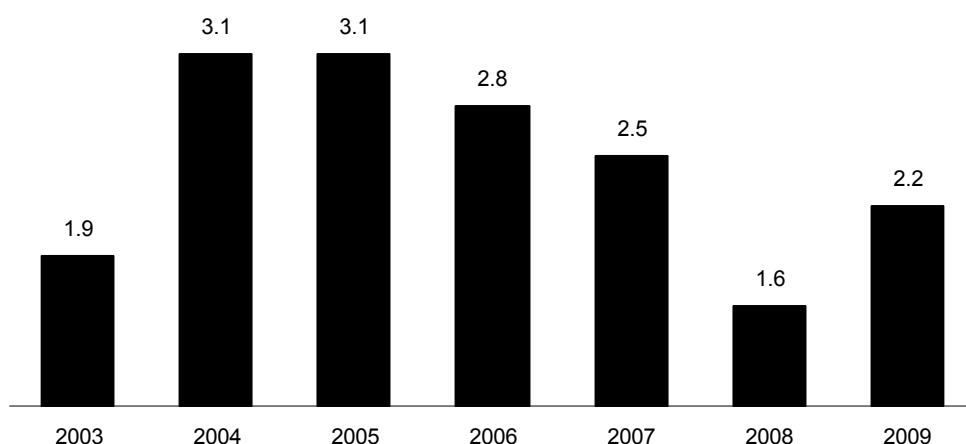
Despite the drag from the external sector, domestic demand remains strong throughout Canada. Household demand and business investment, in particular, remain high.

Nevertheless, the downward pressures on economic growth from developments in the external sector will intensify even more this year, causing a further slowdown in economic growth. After expanding at a rate of 2.7% in 2007, Canada's real GDP is expected to increase just 1.6% in 2008 and 2.2% in 2009.

Note that, unlike the United States, the Canadian economy is not grappling with problems in the real estate sector, or with declining property values that could curtail consumer spending.

CHART B.11

Canadian real gross domestic product (percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

Comparison of Canadian and U.S. economic cycles

Canada's economy is open to the world, exporting close to 40% of its GDP. Consequently, economic disturbances among its trading partners affect the Canadian economy. However, the domestic economy, with its own dynamics, plays an important role in the country's economic growth.

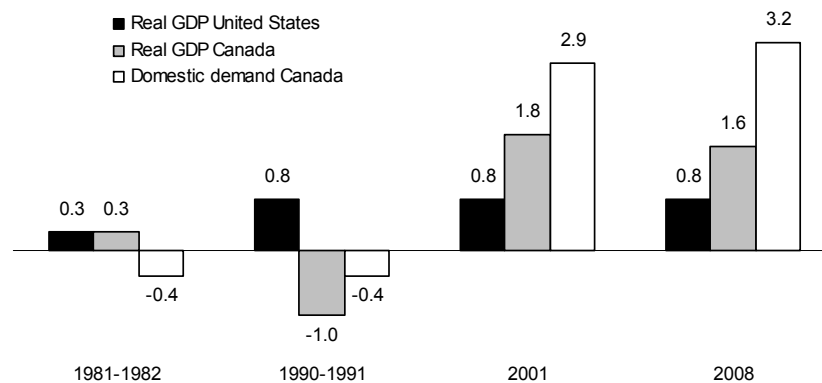
A review of the latest economic cycles in Canada and the United States shows diverging trends in some years. During the U.S. recessions in the early 1980s and 1990s, Canada also experienced major difficulties. However, in 2001, domestic demand was especially vigorous and Canada was less affected by the slowdown in the U.S. economy. The same thing should happen in 2008, given Canada's particularly robust domestic demand.

It should also be noted that the federal government's *Economic Statement and Budget Update* of October 2000 introduced tax relief measures totalling \$17 billion in 2001 and \$20 billion in 2002, which went a long way to maintaining a healthy economy.

In 2008, domestic demand will gain from the economic stimulus measures introduced by the federal and some provincial governments, coupled with good overall economic conditions, such as in the labour market, and high demand for commodities.

Comparison of four economic slowdowns

(annual percentage change)



Sources: Statistics Canada, Global Insight and ministère des Finances du Québec.

Weak growth in Canadian exports

The weak growth in real U.S. GDP in 2008 will affect growth in Canadian exports. More specifically, weak U.S. demand for automobiles will weigh heavily on the Canadian auto industry, which has a significant presence in Ontario. As well, Canadian exports to the United States will be curtailed by appreciation of the Canadian dollar.

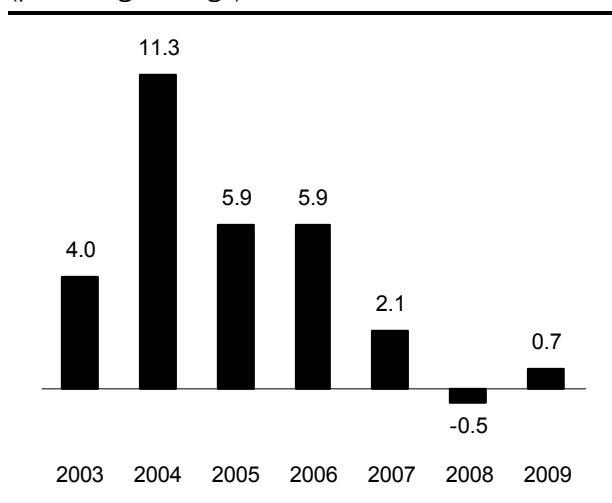
Moreover, competition from emerging economies will continue to affect both our domestic and foreign markets. In 2007, China became the leading exporter to the United States, a rank long held by Canada.

All in all, the anticipated decline in U.S. demand for imported products is expected to slow Canadian export growth from 0.9% in 2007 to 0.5% this year. Spurred by a rebound in the U.S. economy and an end to the Canadian dollar's rapid rise, exports are expected to grow 2.6% in 2009.

Despite lower U.S. demand, Canada will continue to gain from strong global demand for its products, notably commodities and high value-added products. In fact, Canadian exports overseas are still booming, as testified by the growth in exports to China, which rose from 0.8% in 1997 to 2.1% of total Canadian exports in 2007.

CHART B.12

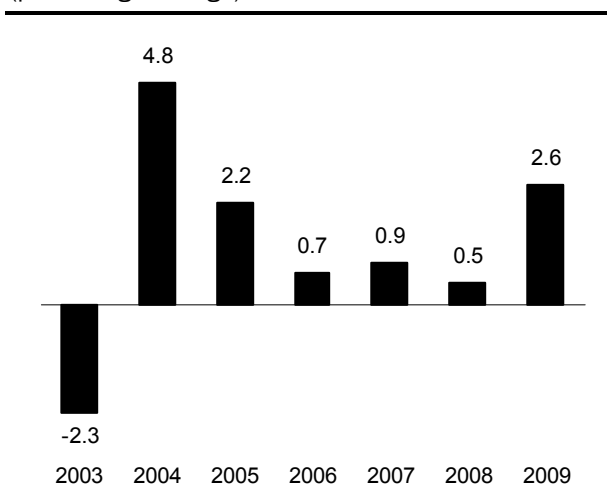
U.S. imports (percentage change)



Sources: Global Insight and ministère des Finances du Québec.

CHART B.13

Canadian exports (percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

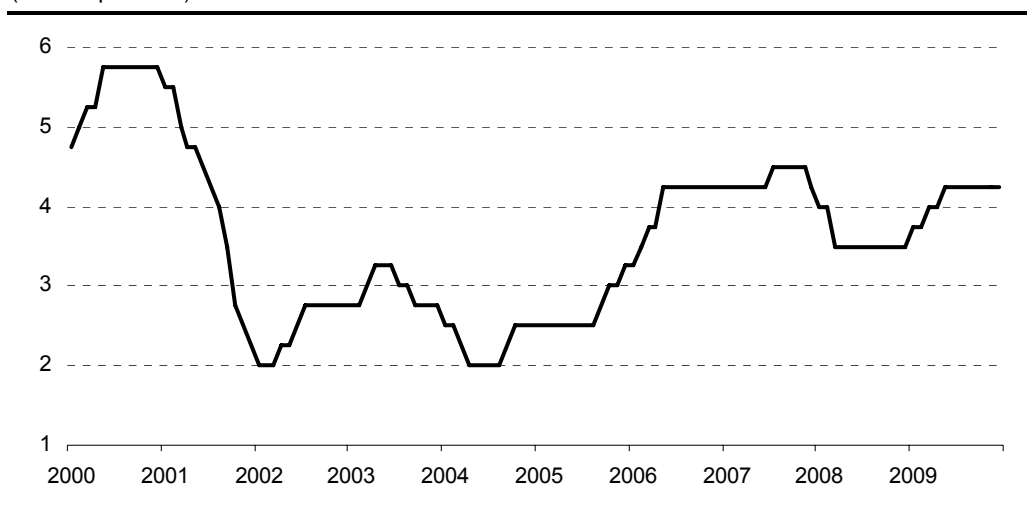
❑ A more accommodating monetary policy

To counter the adverse effects of tighter credit conditions in Canada and the slowing U.S. economy, the Bank of Canada initiated a cycle of monetary easing at the end of 2007. It cut the target overnight rate by 100 basis points, which brought it down to 3.50% as of March 4, 2008.

Low inflationary pressure may encourage the Bank of Canada to further reduce its benchmark interest rate. In 2009, the Bank of Canada will gradually bring the benchmark interest rate in line with the economic rebound.

CHART B.14

Target overnight rate (rate in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

❑ A context that remains favourable to households and businesses

Domestic demand will remain robust across Canada. Household spending and business investment remain high, spurred mainly by fiscal measures introduced by the governments of Canada and several provinces. These measures include tax cuts, a cut in the goods and services tax (GST) and heavy investment in public infrastructure. All in all, these actions should add one percentage point to Canada's economic growth in 2008.

In short, domestic demand is expected to continue growing by over 3% in 2008, supporting overall economic growth. In 2009, growth in domestic demand is expected to slow. Household spending will be limited by weaker growth in personal disposable income as a result of no new major fiscal stimuli.

■ Households will continue to consume, but at a more moderate pace

In 2007, Canada's strong employment growth of 2.3% largely contributed to the 4.7% rise in household spending. Consumption will grow more slowly over the next two years owing to a more moderate increase in employment. As a result, household consumption will climb 3.5% in 2008 and 2.5% in 2009.

■ Businesses will continue to invest

Business investment was up 4.4% in 2007 and is expected to increase 3.4% in 2008 and 3.1% in 2009. Growth will be supported by robust domestic demand and the stimulating effect of government policies aimed at businesses. Investment will remain high in the services sector, such as trade and business services. The mining and agriculture sectors will continue to benefit from strong global demand for their products, which will foster more hiring of workers.

□ Moderate inflation

Inflation, as measured by the change in the consumer price index (CPI), was 2.2% in 2007. In addition to the increase in property replacement costs, significant declines were posted in several components, particularly clothing, which was significantly affected by the low cost of goods imported from China. As well, the prices for numerous goods, such as automobiles, fell with the higher Canadian dollar.

In 2008, inflation will moderate to 1.5%. The GST cut and the continually high dollar will help slow growth in the CPI. In 2009, inflation is expected to edge up to 1.9%.

□ A Canadian dollar near parity

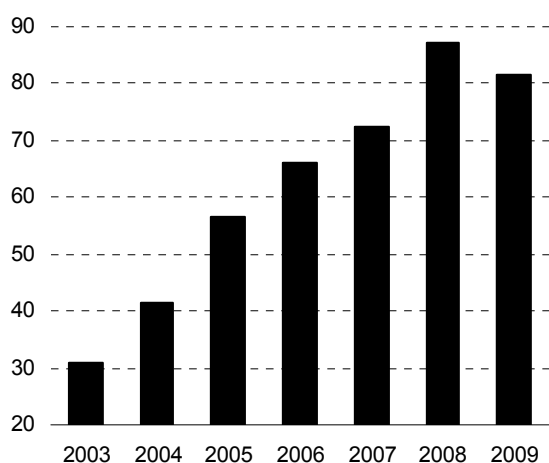
The Canadian dollar continued the upward trend it began in 2002, appreciating 18% against the U.S. currency in 2007 and hovering near par since the fall. All in all, the dollar's latest rise was largely driven by increased prices for commodities such as oil, a product largely exported by Canada.

In 2008 and 2009, the Canadian dollar should hover near par with the U.S. dollar. The positive impact of the spread between Canadian and U.S. short-term interest rates, which is increasingly favourable to the Canadian dollar, will be offset by the decline in oil and other commodity prices.

— The U.S. Energy Information Administration predicts that oil prices will dip to an average of US\$87 per barrel in 2008 and US\$82 in 2009, compared with US\$92 in December 2007.

CHART B.15

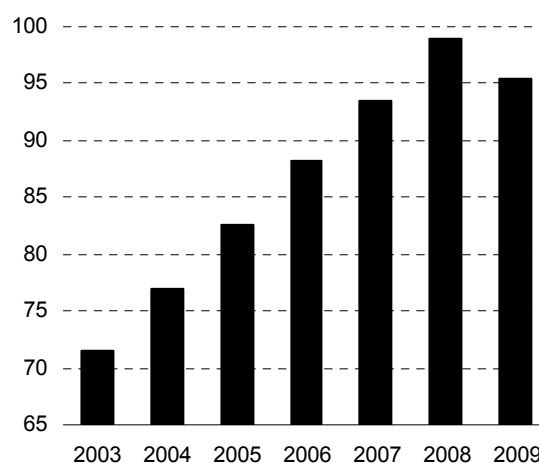
West Texas Intermediate oil price (U.S. dollars per barrel)



Source: Energy Information Administration.

CHART B.16

Canadian dollar (U.S. cents)



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

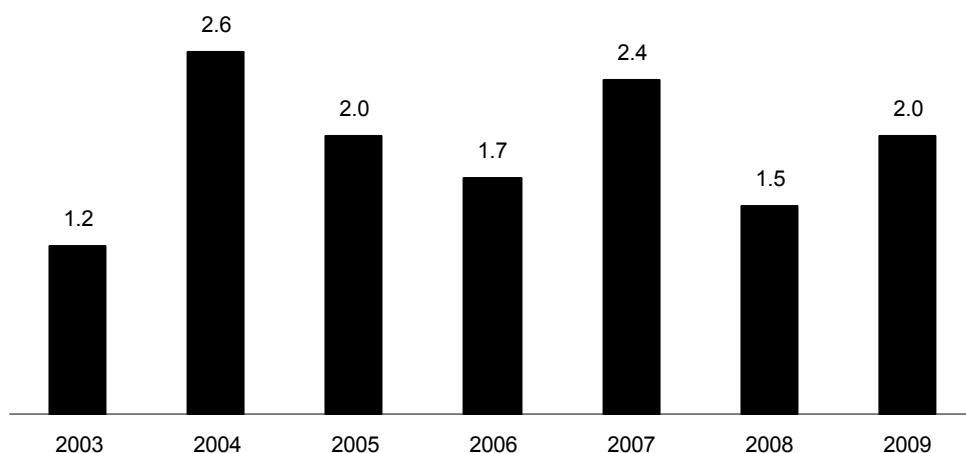
2. ECONOMIC SITUATION IN QUÉBEC

As an economy open to international trade, the Québec economy will be affected this year by the marked slowdown in the United States, although the negative impacts will be minimized by vigorous domestic demand. As well, good labour market performance in 2007, coupled with the new government tax cuts, should sustain consumer spending. Major private and public investment projects currently underway should also help.

Consequently, after growing 2.4% in 2007, Québec's real GDP will slow to 1.5% in 2008 and 2.0% in 2009. Nearly 40 000 jobs a year, on average, will be created over the next two years, lowering the unemployment rate to 6.9% in 2009.

CHART B.17

Québec's real gross domestic product (percentage change)



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

2.1 An external sector affected by the major economic slowdown in the United States

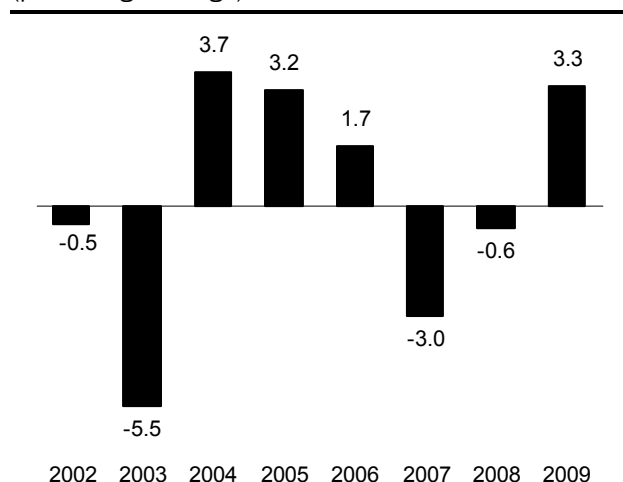
In the past few years, Québec's foreign trade has been under increasing pressure from new economic powers, such as China and India, as well as a rapid, sharp rise in the Canadian dollar. Additional pressure is now coming from the major economic slowdown in the United States.

After declining 3.0% in 2007, international exports will fall 0.6% in 2008 despite a good performance by several sectors, notably aerospace and aircraft parts, office equipment, aluminium and primary products such as farm products, and metals and minerals. Following improvement of the U.S. economy in 2009, international exports are expected to climb 3.3% next year.

High import growth will also contribute to a deterioration in the external sector and a slowdown in economic growth. The high Canadian dollar and a continually robust domestic economy will drive international imports up 5.4% in 2008. In 2009, imports will grow at a slower pace of 3.9% following a slowdown in household and business demand.

CHART B.18

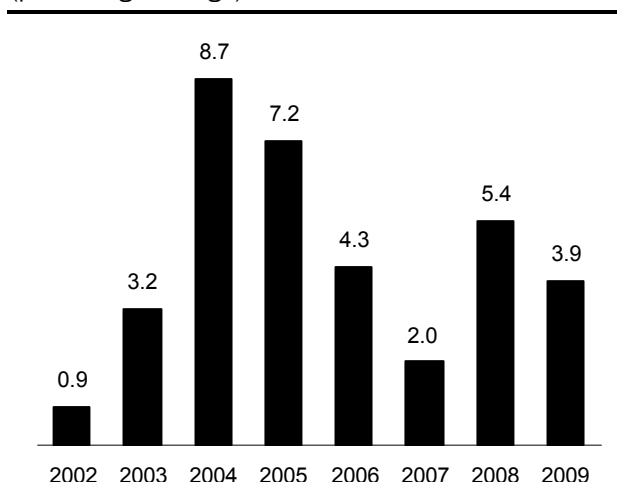
Québec's international exports (percentage change)



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

CHART B.19

Québec's international imports (percentage change)



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

❑ Robust domestic demand offsets the decline in exports

The external sector, which consists of exports and imports, will have shaved 1.8 percentage points off economic growth in 2007 and will reduce it by another 2.3 percentage points in 2008 and 0.4 points in 2009.

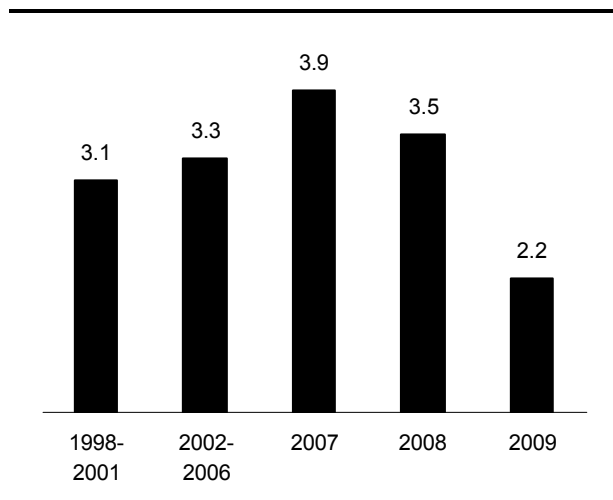
However, as in the past few years, economic growth will be sustained by strong domestic demand owing to conditions that are favourable to consumer spending and business investment. In addition, improved public finances enabled easing of the tax burden of households and businesses, further stimulating the economy.

Therefore, despite a slowdown, final domestic demand is expected to grow 3.5% in 2008 and 2.2% in 2009, largely offsetting the downturn in the external sector.

CHART B.20

Final domestic demand¹

(annual percentage change)



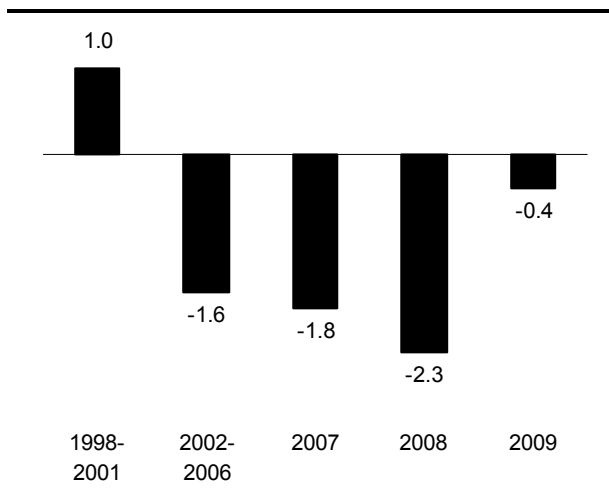
1 Final domestic demand includes personal household expenditures, residential and non-residential investment, and current government expenditures.

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

CHART B.21

Contribution of external sector to economic growth¹

(percentage points of real GDP)



1 The contribution of the external sector accounts for changes in both international and interprovincial exports and imports.

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

2.2 Significant contribution by governments to economic growth

Government action is not a negligible factor in the strength of domestic demand. In 2008, the action taken by governments will add the equivalent of 1.3 percentage points to Québec's economic growth.

Since 2003, the Québec government has been helping the economy achieve its full potential by making the taxation system competitive and thereby encouraging work, investment and innovation.

- The government reduced personal income tax by \$950 million in 2008.
- The government also eliminated the capital tax for manufacturing companies and implemented a plan to eliminate the tax for all other businesses by January 1, 2011. This year, the government also introduced an investment tax credit for all regions of Québec.

The government will invest \$30 billion over the next five years under the Québec Infrastructure Plan,

The federal government has also eased the tax burden on individuals, representing \$900 million for Quebecers in 2008. It also cut the GST by another percentage point, representing a tax reduction of \$1.3 billion for Québec.

CHART B.3

Government contributions to Québec's economic growth in 2008¹ (percentage points of real GDP)

New tax and budgetary expenditures	Contribution to economic growth
Measures in the 2008-2009 Budget to support business investment	0.1
\$950-million tax reduction for Québec households by the Québec government	0.3
Québec Infrastructure Plan (\$30 billion over 5 years)	0.2
1% cut in the GST, representing the equivalent of nearly \$1.3 billion in tax expenditures in Québec	0.4
\$900-million tax reduction for Québec households by the federal government	0.3
TOTAL	+1.3% in 2008

1 Estimates of the ministère des Finances du Québec.

2.3 Slower job creation starting in 2008

A total of 86 300 jobs were created in Québec in 2007, representing an annual growth rate of 2.3%, the same as for Canada as a whole.

The good employment performance in 2007 is attributable to strong domestic demand. Job creation was particularly strong in sectors producing services for both households and businesses.

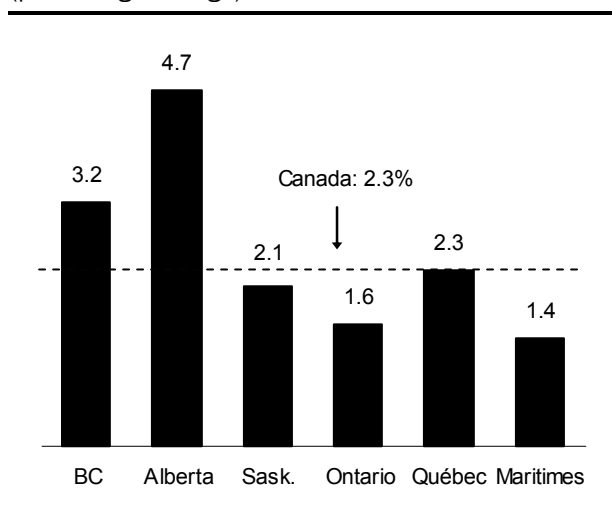
As a result of the dynamic labour market, the unemployment rate dropped from 8.0% in 2006 to 7.2% in 2007, its lowest level in 33 years. In addition, a record percentage of Quebecers held jobs in 2007, with the employment rate reaching 61.0%.

- The employment gains in the last few years narrowed the unemployment rate gap with Ontario from 2.2 percentage points in 2003 to 0.8 percentage points in 2007.

CHART B.22

Employment trends in selected Canadian provinces in 2007

(percentage change)

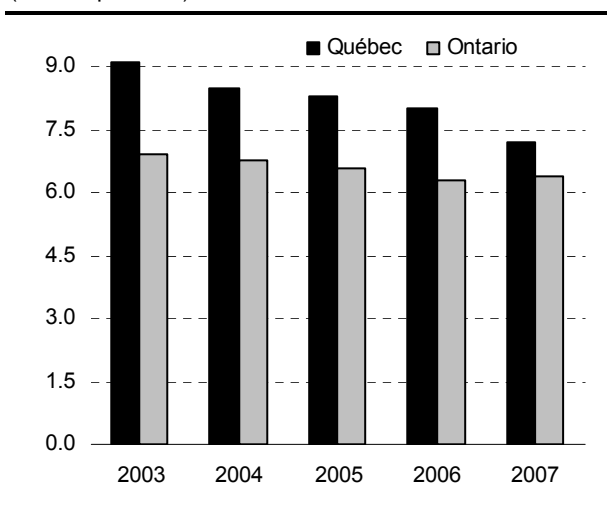


Source: Statistics Canada.

CHART B.23

Unemployment rate in Québec and Ontario

(rate in percent)



Source: Statistics Canada.

□ Moderate job creation in Québec in 2008 and 2009

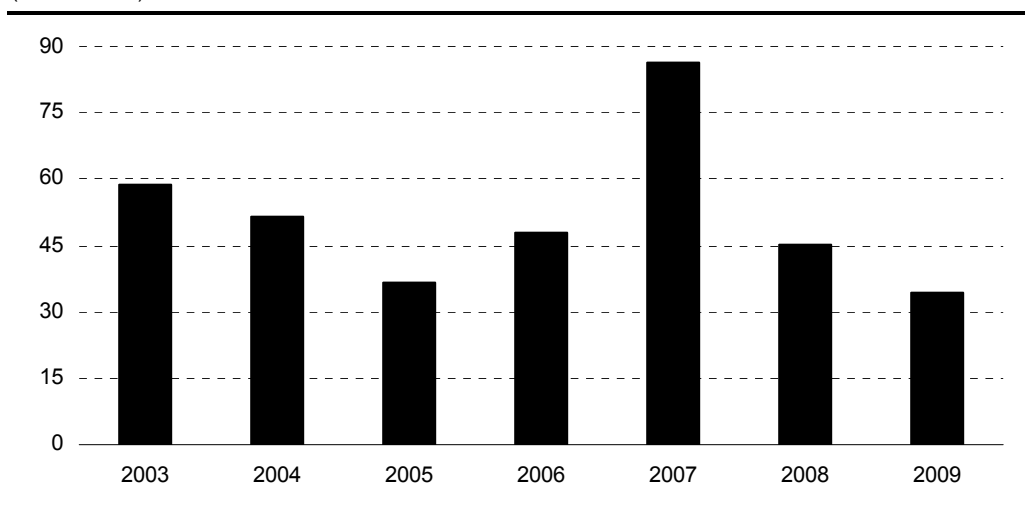
Employment will continue to rise in 2008 and 2009, although at a slower pace than in 2007. The labour market will be sustained by vigorous domestic demand. More specifically:

- Household demand will remain strong;
- Forecast growth in business non-residential investment will support good employment performance;
- Job creation will also be supported by measures introduced by public administrations, notably public investment.

This will translate to the creation of 45 000 jobs in 2008 and 34 200 jobs in 2009. As a result, the unemployment rate is expected to slide from 7.2% in 2007 to 7% in 2008 and 6.9% in 2009.

CHART B.24

Job creation in Québec (thousands)



Sources: Statistics Canada and ministère des Finances du Québec.

2.4 Slowdown in household spending

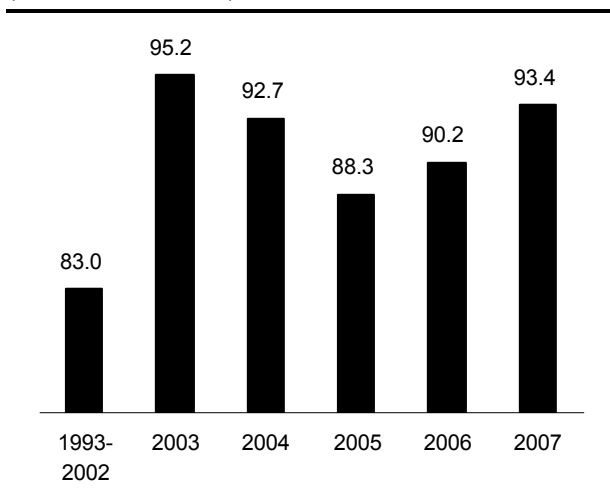
In the last six years, consumer spending has grown at an average annual rate of over 3%, a performance not seen since the late 1980s. A number of factors helped sustain household confidence at a high level and support consumption, in particular:

- a 5.6% increase in personal income in 2007, partly as a result of a Québec government payment of \$2 billion to 360 000 government employees under the pay equity settlement;
- federal and provincial government stimulus measures, notably tax cuts;
- record-low interest rates and flexible credit conditions;
- a robust labour market in recent years;
- the wealth created by a substantial rise in property values, with the average price of homes listed on the market climbing from \$116 000 in 2001 to \$208 000 in 2007.

In 2008, household personal spending will gain from this favourable climate, particularly the new tax cuts in effect since January 1, 2008. Consumer spending is expected to grow 3.1% in 2008 and then slow to 2.2% in 2009 as a result of no new major fiscal stimuli.

CHART B.25

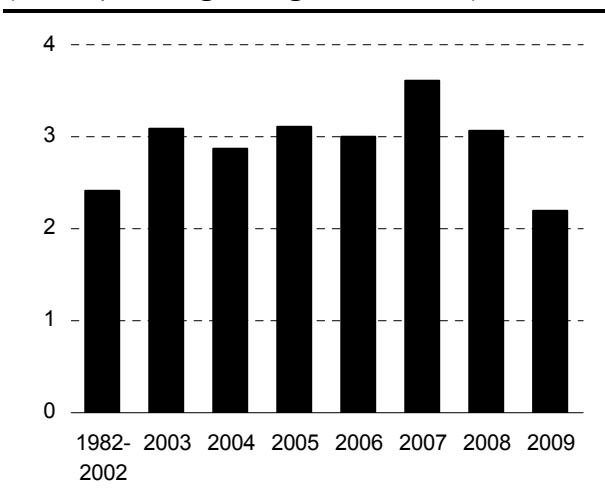
Household confidence (index: 2002 = 100)



Source: Conference Board of Canada.

CHART B.26

Household personal spending (annual percentage change, in real terms)



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

□ A slight downturn in residential investment is anticipated

Taking advantage of the good economic climate, a growing number of households acquired property in recent years. They also took advantage of more flexible credit conditions, such as being able to acquire property with no capital outlay while getting mortgage insurance from the Canada Mortgage and Housing Corporation, and longer amortization periods.

These favourable conditions fuelled a 1.4% gain in housing starts, to 48 600 units in 2007, as well as an unparalleled level of activity on the resale market, which bolstered spending on agents' commissions and renovations.

The more moderate job creation that lies ahead and higher housing prices should drag the number new constructions down to 44 625 units in 2008 and 38 540 units in 2009, numbers that are still far higher than in the late 1990s.

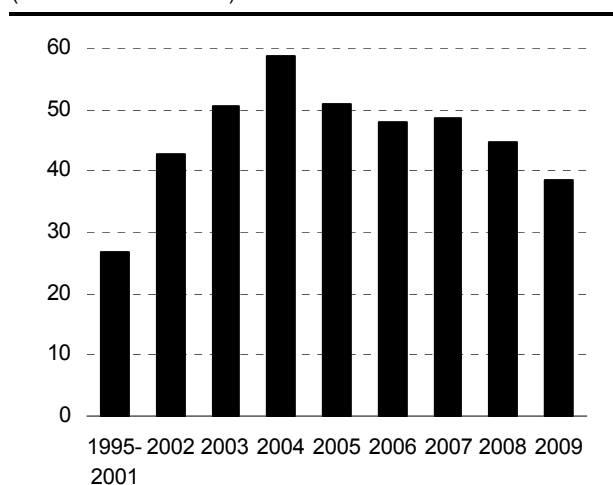
More moderate growth in spending on renovations and agents' commissions is also expected, at rates of 3.0% and 2.3% respectively in 2008, compared with increases of 7.1% and 10.9% in 2007. Unlike in the United States, the price of resale homes will continue to climb, although more moderately.

Thus, after growing 5.2%, residential investment is expected to decline 1.5% in 2008 and 2.8% in 2009.

CHART B.27

Number of housing starts

(thousands of units)

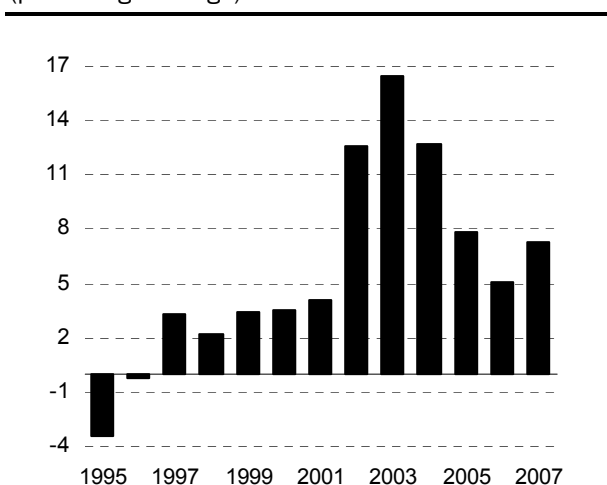


Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

CHART B.28

Growth in the average price of resale homes in Québec

(percentage change)



Source: Canada Mortgage and Housing Corporation.

2.5 High investment growth

□ Favourable economic conditions

With conditions remaining favourable, business investment is expected to grow substantially over the next two years. In particular, high profit levels will make it easier for businesses to upgrade their productive capacity. In addition, the strong Canadian dollar lowers the cost of investing in machinery and equipment, over two thirds of which is imported.

As well, greater competition on both the domestic and foreign markets should encourage Québec firms to invest more.

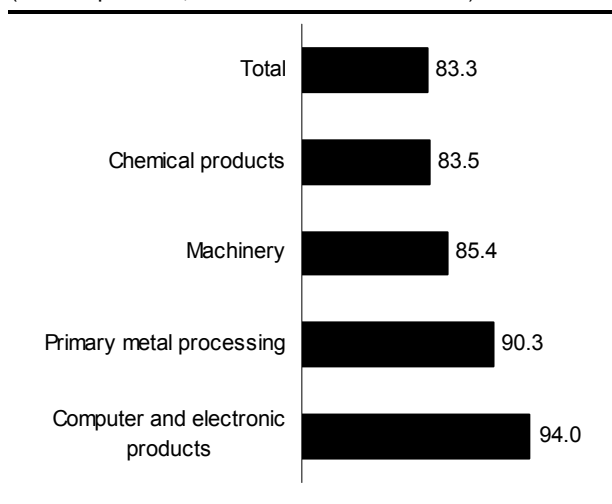
Firms need to make these investments in order to increase their productivity and become competitive or to meet robust domestic demand. Investment growth will be driven by the manufacturing and finance sectors in particular.

Lastly, the industrial capacity utilization rate, high in several sectors such as primary metals and computer and electronic products, will also encourage businesses to increase their productive capacity.

CHART B.29

Canadian industrial capacity utilization rate

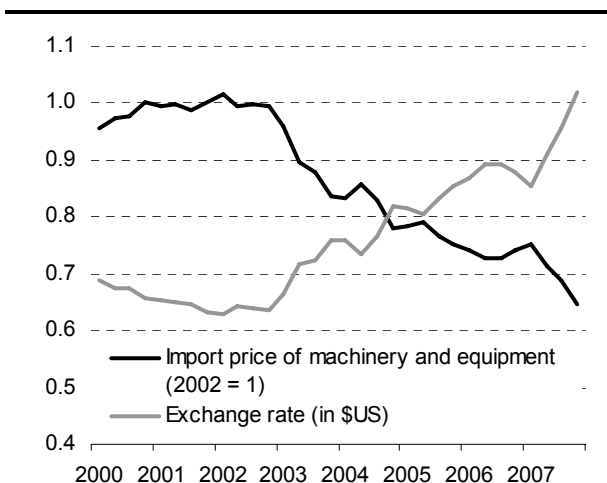
(rate in percent, cumulative rate in 2007)



Source: Statistics Canada.

CHART B.30

Import price of machinery and equipment and exchange rate



Sources: Statistics Canada and ministère des Finances du Québec.

❑ Sharp rise in investment

Total non-residential investment is expected to grow more than \$4 billion a year over the next two years to reach nearly \$45 billion in 2009. This will represent a 50% increase over 2003.

Overall, these investments will fuel job creation and lead to stronger economic growth in Québec.

■ Business investment

According to Statistics Canada's annual survey on investment intentions, businesses will increase their investments significantly in several sectors of the Québec economy in 2008. Strong investment growth is expected in the following sectors in particular: mining, oil and gas (+45%), manufacturing (+25%), retail trade (+10%), information and communications (+7%) and transportation and storage (+6%).

The good performance in business investment also reflects a dynamic energy sector. More specifically, in addition to the increase in major hydroelectric projects by Hydro-Québec and wind farms, construction of a coking plant is planned in eastern Montréal.

■ Government and institutional investment

Following a decade of steady increases, growth in government and institutional investment is expected to climb to nearly 21% in 2008 thanks to government policy to renew public infrastructure. This performance should be driven mostly by the 2007-2012 road network investment plan and increased efforts by local governments.

TABLE B.4

Total non-residential investment (billions of dollars)

	2007	2008	2009
Total investment	37.4	41.3	44.6
– Percentage change	9.1	10.6	7.8
Government and institutional investment	10.0	12.1	12.9
– Percentage change	17.8	20.9	7.3
Business investment	27.4	29.3	31.6
– Percentage change	6.2	6.8	8.0

Sources: Statistics Canada and ministère des Finances du Québec.

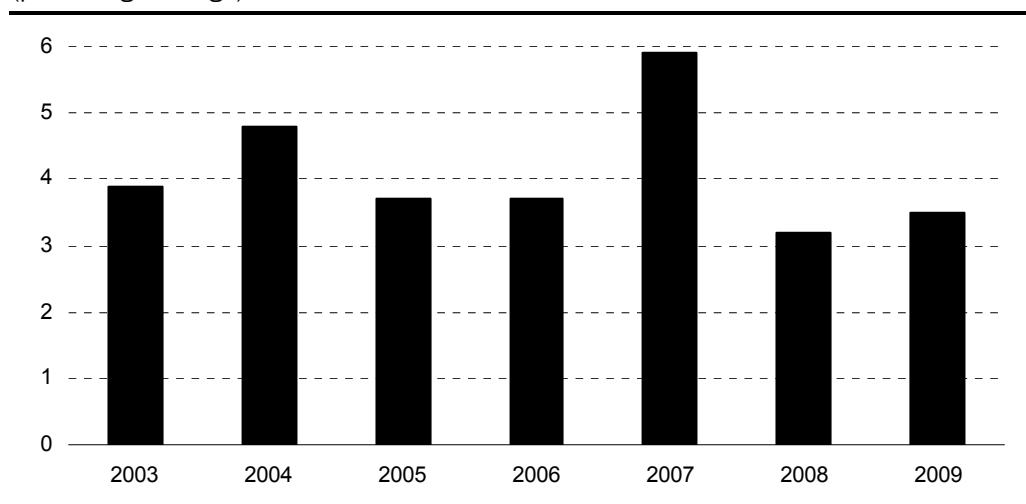
2.6 Slowdown in nominal GDP growth

In 2007, nominal GDP growth, on which growth in government revenue depends, was 5.9% owing in particular to a sharp increase in household personal income and corporate profits. More specifically, the \$1.95-billion pay equity settlement in 2007 helped raise personal income significantly, adding 0.7 percentage points to nominal GDP growth.

The non-recurring pay equity settlement and moderate growth in personal income and corporate profits will cause nominal GDP growth to slow to 3.2% in 2008 and 3.5% in 2009.

CHART B.31

Nominal gross domestic product (percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

2.7 Comparison with the private sector

Experts are far from agreeing on the depth of the economic slowdown in the United States. Forecasters also disagree on the impact a slowdown in American economic activity will have on Québec's real GDP growth, making it hard to get a consensus in such a rapidly changing economic context.

The uncertainty over the extent of the slowdown increased the spread between private-sector forecasts for Québec in 2008. The most pessimistic experts anticipate real GDP growth of just 0.9%, while the most optimistic predict a growth rate of 2.4%.

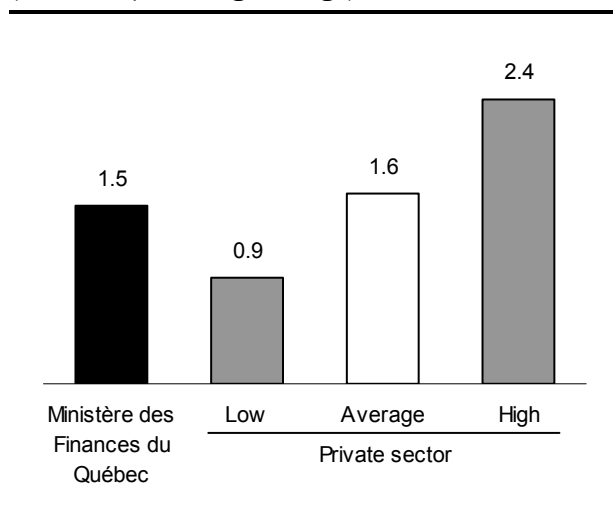
- The ministère des Finances forecasts a real GDP growth rate of 1.5%, which is slightly lower than the average rate of 1.6% predicted by private-sector experts.

Private-sector experts' confidence that the U.S. economy will rebound in 2009 is reflected by a narrower spread between the most pessimistic economic growth forecasts for Québec (1.8%) and the most optimistic (2.5%).

- At 2.0%, the growth rate forecast by the ministère des Finances is still slightly lower than the average private-sector forecast of 2.2% growth.

CHART B.32

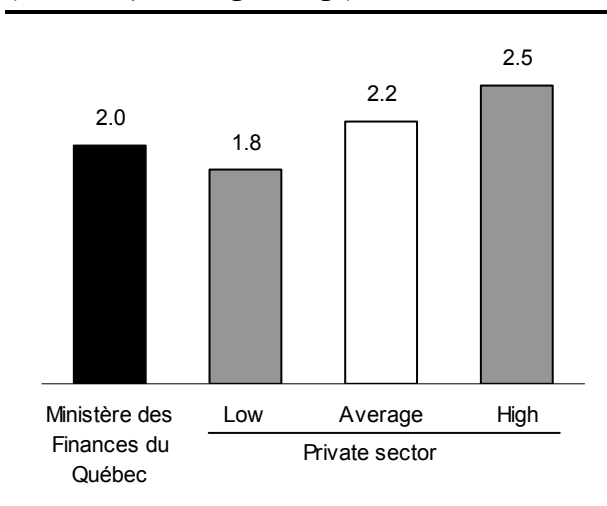
Economic forecasts for 2008
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

CHART B.33

Economic forecasts for 2009
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

TABLE B.5

Economic outlook for Québec

(percentage change, except where otherwise indicated)

	2007	2008	2009
OUTPUT			
Real gross domestic product	2.4	1.5	2.0
Gross domestic product	5.9	3.2	3.5
COMPONENTS (in real terms)			
Consumption	3.6	3.1	2.2
Residential investment	5.2	-1.5	-2.8
Business non-residential investment	6.1	7.4	5.5
– Including machinery and equipment	7.6	8.4	5.1
International exports	-3.0	-0.6	3.3
International imports	2.0	5.4	3.9
OTHER ECONOMIC INDICATORS			
Nominal consumption	4.6	4.3	3.8
Housing starts (thousands)	48.6	44.6	38.5
Wages and salaries	5.6	2.9	3.2
Personal income	5.6	3.1	3.2
Corporate profits	6.8	2.6	2.8
Consumer prices	1.6	1.4	1.8
LABOUR MARKET			
Labour force	1.3	1.0	0.8
Employment	2.3	1.2	0.9
Job creation (thousands of jobs)	86.3	45.0	34.2
Unemployment rate (%)	7.2	7.0	6.9
CANADIAN FINANCIAL MARKETS			
3-month Treasury bills (rate in %)	4.2	3.5	4.2
10-year bonds (rate in %)	4.3	4.1	4.6
Canadian dollar (in U.S. cents)	93.0	99.0	95.5

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

3. QUÉBEC IS ADJUSTING TO GLOBALIZATION

Generally speaking, the Québec economy is performing well, particularly in the labour market. To wit, 282 000 jobs have been created in Québec in the last five years. In 2007, the unemployment rate hit its lowest level in over 30 years, at 7.2%, and a record number of Quebecers held jobs.

Paradoxically, the manufacturing sector suffered major job losses over the same period. Between 2002 and 2007, the sector shed 106 000 jobs, or the equivalent of one out of five manufacturing jobs, whereas nearly 400 000 jobs were created in the rest of the economy. Heavy job losses occurred primarily in the textile, clothing and furniture sectors.

Québec is not the only economy to have lost jobs in the manufacturing sector. In Ontario, one out of six jobs have been shed since 2002, while the United States has lost one out of five manufacturing jobs in the last eight years.

Québec's economic performance can be more fully appreciated in the light of the current international environment. Although the decline in manufacturing employment recently became more pronounced with the sharp rise in the Canadian dollar and the weak U.S. economy, it is nothing new. In fact, it is a strong trend that reflects the integration of the Québec economy into the sphere of global markets and free trade.

This trend has been observed in most industrialized nations for more than 30 years. It is associated with the internationalization of production and changes in the world manufacturing sector. Québec is adjusting to the situation the same as other economies.

Furthermore, manufacturing job losses, seen primarily in less productive sectors, must not eclipse the overall vitality of the Québec economy. Noteworthy is the fact that these job losses were offset by well-paid jobs in a number of high-valued-added manufacturing sectors, such as manufacturing of petroleum or metal products, but especially in high-wage services sectors, such as finance, insurance and real estate, professional business services and education.

3.1 Internationalization of production

The liberalization and globalization of trade have transformed production methods and resulted in international economic integration, particularly the offshoring of part of the production process from developed countries to developing countries. Moreover, this new approach to production contributed to the strong growth in international trade over the past few decades, which has benefited both developed and emerging economies.

□ Greater international economic integration

Trade liberalization and globalization has led to increased competition among firms. A number of international agreements and policies have spurred growth in trade of goods and services as well as investments. For example:

- NAFTA and the creation of the European Union have favoured trade within these regions.

This environment pushed firms to cut their costs. One solution was to split the production process internationally and produce parts of the final product in places where the necessary skills and materials were available under the best conditions.

Low-value-added, labour-intensive activities were entrusted to countries with low labour costs, while high-value-added, innovation and R&D-intensive activities were moved to countries with a more specialized labour force.

- Note that to benefit from the gains afforded by this new approach, firms can either purchase intermediary products from abroad or offshore part of the production process.

This new means of production was also enabled by technological improvements in transportation and communication.

❑ Offshoring of production to emerging countries

One of the by-products of the internationalization of production has been the offshoring of a proportion of global production activity to emerging economies where wages are lower.

- At US\$0.67, the hourly wage for a manufacturing job in China is 30 times lower than in the United States (US\$23.82), Western Europe (US\$28.76) and Japan (US\$20.20).

Emerging economies are thus competing more and more against enterprises from advanced countries on their domestic and export markets. These regions have become the new global hubs for growth and job creation.

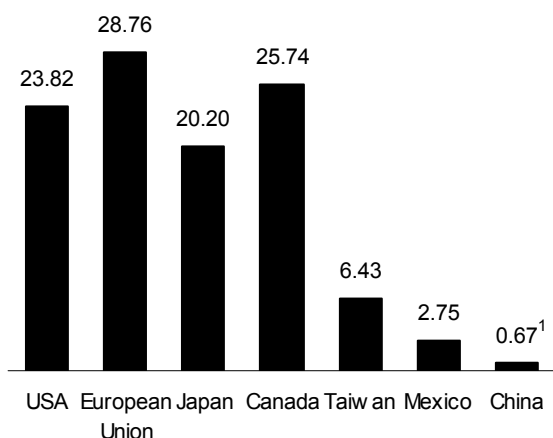
China, for example, is now a major assembly and processing centre for imported manufactured products. It has won large market shares around the world in such sectors as computer and electronic products, machinery, primary metal processing, furniture, printing and paper.

In 2006, Chinese products accounted for 20.5% of Japan's imports, 15.9% of U.S. imports and 9.1% of Québec's imports. China has become the world's third largest exporter of goods.

CHART 34

Hourly wage for manufacturing jobs in 2006

(U.S. dollars)



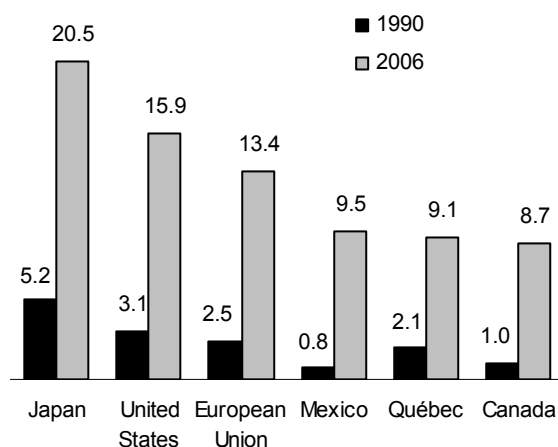
1 2004.

Source: Bureau of Labor Statistics.

CHART 35

China's share of merchandise imports of selected economies

(percentage of total imports)



Sources: World Trade Organization and Industry Canada.

❑ Strong growth in world trade

The internationalization of production is behind the strong growth in international trade in recent years. Between 1982 and 2006, world real GDP grew 308% while commercial exports from all countries swelled 542%.

— Note that China's entry into the World Trade Organization in 2001 was a major contributing factor in the rapid growth in international trade of manufactured products, which rose from 7.0% in the 1990s to an average rate of 9.9% between 2000 and 2006.

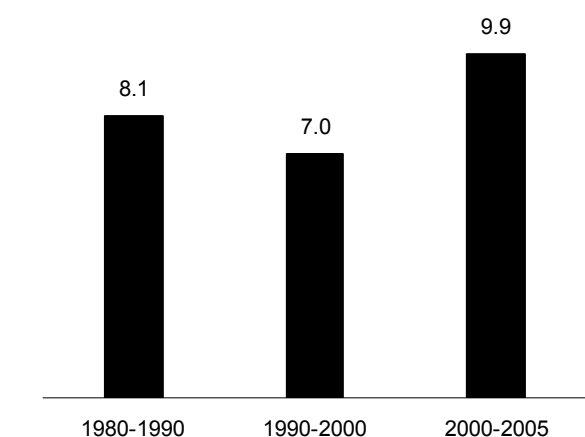
On the one hand, emerging countries have become world growth engines and, on the other, advanced economies have gained from cheap goods and services and become more specialized in high-technology goods.

— Since 1993, manufacturing output has more than doubled in emerging economies, while growing just 38% in advanced countries.

This specialization has enabled Germany and the United States to remain the world's two largest exporters of goods, particularly machinery and equipment, despite the strong growth in exports from emerging countries.

CHART 36

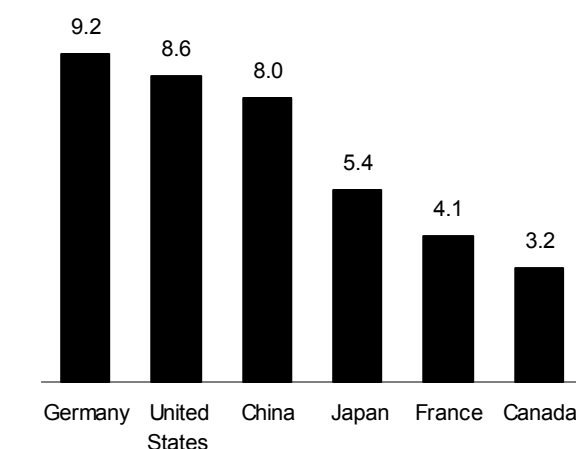
Strong growth in international trade of manufactured products
(average annual percentage change)



Source: World Trade Organization.

CHART 37

World merchandise exports in 2006
(percentage share of world total)



Source: World Trade Organization.

3.2 Transformation of the global manufacturing sector and development of services

The liberalization and globalization of trade have transformed production processes and made populations wealthier, leading to greater demand for services and, consequently, a decline in the relative share of the manufacturing sector in both total world output and employment. However, the productivity gains arising from these adjustments curtailed the shrinkage of manufacturing output relative to employment.

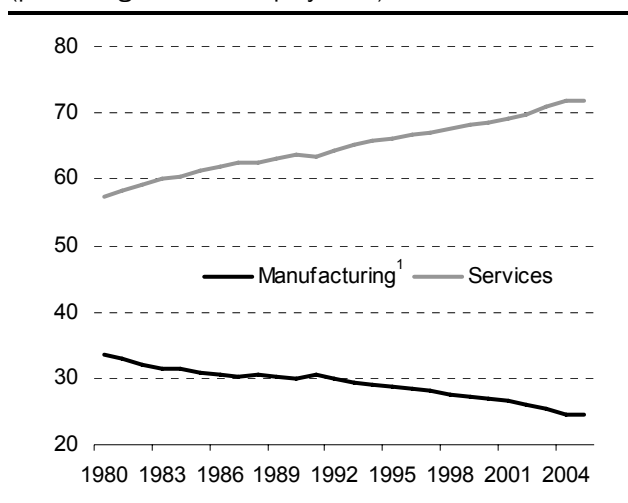
Furthermore, businesses are choosing more and more to outsource certain production-support activities, such as accounting, in order to improve efficiency and minimize costs. Consequently, jobs previously counted as manufacturing jobs are now included in services, contributing accordingly to the services sector's growth.

❑ Decrease in manufacturing employment relative to service jobs

Manufacturing employment has declined in most countries over the last 30 years, but particularly in advanced countries. Nonetheless, the total number of manufacturing jobs in the world is expanding due to strong job creation in some emerging countries.

CHART 38

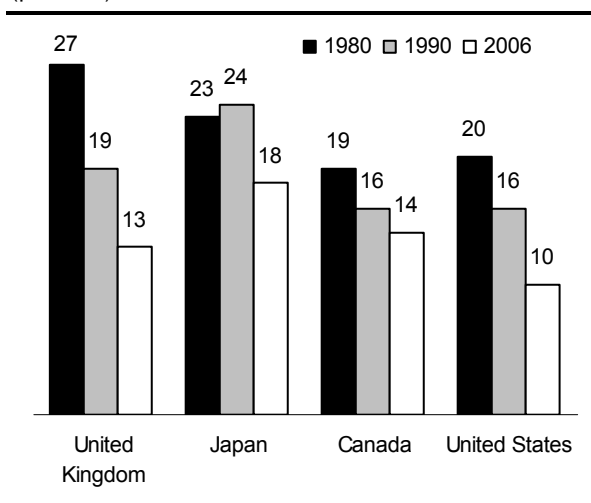
Share of employment in the world economy, by sector
(percentage of total employment)



1. Including construction.
Source: World Bank.

CHART 39

Share of manufacturing employment, select industrialized countries
(percent)



Sources: Organisation for Economic Co-operation and Development.

However, since the number of manufacturing jobs has not risen as much as jobs in the services sector, the share of manufacturing employment in total employment has steadily declined. The share of manufacturing employment has shrunk faster in more developed countries due to the decline in manufacturing jobs.

❑ Smaller decline in manufacturing output than in employment

The relative size of world manufacturing output has also contracted. Most industrialized countries saw a marked decline: from 19% in 1991 to 14% in 2004 in the United States, from 22% to 15% in the United Kingdom, and from 28% to 23% in Germany.

Even so, industrialized countries still dominate the global manufacturing sector, accounting for 76% of added value in 2005.

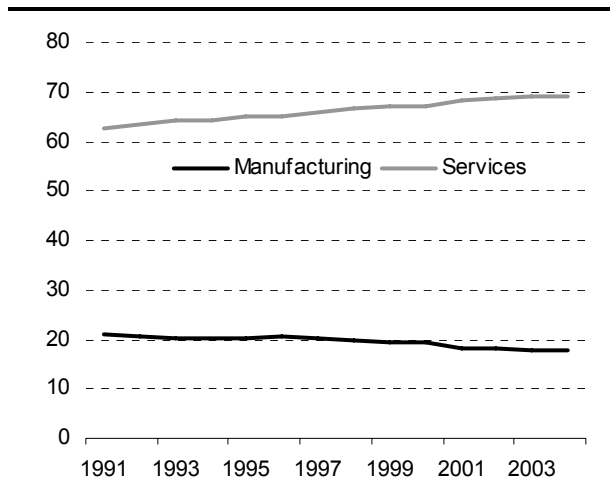
However, the relative decline in manufacturing output was smaller than the decline in manufacturing employment. The value of global manufacturing output continues to increase each year thanks to gains in productivity (output per job).

— Productivity growth has been especially strong in the United States in the last 15 years, rising 94% compared with increases of 64% in Japan and 43% in Canada.

CHART 40

Share of output in the world economy, by sector

(percentage of GDP)

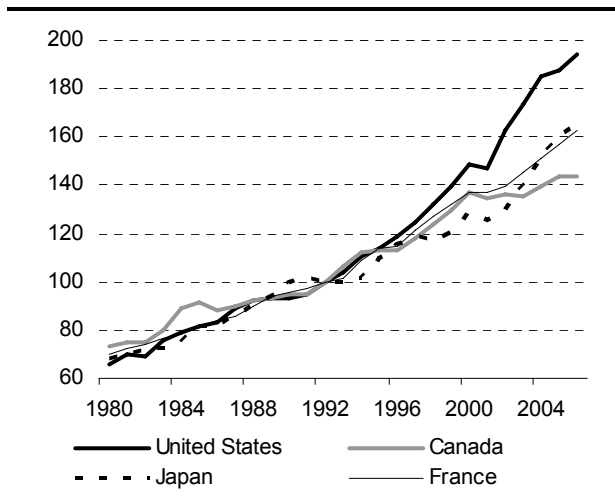


Sources: International Labour Organization and World Bank.

CHART 41

Productivity in the manufacturing sector

(GDP per worker, index 1992 = 100)



Sources: U.S. Department of Labor and Bureau of Labor Statistics.

3.3 Situation in Québec

Like other advanced economies, Québec has been facing the challenges of globalization for several years. However, the recent sharp rise in the Canadian dollar has made it even more urgent for our firms to make the necessary adjustments.

Although manufacturing jobs were lost here as well, thus far Québec has been able to maintain a relatively stable share of its manufacturing output in the economy thanks to substantial productivity gains.

❑ Québec, an open economy

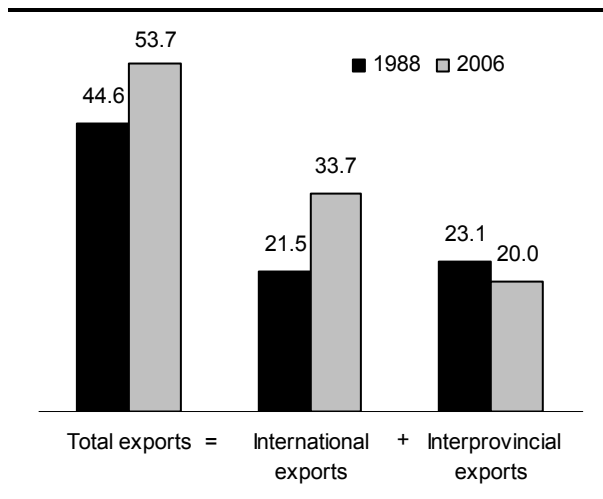
Globalization is perhaps more of a concern in Québec than elsewhere because of the relative size of our foreign trade and our small economy.

- Exports account for an increasing share of our GDP, rising from 44.6% in 1988 to 53.7% in 2006.
- High-value-added products, such as aircrafts, aircraft parts and machinery, are playing an increasing role in Québec's exports. For example, exports of aircraft and aircraft parts expanded 549% between 1988 and 2006.

CHART 42

Québec exports

(percentage of GDP)

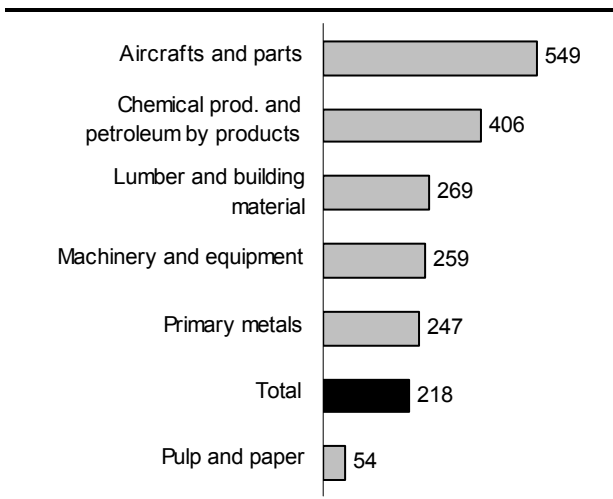


Source: Institut de la statistique du Québec.

CHART 43

Cumulative growth in merchandise exports in Québec, 1988-2006

(percent)



Source: Institut de la statistique du Québec.

❑ **Decrease in the share of manufacturing employment in the Québec economy, but gains in the services sector**

Like in most industrialized countries, the number of manufacturing jobs in Québec has fallen in relation to services sector jobs. The downturn has been more important since the start of this decade. Between 2000 and 2006:

- The share of manufacturing employment in total employment slid from 18.6% to 14.1%.
- The share of services sector jobs grew from 73.5% to 77.4%.

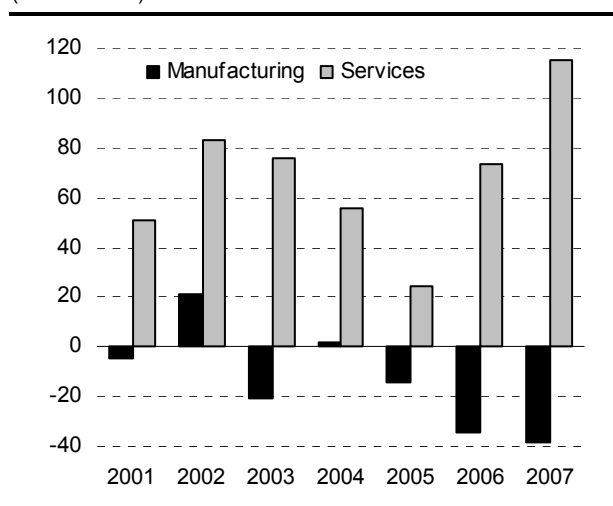
If the economy remained robust despite the loss of manufacturing jobs, it is because of significant job creation in the rest of the economy, particularly in the services sector.

- Since 2002, 106 000 manufacturing jobs have been lost whereas 388 000 jobs have been created in the rest of the economy, including 344 000 in the services sector.

This trend reflects the adjustments taking place in our economy.

CHART 44

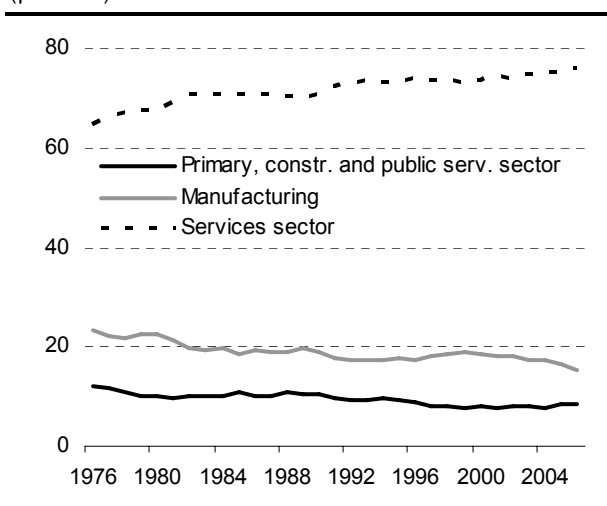
Job creation in the manufacturing and services sector in Québec
(thousands)



Source: Labour Force Survey, Statistics Canada.

CHART 45

Employment share by major sector in Québec
(percent)



Source: Labour Force Survey, Statistics Canada.

❑ The share of the manufacturing sector in the Québec economy unchanged in 30 years

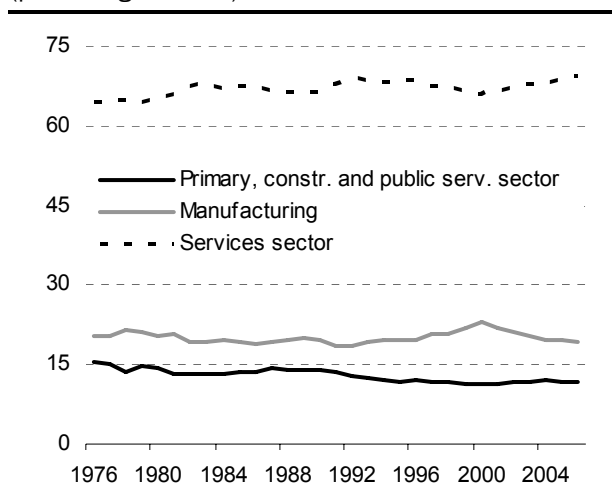
The share of manufacturing output in the Québec economy has nevertheless hovered around 20% for the past 30 years. In 2006, the volume of manufacturing output rose above \$46 billion.

In the 1990s, manufacturing output was stimulated by the depreciation of the Canadian dollar, economic prosperity in the United States and easy access to the American market thanks to the creation of a free trade area (NAFTA). This trend reversed at the beginning of the decade following the sharp rise in the Canadian dollar.

Despite this slowdown, the manufacturing sector continues to play a key role in the Québec economy. In fact, manufacturing output and employment are still growing in several industries, especially in high-value-added segments such as transportation equipment, computer and electronic products and chemical products.

CHART 46

Share of sectors in the economy in terms of Québec output (percentage of total)

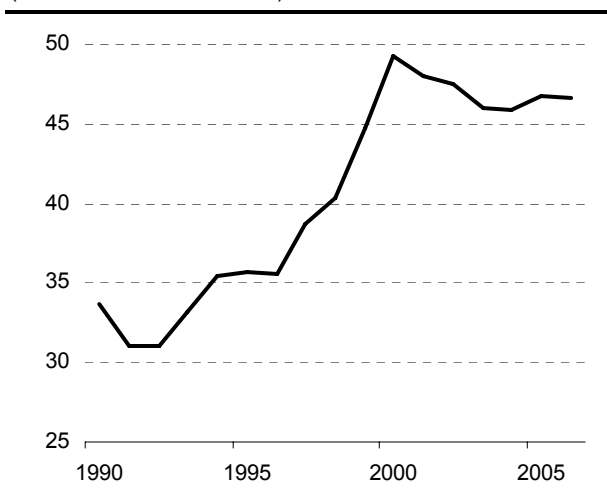


Sources: Conference Board of Canada and Statistics Canada.

CHART 47

Manufacturing output in Québec

(billions of 2002 dollars)



Sources: Conference Board of Canada and Statistics Canada.

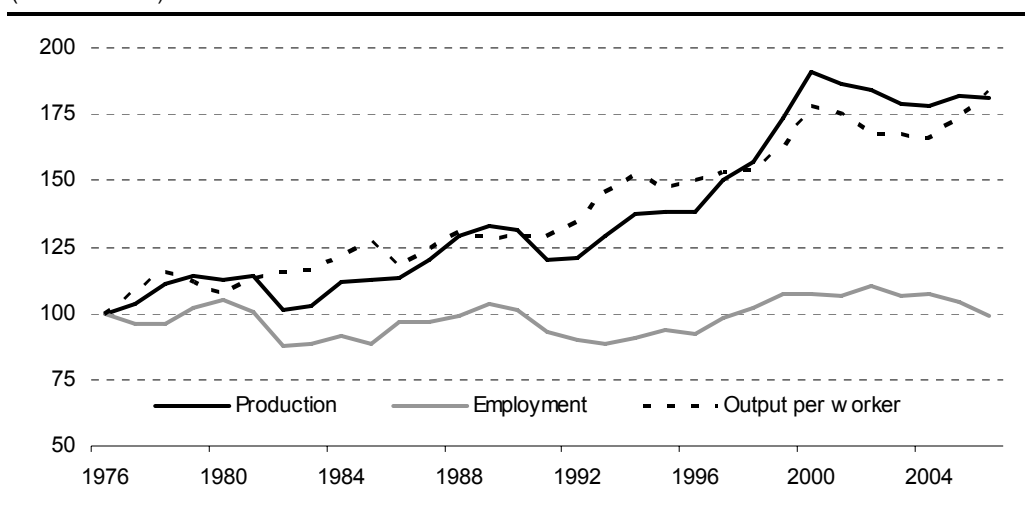
❑ Significant productivity gains in the manufacturing sector

The maintenance of manufacturing output in the context of job losses reflects the significant productivity gains made by manufacturing firms in the last 30 years.

CHART 48

Output, employment and output per worker in the Québec manufacturing sector

(1976 = 100)



Sources: Conference Board of Canada and Statistics Canada.

❑ Varying employment trends in segments of the manufacturing sector

Not all manufacturing sub-sectors have been affected by economic globalization in the same way.

As in most advanced economies, job losses in Québec are mainly in low-value-added segments, generally more labour-intensive sectors. These are also sectors where productivity and average weekly wages are lower.

- 10 500 jobs were lost in the textile sector between 2002 and 2007. Wages in this sector were \$680 in 2007.
- The clothing sector shed 21 600 jobs over the same period. Wages in this sector were \$575.
- These two sub-sectors alone account for half of the manufacturing job losses in Québec since 2002.

On the other hand, high technology- and capital-intensive sectors that produce goods saw employment gains, or at least maintained steady levels. These are also sectors where productivity and average weekly wages are higher.

- 800 jobs were created in the petroleum and coal products manufacturing sector between 2002 and 2007. Wages in this sector were \$1 144.
- 2 300 jobs were created in the metal products manufacturing sector, where the wages were \$793.
- The transportation equipment sector maintained its employment level. Wages in this sector were \$1 112.

TABLE B.6

Paid jobs and wages in the Québec manufacturing sector

	Number of jobs (units)	Jobs created (units)	Weekly wages (dollars)
	2007	2002-2007	2007
Manufacturing¹	497 500	-61 800	—
Petroleum and coal products manufacturing	4 600	800	1 144
Transportation equipment	45 500	0	1 112
Electrical equipment, devices and components	14 200	500	997
Metal products	43 400	2 300	793
Manufacture of non-metal products	14 200	1 100	778
Wood products	36 700	-3 100	776
Furniture and related products	28 300	-4 700	754
Textile and textile product mills	13 300	-10 500	680
Clothing	24 200	-21 600	575

1 Data drawn from the *Survey of Employment, Payroll and Hours* are a census of wages and do not include self-employed workers.

Source: Survey of Employment, Payroll and Hours, Statistics Canada.

□ Employment gains in all services subsectors

Unlike the manufacturing sector, all services subsectors have posted employment growth since 2002. The biggest gains were in business services, such as trade, administrative and support services, and the finance, insurance, real estate and rental sector.

In most cases, the growth was in jobs for which the average weekly wages are higher than those for service jobs and similar to those for manufacturing jobs.

- Employment in the finance, insurance, real estate and rental sector expanded by 39 200 jobs between 2002 and 2007, with weekly earnings of payroll employees at \$777.
- Employment in the professional, scientific and technical services sector rose by 48 500 jobs. Weekly earnings in this sector are \$885.

TABLE B.7

Paid jobs and wages in the Québec services sector

	Number of jobs (units)	Jobs created (units)	Weekly wages (dollars)
	2007	2002-2007	2007
Services	2 980 000	344 100	658
Public administration	219 800	6 400	914
Professional, scientific and technical services	256 700	48 500	885
Educational services	259 300	23 800	802
Finance, insurance, real estate and rental	231 600	39 200	777
Transportation and storage	178 400	21 200	758
Information, culture and leisure	171 900	13 800	710
Health care and social assistance	455 200	45 800	662
Other	1 207 000	145 400	485

Source: Labour Force Survey, Statistics Canada.

Overall, despite the employment changes in the goods and services sectors, growth in average weekly wages remains healthy in Québec, at an average rate of 2.5% for the last five years. This rate is similar to that in Ontario (2.6%).

3.4 Encouraging productivity in the goods and services sectors

Globalization has forced advanced economies to specialize in more capital- and human-capital-intensive production. Québec has not escaped this trend, as some industries have suffered heavy job losses. The difficulties caused by these adjustments are similar to those experienced in most countries of the world.

Thus far, Québec has successfully met the increasing challenge of globalization. Boosting its productivity and competitiveness allowed it to offset the jobs lost in certain segments of the manufacturing sector by creating jobs of the same or better quality in other segments of the manufacturing or services sectors.

Nevertheless, Québec firms, more specifically exporting manufacturing firms, are still grappling with an increasingly demanding international context and will have to continue innovating and cutting costs if they want to stay competitive.

The government has a crucial role to play in creating an environment conducive to economic development and the reallocation of resources. To support the economy in its efforts to become more competitive, the government is making it easier for workers to move from one industry to another and encouraging productivity in all sectors of the economy.

The purpose of government action is to help Québec meet the productivity challenge more effectively. In the 2007-2008 Budget, the government:

- introduced a \$30-billion, five-year public infrastructure plan to support productivity in the Québec economy;
- reduced personal income tax to value work. In 2008, the government cut personal income tax by \$950 million;
- reduced the tax burden on investment to support the modernization efforts of businesses, notably by gradually eliminating the tax on capital by January 1, 2011.

Improving productivity requires increasing investments in business modernization and developing know-how and skills. The 2008-2009 Budget is taking additional measures to improve productivity by:

- completely eliminating, as of immediately, the tax on capital for all Québec manufacturing firms;
- introducing a new tax credit to stimulate investment in all regions of Québec;
- investing in occupational and technical as well as higher education;
- establishing a new Employment Pact to help workers re-enter and stay in the job market and help young people integrate the labour market.

Section C

The Government's Budgetary and Financial Stance

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INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2007-2008 and the government's budgetary and financial stance for 2008-2009 and 2009-2010.

The information provided concerns:

- consolidated financial and budgetary transactions for the period from 2007-2008 to 2009-2010, including the impact of the various measures announced in the present Budget;
- the change in revenue and expenditure, as well as adjustments made since last year's Budget;
- the main expenditure items, capital expenditures, non-budgetary transactions and net financial requirements.

The 2008-2009 Budget focuses specifically on a two-year time horizon. It also contains five-year projections, up to 2012-2013.

All of the financial results presented incorporate the components of the accounting reform announced last December 11 when the 2006-2007 Public Accounts were tabled and the *Update on Québec's Economic and Financial Situation* was published.

1. SOUND MANAGEMENT OF PUBLIC FINANCES

1.1 The budget remains balanced

The 2008-2009 Budget forecasts that a balanced budget will be achieved in each year of the financial framework. In 2007-2008, higher-than-anticipated tax receipts, coupled with Hydro-Québec's higher-than-expected profits, make it possible to achieve a surplus of \$717 million.

This surplus will be allocated to the budgetary reserve and thus be added to the \$1.3 billion allocated to the reserve in 2006-2007. Taking into account a deposit of \$200 million in the Generations Fund from the reserve in 2007-2008, \$1.8 billion will have been accumulated in this reserve as at March 31, 2008.

A balanced budget will also be achieved in 2008-2009 and 2009-2010. Due to the downward revision of economic growth, the increase in budgetary revenue is lowered noticeably compared with last year's Budget. In addition, because of the uncertain economic situation, the government is incorporating a contingency reserve of \$200 million into its financial framework in 2008-2009.

Before the use of the budgetary reserve, the financial framework shows shortfalls of \$1 370 million and \$447 million in 2008-2009 and 2009-2010 respectively. Using the budgetary reserve will make it possible to make up these shortfalls and maintain a balanced budget for these two years.

TABLE C.1

Summary of consolidated budgetary transactions – 2008-2009 Budget

(millions of dollars)

	Actual results	Preliminary	Forecast	
	2006-2007	2007-2008	2008-2009	2009-2010
BUDGETARY REVENUE	60 700	62 920	62 980	65 184
% change		3.7	0.1	3.5
BUDGETARY EXPENDITURE	– 58 796	– 61 638	– 63 855	– 65 648
% change		4.8	3.6	2.8
NET RESULTS OF CONSOLIDATED ENTITIES	89	– 162	447	833
Contingency reserve		—	– 200	—
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	1 993	1 120	– 628	369
Deposit of dedicated revenues in the Generations Fund	– 584 ¹	– 403	– 742	– 816
BUDGETARY BALANCE BEFORE USE OF BUDGETARY RESERVE	1 409	717	– 1 370	– 447
Deposit in the Generations Fund from the budgetary reserve		– 200		
Budgetary reserve	– 1 300	– 517	1 370	447
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	109	0	0	0

1 Including an additional deposit of \$500 million in the Generations Fund in 2006-2007.

❑ Contingency reserve

On account of the potential impact of economic risks in the United States and financial markets worldwide on Québec's economy, or to provide for any other contingencies, the financial framework includes a contingency reserve of \$200 million in 2008-2009. For the government, it is imperative to keep the budget balanced.

❑ Budgetary reserve

The budgetary reserve is a mechanism that ensures the budget will remain balanced over the financial framework's time horizon by making it possible to:

- put aside in the reserve the surpluses of a given year;
- use the funds allocated to the reserve in a timely manner to maintain a balanced budget.

Funds placed in the reserve are deposited with the Caisse de dépôt et placement du Québec in the year following the achievement of the surplus.

A substantial budgetary reserve has been built up over the past two years. First, the government recorded a surplus of \$1 993 million in 2006-2007, owing notably to additional tax receipts and to profits of over \$900 million made by Hydro-Québec on the sale of its interests in certain corporations, including Transelec Chile. These additional profits made it possible, in 2006-2007, to deposit \$500 million in the Generations Fund. In addition, \$1.3 billion was allocated to the budgetary reserve.

In 2007-2008, an additional net amount of \$517 million will be added to the budgetary reserve, bringing it to over \$1.8 billion.

TABLE C.2

Budgetary reserve (millions of dollars)

	2006-2007	2007-2008 ^P	2008-2009 ^P	2009-2010 ^P
Allocation	1 300	717	—	—
Use	—	– 200 ¹	– 1 370	– 447
Budgetary reserve	1 300	517	– 1 370	– 447
BALANCE, END OF YEAR	1 300	1 817	447	0

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Amount deposited in the Generations Fund from the budgetary reserve in 2006-2007.

❑ A balanced budget in 2007-2008

The present Budget confirms that a balanced budget will be achieved in 2007-2008.

Since the May 2007 Budget, the government has recorded additional revenue of \$1.8 billion, including:

- \$912 million in tax revenues, particularly because of the strong showing by the economy;
- \$430 million from government enterprises, due mainly to Hydro-Québec's higher-than-anticipated profits;
- \$451 million stemming, among others, from an upward revision of federal transfers for health and post-secondary education.

TABLE C.3

Summary of consolidated budgetary transactions in 2007-2008

(millions of dollars)

	May 2007 Budget	Adjustments ¹	March 2008 Budget ^P
BUDGETARY REVENUE			
Own-source revenue excluding government enterprises	43 328	912	44 240
Revenue from government enterprises	4 625	430	5 055
Total own-source revenue	47 953	1 342	49 295
Federal transfers	13 174	451	13 625
TOTAL	61 127	1 793	62 920
BUDGETARY EXPENDITURE			
Program spending	– 53 913	– 722	– 54 635
Debt service	– 7 244	241	– 7 003
TOTAL	– 61 157	– 481	– 61 638
NET RESULTS OF CONSOLIDATED ENTITIES	483	– 645	– 162
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	453	667	1 120
Deposit of dedicated revenues in the Generations Fund	– 453	50	– 403
BUDGETARY BALANCE BEFORE BUDGETARY RESERVE	0	717	717
Deposit in the Generations Fund from the budgetary reserve	– 200	0	– 200
Budgetary reserve	200	– 717	– 517
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	0	0	0

P: Preliminary results for 2007-2008.

1. Including the impact of the accounting reform, presented in Appendix 1.

In addition, the government saved \$241 million on debt service, owing mainly to the improvement in the value of the Canadian dollar in relation to other currencies.

Overall, additional revenue and debt service savings totalling \$2 billion enabled the government to:

- increase program spending by \$722 million to finance:
 - a \$531-million rise in spending by the departments, including \$203 million at the ministère de la Santé et des Services sociaux, notably to finance additional costs for medical services;
 - the \$191-million impact of the new actuarial valuations of the retirement plans;
- finance the impact of the accounting reform at a cost of \$853 million, including \$375 million related to the consolidation of the health and education networks;
- post a surplus and allocate it to the budgetary reserve.

Taking the aforementioned increase into account, program spending growth in 2007-2008 amounts to 5.5%, or less than the growth in nominal GDP, i.e. 5.9%.

□ Budgetary balance maintained in 2008-2009 and 2009-2010

In conformity with the government's budgetary stance, the budget will be balanced again in 2008-2009 and 2009-2010.

In 2008-2009, there will be almost no increase in budgetary revenue.

- This can be explained by the anticipated economic slowdown. Moreover, it reflects the impact of the tax reductions granted to individuals and enterprises, announced in previous budgets, particularly the personal income tax reduction in effect since January 1, 2008.
- This lack of growth in revenue also reflects the non-recurrence of part of the profits made by Hydro-Québec in 2007-2008.

Growth in budgetary expenditure in 2008-2009 will be limited to 3.6%. The budgetary balance shows a shortfall of \$1 370 million, offset by the use of the budgetary reserve.

In addition, because of economic uncertainty and to provide for contingencies, the government is including a \$200-million contingency reserve in its 2008-2009 financial framework.

A balanced budget will be achieved again in 2009-2010 by using the \$447-million balance of the budgetary reserve. In addition, the government has set itself the objective of limiting program spending growth to 3.0% that year.

- For this purpose, it will pursue its efforts to modernize the government and to boost productivity and efficiency in the delivery of services. It will also continue to implement its plan to reduce the number of employees in Québec's public service.

2. UPDATING OF THE FINANCIAL FRAMEWORK

This section explains the adjustments made to the financial framework for 2007-2008 since the last Budget and presents the main factors affecting growth in the government's revenue and expenditure for subsequent years.

2.1 Budgetary revenue

The government's budgetary revenue should total \$63 billion in 2008-2009, i.e. \$48.9 billion in own-source revenue and \$14.1 billion in federal transfers. Budgetary revenue should increase by 0.1% in 2008-2009 and 3.5% in 2009-2010.

TABLE C.4

Consolidated Revenue Fund Change in budgetary revenue

(millions of dollars)

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments ¹	2007-2008	2008-2009	2009-2010
OWN-SOURCE REVENUE					
Own-source revenue excluding government enterprises	43 328	912	44 240	44 292	45 841
% change	0.6		1.8	0.1	3.5
Government enterprises	4 625	430	5 055	4 625	4 671
% change	-25.8		-18.8	-8.5	1.0
TOTAL	47 953	1 342	49 295	48 917	50 512
% change	-2.7		-0.8	-0.8	3.3
FEDERAL TRANSFERS	13 174	451	13 625	14 063	14 672
% change	19.6		23.7	3.2	4.3
BUDGETARY REVENUE	61 127	1 793	62 920	62 980	65 184
% change	1.4		3.7	0.1	3.5

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1. Including the impact of the accounting reform, presented in Appendix 1.

2.1.1 Own-source revenue excluding government enterprises

❑ Substantial upward revisions to tax revenues in 2007-2008

Preliminary results for fiscal 2007-2008 show that own-source revenue, excluding the profits of government enterprises, are revised upward by \$912 million compared with the May 2007 Budget, bringing growth in this revenue to 1.8% compared with the previous year.

Revenue from personal income tax and contributions to the Health Services Fund are adjusted positively by \$232 million and \$15 million respectively, taking into account the impact of accrual accounting flowing from the accounting reform, which affects personal income tax in particular.

— This higher-than-expected revenue reflects job growth, which leads to an upward adjustment of wages paid in the economy.

Revenue from corporate taxes is revised upward by \$75 million. The impact of the upward revision of corporate profits in 2007 is mitigated by the implementation of the Action Plan for the Manufacturing Sector, which reduces revenue by \$125 million in 2007-2008.

Consumption tax revenue is adjusted upward by \$431 million.

— Revenue from the Québec sales tax is \$453 million higher than forecast in the last Budget and reflects notably the fact that household personal spending and housing starts have increased. The growth in input tax refunds was also less than expected.

— In addition, revenue from specific taxes is revised downward slightly, mainly because of the impact of high petroleum product prices on the volume of fuel sold.

Other revenues are adjusted upward by \$159 million, notably because of revenue from natural resources and higher-than-anticipated interest income.

TABLE C.5

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

	May 2007 Budget		March 2008 Budget^P		
	2007-2008	Adjustments¹	2007-2008	2008-2009	2009-2010
Personal income tax	18 045	232	18 277	18 200	19 201
% change	- 0.5		- 1.1	- 0.4	5.5
Contributions to the Health Services Fund	5 408	15	5 423	5 594	5 792
% change	6.6		7.3	3.2	3.5
Corporate taxes	4 729	75	4 804	4 591	4 510
% change	- 1.4		0.5	- 4.4	- 1.8
Consumption taxes	12 808	431	13 239	13 544	13 829
% change	1.7		4.6	2.3	2.1
Other revenues	2 338	159	2 497	2 363	2 509
% change	- 5.2		0.1	- 5.4	6.2
OWN-SOURCE REVENUE EXCLUDING GOVERNMENT ENTERPRISES	43 328	912	44 240	44 292	45 841
% change	0.6		1.8	0.1	3.5

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Including the impact of the accounting reform, presented in Appendix 1.

□ Revenue growth limited by the economic slowdown and the reduction of the tax burden

In 2008-2009, own-source revenue, excluding that from government enterprises, will increase by 0.1%.

— This weak growth will be due to the anticipated slowdown in the economy and the impact of the personal and corporate income tax reductions.

In 2009-2010, growth in own-source revenue, excluding government enterprises, will amount to 3.5%, a rate equal to the increase in nominal GDP.

■ Change in revenue by source

Personal income tax, the main source of government revenue, should decline by 0.4%, to \$18.2 billion in 2008-2009.

- In this fiscal year, the progression in income subject to tax will be more than offset by the impact of the fiscal measures announced in this Budget, but also by the \$950-million tax reduction that has been in effect since last January 1.

In 2009-2010, revenue from personal income tax should increase by 5.5%. Since the personal income tax reductions announced in previous budgets will have had their full impact, the change in revenue will be compatible with the growth in income subject to tax.

Contributions to the Health Services Fund should grow by 3.2% in 2008-2009 and 3.5% in 2009-2010.

- This change reflects the growth in salaries and wages.

Despite an increase of 2.6% and 2.8% in corporate profits in 2008 and 2009 respectively, revenue from corporate taxes should fall by 4.4% in 2008-2009 and 1.8% in 2009-2010.

- These decreases stem from the substantial reductions in the tax burden of businesses, announced in this and previous budgets, to foster economic growth, mainly by gradually eliminating the tax on capital and introducing an investment tax credit in all regions of Québec.

In 2008-2009 and 2009-2010, revenue from consumption taxes should climb by 2.3% and 2.1% respectively. This weaker growth compared with 2007-2008 reflects:

- the slower increase of household personal spending in 2008 and 2009;
- the weak growth in fuel tax revenue;
- the allocation of a portion of the revenue from the tobacco tax to financing the Fonds pour le développement des enfants de moins de 5 ans en situation de pauvreté and the Fonds pour le développement de services de répit et d'accompagnement des aidants naturels.

□ Change in revenue compatible with economic growth

Overall, growth in own-source revenue, excluding government enterprises, is expected to be similar to nominal economic growth. Excluding the financial impact of the fiscal measures, growth in own-source revenue for fiscal years 2008-2009 and 2009-2010 will be 3.5%, on average, a rate similar to the increase in nominal GDP.

TABLE C.6

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

	2007-2008	2008-2009	2009-2010
OWN-SOURCE REVENUE EXCLUDING GOVERNMENT ENTERPRISES	44 240	44 292	45 841
% change	1.8	0.1	3.5
Less:			
2008-2009 Budget measures			
- Personal income tax reduction		- 71	- 135
- Corporate tax reduction		- 104	- 234
- Other fiscal measures ¹		34	29
2007-2008 Budget measures			
- Personal income tax reduction	- 295	- 1 295	- 1 245
- Corporate tax reduction	- 88	- 208	- 342
- Other fiscal measures	- 48	- 32	16
2006-2007 Budget measures			
- Personal income tax reduction	- 359	- 382	- 382
- Other fiscal measures	- 57	- 93	- 144
Other factors ²	- 296	- 417	- 300
SUB-TOTAL	- 1 143	- 2 568	- 2 737
REVENUE BEFORE MEASURES	45 383	46 860	48 578
% change		3.3	3.7
Nominal GDP growth rate in % ³		3.2	3.5
Elasticity ⁴		1.02	1.04

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Includes the impact on revenue of the following funds: Fonds du patrimoine minier, Fonds pour le développement des enfants de moins de 5 ans en situation de pauvreté and the Fonds pour le développement de services de répit et d'accompagnement des aidants naturels

2 Including, notably, the impact of the Action Plan for the Manufacturing Sector and the agreement on a new fiscal and financial partnership with the municipalities.

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

4 Elasticity between growth in revenue on a comparable basis and growth in GDP. For example, an elasticity rate of 1.0 means that 1.0% growth in GDP results in 1.0% growth in own-source revenue.

2.1.2 Revenue from government enterprises

□ Upward adjustment in 2007-2008

The profits of government enterprises are adjusted upward by \$430 million for 2007-2008. This adjustment is due mainly to a \$381-million increase in Hydro-Québec's profits, generated for the most part by growth in electricity sales.

In addition, Loto-Québec shows a \$29-million increase in its profits stemming primarily from growth in the profits of the casino sector.

TABLE C.7

Consolidated Revenue Fund Change in revenue from government enterprises

(millions of dollars)

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments	2007-2008	2008-2009	2009-2010
Hydro-Québec	2 545	381	2 926	2 500	2 500
Loto-Québec	1 329	29	1 358	1 295	1 295
Société des alcools du Québec	745	—	745	785	820
Other	6	20	26	45	56
REVENUE FROM GOVERNMENT ENTERPRISES	4 625	430	5 055	4 625	4 671
% change	-25.8		-18.8	-8.5	1.0

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

□ Outlook for 2008-2009 and 2009-2010

Revenue from government enterprises for 2008-2009 is estimated at over \$4.6 billion. A slight progression in 2009-2010 will raise such revenue to \$4.7 billion.

For 2008-2009 and 2009-2010, the profits of government enterprises show a decrease compared with 2007-2008, which can be attributed mainly to the non-recurrence of part of the profits made by Hydro-Québec in 2007-2008. Loto-Québec also forecasts a decline in profits in 2008-2009 and 2009-2010 compared with 2007-2008. This decrease is due to the drop in revenue from video lottery machines following the implementation of the reconfiguration plan to reduce the number of machines in operation, along with the number of sites offering this type of machine.

2.1.3 Revenues from federal transfers

In 2007-2008, federal transfer revenues should reach \$13.6 billion, or \$451 million more than forecast in the May 2007 Budget. This increase can be explained by two main factors.

First, the value of the Québec special abatement was revised downward because of the reduction in federal personal income tax announced last October 30. It should be noted that the value of the Québec special abatement (16.5% of basic federal personal income tax collected in Québec) reduces by an equivalent amount Québec's revenues from federal transfers.

Second, transfers to Québec for health, post-secondary education and other social programs were adjusted upward due to the impact of the most recent economic and fiscal data on the value of tax points, which affects the allocation of these transfers among the provinces.

For 2008-2009 and 2009-2010, federal transfer revenues are expected to amount to \$14.1 billion and \$14.7 billion respectively.

TABLE C.8

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

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments	2007-2008	2008-2009	2009-2010
Equalization	7 160	—	7 160	8 028	8 430
% change	29.3		29.3	12.1	5.0
Health transfers	3 698	225	3 923	3 833	4 024
% change	1.3		7.5	-2.3	5.0
Transfers for post-secondary education and other social programs	1 371	145	1 516	1 320	1 341
% change	28.1		41.7	-12.9	1.6
Other programs	945	81	1 026	882	877
% change	24.8		35.5	-14.0	-0.6
FEDERAL TRANSFERS	13 174	451	13 625	14 063	14 672
% change	19.6		23.7	3.2	4.3

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

The slower growth of federal transfer revenues in 2008-2009 (3.2%) can be attributed essentially to the non-recurrence of revenue from certain trusts established by the federal government in its budgets for previous years, as shown in the following table.

The present Budget incorporates revenues from the ecoTrust, the Human Papillomavirus (HPV) Immunization Trust, the Community Development Trust, the Public Transit Capital Trust (2008) and the Police Officers Recruitment Fund. The ecoTrust is not shown in the federal transfer revenues of the Consolidated Revenue Fund since it will be paid into the Green Fund, which is part of consolidated entities.

It should be noted that the provinces can use funds from these trusts according to their needs and on the basis of a schedule that they themselves define, without exceeding the lifespan set for these trusts by the federal government.

TABLE C.9

Schedule for recording the trusts established by the federal government

(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011	TOTAL
Trusts integrated into federal transfer revenues of the Consolidated Revenue Fund					
Wait Times Reduction Fund	281	—			281
Post-Secondary Education Infrastructure Trust	235				235
Public Transit Capital Trust (2006)	117	—			117
Affordable Housing Trust	187	—			187
Off-Reserve Aboriginal Housing Trust	26	12			38
Patient Wait Times Guarantee Trust	42	42	43		127
HPV Immunization Trust	—	46	24		70
Community Development Trust		95	122	—	217
Public Transit Capital Trust (2008)		58	58		116
Police Officers Recruitment Fund ¹		19	19	18	56
TOTAL	888	272	266	18	1 444
Trust integrated into consolidated entities (Green Fund)					
EcoTrust	50	100	200		350

1 Québec's share of this trust totals \$92 million over five years (2008-2009 to 2012-2013). A yearly amount of \$18 million is forecast for 2011-2012 and 2012-2013.

2.2 Budgetary expenditure

In 2008-2009, budgetary expenditure will reach \$63.9 billion, an increase of 3.6% compared with 2007-2008.

Program spending will total \$57 billion and show an increase of 4.2%. Debt service will amount to \$6.9 billion.

The government plans to limit program spending growth for 2009-2010 to 3.0%.

TABLE C.10

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

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments ¹	2007-2008	2008-2009	2009-2010
Program spending	53 913	722	54 635	56 948	58 629
% change	4.1		5.5	4.2	3.0
Debt service	7 244	- 241	7 003	6 907	7 019
% change	4.0		0.0	- 1.4	1.6
BUDGETARY EXPENDITURE	61 157	481	61 638	63 855	65 648
% change	4.1		4.8	3.6	2.8
Nominal GDP growth rate in % ²	4.2		5.9	3.2	3.5
Inflation rate in Québec in % ²	1.8		1.6	1.4	1.8

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Including the impact of the accounting reform, presented in Appendix 1.

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

2.2.1 Adjustments to program spending in 2007-2008

Program spending in 2007-2008 stands at \$54.6 billion, an increase of 5.5% compared with 2006-2007. This represents an upward revision of \$722 million relative to the target of \$53.9 billion set in the last Budget.

This adjustment can be explained mainly by:

- additional spending at the ministère de la Santé et des Services sociaux, notably to finance additional costs for medical services;
- the impact of the new actuarial valuations of the retirement plans completed in fall 2007;
- increased spending at the ministère des Ressources naturelles et de la Faune to finance the forestry fund in the context of a substantial decline in forest royalties collected by the government;
- growth in the expenditure for the allowance for doubtful accounts at Revenu Québec, reflecting the major increase in contributions made in recent years.

TABLE C.11

Program spending adjustments in 2007-2008

(millions of dollars)

PROGRAM SPENDING OBJECTIVE PRESENTED IN THE MAY 2007 BUDGET	53 913
Adjustments	
Additional spending at the ministère de la Santé et des Services sociaux, notably to finance additional costs for medical services	203
New actuarial valuations of the retirement plans	191
Financing of the forestry fund	121
Increase in the expenditure for the allowance for doubtful accounts at Revenu Québec	85
Pay equity settlement	50
Forest fire suppression	48
Other factors	24
Sub-total	722
REVISED PROGRAM SPENDING	54 635

Source: Secrétariat du Conseil du trésor.

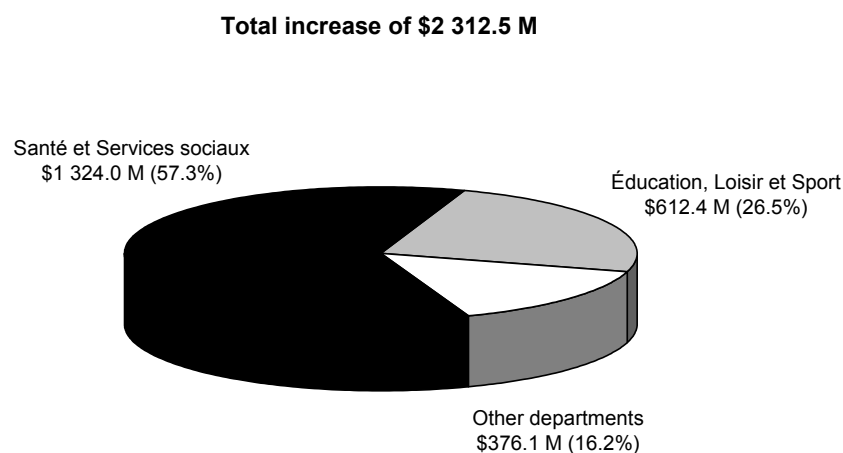
2.2.2 Giving priority to health and education

In 2008-2009, program spending, including the cost of the measures announced in this Budget, will grow by 4.2%, or \$2.3 billion, to \$56.9 billion. Most of this increase will be used to fund the priorities of health and education.

CHART C.1

Giving priority to health and education

(breakdown of program spending growth in 2008-2009^F)



F: Forecasts.

Source: Secrétariat du Conseil du trésor.

□ Health: 5.5% increase in 2008-2009

Nearly 60% of the growth in program spending in 2008-2009 is being allocated to health and social services. This increase of \$1.3 billion, or 5.5%, will make it possible to cover health services needs. In particular, it will finance: the increase for maintaining and improving social health services, which is related, for example, to wage increases and the ageing of the population; health network costs, such as medication and new technology expenses; and improving public access to services.

■ Castonguay Report

The government also plans to step up its efforts to enhance the efficiency of the health system by implementing immediately some of the recommendations of the Castonguay report.

- In this regard, the government has already announced that resource allocation pilot projects will be launched as of next April in three of Québec's regions, namely, Estrie, Québec region and Saguenay–Lac-Saint-Jean.
- With regard to information technology, the government will pursue its efforts to introduce the Dossier santé Québec, or Québec health file, which will enable over 95 000 health professionals throughout Québec to access computerized files on each patient.
- Lastly, the government considers several other recommendations of the report very promising, particularly those concerning governance, performance assessment and the creation of a body mandated to assess the relevance and quality of health services.

The new approaches proposed by the Castonguay Report thus add to those already applied in recent years to improve access to the health system, in accordance with Quebecers' ability to pay.

TABLE C.12

Growth in program spending in 2008-2009^P

(millions of dollars)

	2007-2008	2008-2009	Growth	
			\$M	%
Santé et Services sociaux	24 144.9	25 468.9	1 324.0	5.5
Éducation, Loisir et Sport	13 371.6	13 984.0	612.4	4.6
Other departments	17 118.9	17 495.0	376.1	2.2
TOTAL	54 635.4	56 947.9	2 312.5	4.2

P: Preliminary results for 2007-2008 and forecasts for 2008-2009.

Source: Secrétariat du Conseil du trésor.

□ Additional investment of \$1 billion in higher education by 2012

The budget of the ministère de l'Éducation, du Loisir et du Sport is also increasing by a substantial 4.6%, or an additional \$612.4 million.

Since higher education is a collective priority, the government has pledged to invest, by 2012, \$1 billion over and above the budget envelope granted in 2006-2007. This commitment will be met through additional investments of \$200 million per year over five years.

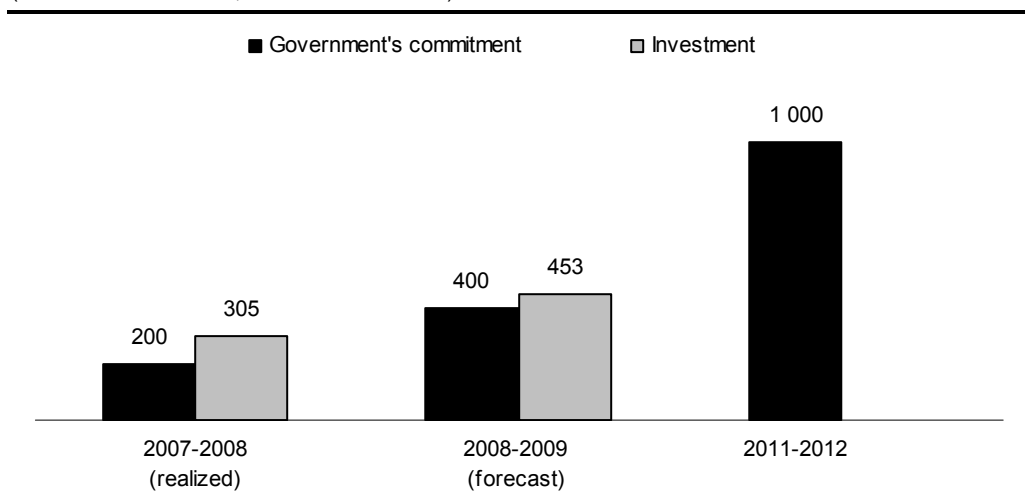
For the second year in a row, the government has even surpassed its commitment and is in the process of achieving the target set by 2012.

With this Budget, CEGEPs and universities will receive, in 2008-2009, \$453 million more than in 2006-2007 for delivering their services. For this fiscal year, this represents an additional \$53 million compared with the commitment originally forecast.

It should also be noted that, in 2007-2008, CEGEPs and universities received \$305 million more than the previous year.

CHART C.2

Additional annual investments in higher education^{1,2} (cumulative amount, millions of dollars)



- 1 Including the increases in the budget envelope for higher education needed to maintain and improve the quality of services.
- 2 Plus the federal reinvestment of \$187 million as of 2008-2009.

2.2.3 Maintaining disciplined management of spending

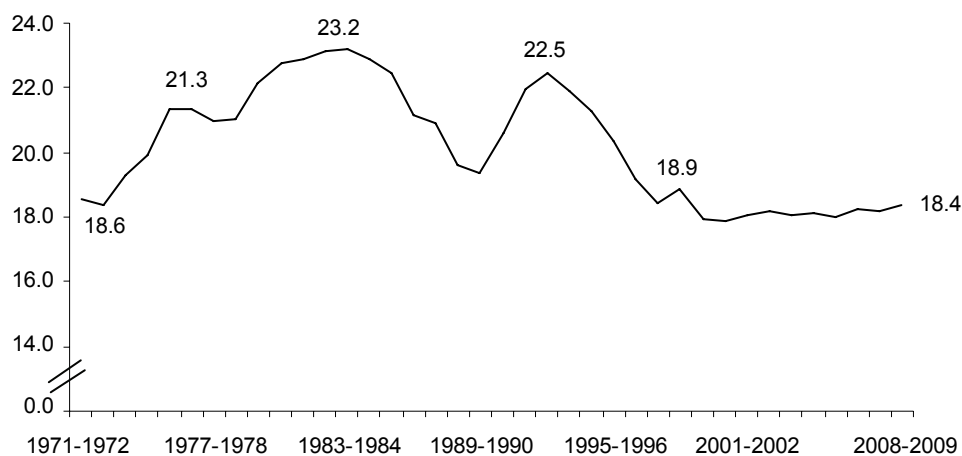
❑ The weight of program spending in the economy shows one of its lowest levels since 1971-1972

The forecast for program spending in 2008-2009 reflects the government's determination to pursue disciplined management of public spending while improving services for Quebecers.

On account of this budgetary discipline, the weight of program spending in relation to GDP in 2008-2009 will be 18.4%, one of the lowest levels in 35 years.

CHART C.3

Program spending (as a percentage of GDP)



Note: Preliminary results for 2007-2008 and forecasts for 2008-2009.

❑ Québec is the province that has best controlled its spending

Québec's program spending has increased by an average of 4.5% per year since 2003-2004.

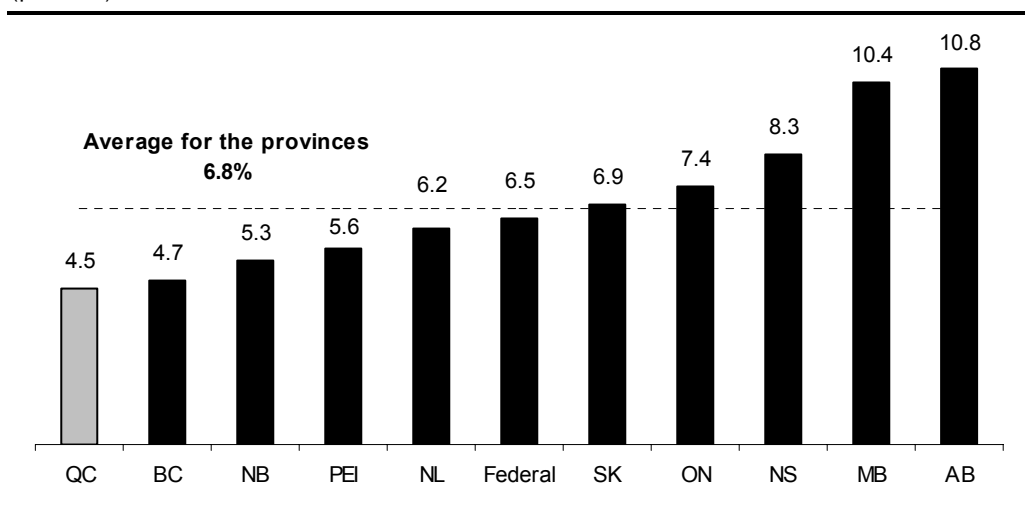
— In comparison, average program spending by the provinces has grown 6.8% per year and that of the federal government, 6.5% per year.

In fact, Québec is the Canadian province that has posted the weakest growth in program spending.

CHART C.4

Average annual growth in program spending from 2003-2004 to 2007-2008

(percent)



Source: Statement of the Ministère des Finances du Québec.

2.2.4 High quality public infrastructure for a more prosperous Québec

High quality public infrastructure helps to create an environment that is conducive to economic development. After long neglect, Québec's public infrastructure must be renovated and upgraded to ensure its sustainability.

❑ Investments of \$30 billion: 2007-2012 Québec Infrastructures Plan

By launching the 2007-2012 Québec Infrastructures Plan, a five-year, \$30-billion¹ plan completed by an additional \$7.6 billion for continuing work currently under way, the government has taken an important step to ensuring the sustainability of our infrastructure.

This is the first phase of a project that, over 15 years, will make it possible to renovate and upgrade public infrastructure as a whole while ensuring its continued development.

The implementation of this plan will result, notably, in:

- schools with a more welcoming environment;
- hospitals that are more functional and have cutting edge equipment;
- roads that are in just as good condition as those of our neighbours.

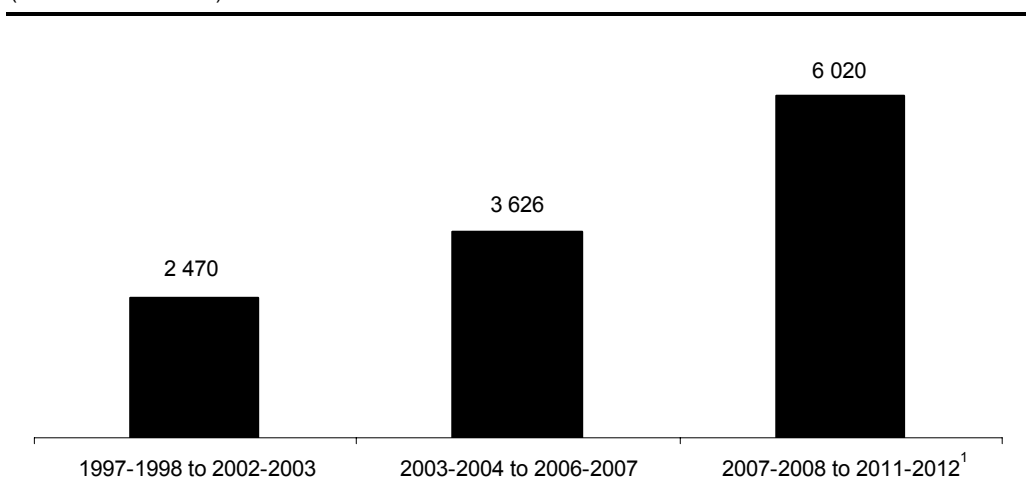
The plan also covers municipal infrastructures, including public transit, culture, research, public housing, justice and public safety.

Investment in public infrastructure will total \$6 billion annually until 2011-2012, or more than double the funds invested from 1997-1998 to 2002-2003.

¹ Since the plan was announced, \$442 million has been added to these investments over a five-year period to enable the government to take over the management of bridges in municipalities with 100 000 inhabitants or less.

CHART C.5

Average annual investments in the Québec government's fixed assets
(millions of dollars)



¹ Plus \$7.6 billion over a five-year period beginning in 2008-2009 for the completion of development projects currently under way.

Source: Secrétariat du Conseil du trésor.

❑ Disciplined and rigorous public infrastructure work

With the *Act to promote the maintenance and renewal of public infrastructures*, the government wants to make it mandatory for future work aimed at maintaining and renewing public infrastructure to follow guidelines based on recognized standards. The Act will ensure that maintenance deficits are eliminated within 15 years.

Every year, the Chair of the Conseil du trésor will table, in the National Assembly, a capital budget including funds allocated to maintaining infrastructure and eliminating accumulated maintenance deficits within 15 years, as well as funds for developing public infrastructure. The Chair of the Conseil du trésor will also table an annual report on how these funds have been used.

❑ Investment in the road system continues to rise

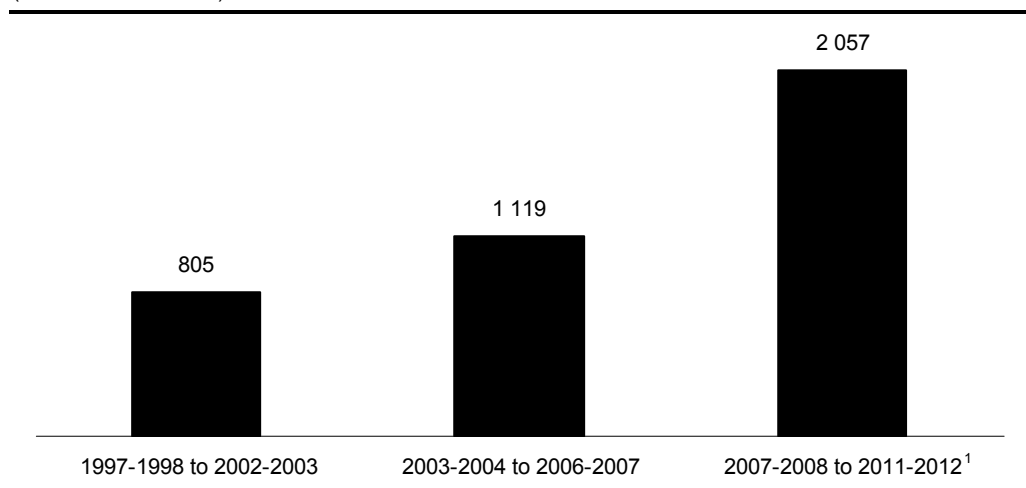
To improve road infrastructure, the government plans to invest \$10.3 billion by 2012, or an average of \$2.1 billion per year.

- Along with the contribution of partners, this will make it possible to accelerate the repair of Québec's road system so that by 2022, 83% of its roads and 80% of its structures will have been brought up to par, thus complying with the highest quality standards in North America

CHART C.6

Average annual investments in the road system

(millions of dollars)



1 Plus \$3.5 billion over a five-year period beginning in 2007-2008 for the completion of development projects currently under way.

Source: Ministère des Transports.

2.2.5 Debt service

In 2007-2008, debt service should amount to nearly \$7 billion, i.e. \$ 4.6 billion for direct debt service and \$2.4 billion for interest ascribed to the retirement plans.

Overall, debt service is revised downward by \$241 million compared with the May 2007 Budget. Direct debt service is \$365 million less than anticipated mainly because of the appreciation of the Canadian dollar in relation to other currencies. As for the interest ascribed to the retirement plans, it is \$124 million more than forecast owing to the impact of the new actuarial valuations of the retirement plans.

Debt service should fall by 1.4% in 2008-2009 and then increase by 1.6% in 2009-2010. These variances can be attributed essentially to the anticipated change in interest rates.

TABLE C.13

Consolidated Revenue Fund Change in debt service

(millions of dollars)

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments ¹	2007-2008	2008-2009	2009-2010
Direct debt service	- 4 923	365	- 4 558	- 4 736	- 5 055
Interest ascribed to the retirement plans	- 2 321	- 124	- 2 445	- 2 171	- 1 964
DEBT SERVICE	- 7 244	241	- 7 003	- 6 907	- 7 019
% change	4.0		0.0	-1.4	1.6

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

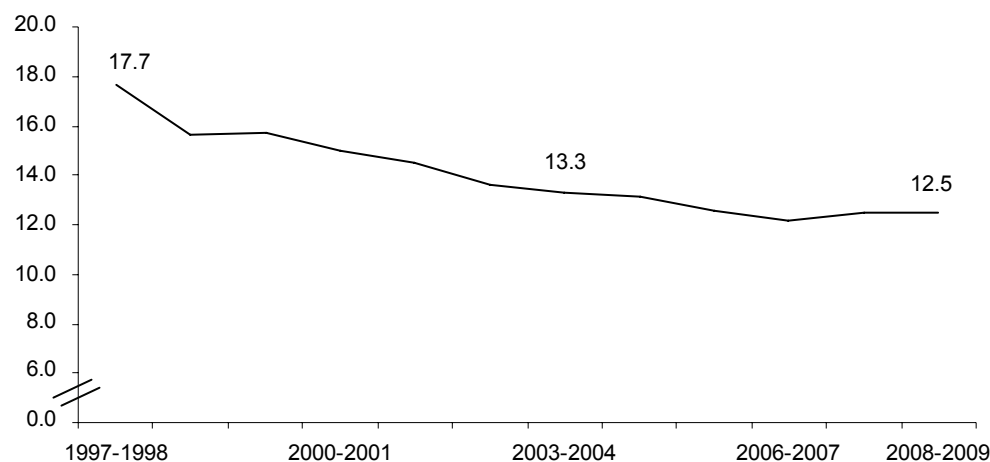
1 Including the impact of the accounting reform, presented in Appendix 1.

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

The share of budgetary revenue devoted to debt service, which includes the debt service of the Consolidated Revenue Fund and that of consolidated entities, should stand at 12.5% in 2008-2009, compared with 17.7% in 1997-1998.

CHART C.7

Consolidated debt service (as a percentage of total revenue)



Note: Preliminary results for 2007-2008 and forecasts for 2008-2009.

2.3 Consolidated entities

In addition to departments, budget-funded bodies and government enterprises, whose results are included in those of the Consolidated Revenue Fund, the government's reporting entity also comprises all non-budget-funded bodies and special funds, as well as the Generations Fund.

In 2007, the government undertook a major reform of its accounting policies in order to fully comply with generally accepted accounting principles (GAAP) applicable to the public sector. In this regard, the government reporting entity was changed to incorporate, as of April 1, 2006, the financial results of public health and social services institutions, school boards and CEGEPs, as well as those of the Université du Québec and its branches.

Consolidated entities are thus presented in three separate groups:

- non-budget-funded bodies and special funds;
- the health² and education networks;
- the Generations Fund.

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

2.3.1 Non-budget-funded bodies and special funds

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

- the Corporation d'hébergement du Québec and Financement-Québec finance the capital expenditures of the health and education networks;
- the Fonds de conservation et d'amélioration du réseau routier finances investments for maintaining and developing Québec roads;
- La Financière agricole du Québec is responsible for administering farm insurance programs and other agrifood programs.

For fiscal 2007-2008, the net results of non-budget-funded bodies and special funds show a surplus of \$10 million, a decrease of \$20 million compared with the results forecast in last year's Budget.

The net results of non-budget-funded bodies and special funds for 2008-2009 and 2009-2010 show, respectively, a deficit of \$145 million and a surplus of \$17 million.

TABLE C.14

Non-budget-funded bodies and special funds ¹ Summary of budgetary transactions

(millions of dollars)

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments ²	2007-2008	2008-2009	2009-2010
Own-source revenue	2 786	1 234	4 020	4 319	4 594
Federal transfers	919	- 128	791	1 115	1 287
Sub-total	3 705	1 106	4 811	5 434	5 881
Expenditure excluding debt service	- 2 911	- 209	- 3 120	- 3 749	- 3 866
Debt service	- 764	- 917	- 1 681	- 1 830	- 1 998
Sub-total	- 3 675	- 1 126	- 4 801	- 5 579	- 5 864
NET RESULTS	30	- 20	10	- 145	17

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Excluding specified purpose accounts.

2 Including the impact of the accounting reform, presented in Appendix 1.

2.3.2 Health and education networks

With the implementation of the recommendations of the Task Force on Government Accounting, over 211 entities in the health and social services sector and nearly 130 entities in the education network were added to the government's reporting entity.

Among these entities are 18 health and social services agencies, 193 public health and social services institutions, 72 school boards, 48 CEGEPs and the Université du Québec and its nine branches.

Preparing the 2006-2007 Public Accounts involved a vast consolidation exercise, targeting the actual results of the 341 new entities. Based on this work, it was possible to estimate, in last December's *Update on Québec's Economic and Financial Situation*, the deficit of the networks and its impact on the 2007-2008 financial framework at nearly \$185 million. The present Budget is revising this impact to \$375 million.

For 2008-2009, the government has forecast transfer spending of up to \$25 billion and \$14 billion respectively for the health and education networks. Normally, these budgets should allow recipient institutions to balance their budgets, especially since most of them are obliged to do so by law. However, as a precautionary measure, this Budget has provided for a deficit of \$150 million for the health and education networks.

It is essential to introduce control and monitoring mechanisms to ensure that the government's budget planning is well done. Therefore, the work currently under way should make it possible to rigorously monitor the results of all the network entities added to the government reporting entity. In the near future, network entities will be subject to budget monitoring similar to that of non-budget-funded bodies and special funds. This will involve, for example:

- monitoring of financial forecasts;
- monitoring of actual data in the monthly report on the government's financial transactions.

2.3.3 Generations Fund

Deposits in the Generations Fund, including the additional deposit of \$200 million from the budgetary reserve, should reach \$603 million for 2007-2008.

For 2008-2009 and 2009-2010, total deposits of \$742 million and \$816 million respectively are forecast.

Section H details the results of and change in the Generations Fund.

TABLE C.15

Deposits in the Generations Fund

(millions of dollars)

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments	2007-2008	2008-2009	2009-2010
Dedicated revenues					
Water-power royalties	374	– 10	364	625	647
Unclaimed property	20	– 5	15	15	15
Investment income	59	– 35	24	102	154
TOTAL	453	– 50	403	742	816
Deposit from the budgetary reserve	200	—	200	—	—
TOTAL	653	– 50	603	742	816

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

2.3.4 Statement of consolidated operations

For the purposes of the budget documents, the results of consolidated entities are presented on a net basis. Therefore, to reconcile the Budget documents and the Public Accounts, the revenue and expenditure of consolidated entities³ and specified purpose accounts must be added to those of the Consolidated Revenue Fund.

The following table shows, for fiscal 2007-2008, the statement of consolidated transactions harmonizing the Budget data with those of the Public Accounts. As indicated in Table C.1, the surplus for the purposes of the Public Accounts will amount to \$1 120 million in 2007-2008.

TABLE C.16

Consolidated financial framework

(millions of dollars)

	2007-2008 ^P				2006-2007 Public Accounts
	Consolidated Revenue Fund	Consolidated entities	Specified purpose accounts	Consolidated levels	Consolidated levels
REVENUE					
Own-source revenue	49 295	4 423	207	53 925	53 226
Federal transfers	13 625	791	262	14 678	11 970
TOTAL REVENUE	62 920	5 214	469	68 603	65 196
EXPENDITURE					
Program spending	– 54 635	– 3 695	– 469	– 58 799	– 55 309
Debt service	– 7 003	– 1 681		– 8 684	– 7 894
TOTAL EXPENDITURE	– 61 638	– 5 376	– 469	– 67 483	– 63 203
TOTAL	1 282	– 162	0	1 120¹	1 993

P: Preliminary.

1 Surplus for the purposes of the Public Accounts.

³ After eliminating related-party transactions.

2.4 Five-year financial framework

The government prepares a five-year financial framework for the purposes of its budget planning.

This financial framework, for 2010-2011 and 2011-2012, is based on revenue and expenditure projections made using a more limited number of economic indicators. Therefore, these forecasts reflect average trends anticipated for revenue and expenditure.

Nevertheless, the five-year financial framework shows that budgetary balance will be able to be maintained until 2012-2013.

To achieve this, however, the government will have to exercise tight control of its spending.

— Indeed, program spending growth will have to be limited to 3.2% per year as of 2010-2011.

If the impact of the fiscal measures announced in this and previous budgets is taken into account, growth in budgetary revenue will generally follow that of the economy until 2012-2013.

TABLE C.17

Financial framework of the 2008-2009 Budget and projections as of 2010-2011

(millions of dollars)

	Actual results	Forecasts			Projections		
	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
BUDEETARY REVENUE	60 700	62 920	62 980	65 184	67 281	69 196	71 467
% change		3.7	0.1	3.5	3.2	2.8	3.3
BUDGETARY EXPENDITURE							
Program spending	- 51 796	- 54 635	- 56 948	- 58 629	- 60 478	- 62 386	- 64 352
% change		5.5	4.2	3.0	3.2	3.2	3.2
Debt service	- 7 000	- 7 003	- 6 907	- 7 019	- 6 982	- 6 957	- 6 963
TOTAL EXPENDITURE	- 58 796	- 61 638	- 63 855	- 65 648	- 67 460	- 69 343	- 71 315
NET RESULTS OF CONSOLIDATED ENTITIES	89	- 162	447	833	1 275	1 398	1 504
Contingency reserve			- 200				
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	1 993	1 120	- 628	369	1 096	1 251	1 656
Deposits of dedicated revenues in the Generations Fund	- 584 ¹	- 403	- 742	- 816	- 1 239	- 1 341	- 1 447
BUDGETARY BALANCE BEFORE BUDGETARY RESERVE	1 409	717	- 1 370	- 447	- 143	- 90	209
Deposit in the Generations Fund from the budgetary reserve		- 200					
Budgetary reserve	- 1 300	- 517	1 370	447			
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	109	0	0	0	- 143	- 90	209
Real GDP growth rate in % ²	1.7	2.4	1.5	2.0	2.2	2.3	1.9
Nominal GDP growth rate in % ²	3.7	5.9	3.2	3.5	3.9	4.1	3.7

1 Including an additional deposit of \$500 million in the Generations Fund in 2006-2007.

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

3. NON BUDGETARY TRANSACTIONS

The government's non-budgetary transactions consist of transactions that affect borrowing requirements but not revenue and expenditure.

They are presented in large aggregates, namely, "Investments, loans and advances," "Capital expenditures," "Net investments in the networks," "Retirement plans" and "Other accounts."

An increase in the government's "Investments, loans and advances" is affected notably by the fact that the government allows Hydro-Québec to keep a portion of its profits. The government plans to curtail the increase in its debt by revising its Hydro-Québec dividend policy.

3.1 Curtailing the increase in the government's debt by revising the dividend paid by Hydro-Québec

3.1.1 Review of the Hydro-Québec dividend

The Québec government's debt level is worrisome and constitutes an important issue in the management of public finances.

- Even though the debt/GDP ratio has declined constantly since 1998-1999 and budgetary balance has been maintained, the debt rises every year.
- Part of the yearly increase in the debt stems from the government's policy regarding the Hydro-Québec dividend.

Although Hydro-Québec's net annual profits are added to the government's revenue, the government has, historically, made a yearly investment in Hydro-Québec by allowing the corporation to keep 50% of its net profits in order to finance its investments⁴. For the government, this investment gives rise to an equivalent financial requirement, which thus pushes up its debt.

This policy, which is similar to that followed by other governments with corporations in the electricity sector, is aimed at bringing the enterprise's capital up to a level sufficient to ensure its financial health.

Due to the improvement of Hydro-Québec's capitalization in recent years, the government can now reduce the amount invested annually in this corporation.

- Therefore, the Hydro-Québec dividend policy is being changed so that, for 2007 and subsequent years, the dividend paid by Hydro-Québec will represent 75% of its net profits⁵.
- This will help to reduce the increase in the debt by roughly \$640 million in 2007-2008 and about \$600 million per year in subsequent years.

⁴ For 2004 and 2006, the net profits related to the sale of assets have been paid out in full as dividends.

⁵ The amount of the dividend is calculated in accordance with section 15.2 of the *Hydro-Québec Act*, which stipulates that:

15.2 "The distributable surplus for a particular financial period is equal to 75% of the total of the net operating income of the Company and of its net investment income for the same period, less the gross interest expenditure for the same period..."

❑ Government investments in Hydro-Québec contribute to the growth in government debt

The investments the government makes in Hydro-Québec year after year, by allowing the corporation to keep part of its net profits, explains a substantial portion of the increase in the government's debt.

— Since 1987, profits not paid out as dividends by Hydro-Québec have represented \$13.2 billion. This investment by the government in Hydro-Québec has created a financial requirement and raised government debt by an equivalent amount⁶.

For example, for 2006 alone, the current dividend payment policy prompted the government to borrow \$1.4 billion to compensate for the sums invested in Hydro-Québec.

Since 2002, profits reinvested in Hydro-Québec, totalling \$5.4 billion, have accounted for 35.1% of the increase in the government's total debt, which has grown by \$15.4 billion.

Over the same period, Hydro-Québec's long-term debt has fallen by \$3.2 billion.

TABLE C.18

Dividends paid by Hydro-Québec from 2002 to 2006

(billions of dollars)

	Net profits	Dividends paid	Impact on government debt	Change in Hydro-Québec's long-term debt	Hydro-Québec's capitalization rate ¹ %
2002	1.5	0.8	0.8	– 0.6	26.2
2003	1.9	1.0	1.0	– 2.4	29.8
2004	2.4	1.3 ²	1.1	– 1.8	32.8
2005	2.3	1.1	1.1	– 1.3	34.2
2006	3.8	2.3 ²	1.4	2.9	36.1
TOTAL	11.9	6.5	5.4	– 3.2	

1 Ratio of total equity to total equity plus accumulated long-term debt.

2 Taking into account the additional dividend payment from profits related to the sale of assets.

⁶ It should be noted that no dividends were paid into the Consolidated Revenue Fund from 1990 to 1996.

3.1.2 Hydro-Québec's dividend payments

The provisions of the *Hydro-Québec Act*, coupled with the improvement in the corporation's capitalization, make it possible to review the Hydro-Québec dividend policy.

❑ Provisions of the current Act

Since the review of Hydro-Québec's incorporating Act in 1981, the Act has stipulated that paid dividends:

- cannot exceed 75% of the net profits of the fiscal year as calculated in accordance with the provisions of the Act;
- must not reduce the capitalization rate to less than 25% at the end of such fiscal year.

These dividend payment rules are similar to those that exist for many public corporations in Canada (e.g. in British Columbia and Manitoba, where dividends represent 85% and 75% of profits respectively).

❑ Capitalization rate

Historically, the Hydro-Québec dividend has generally represented 50% of the corporation's net profits. Hydro-Québec's heightened profitability, coupled with the funds invested by the government in this corporation through its dividend policy, have made it possible to raise the Hydro-Québec's capitalization rate well above 25%.

- Hydro-Québec's capitalization rate rose from 26.2% in 2002 to 36.1% as at December 31, 2006.

This capitalization rate is equal to the average observed in Canada for government corporations in the electricity sector.

- Indeed, the comparable average in Canada's five largest provinces was 36.1% in 2006.

If the current dividend payment policy is maintained, Hydro-Québec's capitalization rate would be about 40% in 2010 according to the corporation's Strategic Plan 2006-2010.

3.1.3 Raising the dividend paid by Hydro-Québec to 75% of its net profits

Owing to the increase in the government's debt and the significant improvement in Hydro-Québec's capitalization rate, the government is revising the policy on the dividends payable to it by Hydro-Québec.

As of 2007 and for subsequent years, the dividend will represent 75% of the enterprise's net profits, calculated in accordance with the provisions of the *Hydro-Québec Act*.

This will represent:

- an additional payment of approximately \$640 million in 2007-2008;
- an additional payment of approximately \$600 million per year for subsequent years.

Over the period covered by Hydro-Québec's strategic plan, i.e. until 2010, this will represent additional payments of \$2.3 billion. The increase in the government's debt will be reduced accordingly.

Assuming that this policy is maintained until 2026, an additional amount of nearly \$11 billion will be paid by Hydro-Québec.

TABLE C.19

Cumulative impact of raising the dividend payment rate for Hydro-Québec's net profits from 50% to 75%^{P, 1}

	Additional annual dividends from Hydro-Québec \$M	Hydro-Québec's capitalization rate %	Contribution to debt reduction \$M
2007	640	37.5	– 640
2008	600	36.2	– 1 240
2009	550	35.9	– 1 790
2010	550	35.9	– 2 340

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Over the period covered by the Strategic Plan 2006-2010 tabled by Hydro-Québec, which is based on the calendar year.

□ Impact for Hydro-Québec

The fact that the government will receive a higher dividend will increase the borrowings that Hydro-Québec will have to make on its own to finance its activities.

Hydro-Québec has a high borrowing capacity and has proved itself over the past 40 years as a producer, carrier and distributor of electricity. It has an unconditional guarantee from the government and its borrowing costs are the same as those of the government.

- Considering that Hydro-Québec has to borrow to finance its capital expenditures, an additional payment of roughly \$600 million in dividends could entail an additional cost of approximately \$30 million for the corporation. Moreover, the government would achieve equivalent savings on its debt service.

3.2 Summary of non-budgetary transactions

For 2007-2008, consolidated non-budgetary requirements amount to \$1.4 billion, an increase of \$264 million compared with the May 2007 Budget forecasts.

For 2008-2009 and 2009-2010, consolidated non-budgetary requirements amount to \$1.5 billion and \$1.6 billion respectively.

TABLE C.20

Summary of consolidated non-budgetary transactions¹ (millions of dollars)

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Adjustments ²	2007-2008	2008-2009	2009-2010
CONSOLIDATED REVENUE FUND					
Investments, loans and advances	- 1 385	- 684	- 2 069	- 18	- 337
Capital expenditures	- 113	1	- 112	- 140	- 128
Retirement plans ³	2 129	322	2 451	2 398	2 597
Other accounts	- 101	466	365	- 935	- 1 015
TOTAL	530	105	635	1 305	1 117
CONSOLIDATED ENTITIES					
Investments, loans and advances	- 142	- 583	- 725	- 382	277
Capital expenditures	- 1 867	589	- 1 278	- 1 814	- 2 679
Net investments in the networks	—	- 544	- 544	- 1 030	- 660
Other accounts	388	169	557	427	341
TOTAL	- 1 621	- 369	- 1 990	- 2 799	- 2 721
CONSOLIDATED NON-BUDGETARY TRANSACTIONS					
Investments, loans and advances	- 1 527	- 1 267	- 2 794	- 400	- 60
Capital expenditures	- 1 980	590	- 1 390	- 1 954	- 2 807
Net investments in the networks	—	- 544	- 544	- 1 030	- 660
Retirement plans ³	2 129	322	2 451	2 398	2 597
Other accounts	287	635	922	- 508	- 674
TOTAL CONSOLIDATED NON-BUDGETARY REQUIREMENTS	- 1 091	- 264	- 1 355	- 1 494	- 1 604

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

2 Including the impact of the accounting reform, presented in Appendix 1.

3 Including other employee future benefits.

❑ Investments, loans and advances

Consolidated financial requirements for investments, loans and advances for 2007-2008 amount to \$2.8 billion. The forecasts for 2008-2009 and 2009-2010 stand at \$400 million and \$60 million respectively

For 2007-2008, financial requirements for the investments, loans and advances of the Consolidated Revenue Fund total \$2.1 billion, an increase of \$684 million compared with the forecasts in last year's Budget. This increase can be attributed mainly to the investment with the Caisse de dépôt et placement du Québec of \$1.1 billion, or the amount allocated to the budgetary reserve in 2006-2007 excluding the \$200-million deposit in the Generations Fund, mitigated by the increase in the portion of Hydro-Québec's profits paid out as dividends.

With regard to consolidated entities, the financial requirements of \$725 million arise mainly from investments, loans and advances of Financement-Québec and Investissement Québec.

❑ Capital expenditures

For 2007-2008, consolidated investments in fixed assets amount to \$2.7 billion. Taking into account a depreciation expense of \$1.3 billion for these capital expenditures, their associated financial requirements total \$1.4 billion.

TABLE C.21

Reconciliation of 2007-2008 capital investments and financial requirements^P

(millions of dollars)

	Level of Investment	Depreciation	Financial requirements (capital expenditures)
Departments and organizations	– 349	237	– 112
Non-budget-funded bodies and special funds	– 2 312	1 034	– 1 278
TOTAL	– 2 661	1 271	– 1 390

P: Preliminary.

These financial requirements are explained largely by investments of \$1.7 billion in road infrastructure financed by the Fonds de conservation et d'amélioration du réseau routier, which include the increase in investments provided for in the Québec Infrastructures Plan introduced in fall 2007. The additional investments in the road system also explain the increase in financial requirements for subsequent years.

☐ Net investments in the networks

The financial requirements related to net investments in the networks amount to \$544 million for 2007-2008, \$1 030 million for 2008-2009 and \$660 million for 2009-2010.

☐ Retirement plans

For 2007-2008, the balance of non-budgetary transactions in regard to the retirement plans is \$2.5 billion, which reduces the government's financing needs. This represents an increase of \$322 million compared with the figure forecast in the last Budget.

For 2008-2009 and 2009-2010, the retirement plans help to reduce financing needs by \$2.4 billion and \$2.6 billion respectively.

☐ Other accounts

Consolidated financial surpluses for other accounts in 2007-2008 are adjusted upward by \$635 million, to \$922 million.

4. CONSOLIDATED NET FINANCIAL REQUIREMENTS

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

As a whole, consolidated net financial requirements stand at \$952 million in 2007-2008, \$752 million in 2008-2009 and \$788 million in 2009-2010.

- Compared with the May 2007 Budget, the 2008-2009 Budget forecasts net financial surpluses of \$1.2 billion in 2007-2008 for the Consolidated Revenue Fund, an improvement of \$700 million. This improvement can be attributed primarily to the increase from 50% to 75% of the share of Hydro-Québec's profits paid out as dividends. Net financial surpluses of \$1.6 billion and \$1.1 billion are forecast for 2008-2009 and 2009-2010 respectively.
- The net financial requirements of non-budget-funded bodies and special funds will total \$2.8 billion in 2007-2008, \$3.1 billion in 2008-2009 and \$2.7 billion in 2009-2010. These requirements stem mainly from two sources:
 - investments by the Fonds de conservation et d'amélioration du réseau routier;
 - investments by Financement-Québec in the health and education networks.
- Deposits in the Generations Fund will amount to \$603 million in 2007-2008, \$742 million in 2008-2009 and \$816 million in 2009-2010.

TABLE C.22

Consolidated net financial requirements¹

(millions of dollars)

	May 2007 Budget		March 2008 Budget^P		
	2007-2008	Adjustments²	2007-2008	2008-2009	2009-2010
Budgetary balance for the purposes of the <i>Balanced Budget Act</i>	0	0	0	0	0
Deposit of dedicated revenues in the Generations Fund	653 ³	– 250	403	742	816
Consolidated budgetary balance	653	– 250	403	742	816
Consolidated non-budgetary requirements	– 1 091	– 264	– 1 355	– 1 494	– 1 604
CONSOLIDATED NET FINANCIAL REQUIREMENTS	– 438	– 514	– 952	– 752	– 788
Including:					
Consolidated Revenue Fund	500	700	1 200	1 600	1 100
Non-budget-funded bodies and special funds	– 1 591	– 1 164	– 2 755	– 3 094	– 2 704
Deposits in the Generations Fund	653 ³	– 50	603 ³	742	816

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

2 Including the impact of the accounting reform, presented in Appendix 1.

3 Including the deposit of \$200 million from the budgetary reserve.

APPENDIX 1: IMPACT OF THE ACCOUNTING REFORM

TABLE C.23

Impact of the accounting reform on results in 2007-2008
(millions of dollars)

	Before reform	Impact of reform	After reform
BUDGETARY REVENUE			
Own-source revenue	49 585	– 290	49 295
Federal transfers	13 625	—	13 625
TOTAL	63 210	– 290	62 920
BUDGETARY EXPENDITURE			
Program spending	– 54 619	– 16	– 54 635
Debt service	– 6 814	– 189	– 7 003
TOTAL	– 61 433	– 205	– 61 638
NET RESULTS OF CONSOLIDATED ENTITIES	196	– 358	– 162
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	1 973	– 853	1 120
Deposit of dedicated revenues in the Generations Fund	– 403	—	– 403
BUDGETARY BALANCE BEFORE BUDGETARY RESERVE	1 570	—	717
Deposit in the Generations Fund from the budgetary reserve	– 200	—	– 200
Budgetary reserve	– 517	—	– 517
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	853	– 853	0

TABLE C.24

Summary of the impact of the accounting reform on the budgetary balance

(millions of dollars)

	2007-2008^P
Budgetary balance before reform	1 973
Impact of reform	
Consolidation of the health and education networks	– 375
Transfer spending	– 6
Accrual accounting for tax receipts	– 290
Retirement Plans Sinking Fund (RPSF)	– 189
Status of certain organizations	17
Soft loans and allowance for losses on guaranteed financial initiatives	5
Employee future benefits	– 15
Impact of the reform on the budgetary balance	– 853
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	1 120

P: Preliminary.

Section D

Debt, Financing and Debt Management

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1. DEBT

Until recently, the government's financial position was analyzed using the "total debt." This concept of debt corresponds to the sum of:

- debt issued on financial markets by the government and entities consolidated line by line;
- the net liability for the retirement plans of public and parapublic sector employees;

minus the balance of the Generations Fund.

The concept of total debt was used to set the debt/GDP ratio targets in the *Act to reduce the debt and establish the Generations Fund*.

Last December, the government launched a major reform of its accounting policies. This reform consisted notably in broadening the government's reporting entity to include entities in the health and social services and education networks. It was necessary, therefore, to introduce a new concept of debt, namely, "gross debt." Basically, gross debt is the total debt broadened to include the debt of organizations that make loans to entities in the health and education networks, i.e. Financement-Québec (FQ) and the Corporation d'hébergement du Québec (CHQ), and to take into account the reclassification of the debt of the Société québécoise d'assainissement des eaux (SQAE) and the net liability for employee future benefits.

TABLE D.1

Total debt and gross debt of the Québec government

(millions of dollars)

	As at March 31, 2007
TOTAL DEBT	122 600
Plus: Debt of Financement-Québec	12 073
Debt of the CHQ and other entities	3 650
Debt of the SQAE	2 522
Net employee future benefits liability	752
Sub-total	18 997
GROSS DEBT	141 597

The accounting reform also gave the ministère des Finances the opportunity to study the debt indicators presented by the federal government and the provinces in their budget documents. This analysis has shown that the concept of debt representing accumulated deficits is used as a measure of indebtedness by the federal government and the governments of Ontario and Alberta.

1.1 Debt representing accumulated deficits

Debt representing accumulated deficits is a simple concept that represents the financial position of a government well, since it takes all of its liabilities and assets into account.

Debt representing accumulated deficits corresponds to the difference between the government's liabilities and its financial and non-financial assets as a whole. In fact, this concept represents the sum of all the budgetary deficits and surpluses accumulated by the Québec government in the past.

Preliminary results show that debt representing accumulated deficits should amount to \$96 456 million as at March 31, 2008, or 32.2 % of gross domestic product (GDP).

Maintenance of a balanced budget coupled with the deposits forecast in the Generations Fund should cause the debt representing accumulated deficits to fall to \$95 714 million as at March 31, 2009 and \$94 898 million as at March 31, 2010. It should thus represent 29.7% of GDP.

TABLE D.2

Debt of the Québec government as at March 31

(million of dollars)

	2007	2008 ^P	2009 ^P	2010 ^P
Consolidated direct debt	108 585	114 945	122 469	128 876
Plus: Net retirement plans liability	32 844	30 409	27 562	25 588
Plus: Net employee future benefits liability	752	744	106	—
Less: Generations Fund	– 584	– 1 187	– 1 929	– 2 745
GROSS DEBT	141 597	144 911	148 208	151 719
As a % of GDP	50.1	48.4	48.0	47.4
Less: Financial assets, net of other liabilities	– 19 406	– 21 911	– 21 596	– 22 009
Less: Non-financial assets	– 26 432	– 28 361	– 31 345	– 34 812
DEBT REPRESENTING ACCUMULATED DEFICITS FOR THE PURPOSES OF THE PUBLIC ACCOUNTS¹	95 759	94 639	95 267	94 898
As a % of GDP	33.9	31.6	30.8	29.7
Plus: Balance of the budgetary reserve	1 300	1 817	447	—
DEBT REPRESENTING ACCUMULATED DEFICITS AFTER TAKING THE BUDGETARY RESERVE INTO ACCOUNT	97 059	96 456	95 714	94 898
As a % of GDP	34.3	32.2	31.0	29.7

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

1 That is, before taking into account amounts allocated to the budgetary reserve.

1.2 Gross debt

The government's gross debt is the sum of the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability, minus the balance of the Generations Fund.

Preliminary results show that, as at March 31, 2008, the gross debt should amount to \$144 911 million, or 48.4% of GDP. As at March 31, 2010, the gross debt is expected to be \$151 719 million, or 47.4% of GDP.

TABLE D.3

Gross debt as at March 31

(millions of dollars)

	2007	2008 ^P	2009 ^P	2010 ^P
Direct debt of the Consolidated Revenue Fund ¹	77 914	81 519	85 949	89 652
Debt of consolidated entities	30 671	33 426	36 520	39 224
Consolidated direct debt ²	108 585	114 945	122 469	128 876
Plus: Net retirement plans liability	32 844	30 409	27 562	25 588
Plus: Net employee future benefits liability	752	744	106	—
Less: Generations Fund	– 584	– 1 187	– 1 929	– 2 745
GROSS DEBT	141 597	144 911	148 208	151 719
As a % of GDP	50.1	48.4	48.0	47.4

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

1 Excluding pre-financing.

2 The consolidated direct debt reflects all of the government's financial requirements that give rise to borrowings on financial markets.

The consolidated direct debt consists of the direct debt of the Consolidated Revenue Fund and the debt of entities whose results are consolidated line by line with those of the government. The main consolidated entities are Financement-Québec, the Fonds de conservation et d'amélioration du réseau routier, the Corporation d'hébergement du Québec, the Société québécoise d'assainissement des eaux, the Société immobilière du Québec, Investissement Québec, the Agence métropolitaine de transport and the Société du Palais des congrès de Montréal. As at March 31, 2008, the consolidated direct debt is expected to total \$114 945 million.

The net retirement plans liability represents the gross retirement plans liability minus the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees. As at March 31, 2008, the net retirement plans liability should amount to \$30 409 million.

The net liability for employee future benefits consists of government commitments for accumulated sick leave and the survivor's pension plan, minus assets constituted in regard to these commitments. As at March 31, 2008, the net employee future benefits liability should be \$744 million. The government is expected to create an accumulated sick leave fund in 2008-2009, in which sums that will be used to make the necessary payments will be deposited. As at March 31, 2010, the net employee future benefits liability should be nil.

As at March 31, 2008, the sums accumulated in the Generations Fund are expected to amount to \$1 187 million.

1.2.1 Change in gross debt in 2007-2008

In 2007-2008, the government's gross debt should increase by \$3 314 million. Even though the government is maintaining a balanced budget, the gross debt continues to rise for the following reasons:

- First of all, the government invests in its corporations. It makes such investments through advances and direct capital outlays or by allowing these corporations to keep part of their profits to finance their own investments.

For example, until now Hydro-Québec has paid the government 50% of its net profits as dividends and kept the other 50% to fund its investments, particularly hydroelectric dams. As of 2007-2008, Hydro-Québec's dividend policy will be changed so that this corporation will henceforth pay 75% of its net profits as dividends to the government. The portion of profits that the government is leaving Hydro-Québec (\$831 million) constitutes an investment by the government in Hydro-Québec, which creates a financial requirement for the government and thus leads to an increase in the gross debt.

Overall, the government's investments, loans and advances should lead to a \$2 794-million increase in the gross debt in 2007-2008. This amount includes \$1 100 million deposited with the Caisse de dépôt et de placement du Québec under the *Act to establish a budgetary surplus reserve fund*.

- In addition, net investments in the health and social services and education networks, which include loans made by Financement-Québec and the Corporation d'hébergement du Québec to network institutions to fund their capital expenditures, raise the gross debt by \$544 million in 2007-2008.

- Secondly, the government makes investments in fixed assets (e.g. roads) that require borrowings. When these capital expenditures are made, they are posted to the government's balance sheet. Subsequently, they are gradually recorded as expenditures based on the useful life of the assets concerned. In 2007-2008, net capital expenditures should cause the gross debt to increase by \$1 390 million.
- Lastly, changes in some of the government's other asset and liability items, such as accounts payable and accounts receivable, should lower the gross debt by \$811 million in 2007-2008.

TABLE D.4

Main factors responsible for the growth in the Québec government's debt

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Investments, loans and advances	Net investment in the networks	Net capital expenditures¹	Other factors²	Generations Fund	Debt, end of year³
Before accounting reform								
Total debt								
1998-1999	98 385	– 126	1 402		217	1 235		101 113
1999-2000	101 113	– 7	2 006		359	– 1 351		102 120
2000-2001	102 120	– 427	1 632		473	1 050		104 848
2001-2002	104 848	– 22	1 142		995	212		107 175
2002-2003	107 175	728	1 651		1 482	306		111 342
2003-2004	111 342	358	1 125		1 019	881		114 725
2004-2005	114 725	664	979		1 083	– 855		116 596
2005-2006	116 596	– 37	1 182		1 166	– 605		118 302
2006-2007	118 302	– 20	1 977		1 117	1 641	– 576	122 441
After accounting reform								
Gross debt								
2007-2008 ^P	141 597	—	2 794	544	1 390	– 811	– 603	144 911
2008-2009 ^P	144 911	—	400	1 030	1 954	655	– 742	148 208
2009-2010 ^P	148 208	—	60	660	2 807	800	– 816	151 719

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

¹ Capital expenditures made during the year minus the yearly depreciation expenditure.² Includes notably the change in "Other accounts," such as accounts receivable and accounts payable, as well as foreign exchange losses (gains) following the revaluation as at March 31 of the debt in foreign currency.³ Excluding pre-financing.

Impact of the accounting reform on the debt

In December 2007, the government changed its accounting policies, notably to include entities in the health and social services and education networks in its reporting entity. This accounting reform prompted the ministère des Finances to make changes to data on the debt. Detailed explanations were provided in December 2007 in the documents *The Québec Government's Debt*, the 2006-2007 Public Accounts (Vol. 1) and the *Update on Québec's Economic and Financial Situation*.

The changes made to the accounting of the Retirement Plans Sinking Fund and the Generations Fund increased the total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund* by \$159 million as at March 31, 2007. Line-by-line consolidation of certain entities, in particular Financement-Québec and the Corporation d'hébergement du Québec, and the reclassification of the debt of the Société québécoise d'assainissement des eaux and of commitments regarding future benefits of public and parapublic sector employees increased the gross debt by \$18 997 million. The accounting reform thus raised the gross debt by \$19 156 million.

Lastly, after including financial assets, net of other liabilities, and non-financial assets, including the fixed assets of consolidated entities, the net investment in the networks, and inventories and prepaid expenses, the components of the accounting reform taken as a whole increased the debt representing accumulated deficits by \$6 329 million as at March 31, 2007.

Debt of the Québec government as at March 31, 2007

(millions of dollars)

	Before reform	Impact of accounting reform	After reform
Direct debt	90 340		90 340
Plus: Net retirement plans liability	32 677	167	32 844
Less: Generations Fund	- 576	- 8	- 584
TOTAL DEBT FOR THE PURPOSES OF THE ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND	122 441	159	122 600
Plus: Debt of entities consolidated line by line		15 723	15 723
Debt of the SQAE		2 522	2 522
Employee future benefits		752	752
GROSS DEBT	122 441	19 156	141 597
Less: Financial assets, net of other liabilities	- 18 934	- 472	- 19 406
Less: Fixed assets	- 14 077	- 2 310	- 16 387
Net investment in the health and social services and education networks:			
- Loans made to the networks by FQ and the CHQ		- 13 322	- 13 322
- Accumulated deficits of the networks		3 439	3 439
Inventories and prepaid expenses		- 162	- 162
DEBT REPRESENTING ACCUMULATED DEFICITS FOR THE PURPOSES OF THE PUBLIC ACCOUNTS¹	89 430	6 329	95 759

SQAE: Société québécoise d'assainissement des eaux.

FQ: Financement-Québec.

CHQ: Corporation d'hébergement du Québec.

1 Before taking into account the \$1 300 million allocated to the budgetary reserve.

1.3 Total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund*

Preliminary results show that the total debt should amount to \$124 540 million, or 41.6% of GDP, as at March 31, 2008. Under the *Act to reduce the debt and establish the Generations Fund*, the total debt will have to represent 38% of GDP as at March 31, 2013, 32% of GDP as at March 31, 2020 and 25% of GDP as at March 31, 2026.

TABLE D.5

Total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund* as at March 31

(millions of dollars)

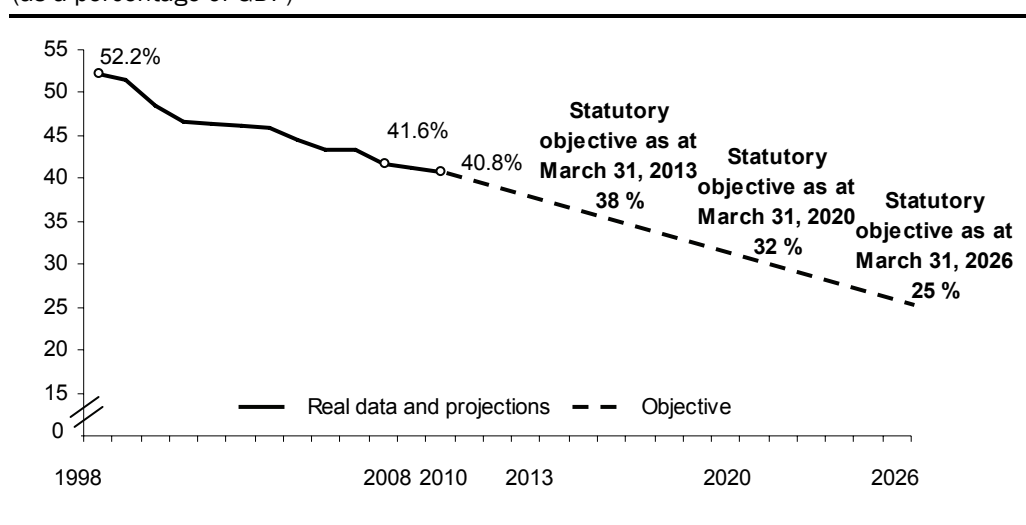
	2007	2008 ^P	2009 ^P	2010 ^P
GROSS DEBT	141 597	144 911	148 208	151 719
Less: Net employee future benefits liability	752	744	106	—
Debt of Financement-Québec	12 073	14 081	15 235	15 940
Debt of the CHQ and other entities	3 650	3 133	3 103	3 108
Dette of the SQAE	2 522	2 413	2 341	2 190
TOTAL DEBT FOR THE PURPOSES OF THE ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND	122 600	124 540	127 423	130 481
As a % of GDP	43,3	41,6	41,2	40,8

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

CHART D.1

Total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund* as at March 31

(as a percentage of GDP)



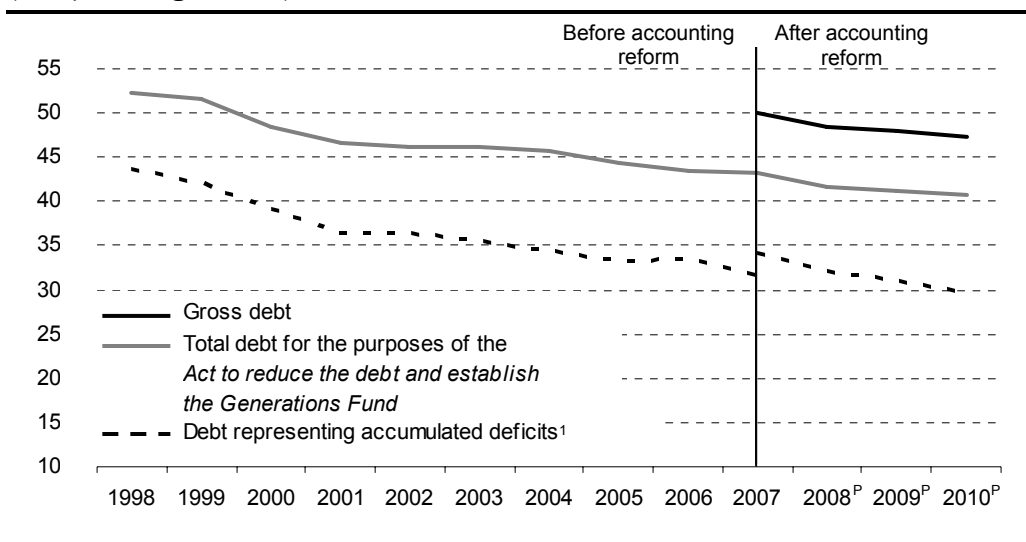
1.4 The debt burden continues to decline

As shown in the following chart, the Québec government's debt burden as a percentage of GDP is declining regardless of the debt concept used.

CHART D.2

Debt of the Québec government as at March 31

(as a percentage of GDP)



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

1 After taking the budgetary reserve into account.

1.5 Public sector debt

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

Preliminary results show that, as at March 31, 2008, the public sector debt should be \$197 285 million, or 65.9% of GDP.

TABLE D.6

Public sector debt as at March 31 (millions of dollars)

	Before accounting reform				After accounting reform	
	2004	2005	2006	2007	2007	2008 ^P
Government debt ^{1, 2}	114 725	116 596	118 302	122 441	141 597	144 911
Health and social services and education networks ³	10 877	12 301	13 078	14 096	2 023	1 515
Hydro-Québec	34 348	33 032	32 367	32 674	32 674	32 238
Other government enterprises ⁴	3 575	3 726	3 540	3 564	1 394	1 354
Municipalities ⁵	17 212	17 053	18 347	18 931	16 409	17 267
TOTAL	180 737	182 708	185 634	191 706	194 097	197 285
As a % of GDP	72.1	69.5	68.1	67.8	68.6	65.9

P: Preliminary results.

1 Excluding pre-financing.

2 Before the accounting reform, the data correspond to the concept of total debt for the purposes of the Act to *reduce the debt and establish the Generations Fund*, while after the accounting reform they correspond to the concept of gross debt.

3 Corresponds to the long-term debt for which the government subsidizes debt service through transfers for repaying the principal and paying the interest on borrowings.

4 Excluding debt guaranteed by a third party or secured by assets such as inventories and accounts receivable.

5 Includes the long-term debt for which the government subsidizes debt service through transfers for repaying the principal and paying the interest on borrowings. The government-subsidized long-term debt should amount to \$2 800 million as at March 31, 2008.

□ Data that must be put into perspective

However, the data on the debt of Québec's public sector must be put into perspective, for they concern the gross debt and do not reflect the economic value of certain assets held by the government.

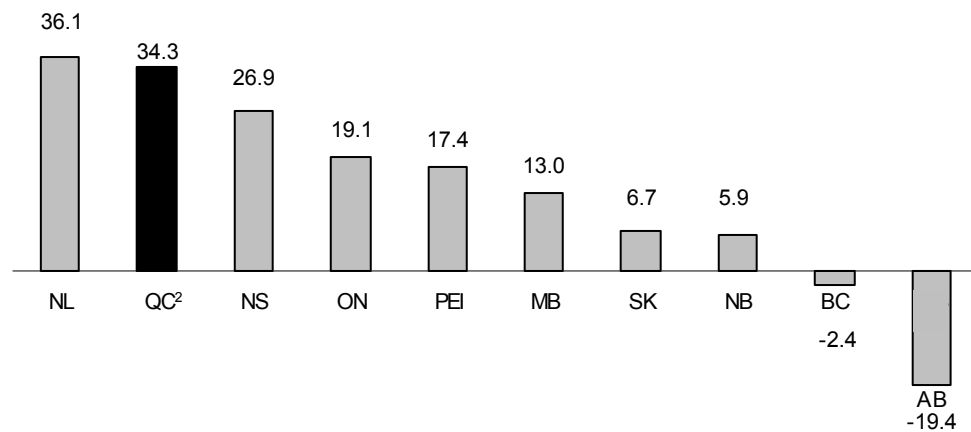
For example, the market value of a government corporation like Hydro-Québec would be much higher than the value recorded for this corporation in the government's books, which was \$21 billion as at March 31, 2007. Similarly, the book value of Loto-Québec was \$135 million and that of the Société des alcools du Québec, only \$37 million.

1.6 Comparison of the debt of Canadian provinces

Based on the concept of debt representing accumulated deficits, Québec is the second most indebted province after Newfoundland and Labrador. Indeed, as at March 31, 2007, its debt/GDP ratio was 34.3%.

CHART D.3

Debt representing accumulated deficits¹ as at March 31, 2007
(as a percentage of GDP)



¹ A negative entry means that the government has an accumulated surplus.

² After taking the budgetary reserve into account.

Sources: Ministère des Finances du Québec, the governments' public accounts and Statistics Canada.

The following table shows the debt of the federal government and each of the provincial governments as at March 31, 2007. The boxes indicate the concept of debt used by each government in its budget documents to measure its level of debt.

TABLE D.7

Debt as at March 31, 2007 according to the different concepts

(millions of dollars)

	QC	Fed.	ON	BC	AB	NB	NL	MB	SK	NS	PEI
Consolidated direct debt	108 585	414 192	156 993	32 940	2 634	5 305	6 646	9 918	7 585	10 107	1 076
Net retirement plans liability	32 844	134 726	- 2 997	2	5 593	- 126	1 925	3 460	4 684	216	- 31
Net employee future benefits liability	752	45 123	4 395	—	200	609	1 403	—	—	1 220	72
Generations Fund	- 584	—	—	—	—	—	—	—	—	—	—
Gross debt¹	141 597²	594 041	158 391	32 942	8 427	5 788	9 974	13 378	12 269	11 543	1 117
As a % of GDP	50.1	41.1	28.4	18.3	3.5	22.8	38.9	29.8	26.7	36.1	26.0
Less:											
Net financial assets ³	- 18 106	- 70 136	- 17 291	- 9 709	- 42 560	790	1 584	- 2 975	- 4 951	814	194
Net debt⁴	123 491⁵	523 905	141 100	23 233	- 34 133	6 578	11 558	10 403	7 318	12 357	1 311
As a % of GDP	43.7	36.2	25.3	12.9	- 14.2	26.0	45.1	23.2	15.9	38.6	30.5
Less											
Non-financial assets	- 26 432	- 56 637	- 34 324	- 27 569	- 12 429	- 5 076	- 2 316	- 4 561	- 4 235	- 3 751	- 560
Debt representing accumulated deficits⁴	97 059⁵	467 268	106 776	- 4 336	- 46 562	1 502	9 242	5 842	3 083	8 606	751
As a % of GDP	34.3	32.3	19.1	- 2.4	- 19.4	5.9	36.1	13.0	6.7	26.9	17.4

Note: The boxes indicate the debt concept used in the government's budget documents.

1 Gross debt is not disclosed in most of the governments' public accounts. However, the components of gross debt, i.e. consolidated direct debt, the net retirement plans liability and the net employee future benefits liability, are disclosed.

2 Basically, gross debt is the total debt broadened to include the debt of organizations that make loans to entities in the health and social services and education networks, i.e. Financement-Québec and the Corporation d'hébergement du Québec, and to take into account the reclassification of the debt of the Société québécoise d'assainissement des eaux (SQAE) and the net employee future benefits liability.

3 Financial assets, net of other liabilities

4 A negative entry indicates that the government has net assets or an accumulated surplus.

5 After taking the budgetary reserve into account.

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

1.7 Retirements plans

The Québec government participates financially in the retirement plans of its employees. As at December 31, 2006, these plans had 521 863 participants and 243 807 beneficiaries.

TABLE D.8

Retirement plans of public and parapublic sector employees as at December 31, 2006

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	485 000	146 953
Pension Plan of Management Personnel (PPMP)	26 150	17 595
Other plans:		
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT) ¹	825	49 037
– Civil Service Superannuation Plan (CSSP) ¹	950	23 974
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 200	4 269
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 100	1 268
– Pension Plan of the Judges of the Court of Québec (PPJCQ)	270	314
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	245	100
– Pension Plan of the Members of the National Assembly (PPMNA)	123	297
Total for other plans	10 713	79 259
TOTAL	521 863	243 807

¹ These plans have not accepted any new participants since July 1, 1973.

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

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

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans. In 2007-2008, the government will have paid \$3 904 million to cover its share of the benefits paid to its retired employees.

❑ Retirement plans liability

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

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

As at March 31, 2008, the government's retirement plans liability should be \$62 171 million, an amount that is recognized in full in the government's gross debt.

TABLE D.9

Retirement plans liability (millions of dollars)

	March 31, 2008 ^P
Government and Public Employees Retirement Plan (RREGOP)	30 641
Pension Plan of Management Personnel (PPMP)	5 924
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	15 798
– Civil Service Superannuation Plan (CSSP)	5 180
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 200
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	828
– Pension Plan of the Judges of the Court of Québec (PPJCQ)	434
– Pension Plan of the Members of the National Assembly (PPMNA)	166
Total for other plans	25 606
RETIREMENT PLANS LIABILITY	62 171

P: Preliminary results.

□ Annual retirement plans expenditure

Every year, the government records its expenditure as an employer with regard to the retirement plans.

In 2007-2008, this expenditure should total \$1 917 million. It comprises two components:

- the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, i.e. \$1 446 million;
- the amortization of revisions to the government's actuarial obligations that arise from the updating of actuarial valuations, for a cost of \$471 million.

TABLE D.10

Retirement plans expenditure (millions of dollars)

	2007-2008 ^P
Net cost of vested benefits	1 446
Amortization of revisions arising from actuarial valuations	471
RETIREMENT PLANS EXPENDITURE	1 917

P: Preliminary results.

1.8 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) was created in 1993. It is an asset that was established to pay the retirement benefits of public and parapublic sector employees.

As at March 31, 2008, the value of the RPSF should be \$31 762 million, \$4 885 million more than the previous fiscal year. This increase is due to deposits of \$3 000 million made by the government in 2007-2008 and investment income estimated at \$1 885 million.

TABLE D.11

Change in the Retirement Plans Sinking Fund (RPSF)

(millions of dollars)

	Balance, beginning of year	Deposits	Investment income	Balance, end of year
1993-1994	—	850	4	854
1994-1995	854	—	– 5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095 ¹	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437 ¹	3 000	1 440	26 877
2007-2008 ^P	26 877	3 000	1 885	31 762

P: Preliminary results.

1 The reforms of government accounting in 1997-1998 and 2006-2007 changed the treatment of variances between the book value of the RPSF and its market value. These reforms led to a \$81-million increase in the book value of the RPSF in 1997-1998 and a \$126-million decrease in this value in 2006-2007.

❑ Amounts deposited in the RPSF have no impact on gross debt

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

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

TABLE D.12

Illustration of the impact on the government's gross debt of borrowing \$1 billion on financial markets and depositing it in the RPSF¹ (millions of dollars)

	Before deposit	After deposit	Change
(A) Consolidated direct debt	113 945	114 945	1 000
Retirement plans liability	62 171	62 171	—
Less: RPSF	– 30 762	– 31 762	– 1 000
(B) Net retirement plans liability	31 409	30 409	– 1 000
(C) Net employee future benefits liability	744	744	—
(D) Less: Generations Fund	– 1 187	– 1 187	—
(E) GROSS DEBT (E=A+B+C+D)	144 911	144 911	—

1 Illustration based on preliminary results as at March 31, 2008.

❑ A decline in debt service

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

□ A flexible deposit policy

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

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

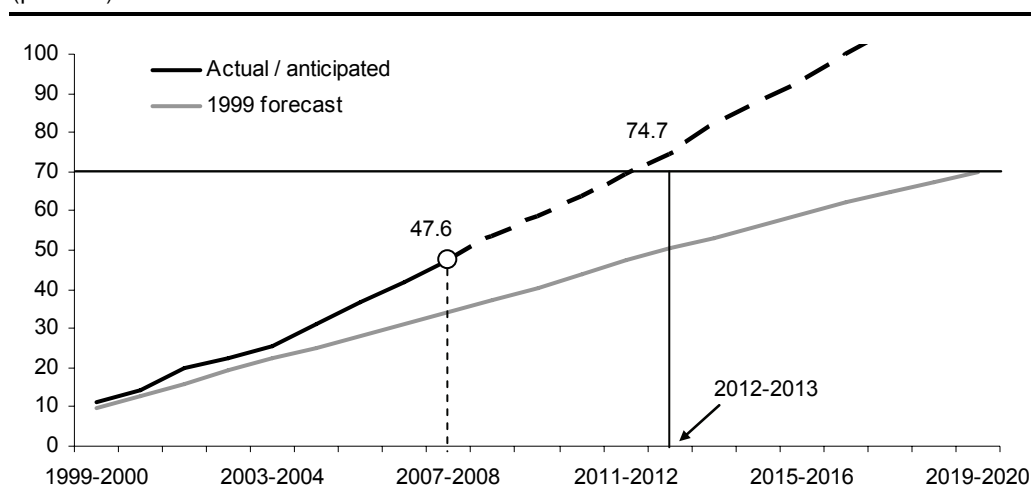
□ Results of deposits made to date

With a value of \$31 762 million as at March 31, 2008, the assets of the RPSF are now equal to nearly 50% of the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees.

Given the deposits and rates of return anticipated in the coming years, the target of 70% should be reached seven years earlier than expected, i.e. in 2012-2013, which shows that the government is way ahead of the objective set in December 1999.

CHART D.4

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



❑ Investment policy

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

The investment policy provides for investments in a diversified portfolio that includes notably fixed income securities (e.g. bonds), shares and investments in other investment categories (e.g. capital assets, private investments and infrastructure). The following table shows the investment policy in effect as at January 1, 2008.

TABLE D.13

RPSF investment policy as at January 1, 2008 (percent)

	Reference portfolio
Fixed-income securities	30.0
Stock market securities	35.5
Other investments	34.5
TOTAL	100.0

This investment policy should make it possible to observe a return of about 7.0% on average. It was established taking several factors into account, including yield and risk forecasts for the various categories of assets, prepared by the Caisse de dépôt et placement du Québec, as well as opportunities for investing in these assets.

1.9 Employee future benefits

In addition to the retirement plans, the government records under its debt the value of its commitments regarding two future benefits programs for its employees, namely, unused sick leave, which is payable notably when an employee retires, and pensions paid to the surviving spouse of a government employee. These programs give rise to long-term obligations whose costs are covered in full by the government.

Since the accounting reform of December 2007, employee future benefits undergo actuarial valuations and are included in the government's debt like the retirement plans liability. Previously, employee future benefits were recorded under accounts payable, while the Survivor's Pension Plan Fund was recorded under long-term investments.

In keeping once again with the accounting reform of December 2007, the government has made a commitment to create an accumulated sick leave fund once the National Assembly has adopted the necessary legislative provisions. This new fund will also be subtracted from the employee future benefits liability.

The balance of employee future benefits is expected to be \$744 million as at March 31, 2008.

TABLE D.14

Net employee future benefits liability

(millions of dollars)

	March 31, 2008 ^P
Accumulated sick leave	780
Survivor's pension plan	397
Survivor's Pension Plan Fund	– 433
NET EMPLOYEE FUTURE BENEFITS LIABILITY	744

P: Preliminary results.

1.10 Generations Fund

The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated exclusively to repaying the debt.

As at March 31, 2008, the balance of the Generations Fund should amount to \$1 187 million.

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

□ Investment policy

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

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

The following table shows the investment policy in effect as at January 1, 2008.

TABLE D.15

Investment policy of the Generations Fund as at January 1, 2008 (percent)

	Reference portfolio
Fixed-income securities	37.0
Stock market securities	35.0
Other investments	28.0
TOTAL	100.0

This investment policy should make it possible to observe a return of about 6.8% on average. It was established taking several factors into account, including yield and risk forecasts for the various categories of assets, prepared by the Caisse de dépôt et placement du Québec, as well as opportunities for investing in these assets.

The investment policy of the Generations Fund differs slightly from that of the RPSF so as to reduce the volatility of returns during the first few years.

1.11 The Québec government's credit rating

A borrower's credit rating is a measure of its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze several economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, public finance situation and indebtedness.

Credit rating agencies use rating scales to express the quality of a borrower's credit. For example, an "AA" credit rating means that the borrower has a very strong capacity to pay the interest and repay the principal on its debt.

TABLE D.16

Rating scales

Definition	Moody's	Fitch Ratings, Standard & Poor's and Japan Credit Rating Agency	DBRS
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1	AA+	AA (high)
	Aa2	AA	AA
	Aa3	AA-	AA (low)
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1	A+	A (high)
	A2	A	A
	A3	A-	A (low)
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1	BBB+	BBB (high)
	Baa2	BBB	BBB
	Baa3	BBB-	BBB (low)
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1	BB+	BB (high)
	Ba2	BB	BB
	Ba3	BB-	BB (low)
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1	B+	B (high)
	B2	B	B
	B3	B-	B (low)

Agencies add an “outlook” to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative.

❑ The Québec government’s credit rating

The Québec government is rated by five credit rating agencies.

TABLE D.17

The Québec government’s current credit ratings

Agency	Rating	Outlook
Moody’s	Aa2	Stable
Standard & Poor’s (S&P)	A+	Positive
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA–	Positive
Japan Credit Rating Agency (JCR)	AA+	Stable

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

In July 2007, Standard & Poor’s raised the outlook associated with the credit rating from “stable” to “positive”. In January 2008, Fitch also raised the outlook associated with Québec’s credit rating from “stable” to “positive”.

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

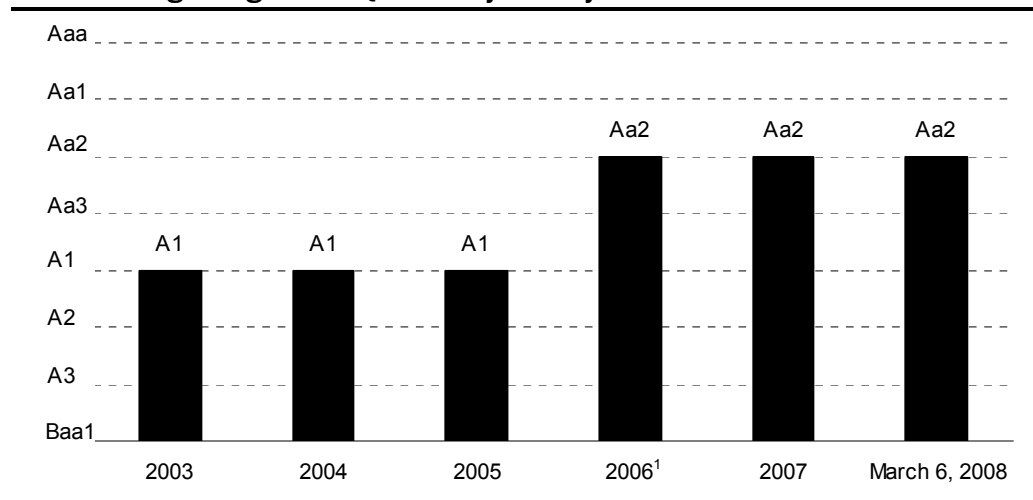
- the development of a clear debt burden reduction strategy with the creation of the Generations Fund, which will make it possible to reduce the debt/GDP ratio;
- greater budgetary flexibility stemming from the substantial federal transfers obtained in the wake of changes made by the federal government to the equalization program;
- the commitment to maintain a balanced budget;
- rigorous spending management;
- the size and diversified nature of the economy.

□ Change in Québec's credit rating

The following charts show the change in the Québec government's credit rating in the last five years.

CHART D.5

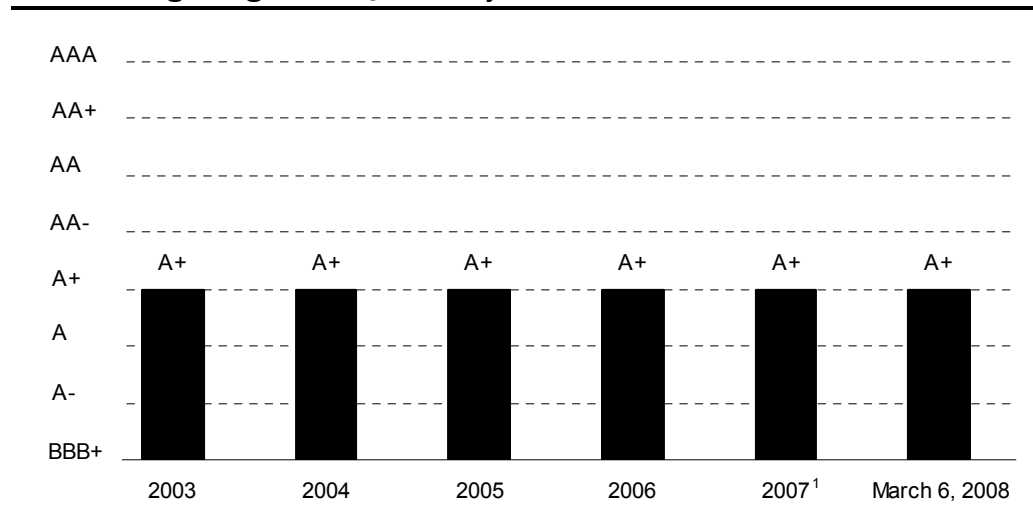
Credit rating assigned to Québec by Moody's



1 The rating was raised from A1 to Aa3 on June 14, 2006 and from Aa3 to Aa2 on November 14, 2006.

CHART D.6

Credit rating assigned to Québec by Standard & Poor's



1 A positive outlook was assigned on July 5, 2007.

CHART D.7

Credit rating assigned to Québec by DBRS

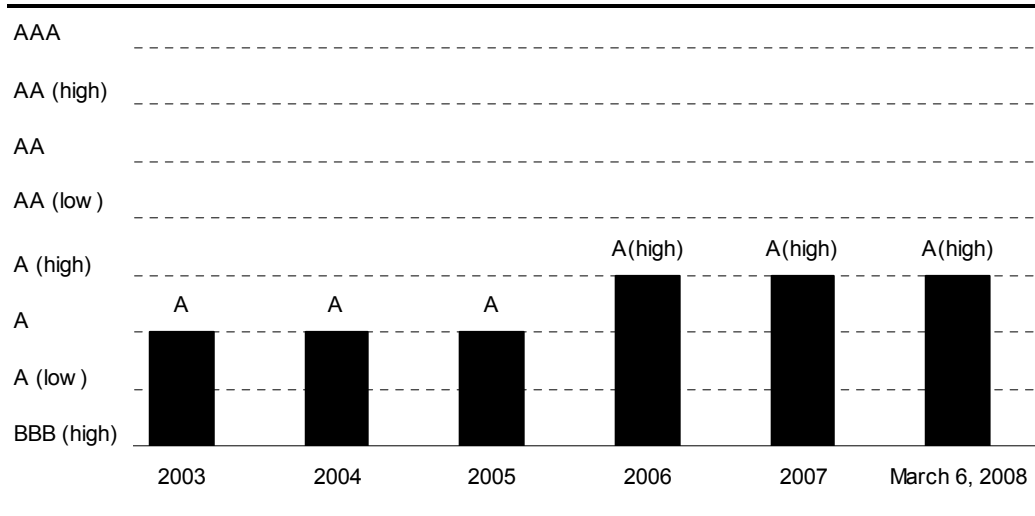
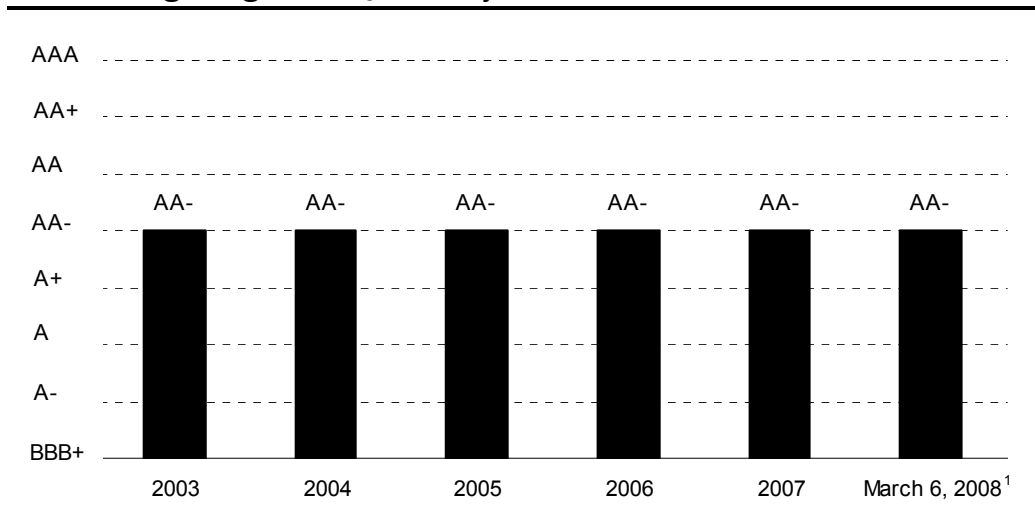


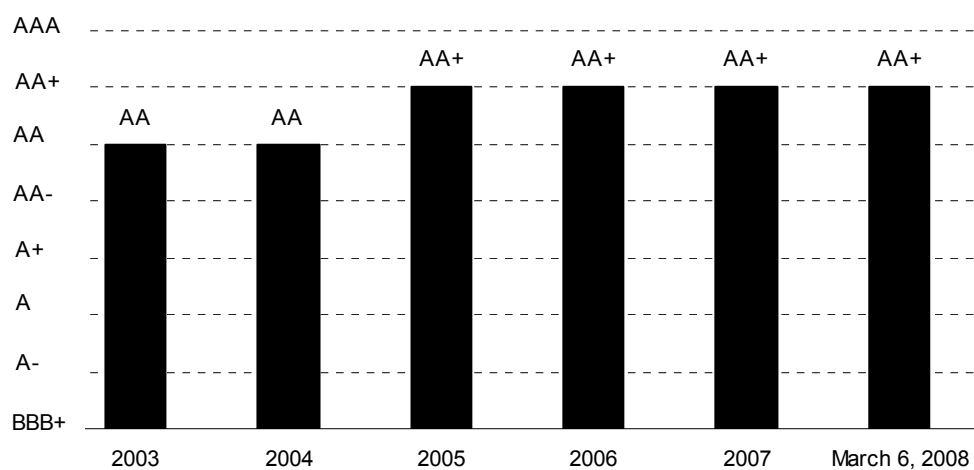
CHART D.8

Credit rating assigned to Québec by Fitch



¹ A positive outlook was assigned on January 9, 2008.

CHART D.9

Credit rating assigned to Québec by JCR

1.12 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces on March 6, 2008. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART D.10

Credit ratings of Canadian provinces — Moody's

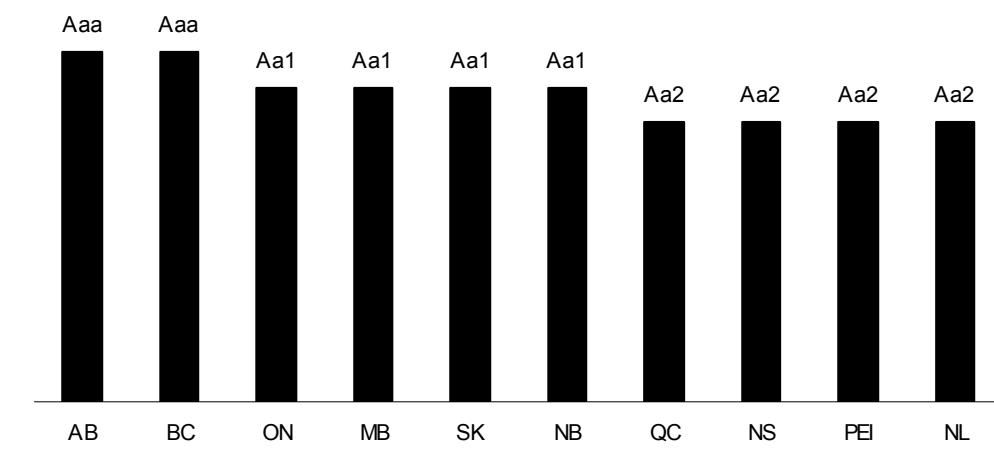
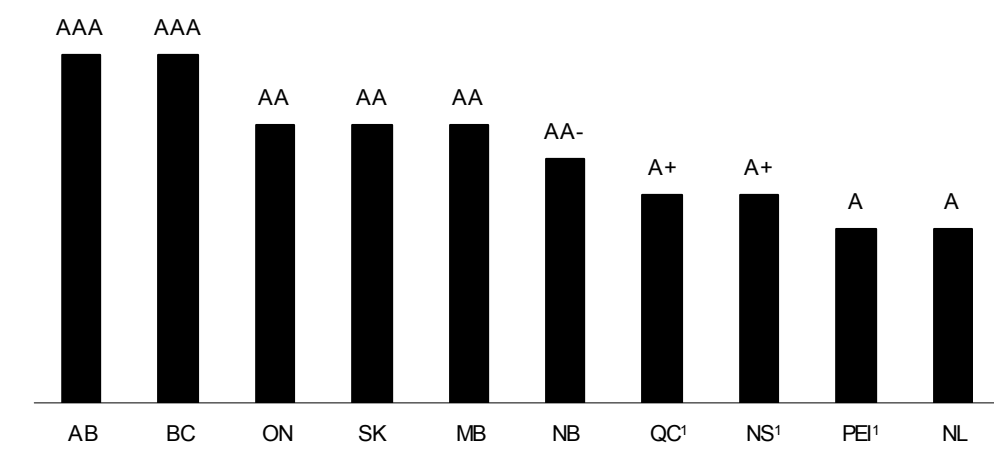


CHART D.11

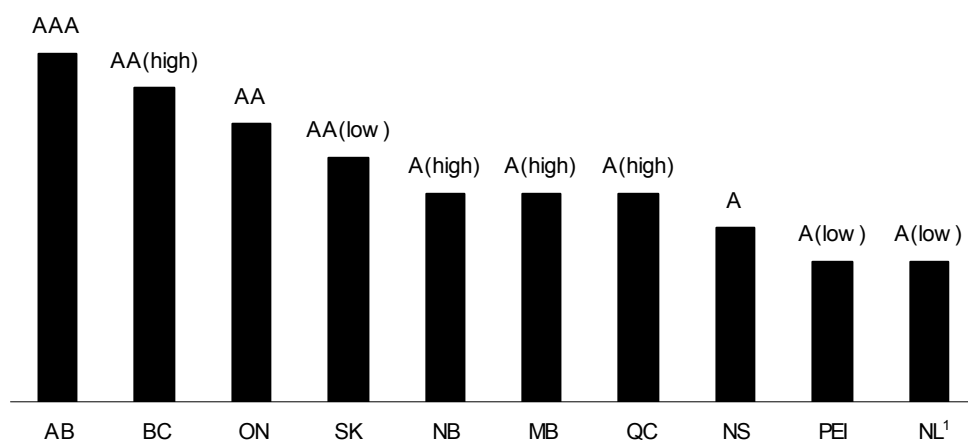
Credit ratings of Canadian provinces — Standard & Poor's



1 Positive outlook.

CHART D.12

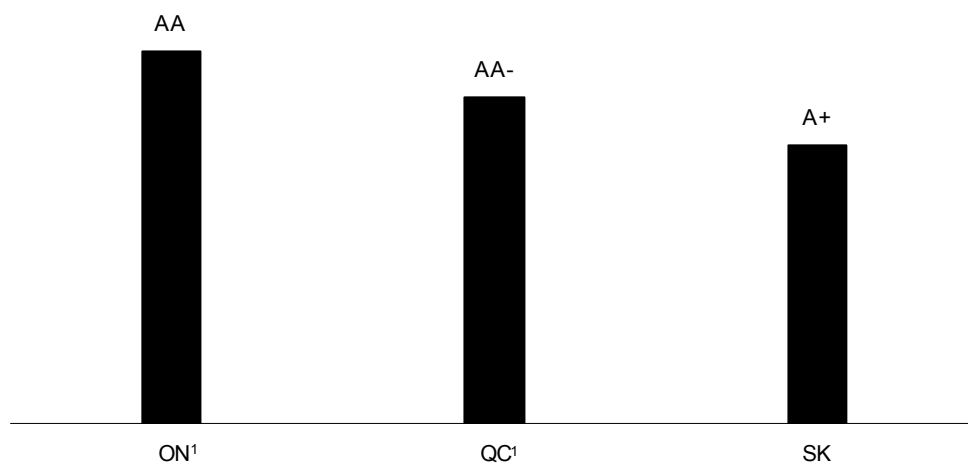
Credit ratings of Canadian provinces — DBRS



1 Positive outlook.

CHART D.13

Credit ratings of Canadian provinces — Fitch



Note: Ontario, Saskatchewan and Québec are the only provinces rated by this agency.

1 Positive outlook.

2. FINANCING

Borrowings in fiscal 2007-2008 should total \$8 770 million, i.e. \$4 841 million for the Consolidated Revenue Fund, \$1 920 million for the Financing Fund and \$2 009 million for Financement-Québec.

It should be noted that pre-financing of \$1 987 million was carried out in the last few months of the fiscal year because of favourable conditions on financial markets. It will be used to cover part of the borrowing program in 2008-2009.

2.1 Financing strategy

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

2.1.1 Diversification by market

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

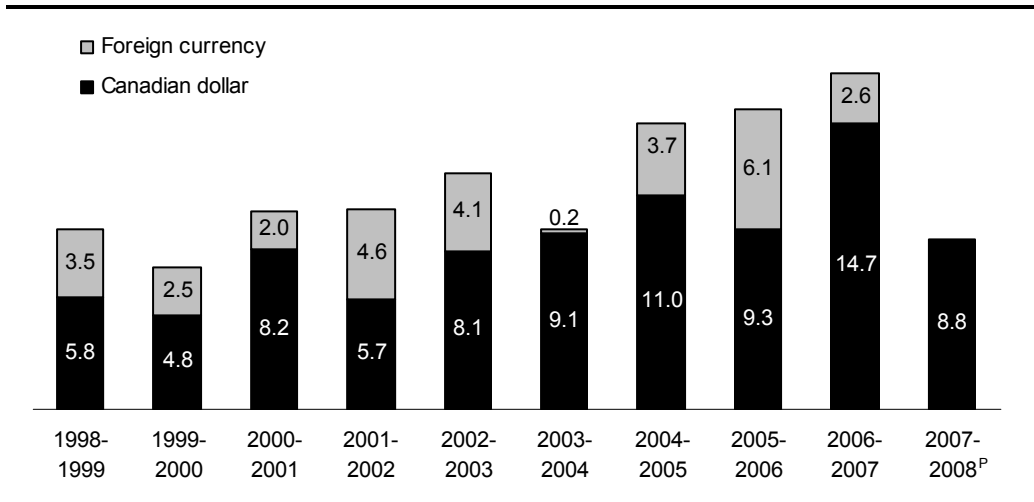
Over the past 10 years, one quarter of borrowings, on average, has been contracted in foreign currency.

However, in 2007-2008, the government did not contract any borrowings in foreign currency since conditions on foreign markets were unfavourable.

CHART D.14

History of borrowings by currency¹

(millions of dollars)



P: Preliminary results.

1 Borrowings of the Consolidated Revenue Fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

2.1.2 Diversification by instrument

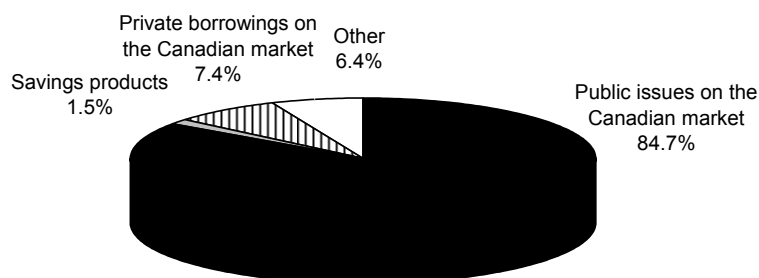
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues, private borrowings and savings products.

The long-term instruments used in 2007-2008 consisted mainly of public issues on the Canadian market (84.7%).

CHART D.15

Borrowings in 2007-2008^P by instrument



P: Preliminary results.

2.1.3 Diversification by maturity

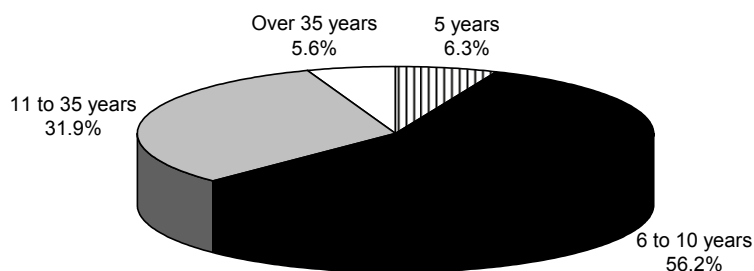
Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and thus ensure the government's regular and constant presence on capital markets.

In 2007-2008, 56.2% of borrowings contracted had a maturity of between 6 and 10 years; 31.9%, between 11 and 35 years; and 5.6%, over 35 years.

Over the past year, the government made \$489 million worth of borrowings that mature in December 2076.

CHART D.16

Borrowings in 2007-2008^P by maturity

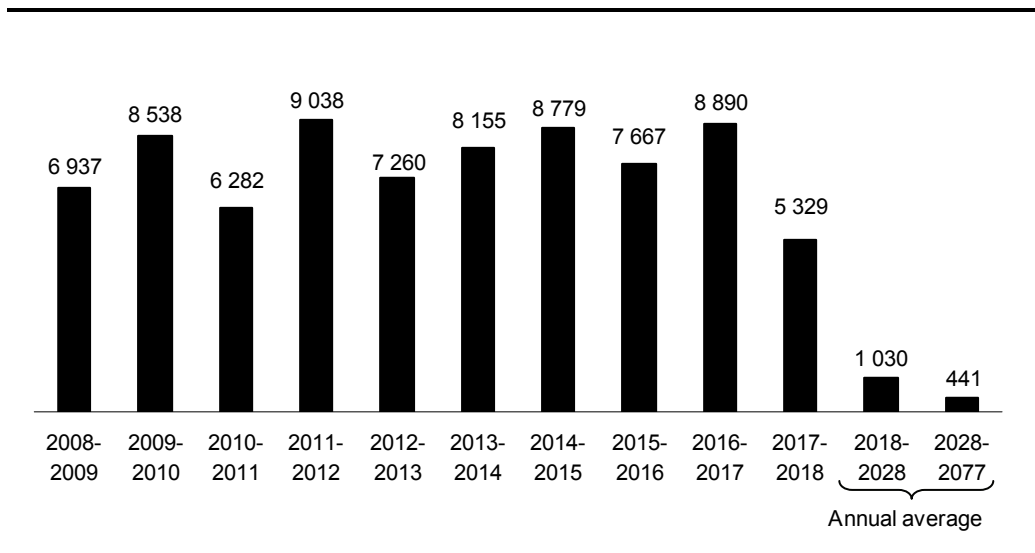


P: Preliminary results.

This diversification by maturity has an impact on the maturity of the debt shown in the following chart. As at March 31, 2008, the average maturity of the debt will be 11.2 years.

CHART D.17

Maturity of the debt as at March 31, 2008^P
(millions of dollars)



P: Preliminary results.

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

2.2 Financing program

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

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

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

In 2007-2008, the government contracted borrowings totalling \$8 770 million, including \$1 987 million in pre-financing conducted over the last few months of the year to take advantage of favourable conditions on financial markets.

The financing program is expected to amount to \$11 112 million in 2008-2009. It would have amounted to \$13 099 million had there not been any pre-financing in 2007-2008. In 2009-2010, the financing program will total \$13 896 million.

TABLE D.18

The government's financing program

(millions of dollars)

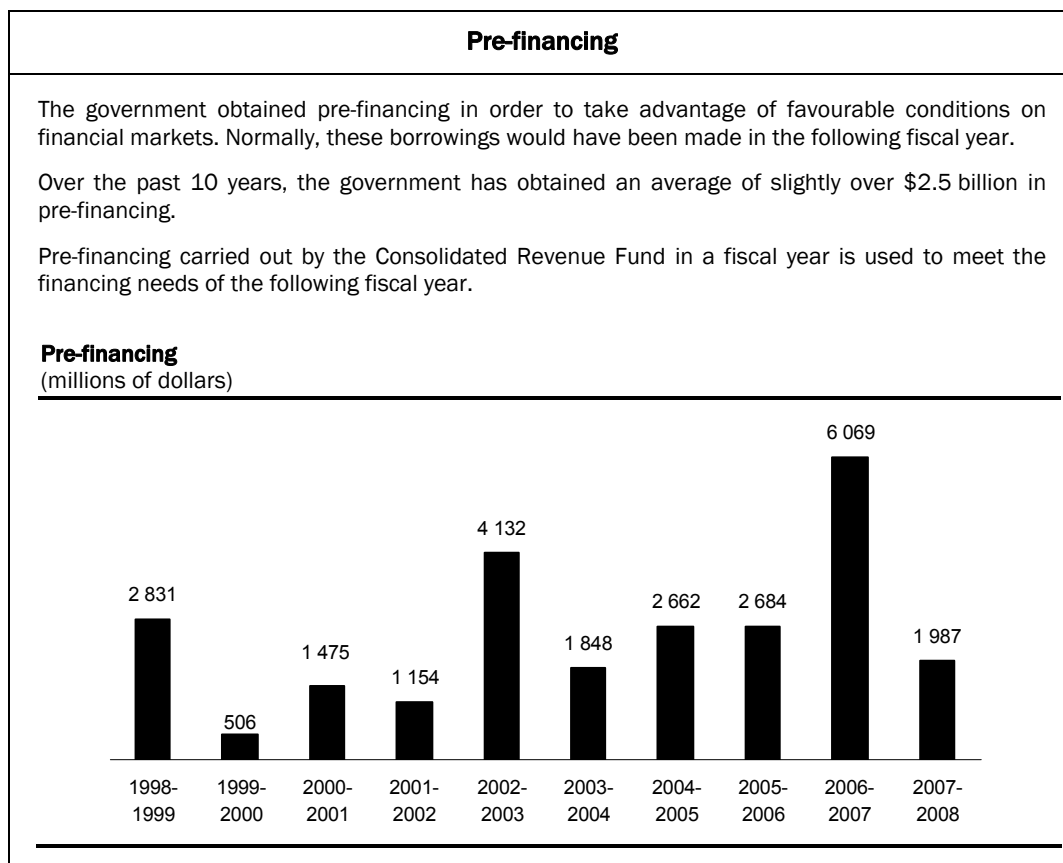
	2007-2008 ^P	2008-2009 ^P	2009-2010 ^P
CONSOLIDATED REVENUE FUND			
Net financial requirements (surplus) ¹	- 1 200	- 1 600	- 1 100
Repayment of borrowings	4 057	4 316	5 319
Change in cash position	- 6 069	- 1 987	—
Retirement Plans Sinking Fund and Employee future benefits funds	4 894	5 883	4 677
Transactions under the credit policy ²	1 172	—	—
Pre-financing	1 987	—	—
TOTAL — Consolidated Revenue Fund	4 841	6 612	8 896
FINANCING FUND	1 920	2 000	2 500
FINANCEMENT-QUÉBEC	2 009	2 500	2 500
TOTAL	8 770	11 112	13 896

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

1 Excluding consolidated organizations.

2 Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government made disbursements totalling \$1 172 million in 2007-2008 following exchange rate movements. These disbursements, which were financed by new borrowings, are similar to repayments of debt and thus have no impact on the level of the government's debt.



2.2.1 Yield

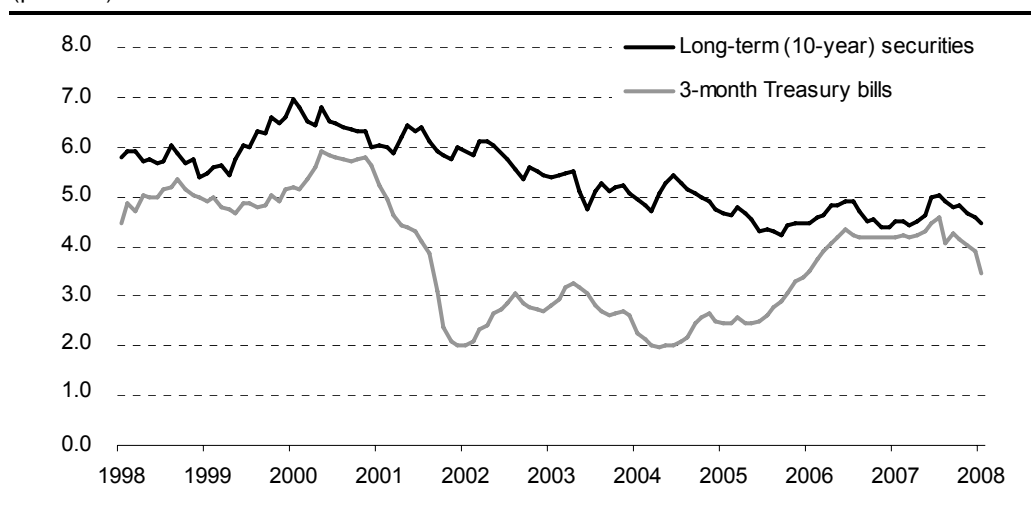
The following charts show the change in yield on 10-year bonds and 3-month Treasury bills, as well as the yield spread on long-term securities.

Over the past year, the spread between Québec long-term and short-term yields has increased slightly, reflecting the change in interest rates observed on financial markets. In addition, since the early 2000s, the yield on long-term Québec securities has dropped from 6.9% to 4.5%, making it possible to refinance borrowings at better interest rates.

CHART D.18

Yield on Québec securities

(percent)

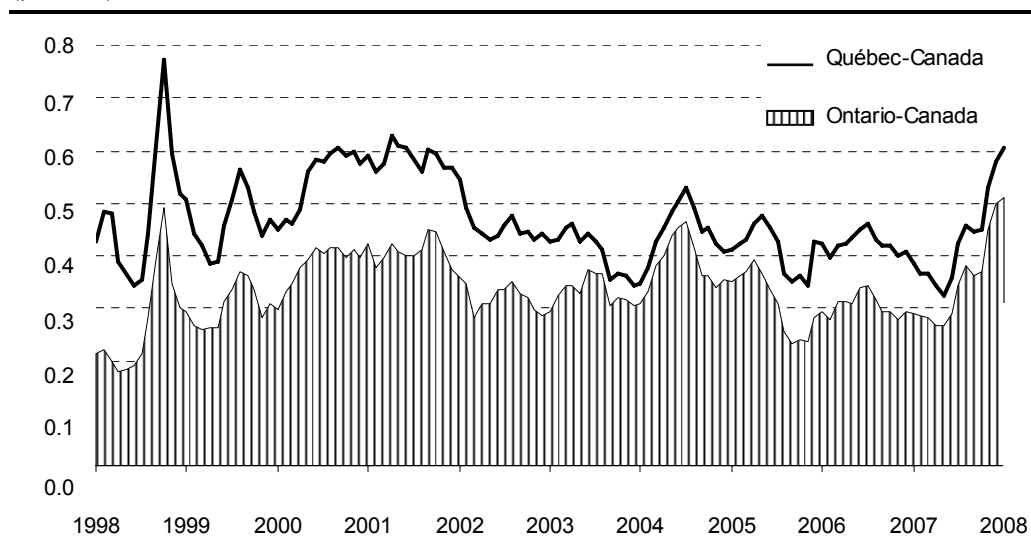


Sources: PC-Bond and ministère des Finances du Québec.

CHART D.19

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

(percent)



Source: PC-Bond.

3. DEBT MANAGEMENT

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

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

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

3.1 Structure of the debt by currency

As at March 31, 2008, the proportion of the government's gross debt in Canadian dollars should amount to 93.6% and the proportion in foreign currency, 6.4%.

TABLE D.19

Structure of the gross debt as at March 31, 2008^P

(millions of dollars)

Consolidated direct debt										
Currency	Consolidated Revenue Fund	%	Consolidated entities	Total	%	Net retirement plans liability	Net employee future benefits liability	Less: Generations Fund	Gross debt	%
Canadian dollar	74 048	88.7	33 426	107 474	91.9	30 409	744	– 1 187	137 440	93.6
US dollar	1 302	1.5	—	1 302	1.0	—	—	—	1 302	0.9
Euro	3 106	3.7	—	3 106	2.7	—	—	—	3 106	2.1
Swiss franc	3 002	3.6	—	3 002	2.6	—	—	—	3 002	2.0
Yen	2 050	2.5	—	2 050	1.8	—	—	—	2 050	1.4
Pound sterling	– 2	—	—	– 2	—	—	—	—	– 2	—
Sub-total	83 506	100.0	33 426	116 932	100.0	30 409	744	– 1 187	146 898	100.0
Pre-financing	– 1 987		—	– 1 987		—	—	—	– 1 987	
TOTAL	81 519		33 426	114 945		30 409	744	– 1 187	144 911	

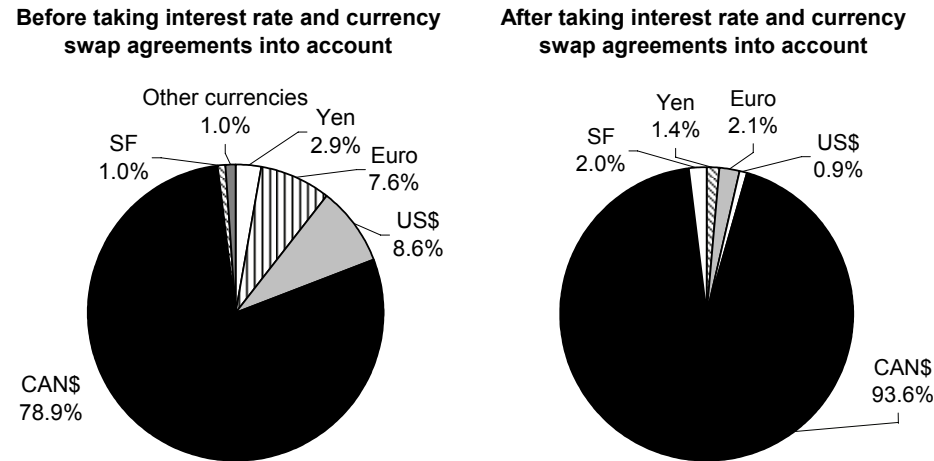
P: Preliminary results.

Note: The debt in foreign currency is expressed in the Canadian equivalent based on the exchange rates in effect on March 6, 2008.

Before interest rate and currency swap agreements are taken into account, the proportion of the debt in foreign currency as at March 31, 2008 should be 21.1%. After interest rate and currency swap agreements are taken into account, the proportion should be 6.4%.

CHART D.20

Structure of the gross debt by currency as at March 31, 2008^P



P: Preliminary results.

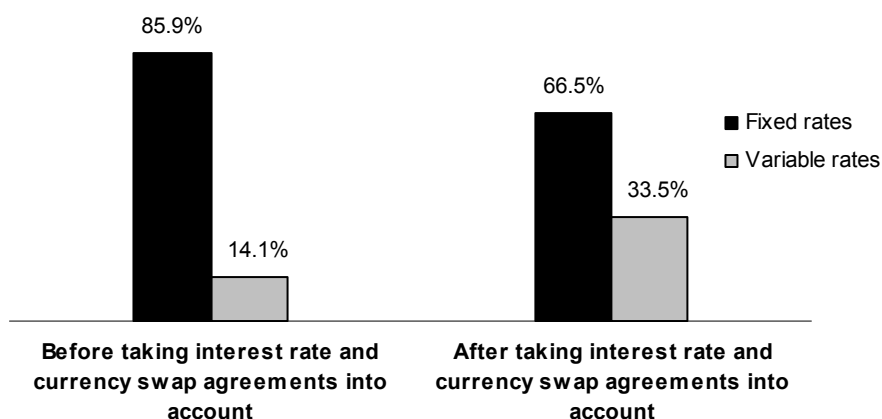
3.2 Structure of the debt by interest rate

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

Before interest rate and currency swap agreements are taken into account, the proportion of the gross debt at variable rates will be 14.1% as at March 31, 2008. After interest rate and currency swap agreements are taken into account, the proportion will be 33.5%.

CHART D.21

Structure of the gross debt by interest rate as at March 31, 2008^P



P: Preliminary results.

4. ADDITIONAL INFORMATION ON FINANCING TRANSACTIONS AND DEBT

TABLE D.20

Summary of consolidated financing transactions (millions of dollars)

	2007-2008 ^P					2008-2009 ^P	2009-2010 ^P
	May 2007 Budget	Impact of accounting reform	Revised May 2007 Budget	Preliminary results	Change		
CHANGE IN CASH POSITION							
Consolidated Revenue Fund	6 069	—	6 069	4 082	– 1 987	1 987	—
Consolidated entities	—	—	—	—	—	—	—
TOTAL – Change in cash position	6 069	—	6 069	4 082	– 1 987	1 987	—
Net borrowings							
Consolidated Revenue Fund							
New borrowings	3 417	—	3 417	3 669 ¹	252	6 612	8 896
Repayment of borrowings	– 5 110	—	– 5 110	– 4 057	1 053	– 4 316	– 5 319
	– 1 693	—	– 1 693	– 388	1 305	2 296	3 577
Consolidated entities							
New borrowings	2 513	2 352	4 865	4 896 ²	31	5 339	5 763
Repayment of borrowings	– 922	– 1 166	– 2 088	– 2 141	– 53	– 2 245	– 3 059
	1 591	1 186	2 777	2 755	– 22	3 094	2 704
TOTAL – Net borrowings	– 102	1 186	1 084	2 367	1 283	5 390	6 281
Retirement Plans Sinking Fund and Employee future benefits funds	– 4 876	– 9	– 4 885	– 4 894	– 9	– 5 883	– 4 677
Generations Fund	– 653	—	– 653	– 603	50	– 742	– 816
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	438	1 177	1 615	952	– 663	752	788

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

1 Gross borrowings of \$4 841 million, minus \$1 172 million in amounts disbursed following the issue of interest rate and currency swap agreements under the government's credit policy.

2 Includes a \$935-million increase in temporary borrowings.

TABLE D.21

Gouvernement du Québec
Summary of long-term borrowings in 2007-2008^P
(millions of dollars)

Currency	Consolidated Revenue Fund	Consolidated entities ¹	Total	%
CANADIAN DOLLAR				
Public issues	3 640	3 786	7 426	84.7
Private borrowings	510	143	653	7.4
Savings products	130	—	130	1.5
Immigrant Investor Program	556	—	556	6.3
Canada Pension Plan Investment Fund	5	—	5	0.1
Sub-total	4 841	3 929	8 770	100.0
OTHER CURRENCIES	—	—	—	—
TOTAL	4 841	3 929	8 770	100.0

P: Preliminary results.

1 Includes borrowings for the Financing Fund and borrowings of Financement-Québec.

TABLE D.22

Gouvernement du Québec
Borrowings for the Consolidated Revenue Fund in 2007-2008^P

Amount in Canadian dollars ¹	Face value in foreign currency	Interest rate ²	Date of issue	Date of maturity	Price to investor	Yield to investor ³
(millions)		%			\$	%
477	—	4.50	June 18	2017-12-01	95.393	5.073
21 ⁴	—	5.35	June 19	2025-06-01	102.487	5.136
98 ⁴	—	Various	June 29	2076-12-01	98.461	4.884
97 ⁴	—	Various	July 19	2076-12-01	96.762	4.966
264	—	4.50	July 24	2017-12-01	95.299	5.089
98 ⁴	—	Various	July 25	2076-12-01	97.761	4.909
377	—	5.00	August 27	2038-12-01	98.407	5.102
477	—	4.50	August 31	2017-12-01	97.682	4.788
368	—	5.00	September 27	2038-12-01	98.763	5.079
97 ⁴	—	Various	October 1	2076-12-01	97.077	4.914
99 ⁴	—	Various	October 9	2076-12-01	99.086	4.805
115	—	4.50	October 19	2017-12-01	96.787	4.906
502	—	5.00	November 13	2038-12-01	100.485	4.969
509	—	5.00	December 5	2038-12-01	101.713	4.892
96	—	4.50	December 18	2017-12-01	98.735	4.660
455	—	4.50	January 22	2018-12-01	100.765	4.410
130 ⁵	—	Various	Various	Various	Various	Various
5 ⁶	—	Various	Various	Various	Various	Various
556 ⁷	—	Various	Various	Various	Various	Various
4 841						

P: Preliminary results.

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

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

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

4 Private borrowings.

5 Savings products issued by Épargne Placements Québec.

6 Borrowings from the Canada Pension Plan Investment Fund.

7 Immigrant Investor Program.

TABLE D.23

Gouvernement du Québec
Borrowings for the Financing Fund in 2007-2008^P

Amount in Canadian dollars¹	Face value in foreign currency	Interest rate²	Date of issue	Date of maturity	Price to investor	Yield to investor³
(millions)		%			\$	%
BORROWINGS FOR CONSOLIDATED ENTITIES						
54 ⁴	—	5.35	May 10	2025-06-01	107.243	4.748
497	—	4.50	May 15	2017-12-01	99.368	4.576
53 ⁴	—	5.35	May 23	2025-06-01	107.538	4.724
10 ⁴	—	5.35	June 19	2025-06-01	102.487	5.136
212	—	4.50	July 24	2017-12-01	95.299	5.089
115	—	5.00	August 27	2038-12-01	98.407	5.102
11	—	4.50	August 31	2017-12-01	97.682	4.788
126	—	5.00	September 27	2038-12-01	98.763	5.079
26 ⁴	—	5.35	October 17	2025-06-01	103.468	5.050
369	—	4.50	October 19	2017-12-01	96.787	4.906
398	—	4.50	December 18	2017-12-01	98.735	4.660
49	—	4.50	January 22	2018-12-01	100.765	4.410
TOTAL	1 920					

P: Preliminary results.

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

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

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

4 Private borrowings.

TABLE D.24

Borrowings by Financement-Québec in 2007-2008^P

Amount in Canadian dollars¹	Face value in foreign currency	Interest rate²	Date of issue	Date of maturity	Price to investor	Yield to investor³
(millions)		%			\$	%
251	—	Variable ⁴	June 11	2013-09-16	100.218	Variable
553	—	Variable ⁴	September 17	2013-09-16	100.462	Variable
476	—	Variable ⁴	November 7	2013-09-16	100.341	Variable
200	—	Variable ⁴	December 3	2014-12-01	100.000	Variable
200	—	Variable ⁴	December 10	2014-12-01	100.032	Variable
200	—	Variable ⁴	January 18	2014-12-01	100.010	Variable
129	—	5.25	March 3	2034-06-01	104.253	4.958
2 009						

P: Preliminary results.

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

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

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

4 Interest payable quarterly.

TABLE D.25

Borrowings by Hydro-Québec in 2007¹

Amount in Canadian dollars²	Face value in foreign currency	Interest rate³	Date of issue	Date of maturity	Price to investor	Yield to investor⁴
(millions)		%			\$	%
526	—	5.00	January 19	2045-02-15	105.236	4.703
498	—	5.00	August 8	2045-02-15	99.512	5.029
501	—	5.00	October 5	2045-02-15	100.129	4.992
514	—	5.00	December 10	2045-02-15	102.881	4.832
2 039						

1 Borrowings contracted from January 1 to December 31, 2007.

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.

Section E

Supporting the Family and the Wellbeing of Quebecers

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1. SUPPORTING FAMILIES

To better prepare itself for the demographic challenge and to support families, Québec has adopted an innovative family policy:

- introduction of child assistance in 2005, a family allowance that pays \$2 billion per year to more than 850 000 Québec families;
- achievement of the objective of 200 000 spaces in reduced-contribution daycare services at \$7 per day for children under age 5;
- introduction of an accessible, flexible and generous parental insurance program in 2006 to enable parents to take care of their newborn child during its first year of life.

In all, financial support for families will exceed \$5 billion in 2008, an increase of 42% compared to 2003.

While much has been done in this regard, the 2008-2009 Budget announces new measures to further enhance support for families.

1.1 Investments of more than \$900 million over five years for families

The government considers it essential to support families and invest in the well-being of children. In that regard, the 2008-2009 Budget stipulates five measures:¹

- 20 000 new spaces in the public daycare network;
- a \$400-million fund over 10 years to foster the development of children under age 5 living in poverty, in partnership with the Fondation Lucie et André Chagnon;
- an improvement to the refundable tax credit for child care expenses;
- an improvement to the refundable tax credit for infertility treatment;
- an improvement to the refundable tax credit for adoption expenses.

1 These measures are explained in greater detail in the Additional Information on the Budgetary Measures.

Overall, the measures of the 2008-2009 Budget represent additional financial support of more than \$900 million over five years for families.

TABLE E.1

Investments to improve support for families
(millions of dollars)

	Full year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Cumulative over 5 years
20 000 new spaces in the public daycare network ¹	233.5	11.0	61.5	118.0	181.5	233.5	605.5
\$400-million fund over 10 years to foster the development of children living in poverty ²	—	40.0	40.0	40.0	40.0	40.0	200.0
Improvement to the refundable tax credit for child care expenses	20.0	5.0	20.0	20.0	20.0	20.0	85.0
Improvement to the refundable tax credit for infertility treatment	2.0	2.0	2.0	2.0	2.0	2.0	10.0
Improvement to the refundable tax credit for adoption expenses	1.0	1.0	1.0	1.0	1.0	1.0	5.0
TOTAL	256.5	59.0	124.5	181.0	244.5	296.5	905.5

1 Financial impact excluding the 2 000 spaces announced in 2007.

2 Includes an annual contribution of \$25 million, i.e. \$250 million over 10 years, from the Fondation Lucie et André Chagnon.

1.1.1 20 000 new spaces in the public daycare network

The early childhood educational daycare services program set up in 1997 has provided low-cost daycare spaces for parents of children under age 5.

Daycare services are an efficient way to foster the reconciliation of parental and professional responsibilities. They provide substantial support for families and for businesses that have access to a larger and more available labour pool.

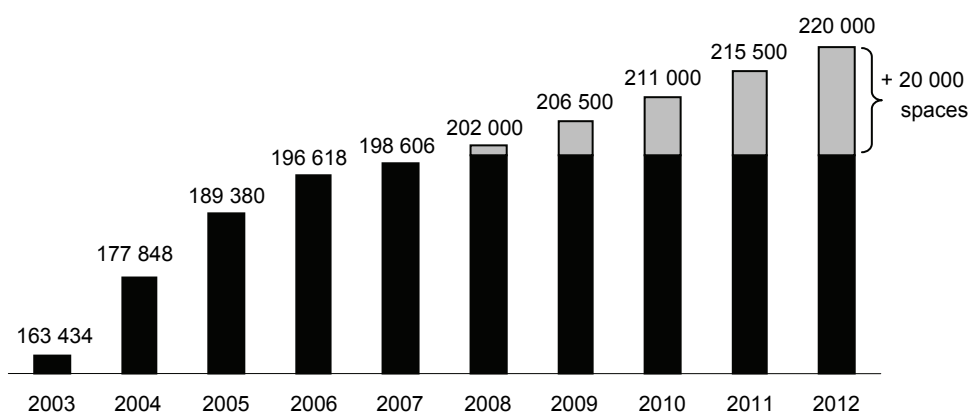
The 2008-2009 Budget provides for the creation of 18 000 reduced-contribution daycare spaces, as follows:

- 4 500 spaces in 2008-2009;
- 4 500 spaces in 2009-2010;
- 4 500 spaces in 2010-2011;
- 4 500 spaces in 2011-2012.

Added to the 2 000 spaces announced in July 2007, that represents an addition of 20 000 spaces. Accordingly, in 2012, the number of reduced-contribution spaces will reach 220 000.

CHART E.1

Number of reduced-contribution daycare spaces for children under age 5
(as at March 31 of the year)



1.1.2 **\$400-million fund over ten years for the development of children under age 5 living in poverty**

A study by the Montréal Public Health Department, entitled *En route pour l'école !*, concludes that action must be taken at a very young age to maximize the chances of success for children in disadvantaged circumstances. Such initiatives are designed to help them remain in school later in life.

In this context, the 2008-2009 Budget stipulates the creation of a new \$400-million fund over ten years for projects that foster the development of children age 5 and under living in poverty.

The new fund will receive \$15 million per year from the government and \$25 million per year from the Fondation Lucie et André Chagnon, for a total of \$400 million over the next ten years. The government's contribution to the fund will be paid out of tobacco tax revenues.

The Fund will finance initiatives that foster the development of children, at the physical level as well as the psychological, cognitive, language, motor, socio-affective, social and other levels to prepare them for school.

The Fund will seek to finance actions and projects carried out under partnerships with local communities to, in particular:

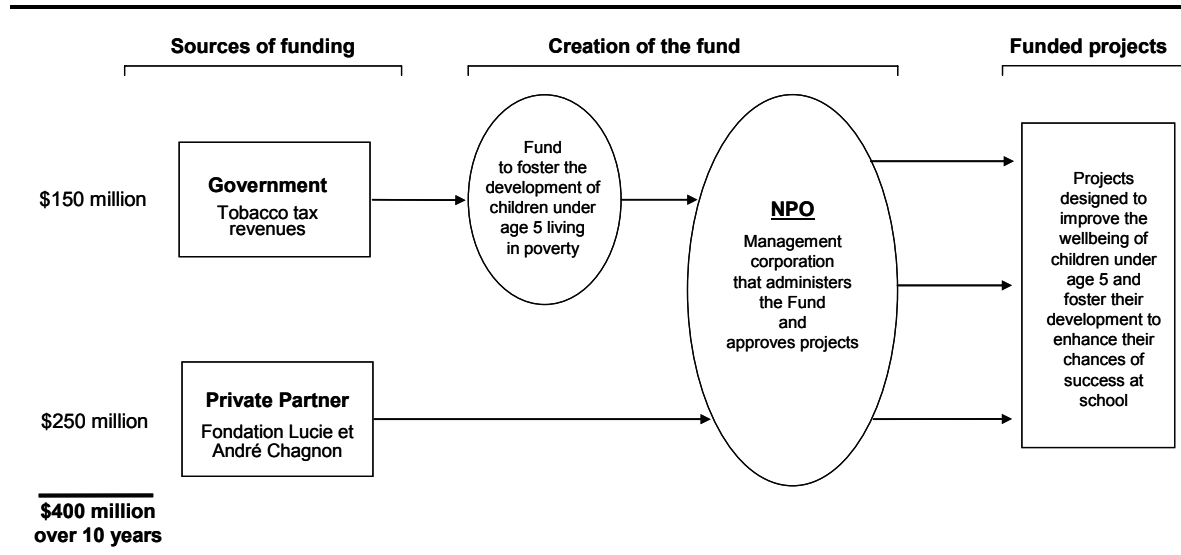
- increase early and sustained intervention with children to positively influence their life course from infancy;
- improve support for parents in various forms and equip them to foster the development of their children.

The governance and operation of this new fund to foster the development of young children will be modelled on the fund for the promotion of a healthy lifestyle that the government set up in partnership with the Chagnon family.

The Québec government and the Fondation Lucie et André Chagnon have signed an agreement in principle to create the fund. The fund's objectives as well as the terms and conditions for project approval will be defined more clearly in a memorandum of understanding. In this regard, the Minister of Education, Recreation and Sports and Minister of Families will table a bill during the spring 2008 parliamentary session.

CHART E.2

Fund to foster the development of children under age 5 living in poverty
(preferred organizational structure)



1.1.3 Improvement to the refundable tax credit for child care expenses

Québec families have three options for their children's daycare, namely:

- reduced-contribution daycare services;
- regular rate daycare services;
- home care.

In 2008, it is forecast that of the 392 000 children under age 5, roughly:

- 226 000 will attend reduced-contribution daycare services (\$7 per day);
- 93 000 will attend, for instance, regular rate daycare (generally \$25 per day) and the parents will receive the refundable tax credit for child care expenses;
- 73 000 will be kept at home, generally by one of the spouses, and the parents will not receive the refundable tax credit for child care expenses.

TABLE E.2

Child care assistance granted by Québec for children under age 5 – 2008

	Reduced-contribution daycare services (\$7/day)	Private regular rate daycare services	Other	Total
Number of children	226 000	93 000	73 000	392 000
Government assistance (\$ million)				
– Child care subsidies ¹	1 721	d.n.a.	d.n.a.	1 721
– Tax credit for child-care expenses	12	64	2	78
Total: Government assistance	1 733	64	2	1 799
<i>Dollars per child</i>	7 668	688	27	4 589

1 The amount for 2008 is estimated from the budgetary appropriations for 2007-2008.

Currently, the tax assistance for parents whose children are placed in private regular rate daycare services is more generous for families with income below \$50 000. Above that level of income, daycare services at \$7 per day are more advantageous.

- For instance, taking both Québec and federal taxation into account, a couple with a child under age 5 and with an income of \$50 000 will pay:
 - \$2.68 per day in an early childhood education centre;
 - \$3.02 per day in a private daycare centre charging \$25 per day.
- By way of comparison, the same family with an income of \$80 000 will pay \$2.73 per day for reduced-contribution daycare compared with \$9.28 for a space in a private regular rate daycare service.

The 2008-2009 Budget includes an improvement to the refundable tax credit for child care expenses up to a family income of \$100 550 so that parents' choice between reduced-contribution daycare services and private daycare services is more neutral.

- The rate of the tax credit for child care expenses will rise to 60% of eligible child care expenses for incomes ranging from \$46 755 to \$82 100. It will then decline to reach the minimum rate of 26% at \$100 550 rather than \$85 535.

Accordingly, up to a family income of \$80 000, there will be hardly any difference between the daily net cost of the two types of daycare services. This improvement will apply as of 2009. It will benefit 150 000 families and provide them with tax relief of \$20 million per year.

TABLE E.3

Net child care costs for a child under age 5 – 2008**Couple with one child and two work incomes¹**

(dollars per day)

Household's work income	Reduced-contribution daycare services (\$7/day)	Before 2008-2009 Budget		After 2008-2009 Budget	
		Private regular rate daycare services ²	Difference	Private regular rate daycare services	Difference
10 000	– 2.43	– 2.66	0.23	– 2.66	0.23
20 000	– 1.12	– 3.78	2.66	– 3.78	2.66
25 000	0.08	– 2.56	2.64	– 2.56	2.64
40 000	2.33	– 2.15	4.48	– 2.15	4.48
45 000	2.57	0.81	1.76	0.81	1.76
50 000	2.68	3.02	– 0.34	3.02	– 0.34
60 000	2.68	5.07	– 2.39	3.07	– 0.39
70 000	2.68	7.32	– 4.64	3.07	– 0.39
80 000	2.73	9.28	– 6.55	2.78	– 0.05
90 000	2.73	10.56	– 7.83	4.06	– 1.33
100 000	2.73	10.56	– 7.83	8.56	– 5.83

Note: The cost reflects federal measures, including the federal Universal Child Care Benefit.

¹ Each spouse earns 50% of the work income.² Child-care expenses of \$25 per day per child for 260 days (\$25 X 260 = \$6 500).

Improvement to the rates of the table of the refundable tax credit for child care expenses**Table of rates of the refundable tax credit for child care expenses – 2008**

Family Income (\$)		Tax credit rate (%)		Family Income (\$)		Tax credit rate (%)	
Greater than	Without exceeding	Before 2008-2009 Budget	After 2008-2009 Budget	Greater than	Without exceeding	Before 2008-2009 Budget	After 2008-2009 Budget
0	30 795	75	75	66 145	67 280	43	60
30 795	31 930	74	74	67 280	68 425	42	60
31 930	33 075	73	73	68 425	69 555	41	60
33 075	34 210	72	72	69 555	70 705	40	60
34 210	35 350	71	71	70 705	71 845	39	60
35 350	36 485	70	70	71 845	72 975	38	60
36 485	37 635	69	69	72 975	74 120	37	60
37 635	38 775	68	68	74 120	75 255	36	60
38 775	39 910	67	67	75 255	76 405	35	60
39 910	41 045	66	66	76 405	77 535	34	60
41 045	42 195	65	65	77 535	78 680	33	60
42 195	43 330	64	64	78 680	79 820	32	60
43 330	44 475	63	63	79 820	80 965	31	60
44 475	45 610	62	62	80 965	82 100	30	60
45 610	46 755	61	61	82 100	83 245	29	58
46 755	47 895	60	60	83 245	84 380	28	56
47 895	49 025	59	60	84 380	85 535	27	54
49 025	50 165	58	60	85 535	86 690	26	52
50 165	51 320	57	60	86 690	87 845	26	50
51 320	52 455	56	60	87 845	89 000	26	48
52 455	53 600	55	60	89 000	90 155	26	46
53 600	54 740	54	60	90 155	91 310	26	44
54 740	55 875	53	60	91 310	92 465	26	42
55 875	57 020	52	60	92 465	93 620	26	40
57 020	58 160	51	60	93 620	94 775	26	38
58 160	59 305	50	60	94 775	95 930	26	36
59 305	60 440	49	60	95 930	97 085	26	34
60 440	61 580	48	60	97 085	98 240	26	32
61 580	62 720	47	60	98 240	99 395	26	30
62 720	63 860	46	60	99 395	100 550	26	28
63 860	65 000	45	60	100 550	and over	26	26
65 000	66 145	44	60				

Cost of a Daycare Space by Type of Care

Families with a total income of \$50 000 and using reduced-contribution daycare services pay less for the care of their children. For instance, for a couple, the cost of one space is:

- \$49.27 per day in an early childhood education centre (CPE), for a net cost of \$2.68 – the family benefits indirectly from an operating grant of \$42.27 per day paid to the CPE, allowing the CPE to charge parents only \$7 a day;
- \$25.00 per day in a regular rate daycare centre for a net cost of \$3.02 – the family pays the full price but benefits from the Québec tax credit for child care expenses, the federal child care expense deduction and the federal Universal Child Care Benefit.

The difference between the two is \$0.34 per day, after including the impact of the tax credits and government benefits.

Couple with one child and two work incomes totalling \$50 000¹ – 2008

(dollars per day)

	Daycare services (\$7/day)	Private regular rate daycare services	Difference
FUNDING OF CHILD CARE SERVICES			
– Direct contribution of parents	7.00	25.00	– 18.00
– Operating subsidy from Québec	42.27	—	42.27
Total daily cost per daycare space	49.27	25.00	24.27
NET COST FOR THE PARENT			
– Gross rate	7.00	25.00	– 18.00
Québec assistance			
– Refundable tax credit for child care expenses	d.n.a.	– 15.00	15.00
Federal assistance			
– Canada Child Tax Benefit	– 0.14	– 0.50	0.36
– Universal Child Care Benefit	– 3.30	– 3.30	—
– Child care expense deductions	– 0.88	– 3.13	2.25
– GST credit	—	– 0.05	0.05
Subtotal	– 4.32	– 6.98	2.66
NET RATE	2.68	3.02	– 0.34

1. Each spouse earns 50% of the work income.

Refundable Tax Credit for Child Care Expenses

The refundable tax credit for child care expenses is designed to offset part of the child care expenses incurred by families in order to work or study.

The maximum amount of eligible child care expenses comes to:

- \$10 000 for a child with a severe and prolonged mental or physical impairment, regardless of age;
- \$7 000 for a child under age 7;
- \$4 000 for another eligible child age 16 or under.

The rate of the tax credit ranges from 75% to 26% of eligible child care expenses depending on family income.

In 2007, 355 000 families received \$173 million thanks to this measure.

1.1.4 Improvement to the refundable tax credit for infertility treatment

Last December, the Minister of Health and Social Services introduced a bill in the National Assembly to regulate clinical research activities regarding assisted reproduction. In particular, the bill introduces a policy of single-embryo implanting whose objective is to reduce the number of multiple pregnancies and thus reduce the health risks of the mother and her unborn babies.

Infertility treatment expenses can at times be very expensive for families. Accordingly, to better reflect the additional costs that may arise from the treatment, the 2008-2009 Budget stipulates that, as of taxation year 2008, the rate of the refundable tax credit for infertility treatment, including *in vitro* fertilization and expenses relating to artificial insemination, will rise from 30% to 50%.

With the improvement stipulated as part of the 2008-2009 Budget, the tax credit will be equal to 50% of the eligible expenses paid by the individual or his spouse in the year. Eligible expenses are capped at \$20 000, resulting in a maximum tax credit of \$10 000 per year.

Including tax measures available under both the Québec and federal tax systems, over 60% of eligible expenses will be refunded. In 2008, the improvement represents a gain of \$2 million per year and will benefit some 2 500 families.

TABLE E.4

Tax assistance for infertility treatment after the 2008-2009 Budget
Couple with two incomes¹ and infertility treatment expenses of \$5 000 – 2008
(dollars)

Work income	Refundable tax credit for infertility treatment – Québec	Tax credits for medical expenses ² – federal		Total	
		Refundable	Non-refundable	Total assistance	As a % of the expense
20 000	2 500	1 041	—	3 541	71
40 000	2 500	194	626	3 320	66
60 000	2 500	—	626	3 126	63
80 000	2 500	—	613	3 113	62
100 000	2 500	—	575	3 075	62

1 Each spouse earns 50% of the work income.

2 Includes the related maximum expenses of \$1 095 for prescription drug insurance.

1.1.5 Improvement to the refundable tax credit for adoption expenses

To offset the substantial costs associated with adopting a child, the 2008-2009 Budget stipulates that, as of taxation year 2008, the rate of the refundable tax credit for adoption expenses will rise from 30% to 50%. Accordingly, the parameters of the refundable tax credit for adoption expenses remain harmonized with those of the refundable tax credit for infertility treatment.

With the improvement introduced in the 2008-2009 Budget, the tax credit for adoption will be equal to 50% of the eligible expenses paid by the individual or his spouse.

— The eligible expenses are capped at \$20 000, resulting in a maximum tax credit of \$10 000 per year.

Including tax measures available under both the Québec and federal tax systems, up to 63% of eligible expenses may be refunded.

The increase in the tax credit represents a gain of \$1 million. This improvement will do more to offset the expenses relating to the procedures required to adopt a child.

TABLE E.5

Tax assistance for adoption after the 2008-2009 Budget
Couple with two incomes¹ and adoption expenses of \$5 000 – 2008
(dollars)

Work income	Refundable tax credit for adoption expenses – Québec	Non-refundable tax credit for adoption expenses – federal	Total	
			Total assistance	As a % of the expense
20 000	2 500	—	2 500	50
40 000	2 500	626	3 126	63
60 000	2 500	626	3 126	63
80 000	2 500	626	3 126	63
100 000	2 500	626	3 126	63

1. Each spouse earns 50% of the work income.

1.2 Review of the measures for families implemented since 2003

Since 2003, the government's action has been aimed at better supporting families financially and promoting better reconciliation between parental and professional responsibilities. Accordingly, Québec's family policy includes:

- generous and universal financial support for families (Child Assistance);
- significant measures to balance work and family life (including reduced-contribution daycare services, the refundable tax credit for child care expenses and the Québec parental insurance plan);
- support for families with children who are students (including the tax credit regarding the amount for children engaged in vocational training or post-secondary studies, the tax credit for adult children who are students, etc.).

Including the measures of the 2008-2009 Budget, financial support for families will total \$5.1 billion in 2008, an increase of more than 42% compared to 2003.

TABLE E.6

Financial assistance for families – Québec (millions of dollars)

	2003	2008	Change 2003-2008
Budgetary measures			
– Childhood educational services ¹	1 796	2 255	
– Other measures ²	686	144	
Subtotal	2 482	2 399	
Fiscal measures			
– Child Assistance	d.n.a.	2 088	
– Work Premium	d.n.a.	261	
– Other measures ³	1 113	359	
Subtotal	1 113	2 708	
TOTAL	3 595	5 107	42%

Note: Since figures are rounded, they may not add up to the totals shown.

1 Early childhood, school, age 5 kindergarten, kindergarten in disadvantaged communities, child care expenses for dependent children (student financial assistance) and child care assistance (social assistance).

2 Mainly the former Québec family allowance, social assistance, PWA, shelter allowance and student financial assistance.

3 Mainly the non-refundable tax credit for dependent children, for single-parent families, non-refundable tax credit for adult children who are students, support for handicapped children, tax reduction for families, refundable tax credit for child care expenses and refundable tax credit for the QST.

Main Measures Benefiting Families

Child Assistance

Since 2005, Québec families have received the Child Assistance for children under age 18. This family allowance varies with family income, family situation and the number of children in the family. It is non-taxable at both the Québec and federal levels.

Reduced-contribution daycare services (\$7/day)

Currently, Québec families have access to more than 200 000 reduced-contribution daycare spaces for children under age 5.

Refundable tax credit for child care expenses

The refundable tax credit for child care expenses offsets part of the child care expenses incurred by families to work or study. In 2007, roughly 355 000 households received the refundable tax credit for child care expenses, whose cost is estimated at \$173 million.

Work Premium

Since 2005, the Work Premium has helped raise the incentive to work by increasing the work income of low-income households. In 2008, the increase can reach \$2 861 for a couple with children and up to \$2 219 for a single-parent family.

Tax credit regarding the amount for children engaged in vocational training or post-secondary studies

By recognizing that children have essentially the same financial needs as an adult, this tax credit grants tax relief to parents whose children are engaged in vocational training at the secondary level, or in post-secondary studies. In 2007, it granted \$13 million to Québec families.

Québec Education Savings Incentive

The Québec government grants an education savings incentive for contributions made after February 20, 2007. The tax assistance for education savings equals 10% of the first \$2 500 in annual contributions. Assistance may be increased for low and middle-income families. The cumulative amount of the tax credit granted for a child cannot exceed \$3 600.

Québec Parental Insurance Plan

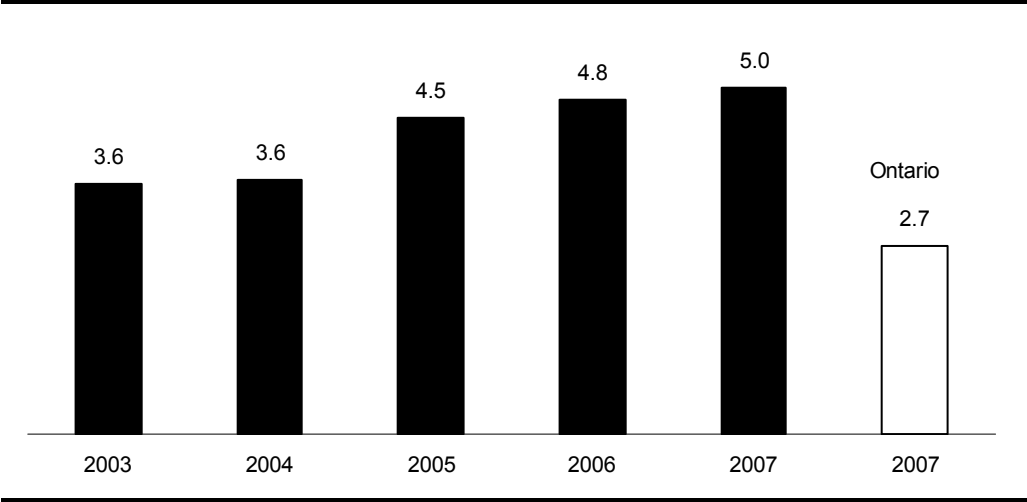
In 2006, the Québec government introduced the Québec Parental Insurance Plan. Under the new plan, benefits of \$817 million were paid to 97 692 Québec parents in 2006.

In 2007, financial support for families in Québec was almost two times higher than in Ontario.

CHART E.3

Financial support for families granted by the Québec and Ontario governments

(billions of dollars)



❑ Constantly rising disposable income

Over the last four budgets, Québec families have enjoyed substantial gains as a result of major tax reductions and family support measures.

For example, the disposable income of a couple with two children and two employment incomes increased:

- by \$4 733 for a family income of \$25 000;
- by \$2 725 for a family income of \$75 000;
- by \$2 466 for a family income of \$125 000.

TABLE E.7

Gains for 2008 from Québec measures since the 2004-2005 Budget for a couple with two children¹ and two work incomes²
(dollars)

Work Income	2004-2005 Budget ³			2005-2006 and 2006-2007 budgets ³	2007-2008 Budget ³	Indexing ⁷	Total
	Child Assistance ⁴	Work Premium	Single system ⁵	Deduction for workers	\$950 million tax reduction ⁶		
0	1 750	—	—	—	—	174	1 924
15 000	1 750	2 780	—	20	—	224	4 774
25 000	2 224	1 780	75	390	—	264	4 733
35 000	920	780	105	520	142	523	2 990
50 000	660	—	150	400	142	581	1 933
65 000	670	—	195	480	290	785	2 421
75 000	570	—	221	480	690	763	2 725
100 000	—	—	32	400	770	618	1 820
125 000	—	—	13	480	946	1 027	2 466
150 000	—	—	13	480	1 946	1 027	3 466
175 000	—	—	13	480	2 026	1 027	3 546

Note: Since figures are rounded, they may not add up to the totals shown.

1 Children age 7 and 9.

2 Each spouse earns 50% of the work income.

3 Excluding indexing, which appears under the "Indexing" column.

4 Child Assistance minus the non-refundable tax credits for children, the tax reduction for families and the former pre-2005 family allowance.

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

6 Increases in tax table thresholds and in the basic amount.

7 Indexing for 2004, 2005, 2006, 2007 and 2008.

❑ Generous assistance until the child reaches the age of majority

In fact, with the Child Assistance alone, the government offers significant financial support for children.

For instance, for a low-income family with three children, the amount of Child Assistance paid will reach \$4 232 per year, for a total of \$76 176 until the child reaches the age of majority. In addition to these amounts, there may be supplements for single-parent families and for handicapped children.

- A couple receives the maximum amount of Child Assistance up to family income of \$43 654.
- A single-parent family receives the maximum amount of Child Assistance up to family income of \$31 984.
- Beyond these income thresholds, the maximum amount reduces until it reaches the minimum amount.

TABLE E.8

Québec Child Assistance - 2008

(dollars)

	Maximum amount		Minimum amount	
	Per year	Over 18 years ¹	Per year	Over 18 years ¹
1 child	2 116	38 088	594	10 692
2 children	3 174	57 132	1 142	20 556
3 children	4 232	76 176	1 690	30 420
4 children	5 818	104 724	2 238	40 284

1 Aggregate amount excluding indexing of parameters and the age of the children.

□ Major income support for families

Accordingly, the government provides substantial total financial support. For example, the disposable income of a couple with two children and no work income is \$22 179 in 2008, of which the Québec government provides \$12 608.

TABLE E.9

Disposable income for a couple with two children¹ and two work incomes² - 2008 (dollars)

Work Income	Québec government					Federal government				Disposable Income
	Child Assis- tance	Work Premium	Other ³	Québec tax	Québec subtotal	Federal transfers ⁴	Federal tax	Federal subtotal	Contri- bution ⁵	
0	3 174	—	9 434	—	12 608	9 571	—	9 571	—	22 179
15 000	3 174	2 850	- 1 294	—	4 730	10 483	—	10 483	- 672	29 541
25 000	3 174	2 015	- 3 179	- 58	1 953	9 554	—	9 554	- 1 351	35 156
35 000	3 174	1 065	- 3 380	- 1 578	- 719	7 255	- 804	6 451	- 2 030	38 702
50 000	3 000	—	- 3 640	- 3 978	- 4 618	4 675	- 2 555	2 120	- 3 049	44 454
65 000	2 400	—	- 3 640	- 6 378	- 7 618	4 075	- 4 306	- 231	- 4 067	53 084
75 000	2 000	—	- 3 640	- 8 034	- 9 674	3 675	- 5 473	- 1 798	- 4 746	58 782
100 000	1 142	—	- 3 640	- 12 994	- 15 492	2 675	- 9 830	- 7 155	- 5 691	71 662
125 000	1 142	—	- 3 640	- 17 994	- 20 492	2 400	- 14 411	- 12 011	- 5 786	86 712
150 000	1 142	—	- 3 640	- 23 050	- 25 548	2 400	- 19 003	- 16 603	- 5 786	102 063
175 000	1 142	—	- 3 640	- 29 010	- 31 508	2 400	- 24 338	- 21 938	- 5 786	115 768

Note: Since figures are rounded, they may not add up to the totals shown.

1 Children age 2 and age 3 with reduced-contribution child care expenses.

2 Each spouse earns 50% of the work income.

3 Social assistance, refundable tax credit for the QST, shelter allowance, property tax refund and reduced-contribution child care expenses.

4 Canada Child Tax Benefit, Universal Child Care Benefit, Working Income Tax Benefit and refundable GST credit.

5 Québec Pension Plan, Québec Parental Insurance Plan and Employment Insurance.

Review of the 2004-2005 Budget Reform of Financial Support for Families

As part of the 2004-2005 Budget, the government implemented the Child Assistance measure, which replaced the following three measures:

- the Québec family allowance;
- the non-refundable tax credit for dependent children;
- the tax reduction for families.

This new, simpler and more generous financial support for low and middle-income families returned almost \$550 million more to all Québec families. Currently, families receive \$2 billion a year by cheque or direct deposit, i.e. \$500 million per quarter.

Tax relief resulting from the reform of family support measures

(millions of dollars)

	2005
New system	
– Child Assistance	1 976
– Tax credit for adult children who are students	58
Subtotal	2 034
Former system	
– Family allowance	– 475
– Non-refundable tax credit for dependent children ¹	– 692
– Tax reduction for families	– 320
Subtotal	– 1 487
TAX RELIEF	547

¹ Including the refundable tax credit for the first child of a single-parent family.

Source: 2004-2005 Budget.

□ A significant increase in disposable income since 2003

Assistance to families has risen substantially since 2003. For instance, the disposable income of a couple with two children and an income of \$35 000 or less has risen by more than 20% between 2003 and 2008.

TABLE E.10

Change in disposable income from 2003 to 2008 for a couple with two children¹ and two work incomes²

(dollars)

Work Income	2003	2008	Change	
			(\$)	(%)
0	17 295	22 179	4 884	28.2
15 000	21 031	29 541	8 510	40.5
25 000	26 692	35 156	8 464	31.7
35 000	31 586	38 702	7 116	22.5
50 000	39 651	44 454	4 803	12.1
65 000	47 523	53 084	5 561	11.7
75 000	52 389	58 782	6 393	12.2
100 000	67 081	71 662	4 581	6.8
125 000	81 824	86 712	4 888	6.0
150 000	95 608	102 063	6 455	6.8
175 000	109 181	115 768	6 587	6.0

1 Children age 2 and age 3 with reduced-contribution child care expenses.

2 Each spouse earns 50% of the work income.

❑ Support is greater for families where one spouse cares for the children at home

Support is greater for families where one spouse remains at home.

For example, in the case of a couple with two children and two work incomes totalling \$75 000, if the spouse with the lower income decides to stay at home, work income falls by \$30 000.

However, family assistance measures increase while withholdings of tax and contributions fall. Consequently, the household's disposable income declines by only \$14 636, even though work income has fallen by \$30 000.

TABLE E.4

Couple with two children¹ – 2008
(dollars)

	Two work incomes totalling \$75 000²	One work income of \$45 000	Difference
Work income	75 000	45 000	– 30 000
Québec support			
– Child Assistance	2 000	3 160	+ 1 160
– Work Premium	—	—	—
– Refundable tax credit for the QST	—	—	—
– Property tax refund	—	—	—
Federal support			
– Canada Child Tax Benefit	1 275	2 329	+ 1 054
– Universal Child Care Benefit	2 400	2 400	—
– Refundable tax credit for the GST	—	66	+ 66
Taxes and contributions			
– Québec tax	– 8 238	– 3 598	+ 4 640
– Federal tax	– 5 897	– 2 956	+ 2 941
– Contributions	– 4 687	– 2 823	+ 1 864
Child care expenses³	– 3 640	—	+ 3 640
Subtotal	– 16 786	– 1 422	+ 15 365
DISPOSABLE INCOME	58 214	43 578	– 14 636

Note: Since figures are rounded, they may not add up to the totals shown.

1 Children age 2 and 3.

2 One spouse earns \$45 000, the other \$30 000.

3 Child care expenses of \$7 per day per child for 260 days (\$7 X 260 X 2 = \$3 640).

□ More generous assistance than in the other provinces

Taking the cost of daycare services into account, the after-tax income of Québec families is considerably higher than that of families in the other provinces.

For example, the disposable income of a couple with two preschool-age children and with two incomes totalling \$50 000 is \$44 454 in Québec compared with \$38 487 in Ontario, i.e. \$5 967 more.

TABLE E.12

**Disposable income for a couple with two children¹ and two employment incomes²
Québec and other provinces – 2008
With daycare at \$7 per day for Québec and \$25 per day for the other provinces³**

	Family income of \$50 000			Family income of \$75 000		
	Disposable Income	Difference in favour of Québec families		Disposable Income	Difference in favour of Québec families	
		(\$)	(%)		(\$)	(%)
Québec	44 454	—	—	58 782	—	—
Ontario	38 487	5 967	16	53 161	5 621	11
Newfoundland and Labrador	36 175	8 279	23	51 970	6 812	13
Nova Scotia	36 826	7 628	21	52 055	6 727	13
Prince Edward Island	35 969	8 485	24	51 658	7 124	14
New Brunswick	36 041	8 413	23	51 734	7 048	14
Manitoba	36 933	7 521	20	52 191	6 591	13
Saskatchewan	36 604	7 850	21	52 234	6 548	13
Alberta	36 890	7 564	21	52 203	6 579	13
British Columbia	36 088	8 366	23	52 707	6 075	12

1 Children age 2 and 3.

2 Each spouse earns 50% of the work income.

3 Child care expenses: \$1 820 (\$7 x 260 days) per child in Québec and \$6 500 (\$25 x 260 days) per child in the other provinces.

2. IMPROVING THE QUALITY OF LIFE OF OUR SENIORS

In the context of an aging population, the Québec government has made the challenge of offering seniors the quality of life they are entitled to expect a top priority. The government's determination to achieve this is reflected in the implementation of an Action Strategy for the Elderly in the 2007-2008 Budget, which included both fiscal and budgetary initiatives representing more than \$1.2 billion over five years.² It identified four major objectives for which measures and initiatives were defined. These four objectives are:

- increase seniors' disposable income;
- foster conditions for them to remain at home as long as possible, since that is the best way to offer them the quality of life they want;
- adapt services and infrastructures to their needs;
- strengthen the place of the elderly in society.

The government views the priority actions to be taken to further improve seniors' quality of life as a responsibility shared by society as a whole. To deal with this societal issue and define its priorities, it is imperative that seniors, their families and loved ones, the organizations that support them, the associations that represent them and experts be involved. That is why the government initiated public consultations on the living conditions of seniors last August.

The 2008-2009 Budget presents a series of measures focusing particularly on improving the living conditions of seniors. To deal with the concerns raised during the consultation, the government is reaffirming the importance that seniors enjoy the living environment they are entitled to expect. They must be able to count on sufficient income, the opportunity to stay in their living environment as long as possible, and on services better adapted to their needs.

2 The detailed impact of the measures announced in the 2007-2008 Budget is shown for 2008-2009 to 2012-2013 at the end of section 2.

**Public Consultations on the Living Conditions of Seniors
A Social Issue That Is the Responsibility of All Quebecers**

In August 2007, the Minister responsible for Seniors initiated the *Consultation publique sur les conditions de vie des aînés : Un enjeu de société, une responsabilité qui nous interpelle tous*. The consultation was co-chaired by Sheila Goldbloom, retired professor at McGill University, and by Dr Réjean Hébert, dean of the Faculty of Medicine and Life Sciences at the University of Sherbrooke. In three months, more than 4 000 participants attended 59 public sessions held in 25 different cities. More than 275 briefs were tabled.

The consultation showed that the vast majority of older persons are living a full and useful old age. However, situations where seniors are dependent or losing autonomy were copiously described and discussed. A broad consensus was reached on major government policy stances and their relevance. The problems dealt with can be divided into three major categories:

- **The needs of seniors and their informal caregivers**

Staying at home is one way to put off the day when moving to a residential facility must be considered. Accounts from participants highlighted the importance of maintaining the government's orientations in this regard and even strengthening them.

There is reason to be concerned with the situation of informal caregivers. They need support to reconcile their personal, professional and caregiver roles.

- **The place of seniors in society**

There is no denying the contribution of seniors to society in every sector.

However, the adaptation of living environments must continue and the financial situation of some seniors raises concerns.

- **Prevention and information**

Welcoming environments adapted to the changing needs of seniors must be created.

Seniors suffer from many forms of abuse and mistreatment. Efforts must be made to combat this phenomenon as well as solitude and isolation.

2.1 **New investments for seniors totalling almost \$1 billion over five years**

The 2008-2009 Budget Speech stipulates new investments for seniors of almost \$1 billion over five years

The new investments result from the following measures:

- the increase from \$1 500 to \$2 000 in the amount of the tax credit for retirement income;
- the indexing of tax credits with respect to age and for retirement income;
- the improvement to and simplification of the refundable tax credit for home support of an elderly person;
- a transitional financial compensation program for seniors living in a residence or in rental housing;
- a new refundable tax credit for respite expenses of informal caregivers;
- a \$200-million fund over ten years for the development of respite and assistance services for informal caregivers;
- the improvement to the offering of home support services by the ministère de la Santé et des Services sociaux (MSSS);
- new support for local initiatives designed to increase respect for seniors;
- the improvement of food services in residential and long-term care centres (CHSLD).

TABLE E.13

Investments benefiting seniors – Impact of the 2008-2009 Budget

(millions of dollars)

	Full year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Cumulative over 5 years
Increase seniors' disposable income							
– Increase in the tax credit for retirement income from \$1 500 to \$2 000	47	—	22	48	49	49	168
– Indexing of certain tax credits							
▪ Tax credit with respect to age	—	—	2	5	8	11	26
▪ Tax credit for retirement income	—	—	—	—	3	7	10
Subtotal	47	—	24	53	60	67	204
Promote home support of seniors and better assist their informal caregivers							
– Improvement to and simplification of the refundable tax credit for home support of an elderly person	35	35	35	35	35	35	175
– Transitional financial compensation program for seniors living in a residence or rental housing	—	4	3	3	3	2	15
– New refundable tax credit for respite expenses of informal caregivers	10	10	10	10	10	11	51
– \$200-million fund over ten years for the development of respite and assistance services for informal caregivers ¹	—	20	20	20	20	20	100
– Improvement to the offering of MSSS home support services	80	80	80	80	80	80	400
Subtotal	125	149	148	148	148	148	741
Increase respect for seniors							
– New support for local initiatives designed to increase respect for seniors	—	5	5	5	5	5	25
– Improvement to food services in CHSLDs	—	3	3	3	3	3	15
Subtotal	—	8	8	8	8	8	40
TOTAL – 2008-2009 Budget	172	157	180	209	216	223	985

1 Including an annual contribution of \$5 million, i.e. \$50 million over 10 years, from Sojecci II Ltée.

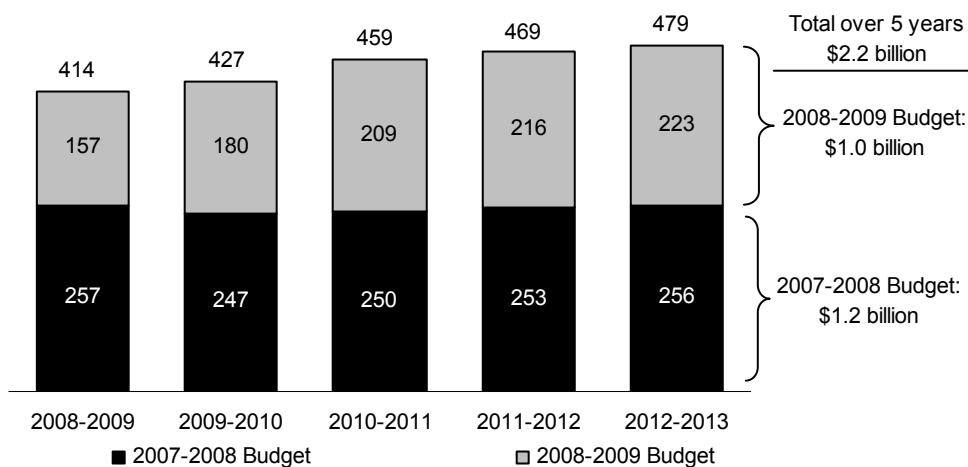
These new investments are in addition to those announced in the 2007-2008 Budget of May 2007, as part of the Action Strategy for the Elderly.

In all, the recent investments for the elderly represent \$2.2 billion over five years, i.e.:

- \$1.2 billion from the 2007-2008 Budget;
- \$1.0 billion from new investments announced in the 2008-2009 Budget.

CHART E.4

Results of investments for seniors – 2007-2008 and 2008-2009 budgets
(millions of dollars)



□ Impact on disposable income of investments benefiting seniors

The measures of the 2007-2008 and 2008-2009 budgets will have a major impact on the disposable income of seniors.

The following table shows the gains, for elderly couples, for various situations, according to their family income.

TABLE E.14

Gains for older persons from investments benefiting seniors – 2011

(dollars)

Total Income ¹	Private Income ²	2007-2008 Budget			2008-2009 Budget			Total
		Improvement to the tax credit for home support of an older person ³	Retirement Income splitting ⁴	Increase in the tax credit for retirement income from \$1 000 to \$1 500	Tax credit for the home support of an elderly person	Tax credit for respite for an informal caregiver ⁵	Other measures ⁶	
Couple of independent seniors with one retirement income and living in a seniors' residence ⁷								
25 000	2 349	173	—	—	432	d.n.a.	—	605
40 000	20 784	173	304	200	432	d.n.a.	254	1 363
50 000	28 424	173	418	200	432	d.n.a.	254	1 477
75 000	51 599	173	1 065	162	– 318	d.n.a.	254	1 335
100 000	76 599	173	2 150	—	– 1 068	d.n.a.	—	1 255
Elderly couple, of which one person is dependent, with one retirement income and living at home ⁸								
25 000	2 349	990	—	—	750	1 560	—	3 300
40 000	20 784	990	304	200	750	1 560	254	4 058
50 000	28 424	990	418	200	750	1 560	254	4 172
75 000	51 599	990	1 065	162	—	810	254	3 280
100 000	76 599	990	2 150	—	– 750	60	—	2 450

Note: Since figures are rounded, they may not add up to the totals shown.

1 Including retirement income as well as Old Age Security, Guaranteed Income Supplement and Québec Pension Plan benefits.

2 Retirement income eligible for retirement income splitting.

3 Changes made in 2007.

4 Retirement income split 50% - 50%.

5 Based on maximum eligible expenditures of \$5 200.

6 Includes the increase in the amount of the tax credit for retirement income from \$1 500 to \$2 000 and the indexing of the amount for retirement income and the amount with respect to age. Parameters are indexed according to the forecast rates in 2009, 2010 and 2011.

7 Based on rent of \$18 000 and an eligible expenditure of \$8 640, where the couple receives basic services, food services consisting of three meals per day, nursing care and housekeeping services.

8 Based on eligible expenditures of \$15 000.

❑ Tax assistance that has almost tripled in nine years

Including the 2008-2009 Budget, the tax assistance for seniors has risen from \$304 million in 2003-2004 to \$719 million in 2008-2009. In 2012-2013, including the announced measures, tax assistance for seniors will reach \$864 million per year, almost triple what it was in 2003-2004.

TABLE E.15

Results of fiscal measures benefiting seniors for the period from 2003-2004 to 2012-2013

(millions of dollars)

	2003-2004	2008-2009	2012-2013	Average annual change (%)
Tax assistance for seniors				
- Refundable tax credit for the home support of an elderly person	60	239	283	
- Tax credit with respect to age	137	151	175	
- Retirement income splitting between spouses	—	112	111	
- Tax credit for retirement income	58	113	173	
- Non-taxation of the Guaranteed Income Supplement and the Spouse's Allowance	32	46	58	
Subtotal	287	661	800	12.1
Tax assistance for informal caregivers				
- Refundable tax credit for informal caregivers of adults ¹	17	38	43	
- Refundable tax credit for persons providing respite for informal caregivers	—	10	10	
- New refundable tax credit for respite expenses of informal caregivers	—	10	11	
Subtotal	17	58	64	15.9
TOTAL	304	719	864	12.3

1 Including the refundable tax credit for housing a parent, which was replaced in 2006.

2.1.1 Increase in the amount of the tax credit for retirement income from \$1 500 to \$2 000

Québec's tax system allows Québec taxpayers a refundable tax credit for retirement income corresponding to 20% of retirement income. However, retirement income cannot exceed \$1 500.

The 2008-2009 Budget announces that the maximum amount of retirement income eligible for the tax credit will rise from \$1 500 to \$1 750 as of taxation year 2009, and to \$2 000 as of taxation year 2010. This measure fulfils a commitment made in 2005 to double the maximum amount, which was \$1 000.

The retirement income eligible for the tax credit includes:

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

The amount of eligible retirement income is reduced according to family income.³ The tax credit for retirement income corresponds to 20% of the amount, after the reduction based on family income.

For a person living alone, the increase from \$1 500 to \$2 000 of the maximum amount of retirement income eligible for the tax credit will result in a gain of up to \$100. For an elderly couple, the gain may be as much as \$200.

3 In 2008, the tax credit is calculated as follows:
 $20\% \times [\text{eligible amount} - 15\% \times (\text{family income} - \$29\,645)]$,
where the eligible amount is equal to the total of the amount for retirement income, the amount with respect to age and the amount for a person living alone.

TABLE E.16

Gains resulting from the increase from \$1 500 to \$2 000 in the maximum amount of the tax credit for retirement income – 2010
(dollars)

Retirement income ²	Elderly person living alone			Elderly couple ¹		
	Maximum amount of \$1 500	Maximum amount of \$2 000	Gain	Maximum amount of \$1 500	Maximum amount of \$2 000	Gain
15 000	300	400	100	—	—	—
25 000	300	400	100	600	800	200
35 000	300	400	100	600	800	200
45 000	300	400	100	600	800	200
55 000	66	166	100	370	570	200
65 000	—	—	—	70	270	200
100 000	—	—	—	—	—	—

Note: The total of the amounts for eligible retirement income, with respect to age and for a person living alone is reduced according to family income.

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

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

Ultimately, raising the maximum amount of eligible retirement income from \$1 500 to \$2 000 will give almost 395 000 people a tax cut of \$47 million.

TABLE E.17

Impact of the increase in the maximum amount of the tax credit for retirement income from \$1 500 to \$2 000 – 2010

Taxpayer income	Number of taxpayers	Total impact (\$ million)	Average impact (\$)
Less than \$25 000	44 370	4	89
\$25 000 to \$50 000	210 011	25	118
\$50 000 to \$75 000	123 855	16	132
\$75 000 or more	16 739	2	120
TOTAL	394 975	47	119

2.1.2 Indexing of amounts giving rise to tax credits with respect to age and for retirement income

To help protect seniors's purchasing power, the 2008-2009 Budget stipulates annual indexing of the amounts relating to the tax credit with respect to age and the tax credit for retirement income.

❑ Tax credit with respect to age

Starting in taxation year 2009, the amount giving rise to the tax credit with respect to age (\$2 200 in 2009) will be indexed at the indexing rate of the personal income tax system.

Indexing the amount of the tax credit with respect to age will provide tax relief of \$2 million for 330 000 taxpayers in 2009. Successive additional tax reductions of some \$3 million will be added in each subsequent taxation year.

❑ Tax credit for retirement income

Starting in taxation year 2011, the maximum amount giving rise to the tax credit for retirement income (\$1 500 in 2008, \$1 750 in 2009 and \$2 000 in 2010) will be indexed at the indexing rate of the personal income tax system.

Indexing the amount of the tax credit for retirement income will provide tax relief of \$3 million for 375 000 taxpayers. Successive additional tax reductions of some \$3 million will be added in each subsequent taxation year.

TABLE E.18

Gains arising from the indexing¹ of the amounts eligible for the tax credit with respect to age and the tax credit for retirement income – 2011

(dollars)

Retirement income³	Elderly person living alone			Elderly couple²		
	Indexing of the amount with respect to age	Indexing of the maximum amount for retirement income	Total gain	Indexing of the amount with respect to age	Indexing of the maximum amount for retirement income	Total gain
15 000	21	6	27	—	—	—
25 000	21	6	27	42	12	54
40 000	21	6	27	42	12	54
65 000	—	—	—	42	12	54
75 000	—	—	—	25	7	32
100 000	—	—	—	—	—	—

Note: The total of the amounts for eligible retirement income, with respect to age and for a person living alone is reduced according to family income.

1 Based on forecast indexing rates in 2009, 2010 and 2011.

2 Couple with two retirement incomes, where each spouse earns 50% of the income.

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

Tax Credit with Respect to Age and Tax Credit for Retirement Income

Tax credit with respect to age

The tax system grants persons age 65 or over a non-refundable tax credit calculated on the basis of an amount of \$2 200 in 2008.

The purpose of this measure is to lower the tax burden of older persons.

Tax credit for retirement income

The tax system grants a non-refundable tax credit to individuals receiving certain types of retirement income. This tax credit is calculated on the basis of the eligible retirement income received by an individual, up to \$1 500 in 2008.

Eligible retirement income includes in particular life annuity payments under a pension plan, annuity payments under a registered retirement savings plan and payments under a registered retirement income fund. However, it excludes amounts received under the *Old Age Security Act* and the retirement pension received under the *Act respecting the Québec Pension Plan* or the Canada Pension Plan.

The purpose of the tax credit for pension income is to better protect the retirement income of Quebecers against inflation.

Reduction according to income

The amount with respect to age is added to the amount for retirement income and the amount for a person living alone as well as to the corresponding amounts, if any, that the individual's spouse may claim. The aggregate of these amounts is reduced according to the household's income. This reduction is equal 15% for each dollar of family income that exceeds an annual threshold (\$29 645 in 2008).

The aggregate of these amounts, thus reduced, is converted at a rate of 20%, into a tax credit. The tax credit can be split between the spouses.

2.1.3 Improvement to and simplification of the refundable tax credit for home support for elderly persons

The refundable tax credit for home support of an elderly person was introduced on January 1, 2000 to enable persons age 70 or over to stay as long as possible in their living environment, i.e. at home or in a private residence for elderly persons.

While this measure is considered essential by all stakeholders in the community, difficulties in estimating eligible expenses in residences for elderly persons have been brought to light, causing uncertainty among seniors.

❑ Problems raised concerning the determination of eligible expenses in residences for elderly persons

Currently, elderly persons cannot calculate the portion of their rent eligible for the tax credit themselves. To obtain their tax credit, they must rely on the manager of the private residence. The lessor determines the eligible expenses and it may charge administration fees for this service.

Estimating eligible expenses can be complex and lead to considerable uncertainty among elderly persons.

- The complexity stems from the very nature of the estimation. For example:
 - some services must be estimated on the basis of the floor space of the building or the use of the service;
 - services may be supplied by the owner on the premises of the residence, which implies assigning an approximate value to the services supplied;
 - establishing the portion of profits and losses attributable to the services also raises difficulties.
- In recent months, verification activities carried out by Revenu Québec in conjunction with the processing of claims for advance payment of the tax credit for home support have shown that some residences for elderly persons over-estimated or under-estimated the eligible expense of their residents.
- In addition, problems concerning the interpretation of eligible expenses have been reported.

□ 2008-2009 Budget: improve and simplify the tax credit

To correct the situation and improve the quality of life of elderly persons, the 2008-2009 Budget includes many changes to this tax credit that grants them \$35 million per year:

- an increase in the tax credit rate from 25% to 30%;
- a major simplification of the calculation of the eligible expense for elderly persons living in a residence for elderly persons.

In addition, the 2008-2009 Budget stipulates a reduction of the tax credit according to family income in excess of \$50 000 to focus the financial assistance on those elderly persons who need it most.

These changes will apply as of taxation year 2008.

TABLE E.19

Improvement to and simplification of the refundable tax credit for home support for elderly persons – 2008

(millions of dollars)

	Impact for elderly persons
Increase in the tax credit rate from 25% to 30% ¹	34
Simplification of the calculation of the eligible expense for elderly persons living in a residence for elderly persons ²	17
Reduction of the tax credit according to family income in excess of \$50 000	– 16
TOTAL IMPACT	35

1 Including the impact of the restriction concerning eligibility of certain expenses for the tax credit for medical expenses.

2 Including the impact of the increase in the cap on eligible expenses.

The changes to the tax credit offer many advantages, in particular:

- a major simplification that will make it easier for elderly persons to obtain the tax credit, in addition to easing the burden on residence owners;
- a reduction in administration expenses supported by elderly persons;
- elimination, for all practical purposes, of cases of recapture of the tax credit paid in advance during the year, upon filing the tax return.

□ Impact on elderly persons

Thanks to the improvement to the tax credit, the total assistance granted in 2008 will rise by \$35 million (17%), reaching \$239 million.

Taken as a whole, the changes to the refundable tax credit for home support of an elderly person will provide the 310 000 recipients with an average gain of \$114. The 78 000 recipients living in a residence for elderly persons, i.e. those in greatest need, will receive an average gain of \$384.

TABLE E.20

Impact of the changes to the refundable tax credit for home support of an elderly person – 2008

	Number of recipients	Gains	
		(\$ million)	(\$ per recipient)
Elderly persons living in a private residence	78 000	30	384
Elderly persons living at home	232 000	5	23
TOTAL	310 000	35	114

□ Impact by category of recipients

The impact of the changes to the refundable tax credit for home support of an elderly person depends on the family situation of the elderly person, state of health, the cost of rent, the eligible services used and income. For example:

- an independent elderly person who pays rent of \$1 000 per month, including basic services, food services, nursing care and housekeeping services and whose family income is less than \$50 000 will gain \$700;
- a dependent elderly person whose family income is less than \$50 000 will gain \$750.

TABLE E.21

Illustration of the impact of the changes to the refundable tax credit for an elderly person living in a residence – 2008

(dollars)

Total income	Independent person			Dependent person		
	Before 2008-2009 Budget ¹	After 2008-2009 Budget ²	Impact	Before 2008-2009 Budget ³	After 2008-2009 Budget ⁴	Impact
15 000	1 100	1 800	700	3 750	4 500	750
25 000	1 100	1 800	700	3 750	4 500	750
45 000	1 100	1 800	700	3 750	4 500	750
50 000	1 100	1 800	700	3 750	4 500	750
65 000	1 100	1 350	250	3 750	4 050	300
75 000	1 100	1 050	– 50	3 750	3 750	—
85 000	1 100	750	– 350	3 750	3 450	– 300
95 000	1 100	450	– 650	3 750	3 150	– 600

1 Based on an eligible expenditure of \$4 400.

2 Based on annual rent of \$12 000, where the elderly person receives basic services, food services consisting of three meals per day, nursing care and housekeeping services. These services represent an eligible expenditure of \$6 000, i.e. 50% of the rent.

3 Based on an eligible expense of \$15 000.

4 Based on an annual rent of \$20 000, where the state of health of the elderly person is such that he or she has eligible expenses of \$15 000, i.e. 75% of the rent paid.

Refundable Tax Credit for the Home Support of an Elderly Person

Objective of the tax credit

The chief objective of the tax credit is to provide financial support for elderly persons who wish to remain in their living environment, i.e. at home or in a residence for elderly persons. Accordingly, the tax credit refunds part of the cost of eligible services required at home.

Major parameters

Persons age 70 or over may be eligible for the tax credit, whether or not they are losing autonomy. In 2007, the tax assistance was equal to 25% of eligible expenses (annual maximum expenses of \$15 000). The maximum refundable tax credit was \$3 750 per year per person.

Some statistics for taxation year 2008 (before the 2008-2009 Budget)

In 2008, 310 000 elderly persons will receive the refundable tax credit for the home support of an elderly person, for a total of \$204 million.

Recipients living in a residence for elderly persons receive an average annual individual tax benefit of \$1 500, compared with \$365 for other recipients.

The tax credit mainly benefits low-income persons (55% of recipients receive the Guaranteed Income Supplement) and women (75% of recipients).

❑ Major simplification of the calculation of the eligible expense for elderly persons living in a residence for elderly persons

To simplify the calculation of the eligible expense for elderly persons living in a residence, the 2008-2009 Budget stipulates that, as of 2008, the eligible expense included in the rent will be equal to a fraction of the amount of rent stipulated in the lease.

The rent considered for the purposes of the calculation will be the total of the rent for the dwelling indicated in the lease and the additional rent in the lease for special services.

■ No calculation to be carried out by elderly persons or owners of residences

Accordingly, elderly persons living in residences for elderly persons will indicate on a prescribed form which of the following five services, if any, they receive in their residence:

- 1) food services;
- 2) nursing care services;
- 3) housekeeping services;
- 4) laundry services;
- 5) personal care services.

The calculation of the eligible expense will be greatly simplified compared to the existing system. To obtain the tax credit, elderly persons must send their prescribed form to Revenu Québec, which will calculate the amount of the tax credit and will pay it each month by direct deposit.

Rules on the Eligibility of Services for the Tax Credit for a Person Living Alone in a Private Residence

Basic component

- Offered to all eligible seniors (15%).

Food services

- The lease must stipulate that the elderly person is entitled to a minimum number of meals per day, i.e. a minimum of two meals per day (15%) or three meals per day (20%).

Nursing care services

- The lease must stipulate the presence of a nurse at the residence for a period of at least seven hours per day (15%).

Housekeeping services

- The lease must stipulate that the elderly person will be entitled to housekeeping services (for instance: sweeping, dusting and cleaning) of his or her apartment or room, with a minimum frequency of once per week (5%).

Laundry services

- The lease must stipulate that the elderly person is entitled to having his or her clothing and bedclothes washed at least once per week (5%).

Personal care services (non-professional assistance service)

Basic service

- The lease must stipulate the presence, at the residence for at least seven hours per day, of a personal care attendant who can assist elderly persons to enable them to carry out certain activities of daily living (10%).

Dependent person supplement

- The elderly person must provide a medical certificate of his or her state of health (mental or physical) confirming his or her permanent dependence on other persons for most of his or her needs and personal care (10%).

■ Sample calculation

Ms. Lemay is 86. She has lived alone in a residence for independent elderly persons for almost four years. Her annual income is \$25 000. This year, her rent amounts to \$1 400 per month. For that price, the residence undertakes to provide her with a series of home support services, namely: basic supervision services, food services consisting of three meals per day, nursing care, housekeeping, laundry and basic personal care services.

To obtain the refundable tax credit for home support, Ms. Lemay completes the prescribed form and sends it to Revenu Québec so that it can determine the tax credit to which she is entitled.

Accordingly, once it has received this information, Revenu Québec estimates her eligible monthly expense at \$910, i.e. 65% of her rent:

- \$210 for the basic component (15% of \$1 400);
- \$280 for food services (20% of \$1 400);
- \$140 for nursing care services (10% of \$1 400);
- \$70 for housekeeping services (5% of \$1 400);
- \$70 for laundry services (5% of \$1 400);
- \$140 for basic personal care services (10% of \$1 400).

Each month, Revenu Québec will therefore automatically deposit \$273 for the tax credit in Ms. Lemay's bank account, i.e. 30% of her eligible expenditure of \$910.

■ Treatment stipulated for an elderly person living in an apartment in a rental building (other than a residence for elderly persons)

Moreover, the determination of the expenses eligible for the tax credit for elderly persons living in an apartment in a rental building may also raise difficulties. While relatively few eligible expenses are likely to be included in the rent, the following services are generally offered: snow removal, garbage removal by the building superintendent, landscaping and other odd jobs.

To simplify the calculation of the eligible expense for elderly persons living in an apartment in a rental building, the 2008-2009 Budget stipulates that as of taxation year 2008, this expense will be equal to 5% of the rent stipulated in the lease, up to a rent of \$600 per month.

Calculation by Revenu Québec of the Expenses Eligible for the Tax Credit for an Elderly Person Living in a Residence – Situation After the 2008-2009 Budget

Steps required to calculate the tax credit

- Establish the eligible portion of the rent.
- Add sporadic expenses and stay within the annual cap.
- Calculate the value of the tax credit

Establish the eligible portion of the rent

Revenu Québec will calculate the eligible expense included in the rent from a table. Accordingly, in the case of an independent person living alone:

- if the rent is less than or equal to \$1 000, the eligible expense corresponds to the minimum amounts;
- if the rent is greater than \$2 000, the eligible expense corresponds to the maximum amounts;
- if the rent is greater than \$1 000 but does not exceed \$2 000, the eligible expense will be calculated using the applicable rates.

Table of eligible expenses for an elderly person living in a private residence for elderly persons

	Total monthly rent		
	Less than or equal to \$1 000	Greater than \$1 000 but not exceeding \$2 000	Greater than \$2 000
	Minimum amount (\$)	Rate applicable to total rent (%)	Maximum amount (\$)
Home support services			
Basic component	150	15	300
Additional services			
1) Food services (meal preparation and delivery service)			
– Two meals per day	150	15	300
– Three meals per day	200	20	400
2) Nursing care services	100	10	200
3) Housekeeping	50	5	100
4) Laundry service (care of clothing and household linen)	50	5	100
5) Personal care services (non-professional assistance service)			
– Basic	100	10	200
– Dependent person supplement	100	10	10% of total rent
Maximum established on the basis of the total rent			
– General	65%	65%	65%
– Dependent person	75%	75%	75%

Revenu Québec must satisfy itself that the portion of the rent eligible for the tax credit does not exceed 65% of the rent (or 75% in the case of a dependent person).

Add sporadic expenses and stay within the annual cap

If the elderly person has eligible expenses in addition to the rent, Revenu Québec will add them to those included in the rent and will stay within the annual cap (see following sections).

Calculate the value of the tax credit

After applying the caps, the total of the eligible expenses will be converted into a tax credit using a 30% conversion rate. The tax credit is then reduced by 3% of family income in excess of \$50 000 (see following sections).

❑ Nobody loses as a result of the simplification of the calculation of the eligible expense

The vast majority of elderly persons who currently receive the tax credit will gain from the changes announced in this budget, in particular because the rate of the tax credit rises from 25% to 30%.

However, in some cases, the tax credit will be less than the amount paid in advance in 2007. For instance, this might happen if the amount paid in advance was too high because of difficulties in estimating the eligible expenses for the managers of the residence.

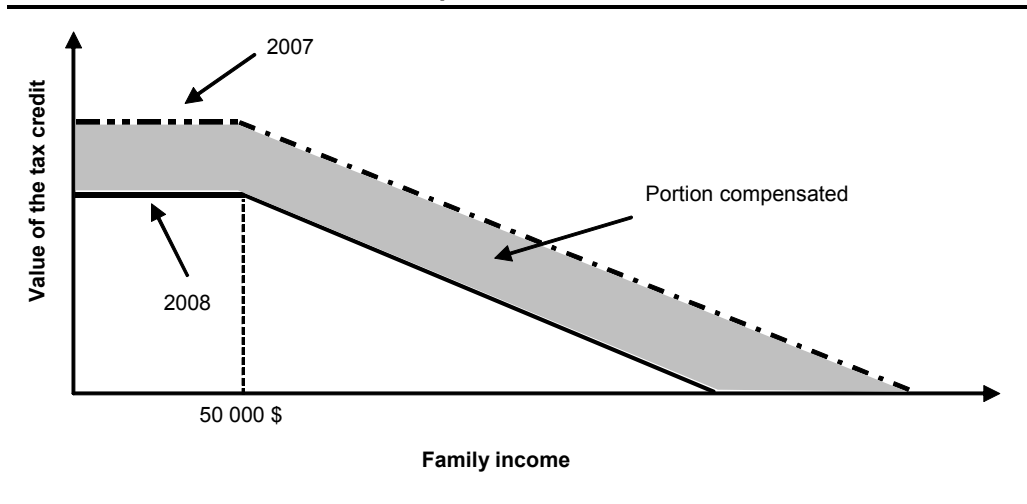
To avoid penalizing elderly persons, the 2008-2009 Budget stipulates a transitional financial compensation program for elderly persons living in a residence or in rental housing. This program will compensate seniors who suffer a decline in the refundable tax credit for home support for elderly persons, compared to the amounts paid in advance since taxation year 2007.

The compensation program is intended solely for elderly persons living in a residence or in an apartment in a rental building who received advance payments of the tax credit in 2007 and up to the day of the 2008-2009 Budget Speech. It does not compensate for the decline attributable to the reduction in the tax credit according to family income in excess of \$50 000.

The amount of financial compensation will be determined by Revenu Québec and paid in advance so that elderly persons do not suffer a reduction in financial assistance during the year.

CHART E.5

Illustration of the financial compensation



❑ Increase in the maximum amount of eligible expenses

To support elderly persons with greater needs, the 2008-2009 Budget stipulates an increase in the annual cap on eligible expenses from \$15 000 to \$15 600 as of taxation year 2008. The cap for dependent persons rises from \$15 000 to \$21 600.

The annual cap applies to the expenses included in the rent, as well as to occasional expenses not stipulated in the lease.

TABLE E.22

Annual cap on expenses eligible for the refundable tax credit for home support of an older person according to family situation – 2008 (dollars)

	Independent person	Dependent person
Person living alone	15 600	21 600
Couple, one eligible adult	15 600	21 600
Couple, two eligible adults	31 200	43 200 ⁽¹⁾

1 Where only one of the spouses is dependent, the maximum eligible expense is limited to \$37 200 (\$15 600 + \$21 600).

❑ Increase in the tax credit rate from 25% to 30%

The 2008-2009 Budget stipulates that as of 2008, the tax credit rate rises from 25% to 30% of eligible expenses to provide elderly persons with additional assistance. Accordingly, the tax credit can reach a maximum of \$4 680 per year per independent person.

This rise in the tax credit rate will benefit all recipients of the tax credit for home support. This change will provide recipients of the tax credit with tax relief of \$34 million.

❑ Reduction of the tax credit according to family income in excess of \$50 000

To focus the tax credit on less affluent elderly persons, the 2008-2009 Budget stipulates that as of taxation year 2008, the refundable tax credit for home support of an elderly person, to which a person or a couple is entitled, is reduced by 3% of annual family income in excess of \$50 000.

For the reduction according to income, the refundable tax credit for home support of an elderly person that the two spouses, as the case may be, receive is added and only one reduction is applied based on the household's income. The total of these amounts thus reduced can be split by the spouses.

TABLE E.23

Illustration of the maximum family income giving rise to the tax credit for the home support of an elderly person – 2008
(dollars)

	Maximum amount ¹	Average amount	
		Residence for elderly persons	Private home
Amount of the tax credit before reduction	4 680	2 097	438
Reduction threshold – family income	50 000	50 000	50 000
Rate of reduction	3%	3%	3%
MAXIMUM FAMILY INCOME GIVING RISE TO THE TAX CREDIT	206 000	119 900	64 600

Note: The reduction formula is:

amount of the tax credit before reduction – [3% X (family income – \$50 000)].

1 Maximum amount for an independent person living alone.

Reducing the tax credit according to income was recommended by many stakeholders, including in particular the Task Force on the Funding of the Health System (Castonguay Report). As a result of this reduction, the tax assistance of just over 50 000 middle and high-income elderly persons will decline.

2.1.4 New refundable tax credit for respite expenses of informal caregivers

Assistance for respite is a major concern for informal caregivers who are under growing pressure and cannot allow themselves respite other than by funding the costs of their replacement themselves.

To relieve the burden on informal caregivers, the 2008-2009 Budget introduces a new refundable tax credit for respite expenses of informal caregivers as of taxation year 2008. This new tax credit is designed to offset part of the expenses incurred by an informal caregiver to supervise a person who cannot be left alone and who lives with him or her.

The tax credit is equal to 30% of supervision expenses incurred to obtain respite. Eligible expenses are those relating to services acquired from an accredited organization or a person with the required skills to care for persons losing their autonomy, subject to a maximum amount of \$5 200 per year. An informal caregiver can claim the tax credit for a relative age 18 or over with whom he or she lives, if such relative cannot be left alone and suffers from a severe and prolonged mental or physical impairment. The tax assistance may reach \$1 560 per year and will be reduced by 3% of his or her annual family income in excess of \$50 000.⁴

TABLE E. 24

Refundable tax credit for respite expenses of informal caregivers according to the family income of the informal caregiver- 2008 (dollars)

Family income of the informal caregiver	Supervision expenses paid by the caregiver	Refundable tax credit
15 000	5 200	1 560
25 000	5 200	1 560
40 000	5 200	1 560
50 000	5 200	1 560
75 000	5 200	810
100 000	5 200	60
150 000	5 200	—

4 The reduction formula is:
amount of the tax credit before reduction – [3% X (family income – \$50 000)].

It is estimated that ultimately, 40 000 informal caregivers will receive annual tax assistance amounting to \$10 million, i.e. average assistance of \$250.

TABLE E.25

Refundable tax credits designed to foster home support of elderly persons or persons losing their autonomy, after the 2008-2009 Budget - 2008

	Home support of an elderly person	Informal caregivers of an adult	Persons providing respite to informal caregivers	Respite for informal caregivers
Recipient of the tax credit	Person age 70 or over	Informal caregiver	Person voluntarily providing the equivalent of at least one day of respite per week during a year	Informal caregiver paying supervision expenses
Amount of assistance paid per year	Maximum of \$4 680, ¹ reduced according to the recipient's family income	Maximum of \$1 033, reduced according to the income of the person assisted (minimum of \$568)	Maximum of \$500 per volunteer and of \$1 000 for all volunteers attending to the same beneficiary of care	Maximum of \$1 560, reduced according to the family income of the informal caregiver
Clientele	310 000	37 500	20 000	40 000
TAX BENEFIT	\$239 million	\$38 million	\$10 million	\$10 million

1 Cap applicable to an independent person living alone.

2.1.5 \$200-million fund over ten years for the development of respite and assistance services for informal caregivers

In partnership with Sojecci II Ltée, a family holding of the Chagnon family, the 2008-2008 Budget provides for the creation of a special \$200-million fund for the development of respite and assistance services for informal caregivers who look after an elderly person at home or support one or more family members.

The new fund will receive an injection of \$15 million a year from the government and \$5 million a year from Sojecci II Ltée, for a total of \$200 million over the next 10 years. The government's contribution to the fund will be drawn from tobacco tax revenues.

The governance and operation of the new fund will be modelled on the fund for the promotion of a healthy lifestyle created by the government in partnership with the Chagnon family.

The Québec government and André Chagnon have signed an agreement in principle to create the fund. The fund's objectives as well as the terms and conditions for project approval will be more clearly defined in a memorandum of understanding between the parties. The Minister responsible for Seniors will table a bill in this regard during the spring 2008 parliamentary session.

□ Development of respite services

The Fund will finance initiatives to improve the supply of respite services for informal caregivers who support one or more family members at home suffering from Alzheimer's disease or a related illness at an advanced stage.

It will seek to foster the development of specific projects with local communities for the development of a network of respite assistance for informal caregivers. In particular, it will promote the development of services that meet needs not currently covered by the market.

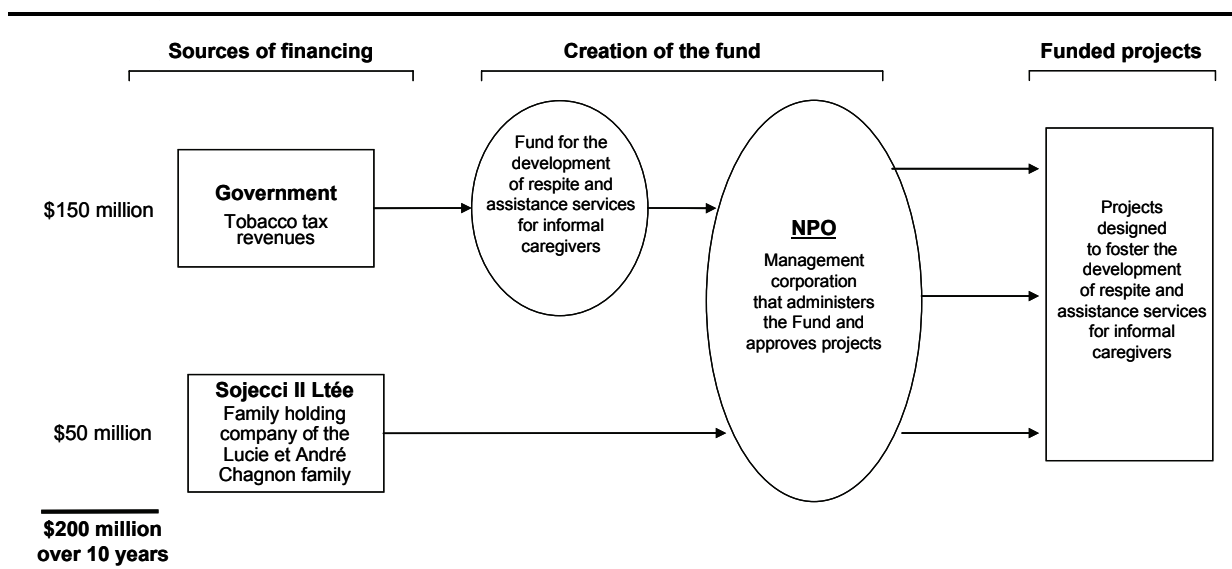
❑ Development of assistance services

The objective is to overcome the isolation and solitude experienced by informal caregivers. Assistance services will be developed to support them, both emotionally and technically, in their role with a person losing their autonomy.

CHART E.6

Fund for the development of respite and assistance services for informal caregivers

(preferred organizational structure)



2.1.6 Improvement to the offering of MSSS home support services

The budget of the ministère de la Santé et des Services sociaux includes \$80 million in 2008-2009 and subsequent years to fund additional services to foster home support of elderly persons in their community. In so doing, the government is funding the continued implementation of the 2005-2010 action plan for services for seniors losing their autonomy.

These funds will help bolster existing services, in particular by adding post-hospital convalescent care spaces and developing the supply of intermediate resources.

2.1.7 New support for local initiatives designed to increase respect for seniors

During the public consultation on the living conditions of seniors, one of the major issues raised concerned the high number of elderly persons who are victims of physical and psychological violence, abuse, neglect or violation of their rights.

Some participants mentioned the effective action of DIRA-Laval, a non-profit organization consisting of volunteers and a number of employees that help elderly persons who have been victims of violence, abuse or neglect.

The 2008-2009 Budget provides for an annual envelope of \$5 million that will be available to the Minister responsible for Seniors to support local initiatives to increase respect for seniors. In particular, this envelope will be used to:

- foster the development of approaches similar to DIRA-Laval in Québec;
- target the detection of violence and abuse against seniors;
- improve response to seniors suffering from such situations;
- assist seniors in obtaining support;
- promote actions to project a positive image of aging and seniors.

The program will fund projects or the creation of community organizations operating in this field. Interventions must be initiated by the community and focus on the active participation of volunteers and seniors from the community.

2.1.8 Improvement of food services in CHSLDs

Québec has 182 public and private long-term residential care centres (CHSLD) under agreement. They house almost 40 000 residents.

A healthy and balanced diet is undoubtedly a key aspect of seniors' quality of life in a CHSLD. Some CHSLDs have developed expertise in this area by improving the quality of the food offered to their residents (taste, presentation of meals, etc.). This approach should be extended throughout the network.

The 2008-2009 Budget stipulates an envelope of \$3 million as of 2008-2009 to support initiatives to improve the quality of food of CHSLD residents.

2.1.9 Promoting phased retirement

The government is announcing, as part of the 2008-2009 Budget, that a bill to amend the *Supplemental Pension Plans Act* will be presented for approval during the spring 2008 parliamentary session. The purpose of this bill is to enable the application of new phased-retirement measures to pension plans under the jurisdiction of this statute.

Regarding pension plans covering public and para-public sector employees, the government will initiate discussions with union and management associations to agree on specific terms and guidelines for the application of this measure to public sector employees.

The new measures will offer employees more flexibility and a greater financial incentive for extending their active life, on a full-time or part-time basis, following agreement with their employer.

Action strategy for the elderly – Review of the 2007-2008 Budget

(millions of dollars)

	Full year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Aggregate over five years
Increase disposable income							
– Retirement income splitting	114	112	105	107	109	111	544
– Increase from \$1 000 to \$1 500 in the amount of the tax credit for retirement income	45	50	47	48	49	50	244
Subtotal	159	162	152	155	158	161	788
Promote home support							
– Refundable tax credit for volunteers who provide support to informal caregivers	10	10	10	10	10	10	50
– Improvement of the refundable tax credit for the home support of an elderly person	74	74	74	74	74	74	370
– Free medication for low-income seniors	6	6	6	6	6	6	30
Subtotal	90	90	90	90	90	90	450
Adapt services and infrastructures							
– Specific agreements with regional conferences of elected officers (CREs), in order to adapt services and infrastructures to the needs of the elderly	2.5	2.5	2.5	2.5	2.5	2.5	12.5
Subtotal	2.5	2.5	2.5	2.5	2.5	2.5	12.5
Strengthen the place of seniors in society							
– Promote the right of seniors to dignity and the full exercise of their citizenship	1	1	1	1	1	1	5
– Promote the physical activity of seniors	1.5	1.5	1.5	1.5	1.5	1.5	7.5
– Promote the use of phased retirement	—	—	—	—	—	—	—
– Support seniors who want to invest in future generations: Québec Education Savings Incentive ¹	—	—	—	—	—	—	—
Subtotal	2.5	2.5	2.5	2.5	2.5	2.5	12.5
TOTAL	254	257	247	250	253	256	1 263

Note: All measures taking effect in 2007.

¹ The measure has a financial impact of \$41 million a year for subscribers as a whole.

Section F

Investing in Our Economy and Our Prosperity

INVESTING IN OUR ECONOMY AND OUR PROSPERITY F.5

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INVESTING IN OUR ECONOMY AND OUR PROSPERITY

In the coming years, Québec's population will age significantly and the population of working age will decline. Consequently, there will be a decline in the contribution to economic growth attributable to the expansion of the working population. To maintain growth in their standard of living, Quebecers must therefore meet the challenge of stimulating productivity, which is now the principal means of increasing our wealth.

Productivity gains depend largely on private investment, particularly investment in more efficient machinery and equipment and in a qualified and highly skilled labour force, capable of meeting the challenge of economic growth.

Furthermore, initiatives aimed at stimulating economic prosperity must be undertaken with a view to sustainable development. Resources must be used in an environmentally responsible manner, while preserving them for future generations.

In this context, the government is implementing various measures¹ totalling nearly \$2.7 billion over five years to increase the prosperity of Quebecers. More specifically, the government is injecting:

- \$1.9 billion to stimulate private investment;
- \$700 million to develop the knowledge and skills of Quebecers;
- \$75 million to pursue the course toward sustainable development.

TABLE F.1

Investing in our economy and our prosperity (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Stimulating private investment	163.5	296.5	400.5	495.5	539.5	1 895.5
Developing the knowledge and skills of Quebecers	91.0	137.4	148.4	157.4	166.4	700.6
Pursuing the course toward sustainable development	10.9	12.7	13.4	19.9	17.7	74.6
TOTAL	265.4	446.6	562.3	672.8	723.6	2 670.7

¹ The measures mentioned in this section are discussed in detail in 2008-2009 Budget: Additional Information on the Budgetary Measures.

1. STIMULATING PRIVATE INVESTMENT

In the 2008-2009 Budget, the government is introducing major initiatives aimed at stimulating private investment. Therefore, the government is announcing:

- the immediate elimination of the tax on capital for the manufacturing sector;
- initiatives to increase private investment in all the regions;
- support for innovative activities;
- support for investment in the resource regions;
- measures to tap the economic potential of our land;
- support for cultural development;
- initiatives to stimulate saving by Quebecers;

The 2008-2009 Budget measures aimed at stimulating private investment will represent an injection in Québec businesses of \$1.9 billion over five years, including \$164 million in 2008-2009.

TABLE F.2

Measures to stimulate private investment

(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Immediate elimination of the tax on capital for the manufacturing sector	30.0	50.0	15.0	—	—	95.0
Initiatives to increase private investment in all the regions	40.0	95.0	165.0	150.0	100.0	550.0
Support for innovative activities	35.0	55.0	72.0	172.0	233.0	567.0
Support for investment in the resource regions	20.0	56.0	101.0	119.0	132.0	428.0
Initiatives for tapping the economic potential of our land	29.0	29.0	25.0	15.0	15.0	113.0
Support for cultural development	8.5	4.0	4.5	4.5	4.5	26.0
Initiatives to stimulate saving by Quebecers	1.0	7.5	18.0	35.0	55.0	116.5
TOTAL	163.5	296.5	400.5	495.5	539.5	1 895.5

1.1 Immediate elimination of the tax on capital for the manufacturing sector

The tax on capital is an obstacle to investment. This is why the government, in the 2007-2008 Budget Speech, announced a plan to eliminate the tax on capital by December 31, 2010 for all businesses in Québec. Until that date, the capital tax credit of 15% was intended to enable manufacturing businesses that invest in manufacturing and processing equipment to reduce or eliminate their tax on capital.

However, many businesses must still pay the tax on capital, since their investments are too low for them to take full advantage of the capital tax credit. Indeed, certain businesses do not currently have the liquid assets to make the necessary investments to maintain or increase their productivity.

Thus, to enable these businesses to modernize their equipment and realize a better return on their investments, the government is announcing the immediate elimination of the tax on capital for manufacturing businesses. Accordingly, as of the day following the day of the 2008-2009 Budget Speech, businesses for which manufacturing represents 50% or more of their activities will no longer pay tax on capital. Businesses for which manufacturing represents between 20% and 50% of their activities will be granted a partial reduction of their tax on capital.

Currently, 14 500 manufacturing businesses do not pay tax on capital, primarily because of the basic deduction of \$1 million in the calculation of paid-up capital. The immediate elimination of the tax on capital for these businesses will exempt an additional 6 200 businesses from paying this tax. Moreover, the capital tax burden will be reduced for 8 100 businesses.

TABLE F.3

Elimination of the tax on capital for businesses engaged in manufacturing activities

(number of businesses)

	Before the 2008-2009 Budget ¹	After the 2008-2009 Budget	
		New businesses	Total
Businesses engaged in manufacturing activities			
– No longer paying the tax on capital	14 500	6 200	20 700
– Receiving a reduction in the tax on capital	—	8 100	8 100
TOTAL	14 500	14 300	28 800

1 Businesses no longer paying tax on capital, primarily because of the basic deduction of \$1 million in the calculation of paid-up capital.

TABLE F.4

Financial impact of the immediate elimination of the tax on capital for the manufacturing sector

(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Immediate elimination of the tax on capital for the manufacturing sector	- 220	- 225	- 92	—	—	- 537
Abolition of the capital tax credit	170	170	75	—	—	415
Additional federal compensation for the elimination of the tax on capital for manufacturing businesses	20	5	2	—	—	27
TOTAL	- 30	- 50	- 15	—	—	- 95

□ The capital tax credit

The capital tax credit was implemented in the 2005-2006 Budget. This credit totally compensates manufacturing businesses for the tax on capital they pay on their new investments in manufacturing and processing equipment.² In addition, for most businesses, the capital tax credit totally or partially compensates for the tax on capital paid on other existing assets.

As of the day following the day of the 2008-2009 Budget Speech, manufacturing businesses will no longer pay tax on capital. In this context, the government is announcing that the capital tax credit will be abolished.

Nevertheless, non-manufacturing businesses that will continue to pay the tax on capital until its complete elimination on January 1, 2011 may use the sums accumulated in respect of the capital tax credit, as applicable, to reduce or eliminate their tax on capital payable.

2 Assets of class 43 for fiscal depreciation purposes.

1.2 Increasing private investment in all the regions

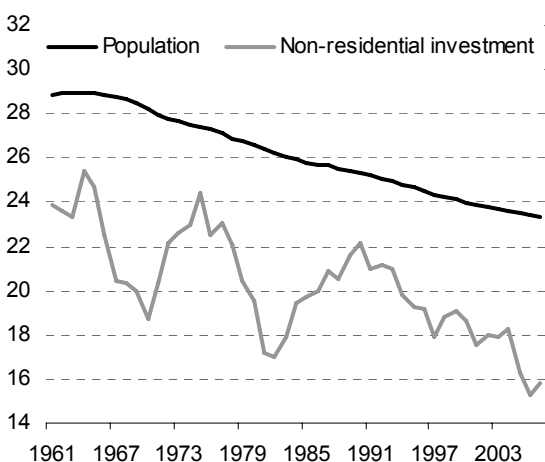
Investment in manufacturing and processing equipment enables businesses to replace obsolete equipment by acquiring better equipment, in particular, equipment that integrates the latest developments in information technologies. Investments can also increase the level of productive capital per worker in the business. For all these reasons, the acquisition of such equipment increases business productivity.

However, the level of investment by Québec businesses, particularly in machines and equipment, is less than that observed among our main trading partners. Québec does not attract a share of investment comparable to its demographic weight within Canada and continues to show a lower rate of investment in machines and equipment than the average rate for Canadian provinces and, in particular, the average rate for the United States. Such underinvestment by businesses slows economic growth and renders employment precarious.

CHART F.1

Share of investments in comparison to demographic weight

(Québec, as a percentage of Canada)

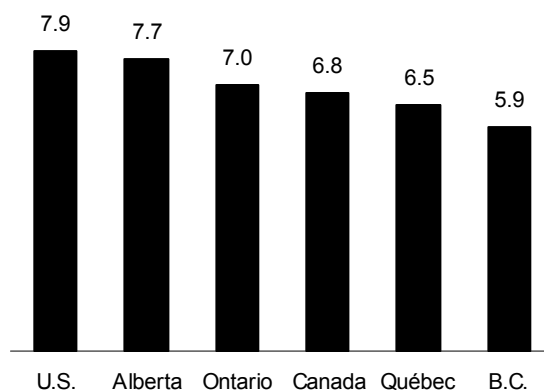


Source: Statistics Canada.

CHART F.2

Rate of investment in machines and equipment

(as a percentage of GDP, average from 1989 to 2006)



Source: Statistics Canada.

In addition, certain territories are facing difficult economic conditions that prevent them from maintaining or creating conditions conducive to business investment.

To accelerate investments in manufacturing and processing equipment by Québec businesses and to support certain territories facing economic difficulties, the government is taking major initiatives in the 2008-2009 Budget:

- the introduction of a new tax credit of 5% for investment in manufacturing and processing equipment applicable in all the regions;
- the extension of the accelerated depreciation for manufacturing and processing equipment in the manufacturing sector;
- increased support for territories experiencing difficulties.

TABLE F.5

Measures to increase private investment in all the regions

(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
New tax credit of 5% for investment in manufacturing and processing equipment	30	60	80	100	110	380
Accelerated depreciation for manufacturing and processing equipment in the manufacturing sector	—	25	75	40	– 20	120
Support for territories experiencing difficulties	10	10	10	10	10	50
TOTAL	40	95	165	150	100	550

The fiscal measures in respect of manufacturing and processing equipment will particularly benefit the manufacturing and forest sectors, which are suffering the impact of difficult economic conditions. These measures will stimulate investments by these businesses by increasing the return on capital invested.

1.2.1 New tax credit of 5% for investment in manufacturing and processing equipment

As of the day following the day of the 2008-2009 Budget Speech, businesses will benefit from a new temporary investment tax credit of 5% applicable to the cost of new manufacturing and processing equipment acquired before January 1, 2016.

Businesses in all sectors of activity will be eligible for the new investment tax credit, except for corporations producing aluminum, which receive specific government assistance for their investments, and corporations refining oil, which are operating under favourable economic conditions.

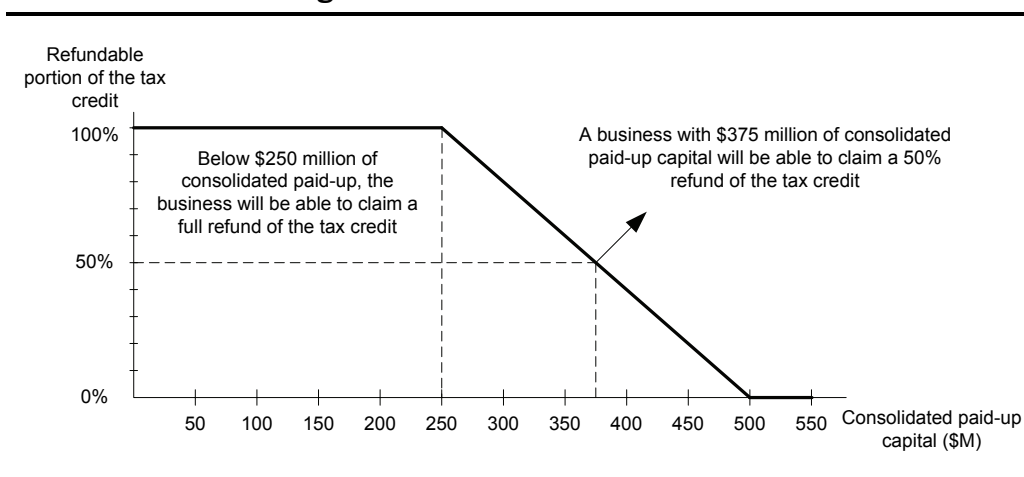
In addition, the investment tax credit will be fully refundable for SMEs and most large businesses. However, this investment tax credit will not be refundable for very large businesses, such as multinationals, given the fact that such businesses generally have substantial liquid assets and better access to financing.

Therefore, the new tax credit will be:

- refundable for corporations whose paid-up capital calculated on a consolidated basis is equal to or less than \$250 million;
- non-refundable for corporations whose paid-up capital calculated on a consolidated basis is equal to or greater than \$500 million;
- partially refundable for corporations whose paid-up capital calculated on a consolidated basis is greater than \$250 million but less than \$500 million. The refundable portion will be determined on a sliding-scale basis in relation to paid-up capital.

CHART F.3

Illustration of the refundable portion of the new investment tax credit determined on a sliding-scale basis



The investment tax credit may be used during the year to reduce the tax burden on the business. Unused amounts may be refunded, where applicable, or carried over and accumulated to reduce the tax burden for subsequent years.

The introduction of this new investment tax credit will facilitate the investment of more than \$3 billion each year in manufacturing and processing equipment. More than 8 000 businesses in all the regions of Québec will benefit from this measure.

TABLE F.6

Illustration of the impact, on a typical business, of eliminating the tax on capital for manufacturing businesses and of the investment tax credit
(thousands of dollars)

	2008	2009	2010	2011	Total
Initial assets (buildings and equipment)	125 000				
Investment in manufacturing and processing equipment	1 000	1 000	1 000	1 000	4 000
Tax burden before the 2008-2009 Budget¹					
– Tax on capital payable ²	303	155	3	—	461
– Corporate income tax payable ³	713	750	756	762	2 981
Total	1 016	905	759	762	3 442
Tax burden after the 2008-2009 Budget¹					
– Tax on capital payable	—	—	—	—	—
– Corporate income tax payable ⁴	753	774	762	768	3 057
– New investment tax credit of 5%	– 50	– 50	– 50	– 50	– 200
Total	703	724	712	718	2 857
IMPACT OF THE 2008-2009 BUDGET ON THE TAX BURDEN DIFFERENTIAL FOR THE BUSINESS	– 313 – 31%	– 181 – 20%	– 47 – 6%	– 44 – 6%	– 585 – 17%

1 Tax burden represented by the Québec tax on capital and corporate income tax.

2 Calculated at 0.36% in 2008, 0.24% in 2009 and 0.12% in 2010, including the application of the capital tax credit of 15%. The tax on capital will be eliminated for all businesses as of 2011.

3 Calculated at 11.4% for 2008 and 11.9% as of 2009, on the basis of taxable income corresponding to 5% of the paid-up capital for the previous year.

4 Considering the impact of the deductibility of the tax on capital and of the investment tax credit on the deduction for depreciation.

1.2.2 Accelerated depreciation for manufacturing and processing equipment in the manufacturing sector

Accelerated depreciation enables businesses that invest to reduce their corporate income tax burden more rapidly, thereby reducing risk on their investments while increasing their return.

To support investment by business in manufacturing and processing equipment, the 2008-2009 Budget is announcing the extension of the deduction for accelerated depreciation on manufacturing and processing equipment. This measure was announced in the 2007-2008 Budget and was to be eliminated at the end of 2008.

Thus, accelerated depreciation on a straight-line basis at the rate of 50% is extended for manufacturing and processing equipment acquired from now until December 31, 2009. For property acquired in 2010 and 2011, depreciation will be calculated according to the usual diminishing-balance method and the rate of depreciation for the year of acquisition will be 50% for property acquired in 2010 and 40% for property acquired in 2011. After 2011, the usual method and rate will apply.

CHART F.7

Accelerated depreciation for manufacturing and processing equipment

Period in which property is acquired	Method of calculating depreciation	Rate for the year of acquisition ¹ (%)
Before 2010	Straight-line	50
2010	Diminishing-balance	50
2011	Diminishing-balance	40
After 2011 (usual rules)	Diminishing-balance	30

1 The half-year rule will apply for the year of acquisition.

1.2.3 Support for territories experiencing difficulties

Despite efforts to date, it must be admitted that certain territories and municipalities continue to face a difficult economic situation and need additional support to maintain or create the conditions conducive to their development.

In this context, the government is announcing an envelope of \$38 million to:

- extend the application of the Fund to Support Territories Experiencing Difficulties;
- broaden the Fund's application to all the RCMs that include municipalities experiencing economic difficulties;
- create a new component of the Fund, targeted specifically at RCMs of the central regions that include municipalities experiencing difficulties and that do not have access to the fiscal measures available to resource regions.

Finally, an additional envelope of \$12 million will be allocated to provide support for the Gaspésie–Îles-de-la-Madeleine region, which is lagging behind in economic development. This funding will enable local communities in the region to maintain their vitality and strengthen their ability to attract and retain residents and businesses (see box on p. 34 for an outline of the assistance granted to this region).

These investments, totalling \$50 million, are in addition to a number of programs and measures targeting the regions, more specifically resource regions, that address a wide range of factors influencing their development.

The details of these initiatives are to be announced shortly by the Minister of Municipal Affairs and Regions.

1.3 Support for innovative activities

Improving the productivity of Québec businesses depends in particular on appropriating information technologies (ITs) and furnishing a sustained commitment to scientific research and experimental development (R&D) activities.

ITs are a fast-growing sector whose applications benefit all fields of activity. They thus generate substantial economic benefits and contribute to wealth creation.

R&D activities, for their part, play a crucial role in the development of an open economy such as that of Québec. The capacity for innovation is one of the essential advantages of states facing the challenges of competition on international markets.

To stimulate investments in innovative activities, the government is injecting \$567 million over five years, including \$35 million in 2008-2009.

CHART F.8

Measures in support of innovative activities

(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
New refundable tax credit for the development of e-business	20	30	40	140	200	430
Improvements to R&D tax credits	3	7	11	11	11	43
Improvement of the stock option plan for SMEs pursuing innovative activities	2	4	6	6	6	24
Connecting Québec to high-speed Internet	—	4	5	5	6	20
Support for e-government deployment	10	10	10	10	10	50
TOTAL	35	55	72	172	233	567

1.3.1 New refundable tax credit for the development of e-business

Numerous studies have shown that businesses using ITs more intensively in their business processes are more likely to improve their productivity.

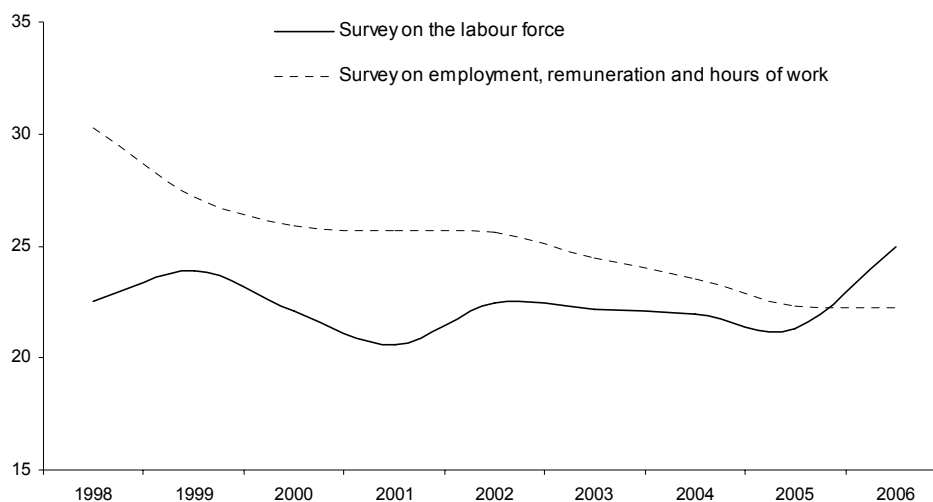
In this respect, the Task Force on Business Investment mentions that the gross accumulation of fixed capital in ITs is sharply lower in Canada compared to the United States. They also note that the relatively weak investment in such technologies in Canada explains in part the gap between the two countries in investments in production equipment.

Moreover, the Task Force on Tax Assistance for the Resource Regions and the New Economy noted that, despite a qualified labour force and the existence of targeted fiscal measures supporting businesses established in designated sites, Québec has difficulty in maintaining its position within Canada in the sector of ITs.

As the following chart shows, Statistics Canada's two major surveys of employment confirm that Québec's share of employment in the IT services industry gained little ground between 1998 and 2005.

CHART F.4

Québec's share of employment in the information technology services industry in Canada, 1998-2006
(percent)



Source: Statistics Canada.

Research conducted by the Task Force on Tax Assistance for the Resource Regions and the New Economy has also determined that a number of countries with a large, highly-skilled and low-cost labour force offer interesting fiscal measures in the IT sector. In this respect, the task force feels that government assistance must be maintained, provided it is better targeted. To that end, the task force proposes that tax assistance to encourage high-value-added activities in the sector of ITs be applied throughout Québec.

Also, to strengthen Québec's position in this sector and to improve the productivity of businesses using these technologies, the government is introducing a new temporary refundable tax credit at the rate of 30%. It is intended for businesses that have more than five eligible employees and is scheduled to end in December 2015. This tax credit, calculated on salaries, will encourage high-value-added activities in the e-business sector. This tax assistance will:

- enable productivity gains by stimulating software supply and demand for all Québec businesses;
- encourage the establishment and expansion of innovative businesses in a promising sector and thus encourage the creation and maintenance of specialized jobs;
- stimulate interest among young students for careers in computer technology.

The government reiterates its intention to end the experiment with designated sites, and supports instead the introduction of better-targeted assistance encouraging the development of high-value-added activities. Combined with the dynamism of Québec businesses operating in the sector of ITs, this assistance will position Québec advantageously in this sector, while enabling numerous Québec companies to become more competitive by adopting innovative solutions.

Businesses currently receiving a tax credit associated with a designated site may benefit from the new tax credit only to the extent that they opt to cease receiving tax assistance related to a specific site.

TABLE F.9

Summary of measures aimed at supporting businesses engaged in information technologies (ITs)

Tax assistance offered to businesses engaged in ITs set up in designated sites¹			
Tax assistance	Rate of the assistance		Time frame
Refundable tax credits for new economy centres, the Cité du multimédia, the Centre national des nouvelles technologies de Québec and the information technology development centres	40% of the salary paid (maximum of \$15 000 per job, per year) for a maximum of 10 years		2010 to 2013
Refundable tax credit for the E-Commerce Place	35% of the salary paid (maximum of \$12 500 per job, per year) for a maximum of 10 years		2010 to 2013

New refundable tax credit for the development of e-business			
Eligible businesses	Terms and conditions of the tax assistance		Eligible activities
	Rate	Parameters	
Corporations meeting the following criteria: – 75% or more of business's activities are eligible activities – Minimum of more than five eligible employees	30%	Salaries incurred as of the day following the day of the 2008-2009 Budget Speech and before January 1, 2016 Maximum tax credit of \$20 000 per job, per year Option for businesses to claim tax assistance for designated sites or to receive the new tax credit	High-value-added innovation activities related to e-business and specialized jobs related to the following tasks: – IT consulting services related to technology, systems development, processes and e-business solutions – development, integration, maintenance and evolution of information systems (ex.: distribution software package) and technological infrastructures – design and development of e-commerce solutions

¹ In the Budget Speech of June 12, 2003, the government ended the fiscal measures related to a designated site. The government nevertheless decided to honour its commitments to corporations which had received certification.

1.3.2 Improvements to the R&D tax credits

Currently the tax system applicable to R&D activities comprises four refundable tax credits:

- a tax credit on salaries paid to researchers;
- a tax credit for a research contract entered into with a university, a public research centre or a research consortium;
- a tax credit encouraging the formation of private partnerships;
- a tax credit applicable to the duties and fees paid to a research consortium.

CHART F.10

Québec refundable R&D tax credits – 2007

Refundable tax credits	Tax base for the credit	Rate of the tax credit	Amount of assistance in 2007 (\$M)
"Salaries" tax credit	Salaries or 50% of the amount of the subcontract	37.5% for SMEs ¹ 17.5% for large businesses ²	638
"University" tax credit	80% of the amount of the subcontract entered into with a public organization	35%	6
"Private partnership" tax credit	80% of the amount of the subcontract or 100% of the amount of the R&D work carried out under a partnership contract	35%	19
"Research consortium" tax credit	Amount of the duties and fees paid	35%	15
TOTAL			678

1 The rate of 37.5% applies to the first \$2 million of eligible expenditures for corporations with assets not exceeding \$50 million. A linear reduction of the tax credit rate (from 37.5% to 17.5%) applies for corporations with assets between \$50 million and \$75 million.

2 The rate of 17.5% applies to corporations with assets of \$75 million or more.

These tax credits promote higher business productivity and ultimately contribute to wealth creation.

Also, in order to promote the growth of businesses, while improving their competitiveness, the government is introducing two new initiatives designed to:

- encourage the formation of partnerships between private enterprises and public research organizations;
- increase the level of tax assistance for SMEs.

□ Enhancement of the R&D tax credit for private partnerships

Most industrialized countries facilitate and encourage the formation of partnerships between businesses and public research organizations. According to the OECD, such partnerships increase the economic and social benefits derived from investments in public research, since they:

- enable public research organizations to address specific problems encountered by businesses;
- contribute to the optimization of research infrastructures by maximizing the utilization of the equipment and fixed assets of universities and businesses;
- generally work in industrial sectors that require leading-edge expertise and are continuously innovative, such as nanotechnology, optics and photonics, and aerospace.

Currently Québec offers an enhanced R&D tax credit encouraging the formation of partnerships involving businesses only.

The “private partnership” tax credit is at the rate of 35% and applies to salaries and facilities (equipment and other supplies) used in an R&D project conducted jointly by the partners. By comparison, the “salaries” tax credit is at the rate of 17.5% and applies to the remuneration of researchers. Businesses in a partnership including at least one public partner, such as a university, were ineligible for the “private partnership” tax credit.

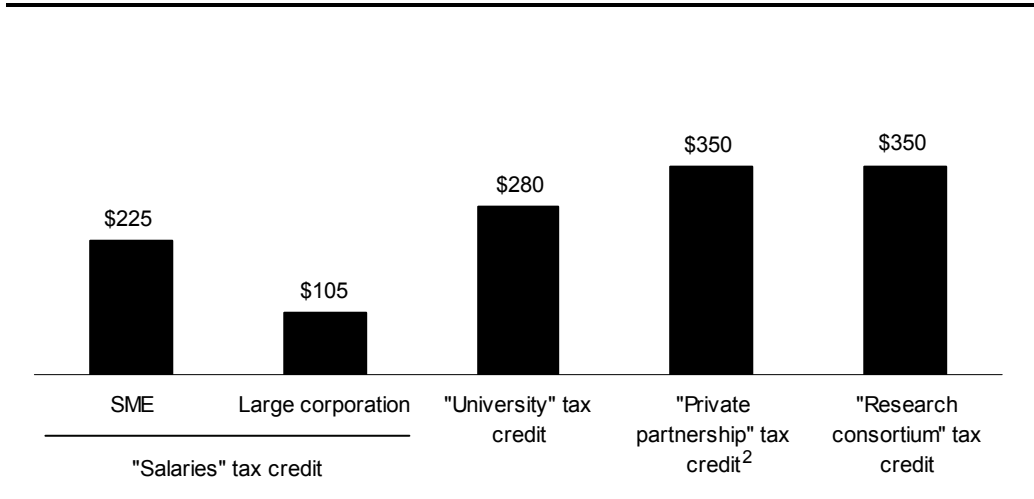
To enable public agencies to participate in a private R&D project without disqualifying the project, the “private partnership” tax credit will be streamlined so that private businesses can claim the enhanced tax assistance. However, the partnership must include at least two private businesses.

This enhancement is in line with the *Québec Research and Innovation Strategy*, which is aimed at encouraging all R&D partnerships.

CHART F.5

Illustration of the value of the tax credits in respect of an R&D expenditure of \$1 000 incurred by a business

(situation after the 2008-2009 Budget)¹



1 \$1 000 expenditure incurred by a corporation, 60% of which is attributable to salaries and 40% to equipment.

2 With the measures in the 2008-2009 Budget, businesses that are members of a partnership including a public organization will have access to the "private partnership" tax credit. Before the 2008-2009 Budget, they were restricted to the "salaries" tax credit.

□ Increase from \$2 million to \$3 million in the amount of R&D expenditures giving entitlement to the higher rate of the tax credit

The Québec tax credit for R&D calculated on the salaries of researchers ("salaries" tax credit) includes a ceiling on expenditures below which a higher tax credit rate applies. To further stimulate the R&D activities of SMEs, the \$2-million ceiling is being raised to \$3 million.

This increase will particularly benefit SMEs by providing them with additional liquid assets needed for pursuing their R&D activities. The sector of biotechnologies, made up almost exclusively of SMEs, will benefit particularly from this increase.

1.3.3 Improvement in the stock option plan for SMEs pursuing innovative activities

It is often the case that corporations pursuing R&D activities in various sectors (such as biotechnology or nanotechnology) offer their employees stock options as part of their remuneration package. Employees taking advantage of such a plan must include in their income a benefit equal to the difference between the value of the shares acquired and the price actually paid to acquire them. However, these employees are entitled to a deduction equal to 25% of this benefit in calculating their taxable income.

To contribute to efforts by SMEs pursuing innovative activities, the allowed deduction will be raised from 25% to 50%. This increase targets SMEs that have carried out R&D activities and whose assets do not exceed \$50 million.

This increase will especially benefit start-up SMEs by enabling them to attract and retain specialized workers, while facilitating their financing. The table below illustrates the scope of this change.

TABLE F.11

Illustration of the impact of the stock option plan (dollars)

	Cost of acquisition of the share (1)	Value of the security at the time the option is exercised (2)	Benefit included in income (3) = (2) - (1)	Deduction allowed (4)	Taxable income (5) = (3) - (4)
Before the 2008-2009 Budget	50	150	100	25	75
After the 2008-2009 Budget	50	150	100	50	50

1.3.4 Connecting Québec to high-speed Internet

The *Villages branchés du Québec* program contributed to the deployment of a vast fibre optic network in the heart of villages and throughout schools in all regions of Québec.

At present, practically all the villages of Québec that have an elementary school, corresponding to approximately 90% of all Québec street addresses, have access to the network. The other 10% are located primarily in the Estrie, Côte-Nord, Chaudière-Appalaches and Gaspésie regions.

The importance of ITs for the development of businesses and for knowledge acquisition by Quebecers is leading the government to enter a new phase. The government will continue the development of this network in order to build the remaining ramifications that will enable service delivery to the outskirts of villages and completion of the public access network.

The government will provide funding of \$20 million over the coming years to support a new program, called *Communautés rurales branchées*, which will emphasize a collective approach. This program will offer financial support for the identification and implementation of collective projects from the regions, RCMs and municipal, business or citizens' groups.

1.3.5 Support for e-government deployment

Among the initiatives spearheading efforts to modernize the Québec state is the pursuit of e-government deployment, which is one of the main priorities of the plan to modernize government.

E-government deployment is already under way. Its goal is both to improve the delivery of services to citizens and businesses and to develop a much more efficient public administration, capable of meeting the challenges ahead. The Service québécois de changement d'adresse, ClicSÉCUR, Clic Revenu, SAAQ-Clic and the Québec Parental Insurance Plan are examples of new services already online.

To strengthen this support for e-government deployment and to accelerate the implementation of new initiatives, the government will invest \$10 million annually.

1.4 Support for investment in the resource regions

Because of their remoteness from major urban centres, the resource regions must confront unique challenges to be competitive. In particular, businesses in these regions are faced with operating costs higher than elsewhere, including transportation costs.

In addition, manufacturing businesses located in resource regions are confronted with a greater problem of productivity than in other regions. Also, real output per inhabitant is generally lower and productivity grows more slowly.

One of the problems the government wishes to address is the lack of incentive for businesses to invest in the purchase of equipment so as to be more productive and create more wealth. For resource regions, this objective represents a major challenge.

To enable resource regions to increase their prosperity, the 2008-2009 Budget provides for the following initiatives:

- introduction of an investment tax credit at the increased rate of 20%, 30% or 40% in the resource regions for the purchase of manufacturing and processing equipment (\$350 million over five years);
- a one-year extension of the tax credits based on salaries currently granted in resource regions in respect of secondary and tertiary resource processing activities (\$49 million over three years);
- extension and modification of the tax credit for Gaspésie and certain maritime regions of Québec³ (\$17 million over four years);
- extension and modification of the tax credit for the Vallée de l'aluminium (\$12 million over four years).

³ The Côte-Nord region and the Matane RCM (except for the mariculture and marine biotechnology component, for which the entire Bas-Saint-Laurent region is eligible).

Altogether, including current tax assistance, \$733 million will be provided over five years to businesses in the resource regions.

TABLE F.12

Support measures for investment in the resource regions of Québec

(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
CURRENT TAX ASSISTANCE¹	117	107	65	16	—	305
MESURES IN THE 2008-2009 BUDGET						
Investment tax credit at the increased rate of 20%, 30% or 40% in the resource regions	20	50	70	90	120	350
One-year extension of the tax credits for processing in the resource regions	—	3	26	20	—	49
Extension and modification of the tax credit for Gaspésie and certain maritime regions of Québec	—	2	3	5	7	17
Extension and modification of the tax credit for the Vallée de l'aluminium	—	1	2	4	5	12
Subtotal	20	56	101	119	132	428
TOTAL	137	163	166	135	132	733

- 1 The refundable tax credit for processing activities in resource regions, the refundable tax credit for the Vallée de l'aluminium, the refundable tax credit for Gaspésie and certain maritime regions of Québec and the tax holiday for manufacturing SMEs in remote resource regions.

These new measures will provide businesses in all the resource regions with greater government support than that available under current tax assistance measures.

Indeed, with the 2008-2009 Budget, tax assistance for resource regions will reach an estimated \$166 million in 2010-2011, representing a gain of \$49 million over estimated tax assistance for 2008-2009.

TABLE F.13

Tax assistance to the resource regions, before and after the measures in the 2008-2009 Budget
(millions of dollars)

Resource regions	Before the 2008-2009 Budget			After the 2008-2009 Budget				Gains
	Current tax assistance ¹			Tax assistance for 2010-2011				
	Salary credits ²	Tax holiday	Total	Investment credit	Salary credits ²	Tax holiday	Total	
Bas-Saint-Laurent	18	12	30	13	13	11	37	7
Saguenay–Lac-Saint-Jean	26	15	41	17	20	14	51	10
Mauricie	17	1	18	13	12	1	26	8
Abitibi-Témiscamingue	4	5	9	8	3	4	15	6
Côte-Nord	3	4	7	9	2	3	14	7
Nord-du-Québec	1	f	1	5	f	f	5	4
Gaspésie–Îles-de-la-Madeleine	7	2	9	4	9	2	15	6
Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac RCMs	1	1	2	1	1	1	3	1
Total	77	40	117	70	60	36	166	49

f: The tax cost is less than \$1 million.

1 For 2008-2009.

2 The refundable tax credit for processing activities in resource regions, the refundable tax credit for the Vallée de l'aluminium and the refundable tax credit for Gaspésie and certain maritime regions of Québec.

1.4.1 Investment tax credit at the increased rate of 20%, 30% or 40% in the resource regions

The work of the Task Force on Tax Assistance for the Resource Regions and the New Economy brought to light the need to introduce an investment tax credit to stimulate the productivity of manufacturing businesses in the resource regions and to offset the effects resulting from the remoteness from major urban centres.

For the government, these elements, combined with the difficult economic conditions observed in resource regions, justify the adoption of a pragmatic, investment-focussed approach, which takes into account both the criterion of remoteness and the particular economic situation of certain regions, such as Mauricie.

Thus, to encourage businesses in the resource regions to invest more, the government is increasing the investment tax credit for the purchase of manufacturing and processing equipment. The rate of the tax credit will be raised from 5% to 20%, 30% or 40 %, depending on whether the business is located in an intermediate zone or a remote zone. These zones correspond to the regions currently covered by the tax assistance applicable in the resource regions.

TABLE F.14

Increased rate of the investment tax credit in the resource regions

Intermediate zone (rate of 20% or 30%)	Remote zone (rate of 40%)
Saguenay–Lac-Saint-Jean (20%)	Abitibi-Témiscamingue
Mauricie (20%)	Côte-Nord
Antoine-Labelle, Pontiac and Vallée-de-la-Gatineau RMCs (20%)	Gaspésie–Îles-de-la-Madeleine
Bas-Saint-Laurent (30%)	Nord-du-Québec

Each year the new tax credit will benefit approximately 1 000 manufacturing businesses in the resource regions, compared to more than 600 businesses currently receiving tax credits. The investment tax credit targets all businesses in the manufacturing sector, including businesses engaged in primary resource processing activities, whereas the current tax credits on salaries apply to secondary and tertiary resource processing activities. Thus, businesses operating sawmill, pulp and paper mills and iron and steel plants are eligible for the tax credit. The investment tax credit will also be available to businesses in other industrial sectors that purchase eligible property.

□ Terms and conditions of the investment tax credit at the increased rate

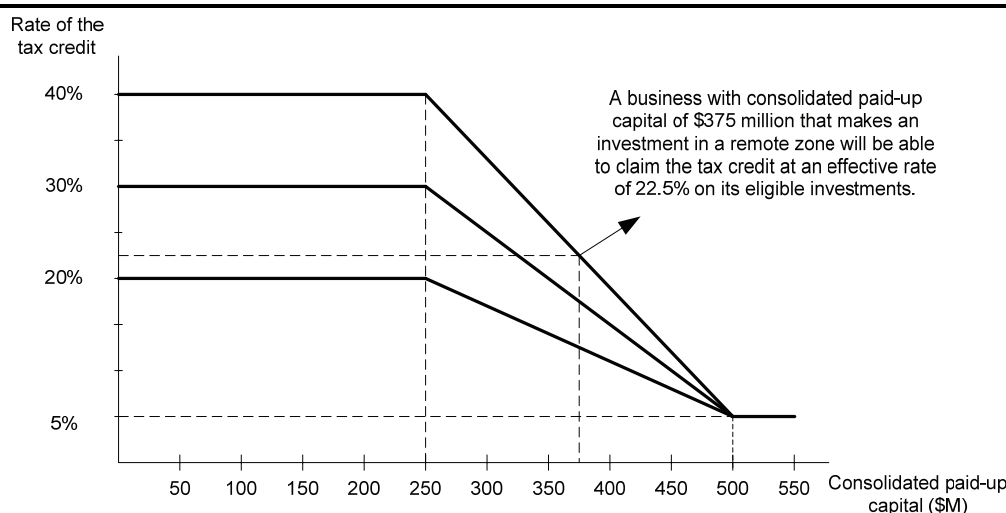
The increased rate of the tax credit will vary according to the size of the business. Where the paid-up capital of a corporation calculated on a consolidated basis:

- is \$250 million or less, the increased rate of the tax credit will apply at its full value;
- is greater than \$250 million but less than \$500 million, the increased rate of the tax credit will be reduced linearly;
- is \$500 million or more, the rate of the tax credit will not be increased and will be 5%, as it is for Québec overall.

Very large businesses are better able to support the handicap of remoteness, since, because of their size, they can attract skilled workers by offering higher salaries or obtain financing more easily. Also, they generally locate near the resource they are developing.

CHART F.6

Illustration of the sliding scale applied to the increased rate of the tax credit for investment in resource regions



Note: A business located in a resource region may opt for either the new investment tax credit or the tax credits currently applicable in these regions.

Illustration of the impact of the investment tax credit

The investment tax credit substantially reduces the net cost of new acquisitions of manufacturing and processing equipment. For example, an SME located in an intermediate zone and having \$50 million in initial assets can receive a tax credit of 20% on its eligible investments. Over a period of five years, the business could receive \$407 000, given the fact that the tax credit is fully refundable.

Renewal of the equipment of an SME located in an intermediate zone

(thousands of dollars)

	2008	2009	2010	2011	2012	Total
Initial assets (buildings and equipment)	50 000					
Eligible investments (manufacturing and processing equipment)	2 000	2 000	2 000	2 000	2 000	10 000
Consolidated paid-up capital	52 000	54 000	56 000	58 000	60 000	
Value of the investment tax credit¹	400	400	400	400	400	2 000
– Effective rate of the tax credit	20%	20%	20%	20%	20%	
– Refundable portion	100%	100%	100%	100%	100%	
Income tax payable before tax credit²	285	309	321	333	345	1 593
Investment tax credit used	– 400	– 400	– 400	– 400	– 400	– 2 000
Income tax payable after tax credit	– 115	– 91	– 79	– 67	– 55	– 407
<i>Balance of investment tax credit carried forward</i>	—	—	—	—	—	

1 Rate of the tax credit and refundable portion determined on the basis of the consolidated paid-up capital for the previous year.

2 Calculated at the rate of 11.4% for 2008 and 11.9% as of 2009, on the basis of taxable income corresponding to 5% of the paid-up capital for the previous year.

The investment tax credit will also enable larger businesses to substantially reduce the cost of their new acquisitions of manufacturing and processing equipment. For example, where a large business located in a remote zone and having \$300 million in initial assets makes an eligible investment of \$150 million, it will receive a tax credit that is at an effective rate of 33% and that will be 80% refundable.

Major modernization project of a large businesses located in a remote zone

(thousands of dollars)

	2008	2009	2010	2011	2012	Total
Initial assets (buildings and equipment)	300 000					
Eligible investments (manufacturing and processing equipment)	150 000	—	—	—	—	150 000
Consolidated paid-up capital	450 000	450 000	450 000	450 000	450 000	
Value of the investment tax credit¹	49 500	—	—	—	—	49 500
Effective rate of the tax credit¹	33%	—	—	—	—	
Income tax payable before tax credit²	1 710	2 678	2 678	2 678	2 678	12 422
Investment tax credit applied against the income tax payable	– 1 710	– 2 678	– 2 678	– 2 678	– 1 524	– 11 268
Residual investment tax credit¹	47 790	—	—	—	—	
– Refundable portion (80%)	– 38 232	—	—	—	—	– 38 232
Income tax payable after tax credit	– 38 232	—	—	—	1 154	– 37 078
<i>Balance of investment tax credit carried forward</i>	9 558	6 880	4 202	1 524	—	

1 Rate of the tax credit and refundable portion determined on the basis of the consolidated paid-up capital for the previous year.

2 Calculated at the rate of 11.4% for 2008 and 11.9% as of 2009, on the basis of taxable income corresponding to 5% of the paid-up capital for the previous year.

1.4.2 One-year extension of the tax credits for processing in resource regions

The introduction of the investment tax credit is a major change of direction for businesses receiving the current tax credits.

In order to provide a sufficiently long transition period to allow businesses in the resource regions to adjust their business strategy, the government plans to extend until 2010 three refundable tax credits for the resource regions.

- However, businesses will not be entitled to both the new investment tax credit and the tax credits currently applicable in the resource regions.

Tax assistance for the resource regions
Four fiscal measures currently apply: – refundable tax credit of 30% encouraging processing activities in resource regions; – refundable tax credit of 30% for the Vallée de l'aluminium; – refundable tax credit of 40% for Gaspésie and certain maritime regions of Québec; – tax holiday of 75% for manufacturing SMEs located in remote resource regions. Briefly, the tax credits are granted in regard to the wages paid for jobs created by a company established in a Québec resource region and will end on December 31, 2010. The tax holiday for manufacturing SMEs consists of an exemption of 75% of income tax, the tax on capital and employer contributions to the Health Services Fund until December 31, 2010. The cost of these four fiscal measures for 2007 is estimated at \$116 million.

Moreover, the government is confirming that a corporation, to be eligible for the tax credits applicable in resource regions, must begin to carry on a certified business no later than March 31, 2008.

❑ Withdrawal of salary indexation for the purposes of calculating the tax credit for processing activities in the resource regions

In the May 24, 2007 Budget Speech, the government announced that it would modify the refundable tax credit for processing activities in the resource regions such that wage indexation will no longer be considered in calculating the credit for calendar years 2008 and 2009. Thus, the payroll giving entitlement to the tax credit will be reduced by 2% per year, that is, by 2% in 2008 and by 4% in 2009. The goal of this measure is to refocus tax assistance on job creation.

Given the extension of the tax credit, this adjustment will be continued for calendar year 2010. The payroll giving entitlement to the tax credit will therefore be reduced by 6%.

However, this modification will continue to be inapplicable to the refundable tax credit for Gaspésie and certain maritime regions of Québec and the refundable tax credit for the Vallée de l'aluminium.

1.4.3 Increased support in response to the special situation of Gaspésie–Îles-de-la-Madeleine

Despite a slight decline in its unemployment rate, the Gaspésie–Îles-de-la-Madeleine region continues to face a difficult economic situation, particularly in regard to employment. In 2007, the unemployment rate was more than 17%, at a time when unemployment was no higher than 10% in any other region of Québec.

Therefore, to encourage job creation in Gaspésie–Îles-de-la-Madeleine, the government is announcing that manufacturing businesses wishing to receive the investment tax credit may also take advantage of the tax credit on salaries applicable in Gaspésie and certain maritime regions of Québec, according to the following parameters:

- the rate of the tax credit will be 20%, calculated with respect to the increase in payroll as of a new reference calendar year,⁴ for activities related to the transformation of marine products (Gaspésie–Îles-de-la-Madeleine, Côte-Nord and the Matane RCM) and the manufacturing of wind-power generators and production of wind energy (Gaspésie–Îles-de-la-Madeleine and the Matane RCM);
 - for Gaspésie–Îles-de-la-Madeleine, the activities eligible for the tax credit will be broadened to include all manufacturing activities;
- the rate of the tax credit will be 40%, calculated on salaries paid, in respect of processing activities in the mariculture and marine biotechnology sectors carried on in the Gaspésie–Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent regions;
- the tax credit will be applicable until 2015, i.e., until the same cutoff as for the investment tax credit, and a corporation must begin to carry on its certified business no later than during calendar year 2015 in order to qualify.

The government is thus reaffirming its determination to develop and diversify the industrial fabric of the Gaspésie–Îles-de-la-Madeleine region by enabling businesses to combine their efforts to create jobs and to increase productivity.

Ultimately, the extension of and the changes to the tax credit for Gaspésie and certain maritime regions of Québec will allow businesses to receive \$6 million annually.

⁴ The reference calendar year is the year preceding the year in which the corporation opts for the new tax assistance system (investment tax credit, modified tax credit for Gaspésie and certain maritime regions of Québec).

Assistance for development of the Gaspésie-Îles-de-la-Madeleine region

The special situation of Gaspésie-Îles-de-la-Madeleine

Despite the efforts undertaken to diversify and revitalize its economy, the Gaspésie-Îles-de-la-Madeleine region still lags substantially behind the other regions of Québec in economic development.

Principal economic indicators, 1997 and 2007

(percent and dollars)

Economic indicators	Gaspésie-Îles-de-la-Madeleine		Next most disadvantaged region		Québec as a whole	
	1997	2007	1997	2007	1997	2007
Unemployment rate	23.4	17.3	16.4	9.2	11.4	7.2
Labour force participation rate	51.1	52.3	57.1	59.2	62.1	65.7
Employment rate	39.1	43.3	48.3	53.7	55.0	61.0
Personal income per inhabitant ¹ (in 2006 dollars)	19 125	23 848	20 914	25 497	25 758	30 829

1 Provisional data for 2006.

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

This lag in development may be explained by the presence of several structural disadvantages that significantly impact the region's competitive capacity and its potential for attracting new investors. For example, the industrial fabric of Gaspésie-Îles-de-la-Madeleine is underdiversified and contains no strong industrial hub.

Measures taken by the government

The 2008-2009 Budget reiterates the government's support for efforts to revitalize and diversify the region's economy and is announcing the renewal and the introduction of measures that will enhance assistance to the region:

- renewal of the tax credit for Gaspésie and certain maritime regions of Québec and its extension to the entire manufacturing sector;
- a new investment tax credit at the increased rate of 40%;
- additional budgetary support of \$12 million.

These measures guarantee the continuity of government support for the region's economic development.

Comparison of tax assistance to the Gaspésie-Îles-de-la-Madeleine region, before and after the 2008-2009 Budget

(millions of dollars)

	Before the 2008-2009 Budget ¹	After the 2008-2009 Budget ²	Difference
Tax credit on salaries ³	7	9	2
Tax holiday	2	2	—
Investment tax credit at the increased rate of 40%	—	4	4
TOTAL	9	15	6

1 For 2008-2009.

2 For 2010-2011.

3 Refundable tax credit for Gaspésie and certain maritime regions of Québec (including the mariculture and marine biotechnology component) and the refundable tax credit for processing activities in the resource regions.

❑ **Extension until 2015 of the mariculture and marine biotechnology component and maintenance of the current parameters**

If a corporation opts to receive the investment tax credit, the current parameters of the mariculture and marine biotechnology component of the tax credit for Gaspésie and certain maritime regions of Québec will continue to apply integrally until December 2015.

The goal of this measure is to pursue diversification efforts in the Gaspésie-Îles-de-la-Madeleine region by banking on the promising potential of the mariculture and marine biotechnology sectors.

This will enable the emergence of innovative corporations whose investments represent a high risk, given that such corporations have a production cycle spanning several years and face the difficulties inherent in breeding organisms living in sites subject to hazardous weather conditions.

1.4.4 Additional support for the Vallée de l'aluminium

Since 2000, the government has been participating through fiscal measures in the development of an industrial cluster in the aluminum processing sector in the Saguenay-Lac-Saint-Jean region. Indeed, the region contains a number of research centres and industrial chairs, specialized training programs, and a network of SMEs operating in the field of secondary and tertiary aluminum processing.

The aluminum processing sector should see extensive growth in the coming years, as the world market is very competitive.

For businesses in the Saguenay-Lac-Saint-Jean region to be able to develop new products and take advantage of the favourable market situation, they will have to invest in leading-edge manufacturing technologies.

Therefore, businesses in the Saguenay-Lac-Saint-Jean region will be able to receive both the investment tax credit and the tax credit for the Vallée de l'aluminium, according to the following application details:

- the rate of the tax credit will be 20%, calculated with respect to the increase in payroll as of a new reference calendar year;⁵
- the tax credit will be applicable until 2015, i.e., until the same cutoff as for the investment tax credit, and a corporation must begin to carry on its certified business no later than during calendar year 2015 in order to qualify.

Businesses will ultimately receive financial assistance estimated at \$5 million.

⁵ The reference calendar year is the year preceding the year in which the corporation opts for the new tax assistance system (investment tax credit, modified tax credit for the Vallée de l'aluminium).

1.4.5 Summary of measures to support investment in the resource regions

Until 2010, businesses in the resource regions will be able to take advantage of the current or the new tax assistance system. However, they must opt either to maintain the current system or to receive assistance under the system proposed in the present Budget Speech.

TABLE F.15

Parameters of the new tax system offered to businesses in the resource regions

Tax assistance	Rate of the assistance	Time frame
Investment tax credit at the increased rate	<u>Remote zone</u> 40% of the cost of purchasing manufacturing and processing equipment <u>Intermediate zone</u> 20% or 30% of the cost of purchasing manufacturing and processing equipment	2015
Tax credit for the Vallée de l'aluminium	20% of salaries related to eligible jobs created (new reference calendar year)	2015
Tax credit for Gaspésie and certain maritime regions of Québec		2015
- Gaspésie-Îles-de-la-Madeleine	<u>Manufacturing sector</u> 20% of salaries related to eligible jobs created (new reference calendar year)	
- Gaspésie-Îles-de-la-Madeleine, Côte-Nord and the Matane RCM	<u>Transformation of marine products</u> 20% of salaries related to eligible jobs created (new reference calendar year)	
- Gaspésie-Îles-de-la-Madeleine and the Matane RCM	<u>Manufacturing of wind-power generators and production of wind energy</u> 20% of salaries related to eligible jobs created (new reference calendar year)	
- Gaspésie-Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent	<u>Mariculture and marine biotechnology</u> 40% of salaries related to total eligible jobs	

TABLE F.16

Current parameters¹ of the tax assistance offered in the resource regions

Tax assistance	Rate of the assistance	Time frame
Tax credit for processing activities in the resource regions	30% of salaries related to eligible jobs created	2010
Tax credit for the Vallée de l'aluminium	30% of salaries related to eligible jobs created	2010
Tax credit for Gaspésie and certain maritime regions of Québec		2010
– Gaspésie–Îles-de-la-Madeleine, Côte-Nord and the Matane RCM	<u>Transformation of marine products</u> 40% of salaries related to eligible jobs created	
– Gaspésie–Îles-de-la-Madeleine and the Matane RCM	<u>Manufacturing of wind-power generators and production of wind energy</u> 40% of salaries related to eligible jobs created	
– Gaspésie–Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent	<u>Mariculture and marine biotechnology</u> 40% of salaries related to total eligible jobs	
Tax holiday for manufacturing SMEs in remote resource regions	75% of taxes payable ²	2010

1 Including the one-year extension of the tax credits for resource regions (until 2010).

2 Income tax, tax on capital and employer contributions to the Health Services Fund.

1.5 Tapping the economic potential of our land

Québec's land has exceptional resources in terms of the diversity, quality and quantity of the minerals it contains, as well as its remarkable agricultural and agrifood potential. However, the mining sector is facing economic realities quite different from those of the agricultural and agrifood sector.

For some years, the mining sector in Québec has been experiencing a veritable boom. The current favourable economic situation and Québec's mining potential are pushing exploration expenditures to record levels. A number of major projects are also in development.

Québec must make the best possible use of its assets and the vitality of this sector to build for the future and ensure sustainable development of the mineral resources of our land.

In contrast, the agricultural and agrifood sector is traversing a difficult period. Moreover, the report of the Commission on the Future of Agriculture and Agrifood in Québec has identified the challenges facing this sector in Québec.

To support the development of the mining sector and to assist the agricultural and agrifood sector, the government is announcing the injection of \$113 million over five years:

- \$45 million for the creation of the *Fonds du patrimoine minier*;
- \$4 million for the renewal of the Copper Plan;
- \$4 million for the creation of a national mining institute and other labour force development measures for the mining sector;
- \$60 million for assistance to the agricultural and agrifood sector.

TABLE F.17

Measures to tap the economic potential of our land

(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Creation of the <i>Fonds du patrimoine minier</i>	13	13	13	3	3	45
Funding of the Copper Plan	2	2	—	—	—	4
Creation of a national mining institute and other labour force development measures for the mining sector	2	2	—	—	—	4
Support for the agricultural and agrifood sector	12	12	12	12	12	60
TOTAL	29	29	25	15	15	113

1.5.1 Development of the mining sector

❑ Creation of the *Fonds du patrimoine minier*

Knowledge of the geological makeup of Québec's territory is one of the first essential stages in the discovery of new deposits and, ultimately, the start-up of new mines.

Thus, Géologie Québec is mandated to identify strategic geographic sectors for exploration work and to promote the mining potential of Québec's regions, within a framework of sustainable development.

To ensure stable funding for the work of Géologie Québec and to facilitate its planning, the government is announcing the creation of the *Fonds du patrimoine minier*.

The fund will be financed entirely through royalties paid by businesses to develop mineral resources in Québec's territory. It will be used to fund the work of Géologie Québec and to cover the costs of certain programs supporting innovation in the mining sector, as well as providing a part of the funding of the Société québécoise d'exploration minière (SOQUEM) and the Société d'investissement dans la diversification de l'exploration (SIDEX).

The fund's endowment will total \$20 million annually for the first three years and \$10 million for subsequent years. This level of funding will make it possible to accumulate a reserve to ensure the sustainability of the geoscientific work conducted by Géologie Québec.

TABLE F.18

Illustration of the functioning of the *Fonds du patrimoine minier* (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Endowment of the fund	20	20	20	10	10
Anticipated expenditures	- 10	- 10	- 10	- 10	- 10
Surplus	10	10	10	—	—
RESERVE (CAPITALIZATION OF THE FUND)¹	10	21	32	33	35

1 Based on an anticipated rate of return of 5%.

❑ Funding of the Copper Plan

The Copper Plan, initiated in 2006 by the government of Québec in partnership with the federal government, has the objective of discovering new deposits of copper. It is designed to stimulate exploration work through the acquisition and promotion new geoscientific knowledge.

The work accomplished under the Copper Plan to date has generated renewed interest in prospection for this mineral. The renewal of the program will make it possible to pursue the work undertaken over the past two years, which is already yielding convincing results.

To ensure the continuity of work related to the Copper Plan for the next two years, the government is announcing the injection of an additional \$4 million over two years.

❑ Creation of a national mining institute and other labour force development measures for the mining sector

The mining sector is characterized by major and increasing needs for specialized workers. More than 4 000 positions need to be filled in various regions of Québec. Given this shortage, worker training and development are priorities for the industry.

Fuller participation by Native people, retention of young people in the regions concerned and reclassification of workers in the forest sector are among the strategies that can be developed to meet this major challenge.

Thus, as a partial response to these needs, while promoting the creation of quality jobs in the regions, the government is announcing the creation of a nation institute of mines.

This specialized school will make it possible to adequately train the future workers in the mining industry so as to meet the specific requirements of this fast-growing sector in Québec.

Moreover, other measures targeted to support labour force development in the mining sector will be introduced, particularly to promote fuller participation by Native people in the activities of the mining industry, to promote career possibilities, and to fund other initiatives designed to stimulate labour force recruitment and training in the mining sector.

For all of these measures, the government will invest \$4 million over two years.

1.5.2 Support for the agricultural and agrifood sector

To enable the agricultural and agrifood sector to diversify and develop its full potential by taking maximum advantage of its know-how, \$60 million will be invested over the next five years to implement measures in support of this sector.

The report of the Commission on the Future of Agriculture and Agrifood in Québec clearly revealed the difficulties facing this sector. The report also highlighted the need for a strategic renewal.

The measures, which will particularly target young farmers, diversification and innovation, are part of a series of initiatives that will be taken by the government in response to the issues raised by the Commission.

These measures come in addition to the Strategy to Increase Purchases of Québec Food Products, financed with a budget of \$14 million over three years, announced in December 2007.

1.6 Impact of fiscal measures to stimulate investment

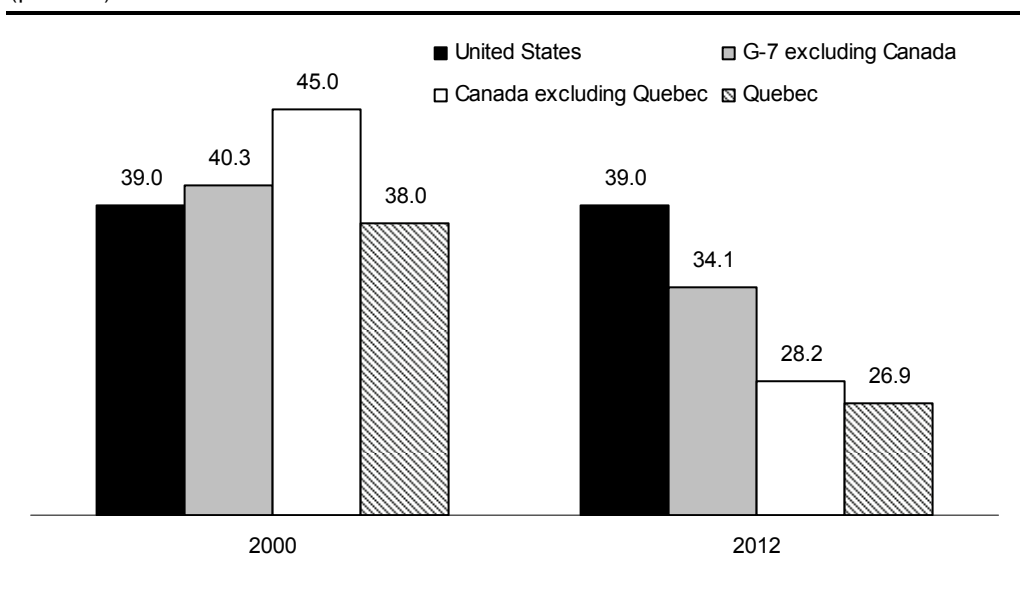
The tax system has a decisive impact on investment. Through various initiatives, Québec ensures that the tax system rewards businesses for their investment efforts.

First, capital investments in Québec will no longer be taxed. The tax on capital for all businesses will be eliminated by December 31, 2010 and is eliminated effective immediately for businesses in the manufacturing sector.

Second, the government ensures that the tax rate on business profits is maintained at a competitive level in comparison to the average rates prevailing in the principal industrialized economies. Indeed, despite the initiatives undertaken since 2000 in the industrialized countries, the combined corporate income tax rate applicable to Québec businesses will remain competitive at 26.9% in 2012. The rate will then be 28.2% on average in the rest of Canada, 34.1% on average in the G7 countries (excluding Canada) and 39.0% in the United States.

CHART F.7

Change in statutory corporate income tax rates over time (percent)



Source: Ministère des Finances du Québec.

However, to improve their productivity, Québec businesses must begin immediately to invest more. This is why the government is introducing a new investment tax credit in the 2008-2009 Budget.

This new measure, in addition to stimulating new investments, will benefit the economy as a whole. Indeed, for each investment tax credit dollar, real GDP will grow by \$3.10 in the short term and \$5.40 in the long term. At an equivalent financial impact on the government, a reduction in the corporate income tax rate would have less of an impact on real GDP.

CHART F.8

Impact on real GDP per dollar of reduction in the tax burden
(dollars)



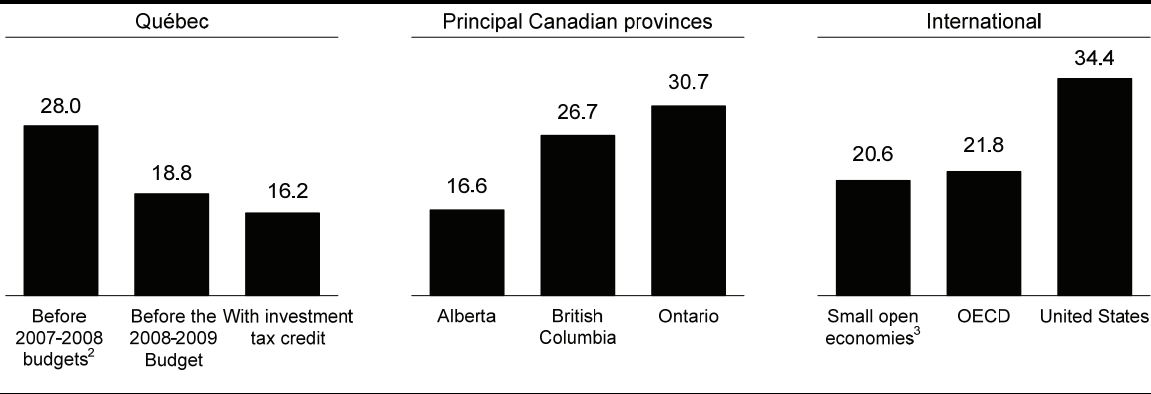
Note: Simulations were performed on a revenue-neutral basis for the government. The government's loss of revenue is offset by a levy that has no influence on economic agents' behaviour.

Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

When all the fiscal initiatives undertaken by the government have been implemented, Québec will be able to offer businesses a tax environment that is among the most competitive in North America and that compares favourably on the international level. The weight of taxation on each dollar invested, as measured by the marginal effective tax rate (METR) on investment, will be reduced considerably, to 16.2%.

CHART F.9

Comparison of marginal effective tax rates (METR¹) on the investment – 2012
(percent)



1 METRs are indicators of the impact of the tax system on new investments. They represent the effect of all tax expenses and rules affecting the return on capital invested. They take into account the tax on capital, sales tax, corporate income tax, depreciation rules and rates, and accounting methods for inventory.

2 Before the 2007-2008 Québec and federal budgetary measures.

3 Economies that are highly dependent on trade with larger economic partners. For example, Switzerland, Australia, Ireland, Sweden and Norway are all small open economies.

Source: Ministère des Finances du Québec.

TABLE F.19

Impact of fiscal measures to stimulate investment – full year
(millions of dollars and percent)

	Measures in the 2008-2009 Budget		Elimination of the tax on capital in the 2007-2008 Budget	Total	Percentage breakdown
	Increasing private investment in all the regions¹	Support for innovative activities²			
Agriculture, fisheries, forests and mines	– 7	—	– 44	– 51	3.8
Construction	– 3	—	– 29	– 32	2.4
Manufacturing sector	– 199	– 4	– 247	– 450	33.5
Wholesale trade	– 13	—	– 78	– 91	6.8
Retail trade	– 2	—	– 60	– 62	4.6
Transportation and storage	– 1	—	– 41	– 42	3.1
Information and communications	– 2	– 3	– 40	– 45	3.3
Financial institutions	– 1	—	– 108	– 109	8.1
Finance and insurance	– 3	—	– 152	– 155	11.5
Business services	– 7	– 200	– 43	– 250	18.6
Other services	– 4	– 4	– 47	– 55	4.1
TOTAL	– 242	– 211	– 889	– 1 342	100.0

1 New tax credit of 5% for investment in manufacturing and processing equipment (\$110 million), investment tax credit at the increased rate of 20%, 30% or 40% in the resource regions (\$120 million), increased support in response to the special situation of Gaspésie–Îles-de-la-Madeleine (\$7 million), additional support for the Vallée de l'aluminium (\$5 million).

2 New refundable tax credit for the development of e-business (\$200 million), enhancement of the R&D tax credits (\$11 million).

1.7 Support for cultural development

The government is actively supporting the activities of businesses and organizations concerned by Québec's cultural development. Available support measures may take the form of tax credits or grants, the principal objective of all these measures being to encourage the promotion of Québec's cultural identity through the various works produced, while stimulating economic development.

To further support cultural development, the government is injecting \$26 million over five years, including \$8.5 million in 2008-2009.

TABLE F.20

Measures to support cultural development (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
More funding for Placements Culture	5.0	—	—	—	—	5.0
Presentation of performing arts in the regions	1.0	1.0	1.0	1.0	1.0	5.0
Support for the Société de développement des entreprises culturelles (SODEC)	2.0	2.0	2.0	2.0	2.0	10.0
Broadening of the refundable tax credit for the production of shows	0.5	1.0	1.5	1.5	1.5	6.0
TOTAL	8.5	4.0	4.5	4.5	4.5	26.0

1.7.1 Additional grants for culture

To reaffirm its determination to support the creativity and the diversity of cultural productions, the present Budget Speech is granting the following sums for fiscal year 2008-2009:

- \$5 million to enhance the Placements Culture program so as to increase private fund-raising for the cultural and communications sector;
- \$1 million to increase the quality, diversity and dissemination of the performing arts in Québec, particularly in remote regions;
- \$2 million for the Société de développement des entreprises culturelles (SODEC):
 - \$1 million for businesses and artisans working in the fine crafts sector, particularly to improve assistance for young people in “studio schools” (écoles ateliers) and to support the activities of the Bureau à l’exportation des métiers d’art du Québec;
 - \$1 million to assist publishing houses, accredited bookstores and professional associations and to support the promotion of books published here on the Québec and international markets.

1.7.2 Broadening of the refundable tax credit for the production of shows

The refundable tax credit for the production of shows is calculated based on labour expenditures attributable to services supplied for the production of eligible shows. The rate of the tax credit is equal to 29.1667% of the amount of eligible labour expenditures. Also, the tax credit can never exceed \$750 000. Currently, circus shows, aquatic shows and ice shows are specifically excluded.

To support producers, artists and artisans involved in the production of circus shows, aquatic shows and ice shows, the government is broadening the current tax credit for the production of shows to make these shows eligible for tax assistance.

However, to ensure that the tax assistance is granted for shows whose production actually requires support, the rate of and the ceiling on the refundable tax credit for the production of shows will henceforth be reduced linearly based on the total assets of the production company concerned.

More specifically, the rate of the tax credit for the production of shows will be 29.1667% and the ceiling will be \$750 000 for a taxation year, where the total assets of a corporation are equal to or less than \$50 million for the previous taxation year, and the rate and ceiling will be reduced linearly down to zero where the assets total \$75 million.

When this tax assistance is fully implemented, these businesses will receive an additional \$1.5 million annually.

1.8 Stimulating saving by Quebecers

Savings generate the financial capital needed to enable governments to meet their funding requirements and to enable businesses to invest and contribute to the collective wealth.

Saving by individuals provides a significant component of the financial capital placed at the disposal of businesses.

The 2008-2009 Budget provides the following two measures to encourage individuals to save more so as to contribute to the growth of Quebecers' collective wealth:

- creation of a tax-free savings account;
- reduction in the gross-up rate applicable to eligible dividends.

TABLE F.21

Measures to stimulate saving by Quebecers (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Creation of a tax-free savings account	1.0	7.5	15.0	25.0	35.0	83.5
Reduction in the gross-up rate applicable to eligible dividends	—	—	3.0	10.0	20.0	33.0
TOTAL	1.0	7.5	18.0	35.0	55.0	116.5

1.8.1 Creation of a tax-free savings account

The return on investments is a remuneration encouraging savings. In actuality, it represents a compensation for deferring a capacity for consumption.

An important facet of the propensity of individuals to invest is the development of a savings habit and culture. Individuals can, in particular, familiarize themselves with the various savings vehicles that are available to them.

Individuals already have access to registered savings plans: the RESP, the RPP, the DPSP, the RRSP and the RDSP. These plans target special situations and have restrictions that may discourage individuals from saving, in certain situations or at certain stages in their life.

The 2008-2009 Budget provides for the creation, as of the 2009 taxation year, of a tax-free savings account (TFSA), which will offer greater flexibility compared with current tax plans encouraging saving.

Through this measure, the government will have provided individuals with a gain of nearly \$84 million by the end of fiscal year 2012-2013.

The TFSA will be available to any individual age 18 or over. It will have the following characteristics:

- individuals wishing to take advantage of a TFSA must open an account for this purpose with a financial institution;
- each year, individuals age 18 or over accumulate a right to contribute \$5 000. Unused contribution rights are carried forward to subsequent years;
- the investments authorized for a TFSA are the same as those for an RRSP;
- contributions to a TFSA give no entitlement to a tax deduction, but the investment income they generate is not taxable;
- an individual's withdrawals from his or her TFSA (contributions and accumulated interest) do not constitute taxable income.

The TFSA has two major advantages: it is flexible and the investment income that accumulates in it is tax-exempt.

1.8.2 Reduction in the gross-up rate applicable to eligible dividends

On February 26, 2008, the federal Minister of Finance announced changes to the tax treatment of dividends paid by large corporations.

To harmonize Québec's tax system with the federal system, the 2008-2009 Budget provides that the gross-up rate applicable to eligible dividends will be lowered from 45% to 44% on January 1, 2010, to 41% on January 1, 2011 and to 38% on January 1, 2012.

TABLE F.22

Change in the gross-up rate applicable to eligible dividends – large corporations
(percent)

	Before the 2008-2009 Budget		After the 2008-2009 Budget	
	Gross-up rate of dividends	Rate of the dividend tax credit ¹	Gross-up rate of dividends	Rate of the dividend tax credit ¹
2008	45	11.9	45	11.9
2009	45	11.9	45	11.9
2010	45	11.9	44	11.9
2011	45	11.9	41	11.9
2012	45	11.9	38	11.9

1 The dividend tax credit applies to the grossed-up dividend.

Through this measure, the government will have provided individuals with a gain of \$33 million by the end of fiscal year 2012-2013.

Tax treatment applicable to taxable dividends

Outline of current tax treatment (before the 2008-2009 Budget)

In the federal and Québec tax systems, corporate earnings are subject to corporate income tax. Where the corporation distributes its earnings in the form of dividends, these earnings are taxed a second time as personal income. However, the two systems provide for a mechanism to avoid double taxation.

This mechanism involves two stages:

- first, the amount of the dividends is grossed up (45% for large corporations and 25% for small corporations) and this grossed-up income is taxed at the marginal rate applicable to personal income tax;
- second, to recognize the corporate income tax already paid, the amount of income tax payable by the individual is reduced by the dividend tax credit (11.9% for large corporations and 8% for small corporations, which correspond to the rates applicable in the corporate tax system).

Outline of the Québec government's 2006-2007 Budget

In the 2006-2007 Budget, to follow through on harmonization with federal legislation and to ensure integration of Québec's corporate and personal income tax systems:

- the gross-up rate applicable to eligible dividends (generally those paid by large taxable Canadian corporations) was raised to 45% and the rate of the dividend tax credit in respect of these corporations was raised to 11.9% of the taxable dividend; and
- the gross-up rate applicable to ordinary dividends (generally those paid by small taxable Canadian corporations) remained the same, at 25%, whereas the rate of the dividend tax credit in respect of these corporations was lowered to 8% of the taxable dividend.

These changes were designed to ensure that \$1 earned by a corporation will ultimately produce the same tax burden after its distribution to an individual shareholder as \$1 of employment income earned by the same individual.

Outline of the federal government's 2007 Economic Statement

The federal government's 2007 *Economic Statement* announced that the general corporate income tax rate would be reduced to 15% by 2012 (18% in 2010, 16.5% in 2011 and 15% in 2012) and that adjustment of the dividend tax credit would be considered so as to ensure appropriate tax treatment of dividend income.

- In this context, the February 26, 2008 federal budget proposes to reduce the gross-up rate applicable to eligible dividends (generally those paid by large corporations) to 44% in 2010, 41% in 2011 and 38% in 2012. The rate of the tax credit for these dividends (19%) will be lowered to 18% in 2010, 16.5% in 2011 and 15% in 2012.

2. DEVELOPING QUEBECERS' KNOWLEDGE AND SKILLS

The ultimate objective of the Québec government's policies is to enable Québec to achieve its full economic potential so that all Quebecers enjoy greater prosperity.

With the population aging, sustained investment in the knowledge and skills of Quebecers is essential to boost labour market participation and productivity growth.

Acting on this necessity, the 2008-2009 Budget Speech announces:

- the upcoming unveiling of the Employment Pact that will involve public and private investments of nearly \$1 billion, including \$196 million in this budget;
- measures to foster the francization and integration of immigrants, for a total of \$65 million over five years;
- investments in education of \$440 million over five years, in particular in vocational and technical training and in higher education.

TABLE F.23

Measures to develop the knowledge and skills of Quebecers

(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Investments under the Employment Pact	– 14.0	– 32.0	– 41.0	– 50.0	– 59.0	– 196.0
Measures to encourage the integration of immigrants	– 11.0	– 12.0	– 14.0	– 14.0	– 14.0	– 65.0
Investments in education	– 66.0	– 93.4	– 93.4	– 93.4	– 93.4	– 439.6
TOTAL	– 91.0	– 137.4	– 148.4	– 157.4	– 166.4	– 700.6

2.1 Investments totalling \$196 million under the Employment Pact

The government is announcing, as part of the 2008-2009 Budget, the upcoming unveiling of the Employment Pact that will bring forward a series of concrete actions involving public and private investments of nearly \$1 billion over three years. The details of the Employment Pact will soon be made public by the Minister of Employment and Social Solidarity.

The Employment Pact will provide Québec with manpower that is better trained to:

- meet the challenges of globalization and an aging population and satisfy the growing needs of businesses;
- act against poverty and social exclusion by making work a valued and paying choice, in particular for immigrants, handicapped persons, persons over 55, persons outside the labour market and young people.

To achieve these objectives, the Employment Pact will stipulate, in particular, measures to promote the training and development of the human capital of workers, and to recognize their skills and experience.

In addition, the Employment Pact will seek to help young people under 25 to integrate the labour market and encourage them to continue working. The measures stipulated for that purpose will, among other things, help curb dropping out of school and help students gain access to on-the-job training periods.

To support the actions planned as part of the Employment Pact, the 2008-2009 Budget stipulates tax relief of \$196 million to increase the work incentive of low and middle-income workers.

❑ The 2008-2009 Budget's contribution to the Employment Pact

The 2008-2009 Budget announces a contribution to the Employment Pact to bolster existing work incentives with the following measures:⁶

- a new Work Premium Supplement for long-term recipients giving up last-resort financial assistance;
- a new Work Premium for persons with severely limited capacity for employment;
- the possibility of advance payments of the Work Premium for households without children;
- full indexing of the deduction for workers;
- improvement to the tax credit for on-the-job training periods for handicapped persons and immigrants;
- implementation of legislative provisions to encourage phased retirement.

Over five years, these measures represent tax relief of \$196 million for workers.

TABLE F.24

Financial impact of new measures to improve the work incentive (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
New Work Premium Supplement for long-term recipients giving up last-resort financial assistance	- 7.3	- 18.0	- 18.0	- 18.0	- 18.0	- 79.3
New Work Premium for persons with severely limited capacity for employment	- 2.0	- 3.0	- 3.0	- 3.0	- 3.0	- 14.0
Possibility of advance payment of the Work Premium for households without children	- 2.7	—	—	—	—	- 2.7
Full indexing of the deduction for workers	- 2.0	- 9.0	- 18.0	- 27.0	- 36.0	- 92.0
Improvement to the tax credit for on-the-job training periods for handicapped persons and immigrants	—	- 2.0	- 2.0	- 2.0	- 2.0	- 8.0
Implementation of legislative provisions to encourage phased retirement	—	—	—	—	—	—
TOTAL	- 14.0	- 32.0	- 41.0	- 50.0	- 59.0	- 196.0

⁶ These measures are explained in greater detail in the Additional Information on the Budgetary Measures.

2.1.1 New Work Premium Supplement for long-term recipients giving up last-resort financial assistance

The 2008-2009 Budget introduces a new Work Premium Supplement for long-term recipients giving up last-resort financial assistance.⁷ This supplement is designed to foster the integration of these recipients into the labour market by giving them the financial means to overcome the significant costs of transition to employment.

The amount of the supplement will be \$200 per month, i.e. \$2 400 for a maximum of 12 consecutive months. In the case of a couple, the \$200 Supplement may be paid to each spouse for maximum assistance of \$4 800 over 12 consecutive months.

The new Work Premium Supplement will apply as of April 1, 2008 and the first monthly payments will be made during September 2008.

The Work Premium Supplement targets more than 260 000 people who currently receive benefits under last-resort financial assistance programs. It is estimated that, each year, 12 000 people will benefit from this tax relief totalling \$18 million.

Those eligible for the supplement are people who return to the labour market after having received last-resort financial assistance for at least 36 of the last 42 months and who:

- ceased to be eligible for last-resort financial assistance programs because of the work income earned by their household and as such have a claim slip;⁸
- earned work income of at least \$200 during the month, equivalent to the excluded work income threshold of the Social Assistance program for a single person.

⁷ Since January 1, 2007, the Social Assistance Program seeks to provide financial assistance of last resort to persons without severely limited capacity for employment, while the Social Solidarity Program seeks to provide last-resort financial assistance to persons with severely limited capacity for employment.

⁸ The claim slip, or drug card, allows recipients to obtain, free of charge, certain prescription drugs and dental care. Persons who last-resort financial assistance, in particular because of their work income, retain the right to the claim slip for a period of from 6 to 48 months.

❑ A substantial rise in government assistance to support returning to work

The Supplement substantially increases government assistance for long-term recipients who return to work. For instance, for a person living alone, the new Supplement is added to the Work Premium, bringing the maximum assistance granted by the Québec government to \$2 918. Including the Working Income Tax Benefit (WITB) provided by the federal government, the total assistance is \$3 806.

For other households, the maximum assistance can reach:

- \$6 517 for a childless couple;
- \$5 507 for a single-parent family;
- \$8 577 for a couple with children.

TABLE F.25

Maximum assistance granted by the Work Premium, the Work Premium Supplement and the WITB during the first year of return to work¹
(dollars)

	Recipients of last-resort financial assistance for 36 months who enter the labour market			
	Person living alone	Childless couple ²	Single-parent family	Couple with children ²
Current: Work Premium	518	801	2 219	2 861
2008-2009 Budget: Work Premium Supplement	2 400	4 800	2 400	4 800
Subtotal – Québec government	2 918	5 601	4 619	7 661
Working Income Tax Benefit (WITB)	888	916	888	916
TOTAL GOVERNMENT ASSISTANCE	3 806	6 517	5 507	8 577

1 According to the parameters of taxation year 2008.

2 Assuming the two spouses are eligible for the Work Premium Supplement.

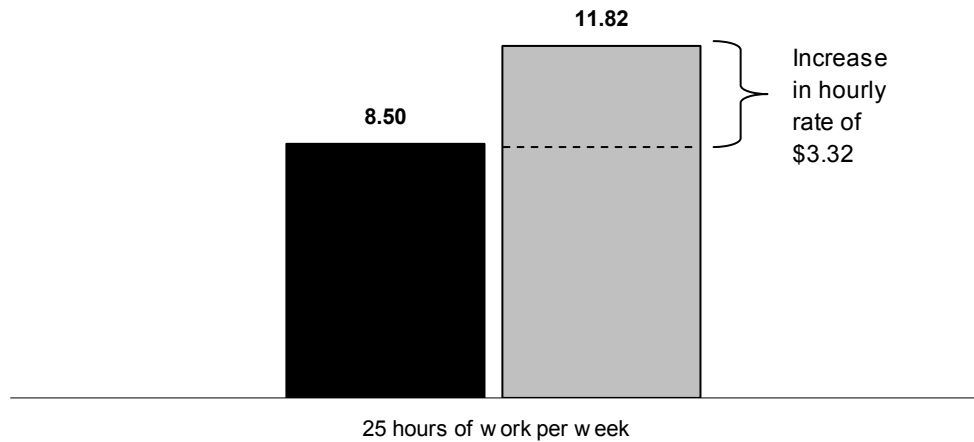
❑ Assistance equivalent to more than \$3 an hour for a worker paid the minimum wage

The Work Premium Supplement substantially increases the disposable income of households. Since it is non-taxable, the Supplement corresponds to an increase in gross hourly wage of \$3.32 an hour for a worker who works 25 hours per week at the minimum wage, which corresponds to an hourly wage of \$11.82.

CHART F.10

Increase in the hourly wage rate equivalent to the amount granted by the Work Premium Supplement^{1,2}

(dollars per hour of work)



- 1 In the case of a person living alone who works 25 hours per week at the minimum wage, the Supplement will increase his disposable income from \$12 467 to \$14 867 in 2008. Without the Supplement, the same worker would have to earn an hourly wage of \$11.82 to obtain the equivalent disposable income.
- 2 According to the parameters of taxation year 2008.

TABLE F.26

Impact of the Work Premium Supplement for a person living alone – 2008
(dollars)

Work Income	Existing measures			2008-2009 Budget	
	Work Premium	WITB	Subtotal	Work Premium Supplement	Total
0	—	—	—	—	—
2 500	7	12	19	—	19
5 000	182	312	494	—	494
7 500	357	612	969	—	969
9 500	497	852	1 349	—	1 349
10 000	518	888	1 406	2 400	3 806
12 500	322	472	794	2 400	3 194
15 000	87	—	87	2 400	2 487
17 500	—	—	—	2 400	2 400
20 000	—	—	—	2 400	2 400

TABLE F.27

Impact of the Work Premium Supplement for a couple with two children and two work incomes – 2008
(dollars)

Work Income	Existing measures			2008-2009 Budget	
	Work Premium	WITB	Subtotal	Work Premium Supplement	Total
0	—	—	—	—	—
5 000	350	112	462	—	462
7 500	975	312	1 287	—	1 287
10 000	1 600	512	2 112	—	2 112
15 000	2 850	912	3 762	4 800	8 562
20 000	2 485	116	2 601	4 800	7 401
30 000	1 545	—	1 545	4 800	6 345
40 000	565	—	565	4 800	5 365
50 000	—	—	—	4 800	4 800

Note: Each spouse earns 50% of the work income.

Main Terms and Conditions of the New Work Premium Supplement for Long-Term Recipients Giving Up Last-Resort Financial Assistance

Eligibility for the Work Premium Supplement

- Have received benefits under last-resort financial assistance programs for at least 36 of the 42 months preceding the month when the household became ineligible for such assistance.
- Cease to be eligible for benefits under last-resort financial assistance programs because of the work income earned by the household and have a claim slip.

Conditions to satisfy to receive the Supplement for a given month

- Have earned, during the month, work income of at least \$200.
- Not have received a basic benefit relating to a last-resort financial assistance program for such month.

Payments

- For an eligible person, the Supplement amounts to \$200 per month for a maximum of 12 consecutive months.
- The Supplement may be paid to each spouse, if they each satisfy the conditions for a given month.
- The Supplement is paid in conjunction with the filing of the tax return.
- Upon request, the Supplement may be paid monthly, in advance.
- The Supplement is not reduced according to household income.

Implementation

- As of April 1, 2008.
- The first payments will be made during September 2008 and will include the amounts accumulated since April 1, 2008.

Review of the Work Premium

Objectives

The Work Premium was introduced in 2005. It is intended for low or middle-income workers to encourage them to enter or remain on the labour market.

In addition, it rewards the work efforts of recipients of last-resort financial assistance programs who enter the labour market by partially offsetting the reduction in their benefits when they earn an income in excess of the excluded work income threshold.

The government is pursuing two objectives with the Work Premium:

- support and reward the work effort of low and middle-income persons;
- encourage people to leave financial assistance of last resort to enter the labour market.

Major parameters

The assistance provided by the Work Premium reaches a maximum where the household's work income reaches the cut-off threshold of the Social Assistance Program.

- For instance, for a couple with children, the Premium increases work income by 25% to a maximum of \$2 861, where work income amounts to \$15 044.
- The maximum premium is reduced by 10% of income in excess of the household's reduction threshold. For a couple with children, the reduction applies gradually up to family income of \$43 654.

Main parameters of the Work Premium – 2008

	Person living alone	Childless couple	Single-parent family	Couple with children
Excluded work income	\$2 400	\$3 600	\$2 400	\$3 600
Premium rate (% of work income supplemented)	7%	7%	30%	25%
Maximum premium	\$518	\$801	\$2 219	\$2 861
Reduction				
– Reduction threshold	\$9 796	\$15 044	\$9 796	\$15 044
– Rate of reduction	10%	10%	10%	10%
<i>Cut-off threshold</i>	<i>\$14 973</i>	<i>\$23 055</i>	<i>\$31 984</i>	<i>\$43 654</i>

Selected statistics

Roughly 550 000 low and middle-income households receive the Work Premium. This measure cut the tax burden of households by \$355 million in 2006 and by \$356 million in 2007.

2.1.2 New Work Premium for persons with severely limited capacity for employment

The 2008-2009 Budget stipulates the implementation, as of taxation year 2008, of a new Work Premium for persons with severely limited capacity for employment, including handicapped persons. This measure is designed to recognize that persons with severely limited capacity for employment or a severe impairment frequently must overcome significant obstacles when they enter the labour market. For a given year, the new Work Premium targets:

- households receiving a benefit under the Social Solidarity Program or having received such a benefit for at least one month during one of the last five years;
- households one of whose members is eligible, for the year, for the non-refundable tax credit for severe and prolonged impairment in physical or mental functions.

Compared to the current Work Premium, the maximum assistance provided by the new Premium is substantially higher. Accordingly, with the new Work Premium, more than 10 000 Québec households will enjoy tax relief of \$3 million over a full year.

TABLE F.28

Increase in maximum assistance granted by the new Work Premium for persons with severely limited capacity for employment – 2008
(dollars)

	Person living alone	Childless couple	Single-parent family	Couple with children
Current Work Premium ¹	381	687	2 082	2 747
New Work Premium	1 003	1 477	2 787	3 281
IMPACT OF THE BUDGET	622	789	704	534

Note: Since figures are rounded, the increase in maximum assistance may not correspond to the amount shown.

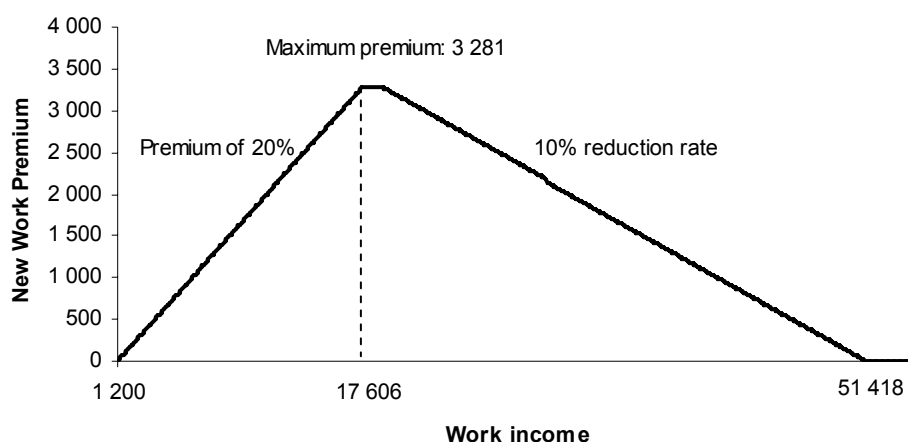
1 Corresponds to the maximum amount of the current Work Premium for a household that received a benefit under the Social Solidarity Program for the entire year.

For a couple with children, the new Premium will boost work income by 20%, reaching a maximum of \$3 281 when work income amounts to \$17 606. Starting from the reduction threshold set according to the household, the maximum premium is reduced by 10% of the excess family income.⁹ For a couple with children, the reduction applies gradually starting at family income of \$17 606 up to \$50 418.¹⁰

CHART F.11

New Work Premium for persons with severely limited capacity for employment according to work income for a couple with children – 2008

(dollars)



⁹ Family income is defined as the household's total income, from which is subtracted, among other things, the applicable deductions such as the deduction for workers and the deduction for contributions to a retirement savings plan. For example, a household whose total income is \$25 000 will have a family income of \$24 000 if it is eligible solely for the \$1 000 deduction for workers.

¹⁰ For example, if the couple is eligible for the \$1 000 deduction for workers, the \$17 606 reduction threshold applicable to family income would then be achieved at a work income of \$18 606, and the cut-off threshold of \$50 418 at a work income of \$51 418.

The following table illustrates the amount of the new Premium according to type of household and its work income.

TABLE F.29

Amount of the new Work Premium for persons with severely limited capacity for employment according to work income – 2008
(dollars)

Work income	Person living alone	Childless couple	Single-parent family	Couple with children
0	—	—	—	—
1 000	—	—	—	—
2 000	72	72	200	160
3 000	162	162	450	360
4 000	252	252	700	560
5 000	342	342	950	760
10 000	792	792	2 200	1 760
15 000	857	1 242	2 640	2 760
20 000	367	1 372	2 150	3 177
25 000	—	872	1 650	2 677
30 000	—	337	1 121	2 142
35 000	—	—	621	1 642
40 000	—	—	121	1 142
45 000	—	—	—	642
50 000	—	—	—	142

□ Assistance integrated with the Social Solidarity Program

Currently, the Work Premium is integrated with the Social Assistance Program and reaches a maximum at a work income equivalent to the cut-off threshold of this program, i.e.:

- \$9 976 for persons living alone and single-parent families;
- \$15 044 for couples.

To bolster the work incentive, the new Work Premium for persons with severely limited capacity for employment will instead be integrated with the Social Solidarity Program.

For instance, for a couple with children, the new Premium:

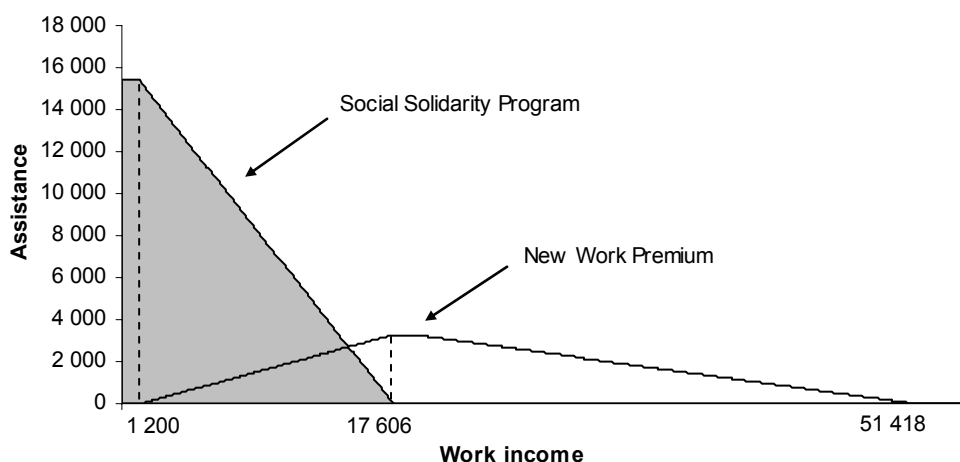
- includes the same exemption of the first dollars of work income as that of the Social Solidarity Program, i.e. \$1 200;
- reaches a maximum at the level of work income at which the household is no longer eligible for the Social Solidarity Program, i.e. \$17 606 in 2008.

This integration of the new Premium is essential to ensure that each dollar of work income these households earn contributes to raising their disposable income, until they exit the Social Solidarity Program.

CHART F.12

Integration of the new Work Premium for persons with severely limited capacity for employment with the Social Solidarity Program for a couple with children – 2008

(dollars)



Main Terms and Conditions of the New Work Premium for Persons with Severely Limited Capacity for Employment

Eligibility for a given year

- Earn work income.
- Not be a dependant on another individual.
- File a tax return.
- Receive a benefit under the Social Solidarity Program or have received such a benefit for at least one month during one of the last five years or be eligible for the year for the non-refundable tax credit for severe and prolonged impairment in physical or mental functions.

Eligible income

- Work income during the current taxation year.
- No asset or liquid asset test.
- Reduction calculated according to the family's household income.

Payments

- All eligible households have the option of receiving a quarterly payment in advance where the estimated amount of the new Premium for the year exceeds \$300 in the case of childless households and \$500 for families.
- Advance payments correspond to 75% of the estimated amount of the new Premium for the year in the case of childless households and 50% for families.
- Revenu Québec carries out a reconciliation at the end of the year.

Implementation

- 2008 taxation year.
- Advance payments will begin in 2009.

Indexing

- The reduction threshold of the new Premium and the income threshold at which the Premium is no longer paid will be revised on January 1 each year, starting in 2009.

Main parameters of the new Work Premium – 2008

	Person living alone	Childless couple	Single-parent family	Couple with children
Excluded work income	\$1 200	\$1 200	\$1 200	\$1 200
Premium rate (% of supplemented work income)	9%	9%	25%	20%
Maximum premium	\$1 003	\$1 477	\$2 787	\$3 281
Reduction				
– Reduction threshold	\$12 346	\$17 606	\$12 346	\$17 606
– Rate of reduction	10%	10%	10%	10%
<i>Cut-off threshold</i>	\$22 377	\$32 371	\$40 211	\$50 418

2.1.3 Possibility of advance payment of the Work Premium for households without children

The 2008-2009 Budget stipulates that as of January 2009, households without children may receive advance payment of the Work Premium, as is currently the case for families.

Childless households who so request will thus have the opportunity to obtain up to 75% of the estimated Work Premium in advance. Advance payments will be made each quarter on the same dates as those for families, i.e. on or about January 15, April 15, July 15 and October 15.

The purpose of this measure is to increase the effect of the Work Premium by tying assistance granted more closely to work effort. In addition, the measure will provide greater cash flow for eligible households. For example:

- a childless couple entitled to a Work Premium of \$800 may obtain up to \$600 in advance, i.e. \$150 per quarter;
- a person living alone entitled to an amount of \$500 may obtain up to \$375 in advance payments, i.e. roughly \$94 per quarter.

Accordingly, if they so request, the 165 000 people eligible for this measure will never have to wait more than two months after returning to work to receive a Work Premium payment.

TABLE F.30

Cash flow increase for households without children – 2009

(dollars)

	Person living alone (estimated Work Premium of \$500)			Childless couple (estimated Work Premium of \$800)		
	Before 2008-2009 Budget	After 2008-2009 Budget	Difference	Before 2008-2009 Budget	After 2008-2009 Budget	Difference
Advance payments						
– January 15	—	93.75	93.75	—	150	150
– April 15	—	93.75	93.75	—	150	150
– July 15	—	93.75	93.75	—	150	150
– October 15	—	93.75	93.75	—	150	150
Total advance payments	—	375	375	—	600	600
Payment in conjunction with 2009 tax return	500	125	– 375	800	200	– 600
TOTAL	500	500	—	800	800	—

2.1.4 Full indexing of the deduction for workers

The 2008-2009 Budget stipulates that as of taxation year 2009 and subsequent years, the maximum amount of the deduction for workers of \$1 000 in 2008 will be indexed, each year, at the annual indexing rate of the personal tax system.

The deduction for workers was introduced in the 2005-2006 Budget and raised from \$500 to \$1 000 in the 2006-2007 Budget. The purpose of the deduction is to recognize that certain expenses, such as clothing and transportation, are indispensable to earn a work income.

Indexing of the deduction for workers will reduce taxes by almost \$9 million in 2009 for roughly three million workers.

2.1.5 Improvement to the tax credit for on-the-job training periods for handicapped persons and immigrants

Currently, a refundable tax credit for on-the-job training periods of 30% (15% for individuals) is granted to employers who hire students as trainees. This tax credit applies to the wages and salaries paid to trainees, apprentices and supervisors. More than 4 000 businesses claim the tax assistance annually, enabling roughly 10 000 students and apprentices to complete an on-the-job training period.

As part of the 2008-2009 Budget, the government is announcing an improvement to the tax credit for on-the-job training periods for handicapped persons and immigrants to encourage Québec entrepreneurs to help them enter the labour market more easily. As of the day following the day of the 2008-2009 Budget:

- the rate of the tax credit will be raised to 40% for corporations (20% for individuals) regarding a handicapped person or an immigrant (student or apprentice);
- the maximum number of hours of supervision of a handicapped person will be doubled.

The measure represents tax assistance of \$2 million annually.

TABLE F.31

Changes to the refundable tax credit for on-the-job training periods

Parameters	Current situation	After the 2008-2009 Budget
Handicapped persons		
Hours of supervision ¹	Maximum of 10 or 20 hours per week, per participant	Maximum of 20 or 40 hours per week, per participant
Eligible expenditures (students and supervisors)	\$600 or \$750 per week, per participant	\$750 or \$1 050 per week, per participant
Rate of the tax credit for the employer ²	30%	40%
Maximum tax credit	\$180 or \$225 per week, per participant	\$300 or \$420 per week, per participant
Immigrants		
Rate of the tax credit for the employer ²	30%	40%
Maximum tax credit	\$180 or \$225 per week, per participant	\$240 or \$300 per week, per participant

1 The maximum number of hours of supervision depends on the training program.

2 Rate for corporations. A rate of 15%, 20% after the 2008-2009 Budget, applies for other taxpayers carrying on a business.

Review of the Tax Credit for On-the-Job Training Periods

Purpose

To encourage businesses to participate in manpower training activities and enable students to complete the training periods needed to obtain their diploma, a refundable tax credit for on-the-job training periods is granted to employers who hire student trainees.

Description of the measure

The tax credit applies to the wages and salaries paid to trainees, apprentices and supervisors. The rate is 30% for corporations and 15% for individuals.

The government announced, in the 2006-2007 Budget, the permanent renewal of the tax credit and a 20% rise in the cap on eligible expenditures and the maximum hourly salary paid to the trainee.

Eligible participants are full-time students and employees (apprentices) who participate in any of the following programs:

- vocational and technical training programs;
- university programs at the bachelor's, master's and doctoral levels;
- programs for the social and occupational integration of young people and adults;
- Workplace Apprenticeship Program (WAP) accredited by Emploi-Québec.

Financial impact

This measure represents tax relief of \$28 million in 2007.

2.1.6 Implementation of legislative provisions to encourage phased retirement

In the 2006-2007 Budget Speech, the government made a commitment to encourage phased retirement in private sector supplemental defined benefit pension plans (DBPs) in which almost 580 000 workers participate.

In response to this initiative, the federal government has, since January 1, 2008, eliminated the tax obstacles to phased retirement, in particular in DBPs, as announced in its 2007 Budget.

The government is announcing, as part of the 2008-2009 Budget Speech, that a bill to amend the *Supplemental Pension Plans Act* will be presented for approval during the spring 2008 parliamentary session. The purpose of this bill is to enable the application of new phased retirement measures to pension plans under the jurisdiction of this statute.

Consistent with the new tax rules, the phased retirement measures that will be implemented in private sector DBPs will add flexibility and financial incentive to extending the working life of employees by allowing them to continue working full or part-time, with the possibility:

- of receiving up to 60% of their retirement pension (including incidental benefits such as bridging benefits) regardless of the reduction of their work time;
- of continuing to accumulate additional years of service to increase their retirement benefits.

Moreover, the bill will stipulate that employers may offer phased retirement:

- to their employees age 60 or over;
- to their employees between age 55 and 59 who are eligible for early retirement without reduction;
- to retired employees who return to their job.

Phased retirement will not be a right for workers and must be covered by an agreement between them and their employer. It will enable workers to extend their working life and ensure, in particular, the transfer of expertise in businesses.

The bill will also stipulate provisions for the application of similar phased retirement measures to supplemental defined contribution pension plans (DCPs).

❑ Application of phased retirement to public and parapublic sector retirement plans

The phased retirement measures stipulated in the bill will not apply to the public and parapublic sector retirement plans. The 2008-2009 Budget Speech announces that regarding these pension plans, the government will initiate discussions with union and management associations to agree on specific measures governing the application of phased retirement to public and parapublic sector employees.

❑ New more flexible and financially advantageous phased retirement terms and conditions

Although private sector DBPs already included certain phased retirement provisions, this form of retirement was not an attractive alternative to early retirement for workers.

For example, a typical worker would receive, after tax and contributions, an additional net income of only \$4.39 for each hour worked under phased retirement from age 60 to 63, even though his gross hourly wage is \$28.85.¹¹ In this situation, only workers with a marked preference for work would opt for phased retirement.

Henceforth, with the new phased retirement measures, the same worker could, for instance, following an agreement with his employer:

- reduce his work time to two days per week as of age 60 for a period of three years;
- receive 60% of his retirement pension annually (including his bridging benefit);
- accumulate additional years of service that would add to his retirement benefits.

Over his entire retirement period, he would receive \$43 902 more net income relative to early retirement compared with \$15 807 under the current provisions. In other words, the new phased retirement measures will enable this typical worker to receive additional net income of \$12.20 for each hour worked under phased retirement from age 60 to 63, compared with \$4.39 currently.

¹¹ According to the characteristics of participants in private sector DBPs, by the end of his career a typical worker earns a gross income of \$57 695, corresponding to an hourly salary of \$28.85, assuming he works 2 000 hours per year.

TABLE F.32

Impact of the new phased retirement measures for a typical participant – 2008(present value of future net income)¹

	Current system			New measures
	Participant in early retirement at age 60	Participant working full-time from age 60 to 63	Participant in phased retirement from age 60 to 63	Participant in phased retirement from age 60 to 63
Income				
Work income	—	165 069	99 041	99 041
Retirement benefits under the private plan ²	366 234	303 890	307 608	352 328
Retirement benefits under public plans ³	147 002	149 961	147 002	147 002
Subtotal – Income	513 236	618 920	553 651	598 371
Taxes and contributions	– 81 761	– 136 873	– 106 369	– 122 994
TOTAL	431 475	482 047	447 282	475 377
Difference in income compared to early retirement	—	50 572	15 807	43 902
Number of hours worked from age 60 to 63	—	6 000	3 600	3 600
Worker's additional income, compared to early retirement, for each hour worked between age 60 and 63 (\$/hour) ⁴	—	8,43	4,39	12,20

1 The present value of future net income reflects the future income a worker may receive from his job and his retirement benefits from public and private plans, as well as the aggregate of taxes, social contributions and transfers from the Québec government and the federal government. Calculations are based on the characteristics of a typical worker and DBP, the survival probabilities of men and a discount rate of 4%.

2 These benefits include the participant's retirement pension, bridging benefit and lump-sum amounts.

3 These benefits include the Québec Pension Plan retirement pension and the benefits of the federal government's Old Age Security program.

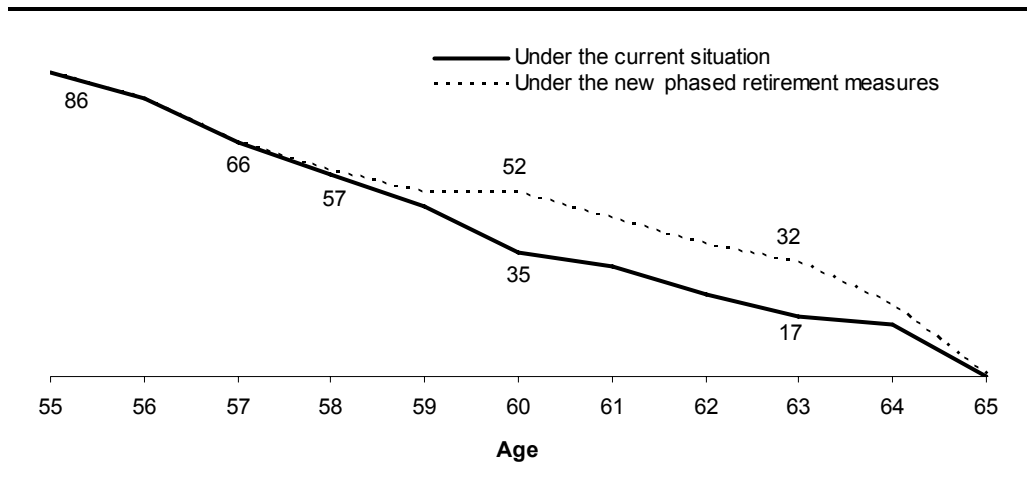
4 Additional net income is calculated by dividing the difference in income compared to early retirement by the number of hours worked from age 60 to 63.

□ Positive impact on labour supply

The new phased retirement measures that workers may take advantage of will have positive impact on the labour supply. It is estimated that, on average, they would encourage four out of ten workers from age 55 to 65 to prolong their working life by one year.

CHART F.13

Impact of the new phased retirement measures on the labour supply of persons from age 55 to 65¹ (percentage of employed persons)



1 Typical participant in a private sector DBP.

In the current demographic situation, a strategy of encouraging workers nearing the end of their career to continue working would have a number of positive impacts:

- employers would be assured of skilled and experienced workers who, by remaining at work, would increase productivity and encourage the transfer of knowledge within the business;
- employees would have a new option offering more flexibility in transitioning from work to full retirement;
- these factors would have a positive effect on the supply of labour and would enhance economic growth.

2.1.7 Measures amounting to \$1 billion per year for workers

Access to and participation in the labour market contribute not only to an increase in the individual's standard of living but also to the enhancement of collective wealth. The measures the government has implemented are designed to increase labour market participation and tap the full potential of each individual of working age.

The Québec government is allocating almost \$1 billion to the Work Premium and the deduction for workers alone. In 2008:

- roughly 550 000 working households will benefit from the Work Premium, which can reach \$2 861 for a family;
- 3.2 million workers will benefit from the deduction for workers, which can reach \$480 for a working couple.

In addition to these measures, workers benefit from the federal Working Income Tax Benefit (WITB). The parameters of the WITB are covered by an agreement with the Québec government to maximize the impact of this measure on the labour supply in Québec. Overall, Québec households enjoy tax relief of roughly \$1.1 billion as a reward for their work effort.

TABLE F.33

Principal measures in favour of the work incentive – 2008

(millions of dollars)

	2008
Deduction for workers	583
Work Premium ¹	354
Subtotal - Québec government	937
Federal Working Income Tax Benefit adjusted for Québec	111
TOTAL	1 048

1 Including the impact of the new Work Premium Supplement for long-term recipients giving up last-resort financial assistance and the new Work Premium for persons with severely limited capacity for employment.

❑ A significant increase in workers' disposable income since 2003

The tax relief measures the Québec government has implemented since 2003 are significant, particularly for workers. The disposable income of a couple with two children and two work incomes has increased:

- by \$4 817 for a total family income of \$25 000;
- by \$1 917 for a total family income of \$50 000;
- by \$1 656 for a total family income of \$100 000.

TABLE F.34

Gain arising from the measures implemented since 2003 for a couple with two children¹ and two work incomes – 2009
(dollars)

Work income	Tax assistance for workers			Other tax relief ³	Increase in disposable income
	Work Premium	Deduction for workers ²	Subtotal		
5 000	350	—	350	1 974	2 324
10 000	1 600	—	1 600	1 974	3 574
15 000	2 850	—	2 850	1 974	4 824
25 000	1 899	150	2 049	2 768	4 817
35 000	899	528	1 427	1 614	3 041
45 000	—	467	467	1 561	2 028
50 000	—	406	406	1 511	1 917
75 000	—	406	406	2 227	2 633
100 000	—	406	406	1 250	1 656

Note: Each spouse earns 50% of the work income.

1 Children age 7 and 9.

2 Includes the impact of the deduction for workers on the Work Premium as well as the impact of full indexing of the deduction for workers stipulated in the 2008-2009 Budget.

3 Reflects the introduction of Child Assistance and the single tax system announced in the 2004-2005 Budget, the rise in tax table thresholds and in the basic amount stipulated in the 2007-2008 Budget, as well as the indexing of the tax system from 2004 to 2009.

The disposable income of a single-parent family with one child has risen:

- by \$2 788 for a total family income of \$15 000;
- by \$2 125 for a total family income of \$25 000;
- by \$2 010 for a total family income of \$75 000.

TABLE F.35

**Gain arising from the measures implemented since 2003 for
a single-parent family with one child¹ – 2009**
(dollars)

Work Income	Tax assistance for workers			Other tax relief ³	Increase in disposable income
	Work Premium	Deduction for workers ²	Subtotal		
5 000	780	—	780	977	1 757
10 000	2 221	15	2 236	977	3 213
15 000	1 721	172	1 893	895	2 788
25 000	721	264	985	1 140	2 125
35 000	—	233	233	1 624	1 857
45 000	—	244	244	1 424	1 668
50 000	—	244	244	1 355	1 599
75 000	—	244	244	1 766	2 010
100 000	—	244	244	1 528	1 772

1 Child age 7.

2 Includes the impact of the deduction for workers on the Work Premium as well as the impact of full indexing of the deduction for workers stipulated in the 2008-2009 Budget.

3 Reflects the introduction of Child Assistance and the single tax system announced in the 2004-2005 Budget, the rise in tax table thresholds and in the basic amount stipulated in the 2007-2008 Budget, as well as the indexing of the tax system from 2004 to 2009.

The disposable income of a person living alone has risen:

- by \$474 for a total family income of \$15 000;
- by \$877 for a total family income of \$35 000;
- by \$769 for a total family income of \$50 000.

TABLE F.36

Gain arising from the measures implemented since 2003 for a person living alone – 2009
(dollars)

Work Income	Tax assistance for workers			Other tax relief ²	Increase in disposable income
	Work Premium	Deduction for workers ¹	Subtotal		
5 000	182	—	182	—	182
10 000	507	15	522	—	522
15 000	7	172	179	295	474
25 000	—	162	162	295	457
35 000	—	193	193	684	877
45 000	—	203	203	585	788
50 000	—	203	203	566	769
75 000	—	203	203	1 389	1 592
100 000	—	244	244	1 436	1 680

1 Includes the impact of the deduction for workers on the Work Premium as well as the impact of full indexing of the deduction for workers stipulated in the 2008-2009 Budget.

2 Reflects the introduction of the single tax system announced in the 2004-2005 Budget, the rise in tax table thresholds and in the basic amount stipulated in the 2007-2008 Budget, as well as the indexing of the tax system from 2004 to 2009.

Compared to 2003, the disposable income of a person receiving benefits under the Social Solidarity Program for more than three years who enters the labour market will rise in 2008:

- by \$3 627 for a total family income of \$15 000;
- by \$3 277 for a total family income of \$35 000;
- by \$3 169 for a total family income of \$50 000.

TABLE F.37

Gains arising from measures implemented since 2003 for a person receiving benefits under the Social Solidarity Program for more than three years who enters the labour market – 2009
(dollars)

Work income	Tax assistance for workers				Other tax relief ³	Increase in disposable income
	Work Premium ¹	Work Premium Supplement	Deduction for workers ²	Subtotal		
5 000	342	—	—	342	—	342
10 000	792	—	—	792	—	792
15 000	760	2 400	172	3 332	295	3 627
25 000	—	2 400	162	2 562	295	2 857
35 000	—	2 400	193	2 593	684	3 277
45 000	—	2 400	203	2 603	585	3 188
50 000	—	2 400	203	2 603	566	3 169
75 000	—	2 400	203	2 603	1 389	3 992
100 000	—	2 400	244	2 644	1 436	4 080

1 Reflects the impact of the new Work Premium for persons with severely limited capacity for employment.

2 Includes the impact of the deduction for workers on the Work Premium as well as the impact of full indexing of the deduction for workers stipulated in the 2008-2009 Budget.

3 Reflects the introduction of the single tax system announced in the 2004-2005 Budget, the rise in tax table thresholds and in the basic amount stipulated in the 2007-2008 Budget, as well as the indexing of the tax system from 2004 to 2009.

□ Consistent growth in the minimum work income

To bolster the work incentive, the government is ensuring that minimum working conditions are attractive for all workers. In this regard, the minimum wage has been raised each year since 2003. On May 1, 2008, it will rise by \$0.50 to reach \$8.50, the biggest increase in Québec in more than 30 years.

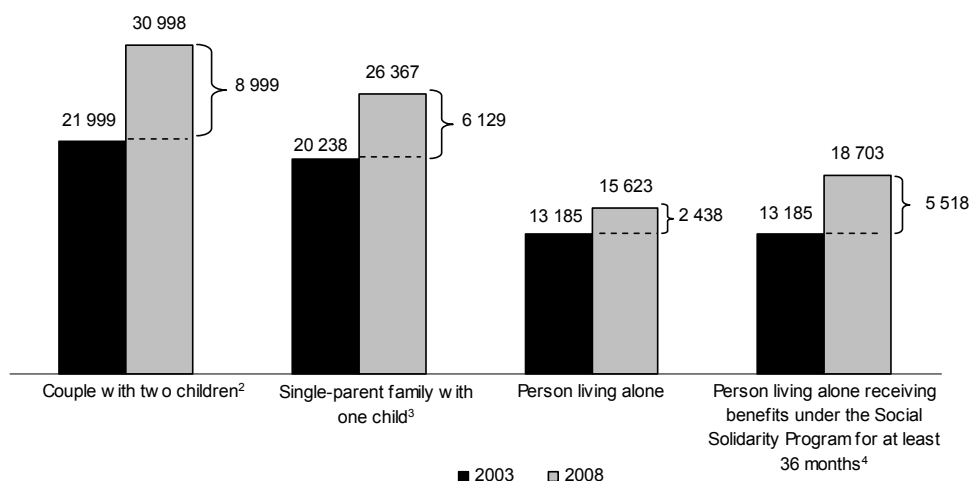
Accordingly, between 2003 and 2008, the disposable income of households working at the minimum wage has risen:

- by \$8 999 for a couple with children;
- by \$6 129 for a single-parent family with one child;
- by \$2 438 for a person living alone;
- by \$5 518 for a person receiving benefits under the Social Solidarity Program for at least 36 months who enters the labour market.

CHART F.14

Increase in disposable income since 2003 for a household working at the minimum wage¹ – 2008

(dollars)



1 Income equivalent to 1 950 hours of work at \$7.30 an hour in 2003 and \$8.50 an hour in 2008.

2 Children age 7 and 9.

3 Child age 5.

4 Represents the disposable income of a person living alone and receiving benefits under the Social Solidarity Program for at least 36 months who enters the labour market.

2.2 Measures to encourage the integration of immigrants

Immigration is essential to improving economic growth in Québec because, in addition to enriching our cultural diversity, it helps bridge the gap between labour supply and demand.

Québec's dynamic economy generated 600 000 jobs from 1996 to 2006. Moreover, it is estimated that 700 000 jobs will have to be filled between 2007 and 2011. In these circumstances, Québec could face a labour shortage, hampering the development of Québec and its businesses.

In its 2008 immigration plan, Québec is encouraging immigration throughout its territory. For a number of years, international immigration has brought in excess of 40 000 people to Québec a year and the plan calls for almost 50 000 new arrivals for 2008.

To enable immigrants to integrate more quickly into Québec society by holding a stable and well-paid job, the 2008-2009 Budget stipulates:

- an investment of \$50 million over the next five years to remove obstacles preventing immigrants from obtaining a job and improving their knowledge of French;
- the introduction of a refundable tax credit for francization to encourage businesses to offer their immigrant employees training in French adapted to their needs. This tax credit represents an investment of \$15 million over five years.

By adding the already planned investments of \$120.9 million over five years, aggregate investments come to almost \$186 million. The details of these measures will be released shortly by the Minister of Immigration and Cultural Communities.

2008 Immigration Plan				
For a number of years, more than 40 000 new arrivals have come to Québec each year. Québec's immigration plan for 2008 was tabled in the National Assembly in November 2007. The 2008 plan encourages a substantial contribution from immigration and calls for a number of immigrants that could reach 49 600 in 2008.				
Real and projected admissions to Québec - 2005 to 2008				
	2005	2006	2007	2008
Skilled workers	30 326	32 520	36 300	38 000
Business people	6 779	4 761	5 700	7 000
Other economic categories ¹	698	563	700	800
Refugees selected abroad ²	2 407	2 155	2 400	2 500
Other immigrants ³	1 692	1 208	1 200	1 300
TOTAL	41 902	41 207	46 300	49 600
¹ Includes domestic assistants and other immigrants in economic categories. ² Includes, in particular, refugees admitted by the state and sponsored refugees. ³ Includes various specific categories selected for humanitarian or public interest reasons. Source: Ministère de l'Immigration et des Communautés culturelles.				

2.2.1 New investments to encourage the employment integration of immigrants

For an individual, employment is an important factor of personal fulfilment. In addition, it is the chief tool for financial success and, by the same token, an essential way to avoid poverty. Whether because of the language barrier, lack of work experience in Québec or specific qualifications that are not recognized, newly arrived immigrants often face precarious economic circumstances because they are unable to find a job quickly.

The impact of these difficulties can be seen reflected in the unemployment rate of immigrants established in Québec for less than five years, which is three times that of Quebecers born in Canada.

That is why the 2008-2009 Budget stipulates new investments of \$10 million per year, i.e. \$50 million over five years, to help immigrants enter the labour market.

2.2.2 Introduction of a refundable tax credit for francization in the workplace

While the percentage of landed immigrants speaking French has risen consistently over the last few years and reached 60% in 2007, still, an appreciable proportion of immigrants does not speak French. It is acknowledged that boosting skills, in particular those related to language fluency, pays off for society and generates positive economic returns.

Given the scope of the challenge of integrating all our immigrants, the government wants to encourage businesses to offer their workers who are less at ease in French training that is adapted to their needs.

Accordingly, a refundable tax credit of 30% will be granted to corporations that enrol their employees in francization courses. The expenditures eligible for the tax credit will include the cost of outside training incurred by the corporation and the salaries paid to the employees participating in the training. In the latter case a cap corresponding to twice the cost of outside training will be applied.

The tax assistance will apply to eligible training expenditures incurred prior to 2012.

TABLE F.38

Introduction of a refundable tax credit for francization in the workplace

Eligible businesses	Parameters of tax assistance		Eligibility
	Rate	Base	
All corporations operating in Québec	30%	The cost of outside training incurred by a corporation, whether the training is given by a private business or by the ministère de l'Immigration et des Communautés culturelles. The lesser of salaries paid to employees during the training or twice the cost of outside training.	The French training expenditures incurred before 2012 for workers whose level of French is considered insufficient. SMEs with payroll of less than \$1 million are to calculate the tax assistance on the first training expenditures incurred. Other businesses must first satisfy their requirement to contribute 1% to the Workforce Skills Development And Recognition Fund before receiving the tax credit. The courses must be given by instructors certified by the ministère de l'Éducation, du Loisir et du Sport or by Emploi-Québec.

This tax assistance will partially compensate businesses for the additional costs incurred for the French courses taken by their workers.

The measure will be of particular benefit to SMEs with payroll of less than \$1 million, because they do not have to satisfy the requirements under the *Act to promote workforce skills development and recognition* (also known as the “1% law”). Corporations subject to this law must first satisfy its requirements before claiming the tax credit.

Ultimately, this measure represents tax relief of \$4 million a year.

2.2.3 Cumulative investments of over \$186 million over five years

Taken as a whole, the measures to foster the francization and integration of immigrants represent an investment of almost \$186 million over five years, namely:

- \$120.9 million of investments already planned;
- \$65.0 million of new investments announced in the 2008–2009 Budget.

These investments reaffirm that immigration is a central priority for the government. They also demonstrate the government's determination to help Québec businesses meet their labour needs.

TABLE F.39

Financial impact of measures for the francization and integration of immigrants (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Investments already planned						
Immigration plan	– 5.4	– 11.6	– 15.2	– 15.2	– 15.2	– 62.6
Integration measures plan	– 13.5	– 15.4	– 9.8	– 9.8	– 9.8	– 58.3
Subtotal – Investments already planned	– 18.9	– 27.0	– 25.0	– 25.0	– 25.0	– 120.9
2008-2009 Budget						
New investments to encourage the employment integration of immigrants	– 10.0	– 10.0	– 10.0	– 10.0	– 10.0	– 50.0
Introduction of a tax credit for francization in the workplace	– 1.0	– 2.0	– 4.0	– 4.0	– 4.0	– 15.0
Subtotal - 2008-2009 Budget	– 11.0	– 12.0	– 14.0	– 14.0	– 14.0	– 65.0
TOTAL	– 29.9	– 39.0	– 39.0	– 39.0	– 39.0	– 185.9

2.3 Investments in education

Education is not only essential to the economic wellbeing of individuals, but to that of Québec as a whole. Access to quality education, together with success at school, is important for the accumulation of human capital and economic growth. To increase the resources allocated to education, the 2008-2009 Budget announces:

- an investment in higher education that is part of the commitment to increase the budget envelope by \$1 billion by 2012;
- an investment in vocational and technical training;
- an investment to support for handicapped students or students with adjustment and learning difficulties.

TABLE F.40

Financial impact of measures for education (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Investment of \$1 billion in higher education by 2012	– 40.0	– 53.0	– 53.0	– 53.0	– 53.0	– 252.0
Increase vocational and technical training	– 21.0	– 32.6	– 32.6	– 32.6	– 32.6	– 151.4
Support for handicapped students and students with adjustment and learning difficulties	– 5.0	– 7.8	– 7.8	– 7.8	– 7.8	– 36.2
TOTAL	– 66.0	– 93.4	– 93.4	– 93.4	– 93.4	– 439.6

2.3.1 Investment of \$1 billion in higher education by 2012

Acting on its commitments regarding higher education, the government plans, as part of the 2008-2009 Budget, additional investments of \$40 million in 2008-2009 and \$53 million as of 2009-2010.

Accordingly, in 2008-2009, CEGEPs and universities will receive \$453 million more than in 2006-2007. With the additional investments, Québec universities will be able:

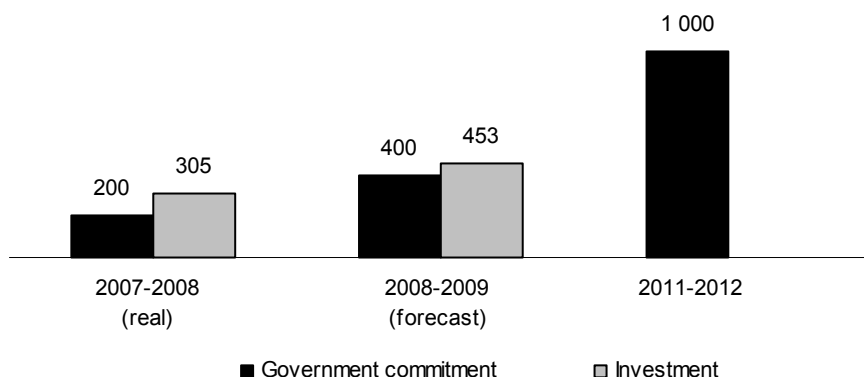
- to increase their educational and research capabilities to improve their international positioning;
- more easily renew faculty and award teaching bursaries in disciplines important for Québec's development, for instance engineering and administration;
- increase the visibility and international mobility of their students;
- help with the payment of indirect costs generated by their research activities.

The government has undertaken to invest, by 2012, \$1 billion more than the expenditure envelope allocated to higher education in 2006-2007. With the new investments announced in the 2008-2009 Budget, almost half the objective will be achieved.

CHART F.15

Additional annual investments in higher education^{1,2}

(cumulative, millions of dollars)



1 Including the increases in the expenditure envelope for higher education needed to maintain and improve the quality of services.

2 As of 2008-2009, these investments are augmented by the federal reinvestment of \$187 million.

2.3.2 Increase vocational and technical training

The Vocational and Technical Training Collaboration Plan, which the government announced in 2006, improves regional cooperation, organization of training and collaboration with the labour market.

The 2008-2009 Budget includes innovative measures to foster training in close partnership with businesses. These new initiatives are designed to train, support and assist individuals as they work to acquire new skills and will thus make it possible to:

- increase the number of vocational and technical training graduates;
- offer better support to adults, in particular through improved assistance in the course of training;
- allocate resources in emerging fields and those with strong demand for skilled labour, such as the mining and wind-power sectors.

In this regard, the 2008-2009 Budget stipulates investments of \$21 million in 2008-2009 and almost \$33 million as of 2009-2010. These investments are in addition to those already included in the Vocational and Technical Training Collaboration Plan. The Minister of Education, Recreation and Sport will describe how she intends to allocate these funds in greater detail.

2.3.3 Support for handicapped students and students with adjustment and learning difficulties

In recent years, the government has increased resources to provide better support for handicapped students and those with adjustment and learning difficulties in primary and secondary schools. Funds have already been allocated to:

- hire more remedial teachers and resource teachers;
- increase hiring and maintain professional and support personnel;
- enable teaching personnel to upgrade their skills.

To support the efforts of the education community to help students experiencing difficulties due to a handicap or learning problems to succeed and integrate, the 2008-2009 Budget stipulates additional investments of \$5 million as of 2008-2009 and almost \$8 million in 2009-2010.

3. STAYING THE COURSE TOWARDS SUSTAINABLE DEVELOPMENT

Environmental degradation poses a threat to our quality of life and our future. Therefore, the increasingly obvious benefits of taking immediate action give full meaning to the imperative of sustainable development.

Moreover, environmental concerns generate interesting business opportunities for Québec firms.

The 2008-2009 Budget provides for a series of measures to preserve the environment, promote the value of Québec's natural heritage and support the development of clean technologies in Québec. Nearly \$75 million will be devoted to meeting these objectives.

TABLE F.41

Measures for staying the course towards sustainable development (millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Supporting the demonstration of new clean technologies	3.0	3.0	3.0	3.0	—	12.0
Acceleration of capital cost allowances for the production of clean energy	—	1.0	1.0	1.0	1.0	4.0
Sépaq's investment plan ¹	—	—	—	6.0	6.0	12.0
Network of northern national parks	0.6	0.5	0.4	—	—	1.5
Working in partnership to establish a network of protected areas on private land ²	1.6	2.5	3.3	4.2	5.0	16.6
Creation of the <i>Bureau québécois des connaissances sur l'eau</i>	2.7	2.7	2.7	2.7	2.7	13.5
Watershed-based management	3.0	3.0	3.0	3.0	3.0	15.0
TOTAL	10.9	12.7	13.4	19.9	17.7	74.6

1 Financial impact associated with investments of \$55 million.

2 Financial impact associated with commitments of \$25 million.

3.1 Supporting the development of clean technologies

☐ Supporting the demonstration of new clean technologies

Québec has a number of assets in the environment and cleantech sectors. Various government strategies and action plans have been put in place over the past few years in regard to the environment and the fight against climate change. More than \$225 million announced under these policies will be able to be used for developing clean technologies.

To further stimulate the emergence of the cleantech sector and provide financing throughout the innovation chain, the government will devote an extra \$12 million in funding over the next four years.

This funding will contribute notably to supporting the demonstration of innovative technologies relating to water and soil. The application details will be announced shortly by the Minister of Economic Development, Innovation and Export Trade and the Minister of Sustainable Development, Environment and Parks.

☐ Acceleration of capital cost allowances for the production of clean energy

An accelerated capital cost allowance of 50% applies to certain assets used to produce clean energy. The 2008-2009 Budget is broadening the definition of assets eligible for this capital cost allowance to include, in particular, ground-source heat pump systems and systems for converting waste into energy.

3.2 Preserving the environment and promoting the value of Québec's natural heritage

Protecting and promoting the value of our natural heritage is an important challenge that Québec must face, as this collective heritage is a major asset for present and future generations.

Québec's reserves of freshwater are among the largest in the world and their strategic role at both national and international levels is growing.

Through a series of measures to preserve the environment and promote the value of Québec's natural heritage, the government is reaffirming its will to stay the course, on which it has resolutely embarked, towards sustainable development.

❑ Sépaq's investment plan

Sépaq will invest \$55 million to continue consolidating and developing its network. These investments will make it possible to optimize the potential of Sépaq's program for modernizing and upgrading its infrastructures, with a view to sustainable development.

❑ Network of northern national parks

Over the next three years, the Québec government will invest \$26 million in the establishment of large national parks and their development by Aboriginal communities.

With the participation of the Inuit and Crees of Québec, the government is pursuing the objective of designating more than 30 000 km² of public land as national parks in the Nord-du-Québec region. Over the next three years, \$1.5 million will be allocated for this purpose.

❑ Working in partnership to establish a network of protected areas on private land

To consolidate the existing network of protected areas on private land, a budget of \$25 million will be earmarked for fostering the creation of partnerships in this sector. In this way, the government seeks to bolster the network of protected areas on private land and to triple its surface area over the next five years.

☐ **Creation of the *Bureau québécois des connaissances sur l'eau***

A budget of \$13.5 million over five years will be devoted to creating a water information office, the *Bureau québécois des connaissances sur l'eau*, which will build financial and scientific partnerships for the purpose of filling knowledge gaps concerning water.

☐ **Watershed-based management**

To enhance knowledge about Québec's watersheds and continue inventorying its major aquifers, as provided for in the Québec Water Policy, the government will invest \$15 million over the next five years to redefine the number of watershed organizations by redrawing the boundaries of the territories assigned to them.

4. A HIGHER STANDARD OF LIVING FOR ALL QUEBECERS

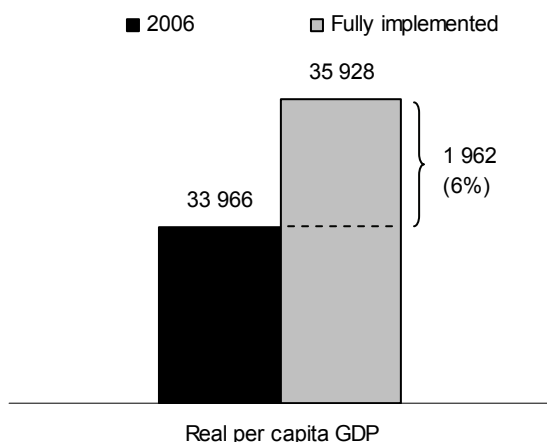
Since 2003, the government has introduced a series of economic and social policies to increase wealth for all Quebecers. These measures and commitments will have a major impact on employment, investment and the quality of the labour force, as well as on Québec's competitiveness. In addition, creating more wealth will enable Quebecers to maintain the quality of their public services.

4.1 A more prosperous society

All else being equal, the government's policies will ultimately mean an additional increase of roughly \$1 962 in per capita GDP.¹²

CHART F.16

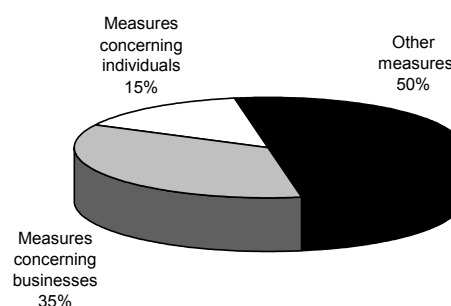
Impact of government policies on real per capita GDP
(dollars)



Sources: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ) and Provincial Economic Accounts, Statistics Canada.

CHART F.17

Contribution of the various policies to the increase in real per capita GDP



Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

¹² The measures for individuals include those announced in the 2003-2004 to 2008-2009 budgets. The measures for corporations include those announced in the 2003-2004 to 2008-2009 budgets and the objective of eliminating the tax on capital. The other measures are the increase in spending on post-secondary education, the increase in hydroelectric capacity, the Québec Research and Innovation Strategy and the public infrastructure investment plan.

4.2 Businesses that are stepping up their investments

The government has acted to encourage businesses to invest. Corporate taxation and regulation have been eased in order to motivate them to pursue their development in Québec.

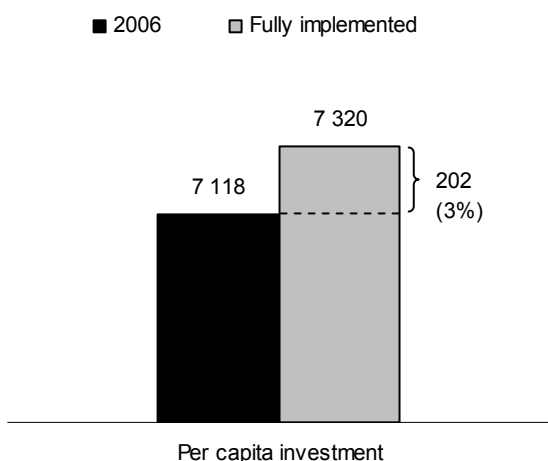
In particular, tax relief gives Québec businesses leeway conducive to investment. In addition, it enables them to be more competitive in the face of keener international competition and thus to drive Québec's economic growth.

When fully implemented, the government's policies will lead to a 3% increase in per capita investment in Québec.

CHART F.18

Impact of government policies on real per capita investment

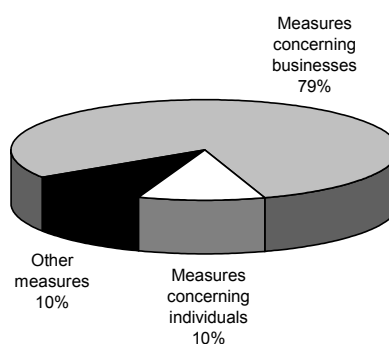
(dollars)



Sources: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ) and Provincial Economic Accounts, Statistics Canada.

CHART F.19

Contribution of the various government policies to the increase in real per capita investment



Note: Since figures are rounded, the total may not correspond to the total indicated.

Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

4.3 More productive workers

Between 2000 and 2006, labour productivity in Québec grew by approximately 1.0 %, compared with 1.3% for the rest of Canada.

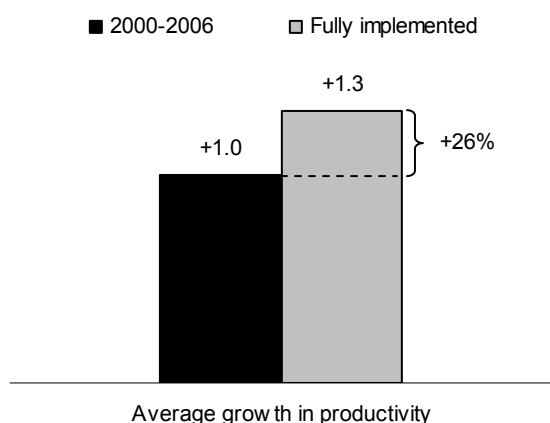
The measures introduced have had a major impact on labour productivity. In the long term, higher labour productivity will increase workers' remuneration.

Thanks to the measures put in place by the government, average growth in labour productivity will climb by 26%, reaching 1.3% once the measures are fully implemented.

CHART F.20

Impact of government policies on average growth in labour productivity

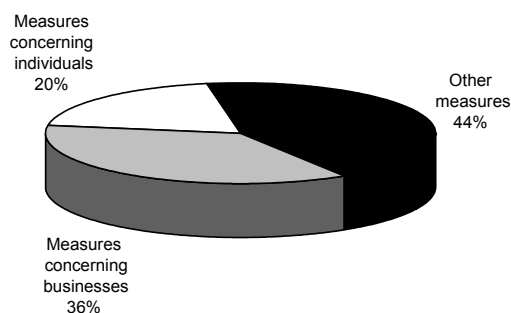
(percent)



Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

CHART F.21

Contribution of the various government policies to the increase in labour productivity



Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

4.4 A complete range of policies for raising the standard of living of all Quebecers

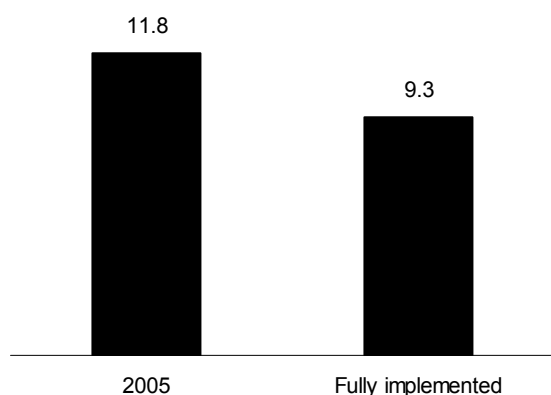
By acting in regard to businesses, individuals, organizations and certain key sectors of economic activity, the government's policies provide a concrete basis for ensuring the prosperity of Québec and giving it the means to achieve its objectives from a social standpoint.

The gains, in terms of economic growth, will lead to an increase in the income of all households. More particularly, low-income households will see their disposable income grow by over 9%, compared with the current level. Accordingly, the government's policies, when fully implemented, will reduce the poverty rate by 2.5 percentage points.

In the long term, these measures will have a major impact on the distribution of wealth, thus raising the standard of living of all Quebecers.

CHART F.22

Impact of government policies on the poverty rate¹
(percent)

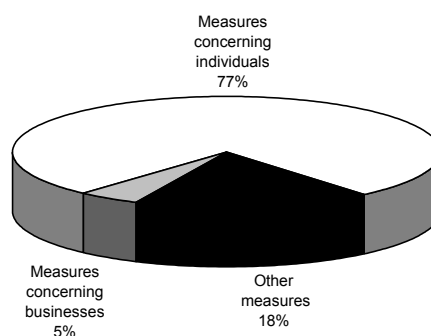


1 Portion of the population with an income below the low-income cut-off.

Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

CHART F.23

Contribution of the various government policies to the decline in the poverty rate



Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

5. FINANCIAL IMPACT OF MEASURES FOR INVESTING IN OUR ECONOMY AND PROSPERITY

TABLE F.42

Investing in our economy and prosperity
Financial impact for the government
(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
1. MEASURES TO STIMULATE PRIVATE INVESTMENT						
Immediate elimination of the tax on capital for the manufacturing sector	- 30.0	- 50.0	- 15.0	—	—	- 95.0
Increasing private investment in all the regions						
- New tax credit of 5% for investment in manufacturing and processing equipment	- 30.0	- 60.0	- 80.0	- 100.0	- 110.0	- 380.0
- Accelerated depreciation for manufacturing and processing equipment in the manufacturing sector	—	- 25.0	- 75.0	- 40.0	20.0	- 120.0
- Supporting territories experiencing difficulties	- 10.0	- 10.0	- 10.0	- 10.0	- 10.0	- 50.0
Sub-total	- 40.0	- 95.0	- 165.0	- 150.0	- 100.0	- 550.0
Support for innovative activities						
- New refundable tax credit for the development of e-business	- 20.0	- 30.0	- 40.0	- 140.0	- 200.0	- 430.0
- Improvements to R&D tax credits	- 3.0	- 7.0	- 11.0	- 11.0	- 11.0	- 43.0
- Improvement of the stock option plan for SMEs pursuing innovative activities	- 2.0	- 4.0	- 6.0	- 6.0	- 6.0	- 24.0
- Connecting Québec to high-speed Internet	—	- 4.0	- 5.0	- 5.0	- 6.0	- 20.0
- Support for e-government deployment	- 10.0	- 10.0	- 10.0	- 10.0	- 10.0	- 50.0
Sub-total	- 35.0	- 55.0	- 72.0	- 172.0	- 233.0	- 567.0

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Support for investment in the resource regions						
- Investment tax credit at the increased rate of 20%, 30% or 40% in the resource regions	- 20.0	- 50.0	- 70.0	- 90.0	- 120.0	- 350.0
- One-year extension of the tax credits for processing activities in the resource regions	—	- 3.0	- 26.0	- 20.0	—	- 49.0
- Extension and modification of the tax credit for Gaspésie and certain maritime regions of Québec	—	- 2.0	- 3.0	- 5.0	- 7.0	- 17.0
- Extension and modification of the tax credit for the Vallée de l'aluminium	—	- 1.0	- 2.0	- 4.0	- 5.0	- 12.0
Sub-total	- 20.0	- 56.0	- 101.0	- 119.0	- 132.0	- 428.0
Tapping the economic potential of our land						
- Development of the mining sector						
▪ Creation of the <i>Fonds du patrimoine minier</i>	- 20.0	- 20.0	- 20.0	- 10.0	- 10.0	- 80.0
▪ Adjustment of funding for Géologie Québec	7.0	7.0	7.0	7.0	7.0	35.0
▪ Funding of the Copper Plan	- 2.0	- 2.0	—	—	—	- 4.0
▪ Creation of a national mining institute and other labour force development measures for the mining sector	- 2.0	- 2.0	—	—	—	- 4.0
- Support for the agricultural and agrifood sector	- 12.0	- 12.0	- 12.0	- 12.0	- 12.0	- 60.0
Sub-total	- 29.0	- 29.0	- 25.0	- 15.0	- 15.0	- 113.0
Supporting cultural development						
- Presentation of performing arts in the regions	- 1.0	- 1.0	- 1.0	- 1.0	- 1.0	- 5.0
- More funding for Placements Culture	- 5.0	—	—	—	—	- 5.0
- Support for the Société de développement des entreprises culturelles (SODEC)	- 2.0	- 2.0	- 2.0	- 2.0	- 2.0	- 10.0
- Broadening of the refundable tax credit for the production of shows	- 0.5	- 1.0	- 1.5	- 1.5	- 1.5	- 6.0
Sub-total	- 8.5	- 4.0	- 4.5	- 4.5	- 4.5	- 26.0
Encouraging savings						
- Creation of a tax-free savings accounts	- 1.0	- 7.5	- 15.0	- 25.0	- 35.0	- 83.5
- Reduction in the gross-up rate applicable to eligible dividends	—	—	- 3.0	- 10.0	- 20.0	- 33.0
Sub-total	- 1.0	- 7.5	- 18.0	- 35.0	- 55.0	- 116.5
SUBTOTAL— STIMULATING PRIVATE INVESTMENT	- 163.5	- 296.5	- 400.5	- 495.5	- 539.5	- 1 895.5

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
2. DEVELOPING QUEBECERS' KNOWLEDGE AND SKILLS						
Investments under the Employment Pact						
– New Work Premium Supplement for long-term recipients giving up last resort financial assistance	– 7.3	– 18.0	– 18.0	– 18.0	– 18.0	– 79.3
– New Work Premium for persons with a severely limited capacity for employment	– 2.0	– 3.0	– 3.0	– 3.0	– 3.0	– 14.0
– Possibility of advance payment of the Work Premium for households without children	– 2.7	—	—	—	—	– 2.7
– Full indexing of the deduction for workers	– 2.0	– 9.0	– 18.0	– 27.0	– 36.0	– 92.0
– Improvement in the tax credit for on-the-job training of handicapped persons and immigrants	—	– 2.0	– 2.0	– 2.0	– 2.0	– 8.0
Sub-total	– 14.0	– 32.0	– 41.0	– 50.0	– 59.0	– 196.0
Measures to facilitate the integration of immigrants						
– New investments to encourage the employment integration of immigrants	– 10.0	– 10.0	– 10.0	– 10.0	– 10.0	– 50.0
– Introduction of a refundable tax credit for francization in the workplace	– 1.0	– 2.0	– 4.0	– 4.0	– 4.0	– 15.0
Sub-total	– 11.0	– 12.0	– 14.0	– 14.0	– 14.0	– 65.0
Investments in education						
– \$1-billion investment in higher education by 2012	– 40.0	– 53.0	– 53.0	– 53.0	– 53.0	– 252.0
– More vocational and technical training	– 21.0	– 32.6	– 32.6	– 32.6	– 32.6	– 151.4
– Support for handicapped students or students with social maladjustments and learning disabilities	– 5.0	– 7.8	– 7.8	– 7.8	– 7.8	– 36.2
Sub-total	– 66.0	– 93.4	– 93.4	– 93.4	– 93.4	– 439.6
SUBTOTAL– DEVELOPING QUEBECERS' KNOWLEDGE AND SKILLS	– 91.0	– 137.4	– 148.4	– 157.4	– 166.4	– 700.6

	2008-2009	2009-2010	2010-2011	2011-2012	2012- 2013	Total
3. STAYING THE COURSE TOWARDS SUSTAINABLE DEVELOPMENT						
- Supporting the demonstration of new clean technologies	- 3.0	- 3.0	- 3.0	- 3.0	—	- 12.0
- Acceleration of capital cost allowances for the production of clean energy	—	- 1.0	- 1.0	- 1.0	- 1.0	- 4.0
- Sépaq's investment plan	—	—	—	- 6.0	- 6.0	- 12.0
- Network of northern national parks	- 0.6	- 0.5	- 0.4	—	—	- 1.5
- Working in partnership to establish a network of protected areas on private land	- 1.6	- 2.5	- 3.3	- 4.2	- 5.0	- 16.6
- Creation of the <i>Bureau québécois des connaissances sur l'eau</i>	- 2.7	- 2.7	- 2.7	- 2.7	- 2.7	- 13.5
- Watershed-based management	- 3.0	- 3.0	- 3.0	- 3.0	- 3.0	- 15.0
SUB-TOTAL- STAYING THE COURSE TOWARDS SUSTAINABLE DEVELOPMENT	- 10.9	- 12.7	- 13.4	- 19.9	- 17.7	- 74.6
TOTAL IMPACT	- 265.4	- 446.6	- 562.3	- 672.8	- 723.6	- 2 670.7

Section G

Report on the Application of the *Balanced Budget Act*

- 1. REQUIREMENTS OF THE CURRENT ACT..... G.3
- 2. TASK FORCE ON GOVERNMENT ACCOUNTING G.5
- 3. TABLING OF A BILL TO AMEND THE *BALANCED BUDGET ACT* AND
THE *ACT TO ESTABLISH A BUDGETARY SURPLUS RESERVE FUND* G.7
- 4. MAINTENANCE OF A BALANCED BUDGET G.9

1. REQUIREMENTS OF THE CURRENT ACT

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

Essentially, the *Balanced Budget Act* stipulates that:

- the government must table a balanced budget;
- if the government records an overrun of less than \$1 billion in relation to the budgetary balance objective¹ in a fiscal year, it must achieve a surplus equivalent to that overrun in the next fiscal year;
- the government may incur overruns of more than \$1 billion as a result of exceptional circumstances, such as a disaster having a major impact on the budget, a significant deterioration of economic conditions, or a change in federal transfer payment programs to Québec. In such case, the government must offset these overruns over a maximum period of five years.

In addition, under section 15 of the Act,² the Minister of Finance is required to report in the Budget Speech on the application of the Act.

¹ Sections 3, 4 and 5 of the *Act respecting the elimination of the deficit and a balanced budget* set a maximum deficit for fiscal years 1996-1997 to 1998-1999. These sections were repealed.

² The first paragraph of section 15 stipulates that the Minister “shall report to the National Assembly in the Budget Speech on the objectives pursued by this Act, on the achievement of those objectives and on the variance recorded, if any.”

2. TASK FORCE ON GOVERNMENT ACCOUNTING

In the May 2007 Budget, the Minister of Finance announced the formation of a Task Force on Government Accounting made up of representatives from the ministère des Finances and the Vérificateur général.

The task force was mandated to examine the changes needed to ensure that the government's accounting policies comply with generally accepted accounting principles (GAAP) applicable to the public sector, as formulated by the Canadian Institute of Chartered Accountants (CICA).

The task force was also mandated to examine the impact of harmonizing the government's accounting policies on the *Balanced Budget Act* and the *Act to establish a budgetary surplus reserve fund*.

Last December 11, the government announced that it would act on all the recommendations of the task force, notably those providing for amendments to the *Balanced Budget Act*. The government also announced that it would take the opportunity to simplify the application of the *Act to establish a budgetary surplus reserve fund*.

In addition, as recommended by the task force, the bill will set to zero the balance of the accumulated surplus within the meaning of the *Balanced Budget Act* as at April 1, 2006.

3. **TABLING OF A BILL TO AMEND THE *BALANCED BUDGET ACT* AND THE *ACT TO ESTABLISH A BUDGETARY SURPLUS RESERVE FUND***

The government will soon table a bill in the National Assembly to amend the *Balanced Budget Act* in order to change the calculation of the accumulated surplus and to include a stabilization reserve to replace the budgetary reserve provided for in the *Act to establish a budgetary surplus reserve fund*.

□ Change to the calculation of the accumulated surplus

The bill will specify that all entries to accumulated deficits that affect the financial results of previous years must be taken into account in calculating the amount of the accumulated surplus within the meaning of the *Balanced Budget Act*, except for the impact of:

- changes stemming from the 2006-2007 accounting reform;
- subsequent changes to the accounting policies of the government or any of its enterprises to make them comply with a new standard of the CICA.

In addition, the bill will set to zero the balance of the accumulated surplus as at April 1, 2006.

Like the current Act, the bill will require that the Minister of Finance report every year in the Budget Speech on compliance with the *Balanced Budget Act*.

□ Creation of a stabilization reserve

The bill will propose that the budgetary reserve established by the *Act to establish a budgetary surplus reserve fund* be replaced by a stabilization reserve that will serve above all to maintain a balanced budget or to reduce the debt by paying sums into the Generations Fund.

The bill will stipulate that the stabilization reserve can be constituted and used at all times on the basis of anticipated surpluses for the fiscal year. The balance of the reserve will be adjusted annually to take into account the actual surpluses of the fiscal year.

As is currently the case for the budgetary reserve, amounts allocated to the stabilization reserve will be deposited with the Caisse de dépôt et placement du Québec during the year after the surplus was achieved.

4. MAINTENANCE OF A BALANCED BUDGET

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

Under section 9 of the Act,³ deficits may be incurred up to the amount of the accumulated surplus.

In the following table, the amount of the accumulated surplus at the end of fiscal 2006-2007 has been established at \$109 million after being reduced to zero as at April 1, 2006 subject to the adoption of a bill to amend the *Balanced Budget Act*.

TABLE G.1

Surpluses accumulated from 1996-1997 to 2006-2007 under the *Balanced Budget Act*
(millions of dollars)

Fiscal year	Deficits provided for in the Act	Surplus (deficit) disclosed in the Public Accounts for the fiscal years concerned ¹	Surpluses (overruns)	Accumulated surpluses, end of year
1996-1997	- 3 275	- 3 217	58	58
1997-1998	- 2 200	- 2 192	8	66
1998-1999	- 1 200	126	1 326	1 392
1999-2000	—	30	30	1 422
2000-2001	—	427	427	1 849
2001-2002	—	22	22	1 871
2002-2003	—	- 694	- 694	1 177
2003-2004	—	- 358	- 358	819
2004-2005	—	- 664	- 664	155
2005-2006	—	37	37	192 ²
After reform of government accounting				
2006-2007	—	109	109	109

1 Amounts that take into account budgetary reserve transactions in 2000-2001 and 2001-2002, the allocation of \$1.3 billion to the budgetary reserve in 2006-2007, and the \$584 million deposited in the Generations Fund in 2006-2007.

2 This amount will be reduced to zero as at April 1, 2006 following the adoption of the bill to amend the *Balanced Budget Act*.

³ Section 9 stipulates that "if the Government achieves a surplus in a fiscal year, it may incur overruns in subsequent fiscal years up to the amount of that surplus."

Section H

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

- 1. REQUIREMENTS OF THE ACT H.3
- 2. GENERATIONS FUND: \$2.7 BILLION ACCUMULATED BY
MARCH 2010..... H.5
- 3. CONCRETE AND SIGNIFICANT STEPS TOWARD REPAYMENT OF
THE DEBT H.7

1. REQUIREMENTS OF THE ACT

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

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

- water-power royalties paid by Hydro-Québec and private producers of hydraulic power;
- a portion of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of increased generating capacity;
- fees or charges for water withdrawal;
- the sale of government assets;
- gifts, legacies and other contributions received by the Minister of Finance;
- unclaimed property administered by the Minister of Revenue;
- income generated by the investment of the sums making up the Fund.

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

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

Section 1 of the Act sets the government's debt reduction objectives. Under the Act, the government's debt corresponds to the total debt in the public accounts. More specifically, the Act provides for the reduction of the total debt as a percentage of GDP to less than:

- 38% not later than March 31, 2013;
- 32% not later than March 31, 2020;
- 25% not later than March 31, 2026.

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

2. GENERATIONS FUND: \$2.7 BILLION ACCUMULATED BY MARCH 2010

In 2007-2008, \$603 million were dedicated to the Generations Fund, that is, \$403 million from revenue sources dedicated to the Fund, to which is added an additional \$200 million deposited in October 2007 from the budgetary reserve, as announced in the May 2007 Budget. The revenues of the Generations Fund for 2008-2009 and 2009-2010 should reach \$742 million and \$816 million, respectively.

The deposits since its creation and those projected for the coming years will raise the amount accumulated in the Generations Fund to:

- \$1 187 million as at March 31, 2008;
- \$1 929 million as at March 31, 2009;
- \$2 745 million as at March 31, 2010.

TABLE H.1

Generations Fund

(millions of dollars)

	May 2007 Budget		March 2008 Budget ^P		
	2007-2008	Revision	2007-2008	2008-2009	2009-2010
BALANCE, BEGINNING OF YEAR	584	—	584	1 187	1 929
DEDICATED REVENUE SOURCES					
Water-power royalties					
Hydro-Québec	325	—	325	550	571
Private producers	49	– 10	39	75	76
	374	– 10	364	625	647
Unclaimed property	20	– 5	15	15	15
Investment income	59	– 35	24	102	154
TOTAL	453	– 50	403	742	816
Deposit from the budgetary reserve	200	—	200	—	—
TOTAL	653	– 50	603	742	816
BALANCE, END OF YEAR	1 237	– 50	1 187	1 929	2 745

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

3. CONCRETE AND SIGNIFICANT STEPS TOWARD REPAYMENT OF THE DEBT

Over the last two years, the Québec government has pledged itself to a determined effort to pay down Québec's debt and has taken concrete steps to achieve this objective.

The implementation of the Generations Fund in June 2006 clearly demonstrates this commitment to reduce the debt burden, an undertaking which moreover has been recognized by the rating agencies.

Next, the government's decision to make use of water, Québec's blue gold, in restoring inter-generational equity demonstrates its determination to meet its debt reduction targets, and specifically, to reduce the weight of the total debt to 25% of GDP in 2026.

- To that end, water-power royalties deposited in the Generations Fund by Hydro-Québec and private producers of hydro-electricity will account for more than \$600 million annually as of 2008-2009.
- To this will be added an additional contribution of \$400 million per year, on average, from 2010-2011 to 2025-2026 derived from additional earnings by Hydro-Québec on its electricity exports.

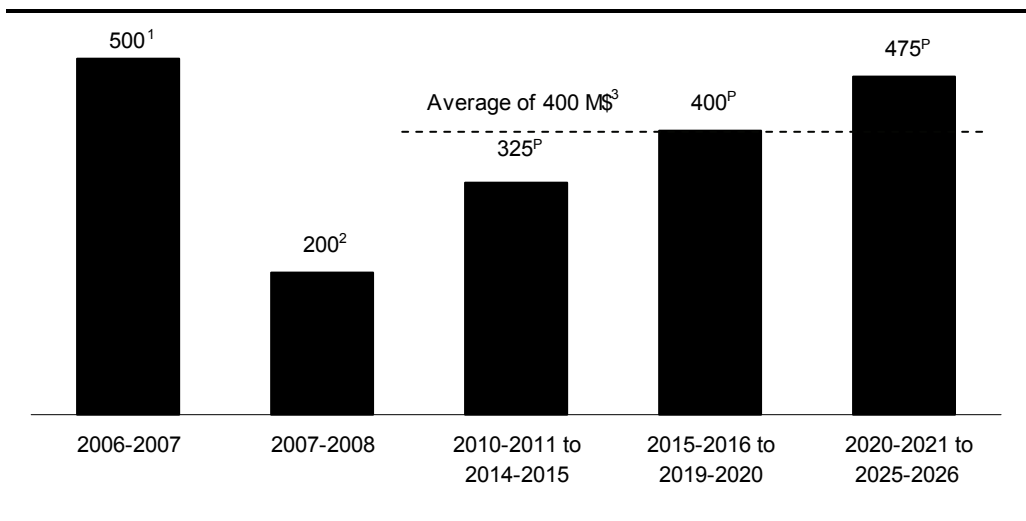
In addition to depositing periodic dedicated revenues such as water-power royalties in the Generations Fund, the government has decided to dedicate significant additional contributions to the Fund since its creation in 2006, thereby manifesting an ongoing commitment to reducing Québec's debt.

By 2026, the debt accumulated to pay for current expenditures will have been considerably reduced. In absolute terms, it will have been reduced by nearly one-half.

CHART H.1

Additional contributions to the Generations Fund since its creation in June 2006

(millions of dollars)



P: Forecasts.

1 From the sale of Hydro-Québec's interest in Transelec Chile.

2 From the budgetary reserve.

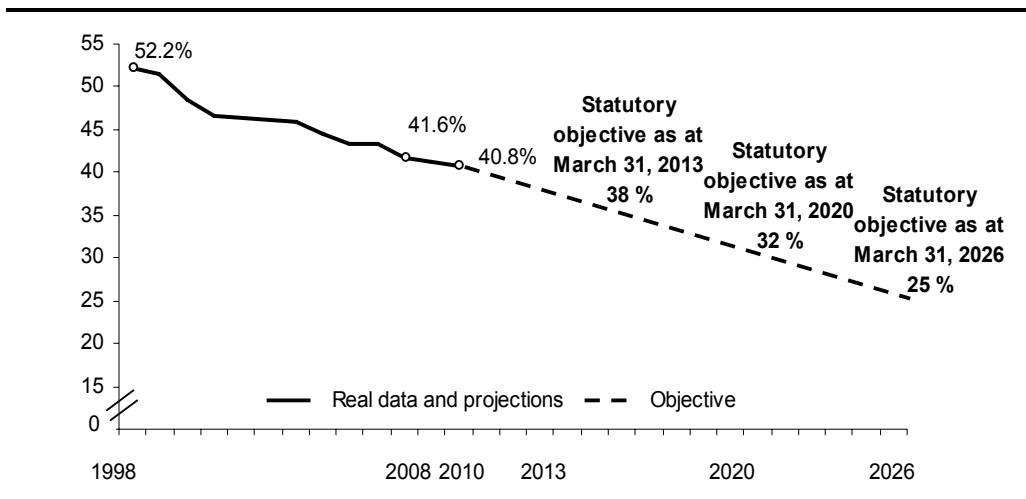
3 From additional earnings by Hydro-Québec on its electricity exports.

The following chart illustrates the change in total-debt-to-GDP ratio over time. In particular, it shows that this ratio should be 41.6% at March 31, 2008 and 40.8% at March 31, 2010.

CHART H.2

Reduction in total government debt

(percent of GDP)



Section I

Additional Information Historical Data

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1. ADDITIONAL INFORMATION

TABLE I.1

Summary of consolidated budgetary and financial transactions¹

(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008 ^P
BUDGETARY TRANSACTIONS OF THE CONSOLIDATED REVENUE FUND				
Own-source revenue	44 381	45 743	49 685	49 295
Federal transfers ²	9 229	9 969	11 015	13 625
Total	53 610	55 712	60 700	62 920
Program spending	- 47 656	- 49 229	- 51 796	- 54 635
Debt service	- 6 853	- 6 875	- 7 000	- 7 003
Total	- 54 509	- 56 104	- 58 796	- 61 638
NET RESULTS OF CONSOLIDATED ENTITIES	235	429	89	- 162
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS				
Deposit in the Generations Fund	—	—	1 993	1 120
Use of the budgetary reserve	—	—	- 1 300	- 517
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	- 664	37	109	0
Deposit of dedicated revenues in the Generations Fund	—	—	584	403
CONSOLIDATED BUDGETARY BALANCE	- 664	37	693	403
CONSOLIDATED NON-BUDGETARY TRANSACTIONS				
Investments, loans and advances	- 979	- 1 182	- 2 180	- 2 794
Capital expenditures	- 1 083	- 1 166	- 1 219	- 1 390
Net investments in the networks			- 1 002	- 544
Retirement plans	2 134	2 310	2 559	2 451
Other accounts	174	- 208	- 1 677	922
CONSOLIDATED NON-BUDGETARY REQUIREMENTS	246	- 246	- 3 519	- 1 355
CONSOLIDATED NET FINANCIAL REQUIREMENTS	- 418	- 209	- 2 826	- 952
CONSOLIDATED FINANCING TRANSACTIONS				
Change in cash position	- 831	49	- 3 285	4 082
Net borrowings	5 378	4 390	11 143	2 367
Retirement Plans Sinking Fund ^{3,4,5}	- 4 129	- 4 230	- 4 448	- 4 894
Deposit in the Generations Fund	—	—	- 584	- 603
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	418	209	2 826	952

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.

P: Preliminary results.

- 1 A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.
- 2 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.
- 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. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.
- 4 These funds receive amounts used to cover employee future benefits (accumulated sick leave and surviving spouse's pensions) payable to government employees.
- 5 Prior to 2006-2007, funds dedicated to employee future benefits were recorded under investments, loans and advances.

TABLE I.2

Consolidated Revenue Fund**Revenue by source**

(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008 ^P
OWN-SOURCE REVENUE⁴				
Income and property taxes				
Personal income tax	16 324	16 449	18 480	18 277
Contributions to the Health Services Fund	4 874	5 047	5 052	5 423
Corporate taxes	4 253	4 786	4 779	4 804
Sub-total	25 451	26 282	28 311	28 504
Consumption taxes				
Retail sales	9 241	9 614	9 873	10 473
Fuel	1 711	1 657	1 678	1 690
Tobacco	901	752	678	641
Alcoholic beverages	403	415	422	435
Sub-total	12 256	12 438	12 651	13 239
Duties and permits				
Motor vehicles	713	725	741	758
Natural resources	238	210	135	79
Other	209	203	179	189
Sub-total	1 160	1 138	1 055	1 026
Miscellaneous				
Sales of goods and services	371	383	396	394
Interest	355	463	565	588
Fines, forfeitures and recoveries	442	485	479	489
Sub-total	1 168	1 331	1 440	1 471
Revenue from government enterprises				
Société des alcools du Québec	546	657	710	745
Loto-Québec	1 511	1 537	1 391	1 358
Hydro-Québec	2 140 ²	2 323	4 043 ³	2 926
Other	149 ²	37	84	26
Sub-total	4 346	4 554	6 228	5 055
Total	44 381	45 743	49 685	49 295
FEDERAL TRANSFERS⁴				
Equalization	5 221	4 798	5 539	7 160
Health transfers	2 422	3 185	3 649	3 923
Transfers for post-secondary education and other social programs	926	1 034	1 070	1 516
Other programs	660	952	757	1 026
Total	9 229	9 969	11 015	13 625
TOTAL REVENUE	53 610	55 712	60 700	62 920

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.

P: Preliminary results.

1 Revenue is presented on an accrual basis as of 2006-2007.

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

3 Including profits of \$944 million made by Hydro-Québec on the sale of its interests in corporations, including Transelec Chile.

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

TABLE I.3

Consolidated Revenue Fund Expenditure by department

(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008 ^P
PROGRAM SPENDING¹				
Affaires municipales et Régions	1 622	1 752	1 859	1 795
Agriculture, Pêcheries et Alimentation	661	658	694	719
Assemblée nationale	96	99	107	112
Conseil du trésor et Administration gouvernementale	498	468	697	516
Conseil exécutif	241	232	233	302
Culture, Communications et Condition féminine	533	543	600	634
Développement durable, Environnement et Parcs	207	195	190	196
Développement économique, Innovation et Exportation	543	689	519	761
Éducation, Loisir et Sport	11 874	12 280	12 638	13 372
Emploi et Solidarité sociale	4 109	4 037	4 084	4 123
Famille et Aînés	1 515	1 604	1 718	1 841
Finances (excluding debt service)	91	84	83	103
Immigration et Communautés culturelles	120	116	125	111
Justice	632	653	728	660
Persons designated by the National Assembly	58	58	131	75
Relations internationales	102	102	102	111
Ressources naturelles et Faune	365	401	464	616
Revenu	932	1 022	1 090	1 016
Santé et Services sociaux	20 622	21 200	22 504	24 145
Sécurité publique	941	942	986	1 046
Services gouvernementaux	41	97	112	83
Tourisme	144	159	143	142
Transports	1 634	1 776	1 953	2 118
Travail	75	62	36	40
Total	47 656	49 229	51 796	54 635
DEBT SERVICE				
Direct debt service	4 066	4 044	4 357	4 558
Interest ascribed to the retirement plans	2 787	2 831	2 643	2 445
Total	6 853	6 875	7 000	7 003
TOTAL EXPENDITURE	54 509	56 104	58 796	61 638

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.

P: Preliminary results.

1 Certain data were reclassified for consistency with those of the 2008-2009 Budget structure.

TABLE I.4

Consolidated non-budgetary transactions (millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008 ^P
INVESTMENTS, LOANS AND ADVANCES				
▪ Consolidated Revenue Fund				
— Government enterprises				
• Shares and investments				
— Innovatech corporations	77	27	—	—
— Other	—	—	– 125	– 10
• Change in the equity value of investments	– 940	– 1 234	– 1 786	– 857
• Loans and advances				
— IQ FIER Inc.	—	– 45	– 42	– 84
— Other	—	—	—	– 10
Total government enterprises	– 863	– 1 252	– 1 953	– 961
— Individuals, corporations and other				
• Investment with the Caisse de dépôt et placement du Québec	—	—	—	1 100
• Other	69	– 232	– 19	– 8
— Municipalities and municipal bodies	2	1	1	—
Total Consolidated Revenue Fund	– 792	– 1 483	– 1 971	– 2 069
▪ Consolidated entities	– 187	301	– 209	– 725
Total Investments, loans and advances	– 979	– 1 182	– 2 180	– 2 794
CAPITAL EXPENDITURES				
▪ Consolidated Revenue Fund				
— Net investments	– 178	– 160	– 188	– 349
— Amortizations	217	215	225	237
▪ Consolidated entities	– 1 122	– 1 221	– 1 256	– 1 278
Total capital expenditures	– 1 083	– 1 166	– 1 219	– 1 390
NET INVESTMENTS IN THE NETWORKS				
▪ Annual deficit			219	575
▪ Loans and advances to the networks			– 1 221	– 1 119
Total net investments in the networks			– 1 002	– 544
RETIREMENT PLANS				
▪ Cost of vested benefits ¹ , amortization and contributions	1 698	1 766	1 948	2 023
▪ Interest on the actuarial obligation	3 714	4 061	4 083	4 331
▪ Benefits, repayments and administrative expenses	– 3 278	– 3 517	– 3 503	– 3 904
▪ Employee future benefits	—	—	31	1
Total retirement plans	2 134	2 310	2 559	2 451
OTHER ACCOUNTS				
▪ Consolidated Revenue Fund	56	– 364	– 1 101	365
▪ Consolidated entities	118	156	– 576	557
Total other accounts	174	– 208	– 1 677	922
TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS	246	– 246	– 3 519	– 1 355

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.

P: Preliminary results.

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

TABLE I.5

Consolidated financing transactions¹
(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008 ^P
CHANGE IN CASH POSITION				
Consolidated Revenue Fund	- 814	- 22	- 3 385	4 082
Consolidated organizations	- 17	71	100	—
Total	- 831	49	- 3 285	4 082
NET BORROWINGS				
Consolidated Revenue Fund				
— New borrowings	10 216	10 256	13 236	3 669
— Repayment of borrowings	- 5 811	- 6 130	- 5 154	- 4 057
Sub-total	4 405	4 126	8 082	- 388
Consolidated organizations				
— New borrowings	2 188	1 313	4 731	4 896
— Repayment of borrowings	- 1 215	- 1 049	- 1 670	- 2 141
Sub-total	973	264	3 061	2 755
Total	5 378	4 390	11 143	2 367
RETIREMENT PLANS SINKING FUND² AND FUNDS DEDICATED TO EMPLOYEE FUTURE BENEFITS³				
	- 4 129	- 4 230	- 4 448	- 4 894
GENERATIONS FUND				
	—	—	- 584	- 603
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	418	209	2 826	952

Note: As of 2006-2007, results reflect the government accounting reform in December 2007.

P: Preliminary results.

- 1 A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.
- 2 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.
- 3 These funds receive amounts used to cover employee future benefits (accumulated sick leave and surviving spouse's pensions) payable to government employees.

2. HISTORICAL DATA

TABLE I.6

Budgetary transactions Consolidated Revenue Fund^{1,2} (millions of dollars)

	Own-source revenue ³	Federal transfers ⁴	Budgetary revenue	Program spending	Debt service	Budgetary expenditure
Before government accounting reforms						
1970-1971	2 672	1 094	3 766	- 3 714	- 197	- 3 911
1971-1972	3 110	1 293	4 403	- 4 548	- 210	- 4 758
1972-1973	3 672	1 261	4 933	- 5 038	- 242	- 5 280
1973-1974	4 279	1 376	5 655	- 6 026	- 288	- 6 314
1974-1975	5 271	1 871	7 142	- 7 288	- 296	- 7 584
1975-1976	6 006	2 222	8 228	- 8 811	- 368	- 9 179
1976-1977	7 020	2 520	9 540	- 10 260	- 456	- 10 716
1977-1978	7 867	3 088	10 955	- 11 053	- 606	- 11 659
1978-1979	8 382	3 268	11 650	- 12 331	- 817	- 13 148
1979-1980	9 295	3 754	13 049	- 14 479	- 970	- 15 449
1980-1981	10 578	3 894	14 472	- 16 571	- 1 382	- 17 953
1981-1982	13 269	4 473	17 742	- 18 413	- 1 950	- 20 363
1982-1983	14 385	5 172	19 557	- 19 720	- 2 300	- 22 020
1983-1984	15 414	6 227	21 641	- 21 294	- 2 511	- 23 805
1984-1985	15 829	6 236	22 065	- 22 926	- 3 012	- 25 938
1985-1986	17 795	6 178	23 973	- 24 092	- 3 354	- 27 446
1986-1987	19 525	5 828	25 353	- 24 769	- 3 556	- 28 325
1987-1988	21 992	6 117	28 109	- 26 830	- 3 675	- 30 505
1988-1989	23 366	6 386	29 752	- 27 654	- 3 802	- 31 456
1989-1990	24 359	6 674	31 033	- 28 782	- 4 015	- 32 797
1990-1991	26 073	6 972	33 045	- 31 583	- 4 437	- 36 020
1991-1992	27 720	6 747	34 467	- 34 102	- 4 666	- 38 768
1992-1993	27 561	7 764	35 325	- 35 599	- 4 756	- 40 355
1993-1994	28 165	7 762	35 927	- 35 534	- 5 316	- 40 850
1994-1995	28 815	7 494	36 309	- 36 248	- 5 882	- 42 130
1995-1996	30 000	8 126	38 126	- 36 039	- 6 034	- 42 073
1996-1997	30 522	6 704	37 226	- 34 583	- 5 855	- 40 438
After government accounting reform in 1997-1998						
1997-1998	33 604	5 656	39 260	- 34 690	- 6 765	- 41 455
1998-1999	35 982	7 813	43 795	- 37 052	- 6 573	- 43 625
1999-2000	38 346	6 064	44 410	- 37 850	- 6 752	- 44 602
2000-2001	40 335	7 895	48 230	- 40 165	- 6 972	- 47 137
2001-2002	38 440 ⁵	8 885	47 325 ⁵	- 41 888	- 6 687	- 48 575
2002-2003	40 409 ⁵	8 932	49 341 ⁵	- 43 865	- 6 583	- 50 448
2003-2004	41 920 ⁵	9 370	51 290 ⁵	- 45 339	- 6 655	- 51 994
2004-2005	44 381	9 229	53 610	- 47 656	- 6 853	- 54 509
2005-2006	45 743	9 969	55 712	- 49 229	- 6 875	- 56 104
After government accounting reform in 2006-2007						
2006-2007	49 685	11 015	60 700	- 51 796	- 7 000	- 58 796
2007-2008 ^P	49 295	13 625	62 920	- 54 635	- 7 003	- 61 638
2008-2009 ^P	48 917	14 063	62 980	- 56 948	- 6 907	- 63 855
2009-2010 ^P	50 512	14 672	65 184	- 58 629	- 7 019	- 65 647

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

2 Data for the Consolidated Revenue Fund exclude the revenue and expenditure of specified purpose accounts, consolidated entities and the Generations Fund which are presented in tables I.7, I.8 and I.9 respectively as well as in subsequent tables.

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

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

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

TABLE I.7

Budgetary transactions
Specified purpose accounts¹

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After government accounting reform in 1997-1998							
1997-1998	92	487	579	- 579	0	- 579	0
1998-1999	80	221	301	- 301	0	- 301	0
1999-2000	102	196	298	- 298	0	- 298	0
2000-2001	123	174	297	- 297	0	- 297	0
2001-2002	155	171	326	- 326	0	- 326	0
2002-2003	199	150	349	- 349	0	- 349	0
2003-2004	172	186	358	- 358	0	- 358	0
2004-2005	170	132	302	- 302	0	- 302	0
2005-2006	176	480	656	- 656	0	- 656	0
After government accounting reform in 2006-2007							
2006-2007	176	248	424	- 424	0	- 424	0
2007-2008 ^P	207	262	469	- 469	0	- 469	0
2008-2009 ^P	208	360	568	- 568	0	- 568	0
2009-2010 ^P	209	257	466	- 466	0	- 466	0

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

TABLE I.8

Budgetary transactions**Organizations other than budget-funded organizations, special funds and the health and education networks¹**

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After government accounting reform in 1997-1998							
1997-1998	1 391	318	1 709	- 1 094	- 577	- 1 671	38
1998-1999	1 680	258	1 938	- 1 368	- 614	- 1 982	- 44
1999-2000	1 850	270	2 120	- 1 300	- 621	- 1 921	199
2000-2001	1 851	250	2 101	- 1 183	- 634	- 1 817	284
2001-2002	1 940	420	2 360	- 1 464	- 574	- 2 038	322
2002-2003	2 160	375	2 535	- 1 607	- 549	- 2 156	379
2003-2004	2 318	564	2 882	- 1 950	- 586	- 2 536	346
2004-2005	2 395	578	2 973	- 2 142	- 596	- 2 738	235
2005-2006	2 976	673	3 649	- 2 536	- 684	- 3 220	429
After government accounting reform in 2006-2007							
2006-2007	3 281	707	3 988	- 3 089	- 894	- 3 983	5
2007-2008 ^P	4 020	791	4 811	- 3 695	- 1 681	- 5 371	- 565
2008-2009 ^P	4 319	1 115	5 434	- 3 899	- 1 830	- 5 729	- 295
2009-2010 ^P	4 594	1 287	5 881	- 3 866	- 1 998	- 5 864	17

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

TABLE I.9

Generations Fund

(millions of dollars)

	Dedicated revenues						Deposit from the budgetary reserve	Deposit in the Generations Fund
	Water-power royalties		Unclaimed property	Other	Investment Income	Total		
	Hydro- Québec	Private producers						
Before government accounting reforms								
1970-1971								
1971-1972								
1972-1973								
1973-1974								
1974-1975								
1975-1976								
1976-1977								
1977-1978								
1978-1979								
1979-1980								
1980-1981								
1981-1982								
1982-1983								
1983-1984								
1984-1985								
1985-1986								
1986-1987								
1987-1988								
1988-1989								
1989-1990								
1990-1991								
1991-1992								
1992-1993								
1993-1994								
1994-1995								
1995-1996								
1996-1997								
After government accounting reform in 1997-1998								
1997-1998								
1998-1999								
1999-2000								
2000-2001								
2001-2002								
2002-2003								
2003-2004								
2004-2005								
2005-2006								
After government accounting reform in 2006-2007								
2006-2007	65	11	5	500 ¹	3	584		584
2007-2008 ^P	325	39	15		24	403	200	603
2008-2009 ^P	550	75	15		102	742		742
2009-2010 ^P	571	76	15		154	816		816

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

TABLE I.10
Summary of consolidated budgetary transactions
(millions of dollars)

	Own-source revenue	Federal transfers ¹	Consolidated revenue	Expenditure excluding debt service	Debt service	Consolidated expenditure	Deposit in the Generations Fund	Budgetary reserve	Budgetary balance for the purposes of the Act	Deposit of dedicated revenues in the Generations Fund	Consolidated budgetary balance
Before government accounting reforms											
1970-1971	2 672	1 094	3 766	- 3 714	- 197	- 3 911			- 145		- 145
1971-1972	3 110	1 293	4 403	- 4 548	- 210	- 4 758			- 355		- 355
1972-1973	3 672	1 261	4 933	- 5 038	- 242	- 5 280			- 347		- 347
1973-1974	4 279	1 376	5 655	- 6 026	- 288	- 6 314			- 659		- 659
1974-1975	5 271	1 871	7 142	- 7 288	- 296	- 7 584			- 442		- 442
1975-1976	6 006	2 222	8 228	- 8 811	- 368	- 9 179			- 951		- 951
1976-1977	7 020	2 520	9 540	- 10 260	- 456	- 10 716			- 1 176		- 1 176
1977-1978	7 867	3 088	10 955	- 11 053	- 606	- 11 659			- 704		- 704
1978-1979	8 382	3 268	11 650	- 12 331	- 817	- 13 148			- 1 498		- 1 498
1979-1980	9 295	3 754	13 049	- 14 479	- 970	- 15 449			- 2 400		- 2 400
1980-1981	10 578	3 894	14 472	- 16 571	- 1 382	- 17 953			- 3 481		- 3 481
1981-1982	13 269	4 473	17 742	- 18 413	- 1 950	- 20 363			- 2 621		- 2 621
1982-1983	14 385	5 172	19 557	- 19 720	- 2 300	- 22 020			- 2 463		- 2 463
1983-1984	15 414	6 227	21 641	- 21 294	- 2 511	- 23 805			- 2 164		- 2 164
1984-1985	15 829	6 236	22 065	- 22 926	- 3 012	- 25 938			- 3 873		- 3 873
1985-1986	17 795	6 178	23 973	- 24 092	- 3 354	- 27 446			- 3 473		- 3 473
1986-1987	19 525	5 828	25 353	- 24 769	- 3 556	- 28 325			- 2 972		- 2 972
1987-1988	21 992	6 117	28 109	- 26 830	- 3 675	- 30 505			- 2 396		- 2 396
1988-1989	23 366	6 386	29 752	- 27 654	- 3 802	- 31 456			- 1 704		- 1 704
1989-1990	24 359	6 674	31 033	- 28 782	- 4 015	- 32 797			- 1 764		- 1 764
1990-1991	26 073	6 972	33 045	- 31 583	- 4 437	- 36 020			- 2 975		- 2 975
1991-1992	27 720	6 747	34 467	- 34 102	- 4 666	- 38 768			- 4 301		- 4 301
1992-1993	27 561	7 764	35 325	- 35 599	- 4 756	- 40 355			- 5 030		- 5 030
1993-1994	28 165	7 762	35 927	- 35 534	- 5 316	- 40 850			- 4 923		- 4 923
1994-1995	28 815	7 494	36 309	- 36 248	- 5 882	- 42 130			- 5 821		- 5 821
1995-1996	30 000	8 126	38 126	- 36 039	- 6 034	- 42 073			- 3 947		- 3 947
1996-1997	30 522	6 704	37 226	- 34 583	- 5 855	- 40 438			- 3 212		- 3 212
After government accounting reform in 1997-1998											
1997-1998	35 087	6 461	41 548	- 36 363	- 7 342	- 43 705			- 2 157		- 2 157
1998-1999	37 742	8 292	46 034	- 38 721	- 7 187	- 45 908			126		126
1999-2000	40 298	6 530	46 828	- 39 448	- 7 373	- 46 821			7		7
2000-2001	42 309	8 319	50 628	- 41 645	- 7 606	- 49 251		- 950	427		427
2001-2002	40 535 ²	9 476	50 011 ²	- 43 678	- 7 261	- 50 939		950	22		22
2002-2003	42 768 ²	9 457	52 225 ²	- 45 821	- 7 132	- 52 953			- 728		- 728
2003-2004	44 410 ²	10 120	54 530 ²	- 47 647	- 7 241	- 54 888			- 358		- 358
2004-2005	46 946	9 939	56 885	- 50 100	- 7 449	- 57 549			- 664		- 664
2005-2006	48 895	11 122	60 017	- 52 422	- 7 559	- 59 981			37		37
After government accounting reform in 2006-2007											
2006-2007	53 226 ³	11 970	65 196	- 55 309 ⁴	- 7 894	- 63 203	- 584	- 1 300	109	584	693
2007-2008 ^P	53 925 ³	14 678	68 603	- 58 799	- 8 684	- 66 908	- 603	- 517	0	403	403
2008-2009 ^P	54 186	15 538	69 724	- 61 415	- 8 737	- 70 002	- 742	1 370	0	742	742
2009-2010 ^P	56 131	16 216	72 347	- 62 961	- 9 016	- 71 977	- 816	447	0	816	816

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

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

3 Deposits of \$500 million and \$200 million in the Generations Fund in 2006-2007 and 2007-2008, respectively, were deducted from the total to account for a consolidation adjustment.

4 The impact on the consolidation of the health and education networks is shown under "Expenditure excluding debt service".

TABLE I.11

Summary of consolidated non-budgetary transactions¹

(millions of dollars)

(millions of dollars)

	Consolidated budgetary balance	Consolidated non-budgetary transactions					Excess amount (shortfall)	Net financial surplus (requirements)
		Investments, loans and advances	Capital expenditures	Net investments in the networks	Retirement plans	Other accounts		
Before government accounting reforms								
1970-1971	- 145	- 73			2	26	- 45	- 190
1971-1972	- 355	- 63			1	113	51	- 304
1972-1973	- 347	- 53			- 1	18	- 36	- 383
1973-1974	- 659	- 122			25	459	362	- 297
1974-1975	- 442	- 146			104	319	277	- 165
1975-1976	- 951	- 186			109	622	545	- 406
1976-1977	- 1 176	- 183			187	- 161	- 157	- 1 333
1977-1978	- 704	- 229			265	- 488	- 452	- 1 156
1978-1979	- 1 498	- 189			316	119	246	- 1 252
1979-1980	- 2 400	- 188			683	551	1 046	- 1 354
1980-1981	- 3 481	- 56			822	416	1 182	- 2 299
1981-1982	- 2 621	- 586			1 007	71	492	- 2 129
1982-1983	- 2 463	- 761			1 051	- 40	250	- 2 213
1983-1984	- 2 164	- 672			1 057	- 436	- 51	- 2 215
1984-1985	- 3 873	- 167			1 183	887	1 903	- 1 970
1985-1986	- 3 473	40			1 269	493	1 802	- 1 671
1986-1987	- 2 972	- 380			1 355	260	1 235	- 1 737
1987-1988	- 2 396	- 680			2 203	- 493	1 030	- 1 366
1988-1989	- 1 704	- 670			1 634	- 265	699	- 1 005
1989-1990	- 1 764	- 516			1 164	300	948	- 816
1990-1991	- 2 975	- 458			1 874	77	1 493	- 1 482
1991-1992	- 4 301	- 411			1 916	141	1 646	- 2 655
1992-1993	- 5 030	- 490			1 525	82	1 117	- 3 913
1993-1994	- 4 923	- 623			1 668	52	1 097	- 3 826
1994-1995	- 5 821	- 1 142			1 509	578	945	- 4 876
1995-1996	- 3 947	- 287			1 701	- 415	999	- 2 948
1996-1997	- 3 212	- 792			1 928	- 60	1 076	- 2 136
After government accounting reform in 1997-1998								
1997-1998	- 2 157	- 1 315	- 209		1 888	109	473	- 1 684
1998-1999	126	- 1 402	- 217		1 020	996	397	523
1999-2000	7	- 2 006	- 359		1 740	1 328	703	710
2000-2001	427	- 1 632	- 473		1 793	- 631	- 943	- 516
2001-2002	22	- 1 142	- 995		2 089	- 589	- 637	- 615
2002-2003	- 728	- 1 651	- 1 482		2 007	217	- 909	- 1 637
2003-2004	- 358	- 1 125	- 1 019		2 219	- 1 183	- 1 108	- 1 466
2004-2005	- 664	- 979	- 1 083		2 134	174	246	- 418
2005-2006	37	- 1 182	- 1 166		2 310	- 208	- 246	- 209
After government accounting reform in 2006-2007								
2006-2007	693	- 2 180	- 1 219	- 1 002	2 559	- 1 677	- 3 519	- 2 826
2007-2008 ^P	403	- 2 794	- 1 390	- 544	2 451	922	- 1 355	- 952
2008-2009 ^P	742	- 400	- 1 954	- 1 030	2 398	- 508	- 1 494	- 752
2009-2010 ^P	816	- 60	- 2 807	- 660	2 597	- 674	- 1 604	- 788

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

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

TABLE I.12

Change in gross debt¹

	Retirement plans						Employee future benefits			Less: Generations Fund	Gross debt ^{1,2}	
	Consolidated direct debt ^{2,3}		Retirement plans liability	Less: Retirement Plans Sinking Fund	Net retirement plans liability	As a % of GDP	Employee future benefits liability	Less: funds dedicated to employee future benefits	Net employee future benefits liability		As a % of GDP	
	\$M											\$M
Before government accounting reforms												
1970-1971	2 478	10.9									2 478	10.9
1971-1972	2 920	11.9									2 920	11.9
1972-1973	3 309	12.0									3 309	12.0
1973-1974	3 679	11.8									3 679	11.8
1974-1975	4 030	11.0			67	0.2					4 097	11.2
1975-1976	4 955	12.0			179	0.4					5 134	12.4
1976-1977	6 035	12.5			354	0.7					6 389	13.2
1977-1978	7 111	13.4			620	1.2					7 731	14.6
1978-1979	8 325	14.1			915	1.6					9 240	15.7
1979-1980	9 472	14.4			1 598	2.4					11 070	16.8
1980-1981	12 247	16.8			2 420	3.3					14 667	20.1
1981-1982	14 184	17.6			3 428	4.3					17 612	21.9
1982-1983	16 485	19.3			4 489	5.3					20 974	24.6
1983-1984	18 880	20.6			5 545	6.0					24 425	26.6
1984-1985	21 216	21.2			6 729	6.7					27 945	27.9
1985-1986	23 633	22.0			7 998	7.4					31 631	29.4
1986-1987	25 606	21.9			9 353	8.0					34 959	29.9
1987-1988	26 819	20.9			10 883	8.5					37 702	29.4
1988-1989	27 091	19.2			12 597	8.9					39 688	28.1
1989-1990	27 699	18.7			14 320	9.6					42 019	28.3
1990-1991	29 637	19.3			16 227	10.6					45 864	29.9
1991-1992	33 106	21.3			18 143	11.7					51 249	33.0
1992-1993	39 231	24.8			19 668	12.4					58 899	37.2
1993-1994	45 160	27.8	21 337	– 854	20 483	12.6					65 643	40.4
1994-1995	52 468	30.8	22 846	– 849	21 997	12.9					74 465	43.7
1995-1996	52 886	29.8	24 547	– 923	23 624	13.3					76 510	43.1
1996-1997	52 625	29.2	26 475	– 1 014	25 461	14.1					78 086	43.3
After government accounting reform in 1997-1998												
1997-1998	57 947	30.7	41 617	– 1 179	40 438	21.5					98 385	52.2
1998-1999	60 685	30.9	42 637	– 2 209	40 428	20.6					101 113	51.5
1999-2000	62 783	29.7	44 377	– 5 040	39 337	18.7					102 120	48.4
2000-2001	65 737	29.2	46 170	– 7 059	39 111	17.4					104 848	46.6
2001-2002	69 115	29.9	48 259	– 10 199	38 060	16.4					107 175	46.3
2002-2003	72 916	30.2	50 266	– 11 840	38 426	15.9					111 342	46.1
2003-2004	76 444	30.5	52 485	– 14 204	38 281	15.3					114 725	45.8
2004-2005	80 310	30.6	54 619	– 18 333	36 286	13.8					116 596	44.4
2005-2006	83 672	30.7	57 193	– 22 563	34 630	12.7					118 302	43.4
After government accounting reform in 2006-2007 ⁴												
2006-2007	108 585	38.4	59 721	– 26 877	32 844	11.6	1 176	– 424	752	– 584	141 597	50.1
2007-2008 ^p	114 945	38.4	62 171	– 31 762	30 409	10.2	1 177	– 433	744	– 1 187	144 911	48.4
2008-2009 ^p	122 469	39.6	64 588	– 37 026	27 562	8.9	1 158	– 1 052	106	– 1 929	148 208	48.0
2009-2010 ^p	128 876	40.3	67 216	– 41 628	25 588	8.0	1 127	– 1 127	—	– 2 745	151 719	47.4

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1: Data from before the accounting reform in December 2007 reflect the total debt; data from after the accounting reform reflect the gross debt.

2: Excluding deferred foreign exchange gains or losses.

3: Excluding pre-financing.

TABLE I.13

Change in net debt

		Financial assets net of other liabilities ^{3,4}						
Gross debt ^{1,2,3}		Including pre-financing	Less: pre-financing	Excluding pre-financing		Net debt ⁴		
\$M	As a % of GDP	\$M	\$M	\$M	As a % of GDP	\$M	As a % of GDP	
Before government accounting reforms								
1970-1971	2 478	10.9	188		188	0.8	2 290	10.1
1971-1972	2 920	11.9	275		275	1.1	2 645	10.8
1972-1973	3 309	12.0	317		317	1.1	2 992	10.9
1973-1974	3 679	11.8	28		28	0.1	3 651	11.7
1974-1975	4 097	11.2	4		4	—	4 093	11.2
1975-1976	5 134	12.4	90		90	0.2	5 044	12.2
1976-1977	6 389	13.2	36		36	—	6 353	13.2
1977-1978	7 731	14.6	673		673	1.3	7 058	13.3
1978-1979	9 240	15.7	780		780	1.3	8 460	14.4
1979-1980	11 070	16.8	234		234	0.3	10 836	16.5
1980-1981	14 667	20.1	341		341	0.5	14 326	19.6
1981-1982	17 612	21.9	5 043		5 043	6.3	12 569	15.6
1982-1983	20 974	24.6	5 936		5 936	7.0	15 038	17.6
1983-1984	24 425	26.6	7 127		7 127	7.8	17 298	18.8
1984-1985	27 945	27.9	6 490		6 490	6.5	21 455	21.4
1985-1986	31 631	29.4	5 896		5 896	5.4	25 735	24.0
1986-1987	34 959	29.9	6 243		6 243	5.4	28 716	24.5
1987-1988	37 702	29.4	6 587		6 587	5.2	31 115	24.2
1988-1989	39 688	28.1	6 869		6 869	4.8	32 819	23.3
1989-1990	42 019	28.3	7 436		7 436	5.0	34 583	23.3
1990-1991	45 864	29.9	8 306		8 306	5.4	37 558	24.5
1991-1992	51 249	33.0	9 364		9 364	6.0	41 885	27.0
1992-1993	58 899	37.2	11 985		11 985	7.6	46 914	29.6
1993-1994	65 643	40.4	13 806		13 806	8.4	51 837	32.0
1994-1995	74 465	43.7	16 788		16 788	9.9	57 677	33.8
1995-1996	76 510	43.1	14 886		14 886	8.3	61 624	34.8
1996-1997	78 086	43.3	13 253		13 253	7.4	64 833	35.9
After government accounting reform in 1997-1998								
1997-1998	98 385	52.2	9 788	—	9 788	5.2	88 597	47.0
1998-1999	101 113	51.5	15 134	2 831	12 303	6.2	88 810	45.3
1999-2000	102 120	48.4	13 464	506	12 958	6.1	89 162	42.3
2000-2001	104 848	46.6	18 115	1 475	16 640	7.4	88 208	39.2
2001-2002	107 175	46.3	15 557	1 154	14 403	6.2	92 772	40.1
2002-2003	111 342	46.1	19 873	4 132	15 741	6.5	95 601	39.6
2003-2004	114 725	45.8	19 548	1 848	17 700	7.1	97 025	38.7
2004-2005	116 596	44.4	20 216	2 662	17 554	6.7	99 042	37.7
2005-2006	118 302	43.4	16 303	2 684	13 619	5.0	104 683	38.4
After government accounting reform in 2006-2007								
2006-2007	141 597	50.1	25 475	6 069	19 406	6.9	122 191	43.2
2007-2008 ^p	144 911	48.4	23 898	1 987	21 911	7.3	123 000	41.1
2008-2009 ^p	148 208	48.0	21 596	—	21 596	7.0	126 612	41.0
2009-2010 ^p	151 719	47.4	22 009	—	22 009	6.9	129 710	40.5

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1: Data for before the accounting reform in December 2007 reflect the total debt; data for after the accounting reform reflect the gross debt.

2: Excluding pre-financing.

3: Excluding deferred foreign exchange gains or losses.

4: Before taking into account amounts deposited in the budgetary reserve.

TABLE I.14

Change in debt representing accumulated deficits

Non-financial assets													
Net debt ¹			Capital expenditures	Net investments in the network	Inventories and pre-payments	Total non-financial assets		Debt representing accumulated deficits for the purposes of the Public Accounts ^{1,2}		Plus: balance of the budgetary reserve	Debt representing accumulated deficits after taking into account the budgetary reserve		
\$M	As a % of GDP		\$M	\$M	\$M	\$M	As a % of GDP	\$M	As a % of GDP	\$M	\$M	\$M	As a % of GDP
Before government accounting reforms													
1970-1971	2 290	10.1						2 290	10.1			2 290	10.1
1971-1972	2 645	10.8						2 645	10.8			2 645	10.8
1972-1973	2 992	10.9						2 992	10.9			2 992	10.9
1973-1974	3 651	11.7						3 651	11.7			3 651	11.7
1974-1975	4 093	11.2						4 093	11.2			4 093	11.2
1975-1976	5 044	12.2						5 044	12.2			5 044	12.2
1976-1977	6 353	13.2						6 353	13.2			6 353	13.2
1977-1978	7 058	13.3						7 058	13.3			7 058	13.3
1978-1979	8 460	14.4						8 460	14.4			8 460	14.4
1979-1980	10 836	16.5						10 836	16.5			10 836	16.5
1980-1981	14 326	19.6						14 326	19.6			14 326	19.6
1981-1982	12 569	15.6						12 569	15.6			12 569	15.6
1982-1983	15 038	17.6						15 038	17.6			15 038	17.6
1983-1984	17 298	18.8						17 298	18.8			17 298	18.8
1984-1985	21 455	21.4						21 455	21.4			21 455	21.4
1985-1986	25 735	24.0						25 735	24.0			25 735	24.0
1986-1987	28 716	24.5						28 716	24.5			28 716	24.5
1987-1988	31 115	24.2						31 115	24.2			31 115	24.2
1988-1989	32 819	23.3						32 819	23.3			32 819	23.3
1989-1990	34 583	23.3						34 583	23.3			34 583	23.3
1990-1991	37 558	24.5						37 558	24.5			37 558	24.5
1991-1992	41 885	27.0						41 885	27.0			41 885	27.0
1992-1993	46 914	29.6						46 914	29.6			46 914	29.6
1993-1994	51 837	32.0						51 837	32.0			51 837	32.0
1994-1995	57 677	33.8						57 677	33.8			57 677	33.8
1995-1996	61 624	34.8						61 624	34.8			61 624	34.8
1996-1997	64 833	35.9						64 833	35.9			64 833	35.9
After government accounting reform in 1997-1998													
1997-1998	88 597	47.0	6 016			6 016	3.2	82 581	43.8			82 581	43.8
1998-1999	88 810	45.3	6 233			6 233	3.2	82 577	42.1			82 577	42.1
1999-2000	89 162	42.3	6 693			6 693	3.2	82 469	39.1			82 469	39.1
2000-2001	88 208	39.2	7 166			7 166	3.2	81 042	36.0	950		81 992	36.5
2001-2002	92 772	40.1	8 234			8 234	3.6	84 538	36.5			84 538	36.5
2002-2003	95 601	39.6	9 716			9 716	4.0	85 885	35.6			85 885	35.6
2003-2004	97 025	38.7	10 735			10 735	4.3	86 290	34.4			86 290	34.4
2004-2005	99 042	37.7	11 818			11 818	4.5	87 224	33.2			87 224	33.2
2005-2006	104 683	38.4	12 984			12 984	4.8	91 699 ³	33.6			91 699	33.6
After government accounting reform in 2006-2007													
2006-2007	122 191	43.2	16 387	9 883	162	26 432	9.3	95 759	33.9	1 300		97 059	34.3
2007-2008 ^p	123 000	41.1	17 777	10 427	157	28 361	9.5	94 639	31.6	1 817		96 456	32.2
2008-2009 ^p	126 612	41.0	19 731	11 457	157	31 345	10.2	95 267	30.8	447		95 714	31.0
2009-2010 ^p	129 710	40.5	22 538	12 117	157	34 812	10.8	94 898	29.7	—		94 898	29.7

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Before taking into account amounts deposited in the budgetary reserve.

2 Including various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.

3 The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

TABLE I.15

Change in debt service

	Consolidated Revenue Fund	Interest ascribed to the retirement plans ¹	Consolidated entities	Total debt service	
	\$M	\$M	\$M	\$M	As a % of budgetary revenue
Before government accounting reforms					
1970-1971	197			197	5.2
1971-1972	210			210	4.8
1972-1973	242			242	4.9
1973-1974	288			288	5.1
1974-1975	296			296	4.1
1975-1976	368			368	4.5
1976-1977	456			456	4.8
1977-1978	606			606	5.5
1978-1979	763	54		817	7.0
1979-1980	882	88		970	7.4
1980-1981	1 217	165		1 382	9.5
1981-1982	1 686	264		1 950	11.0
1982-1983	1 921	379		2 300	11.8
1983-1984	2 031	480		2 511	11.6
1984-1985	2 414	598		3 012	13.7
1985-1986	2 648	706		3 354	14.0
1986-1987	2 754	802		3 556	14.0
1987-1988	2 751	924		3 675	13.1
1988-1989	2 665	1 137		3 802	12.8
1989-1990	2 829	1 186		4 015	12.9
1990-1991	3 026	1 411		4 437	13.4
1991-1992	3 222	1 444		4 666	13.5
1992-1993	3 475	1 281		4 756	13.5
1993-1994	3 750	1 566		5 316	14.8
1994-1995	4 333	1 549		5 882	16.2
1995-1996	4 287	1 747		6 034	15.8
1996-1997	3 906	1 949		5 855	15.7
After government accounting reform in 1997-1998					
1997-1998	3 800	2 965	577	7 342	17.7
1998-1999	4 159	2 414	614	7 187	15.6
1999-2000	4 120	2 632	621	7 373	15.7
2000-2001	4 378	2 594	634	7 606	15.0
2001-2002	3 970	2 717	574	7 261	14.5
2002-2003	3 935	2 648	549	7 132	13.7
2003-2004	3 913	2 742	586	7 241	13.3
2004-2005	4 066	2 787	596	7 449	13.1
2005-2006	4 044	2 831	684	7 559	12.6
After government accounting reform in 2006-2007					
2006-2007	4 357	2 643	894	7 894	12.1
2007-2008 ^P	4 558	2 445	1 681	8 684	12.7
2008-2009 ^P	4 736	2 171	1 830	8 737	12.5
2009-2010 ^P	5 055	1 964	1 998	9 016	12.5

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

1 Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the Retirement Plans Sinking Fund.