

To meet cash requirements next year without excessive market borrowing, the Government proposes to maintain existing tax levels by extending for one year the 3-percent surtaxes on personal and corporate incomes. Revenues from the taxes are estimated at \$245 million for calendar 1971.

The forecast for 1970-71 is a budgetary deficit of \$320 million and cash requirements of \$1,570 million apart from foreign exchange.

The forecast for 1971-72 is a budgetary deficit of \$600 million and total cash requirements of \$1,900 million.

COSTS OF NEW PROGRAMS

In several important cases the economic impact of the new programs will precede their impact on the Government's accounts. With the line of credit available provinces can activate plans immediately.

Companies can take decisions knowing they will have assistance under the industrial incentives programs of the Department of Regional Economic Expansion. Housing starts can be made before CMHC has advanced the full costs of projects.

These programs will be reflected in the Government's accounts as follows:

	1970-71 (\$ millions)	1971-72 (\$ millions)
Loans to provinces for capital projects	40	110
Services surrounding Montreal International Airport	5	15
Shipbuilding program	-	5
Extension of GAAP to footwear industry	-	1
CMHC capital budget increase	-	40
Increase in unemployment insurance payments	31	23
Capital projects of departments and agencies	23	-
OAS pension and guaranteed income supplement increases	-	200
Youth programs, including summer employment	1	6
	<u>100</u>	<u>400</u>

ECONOMY STIMULUS FUND

The Federal Government will make available \$150 million in loans to the provinces to finance new, job-creating capital development projects. A committee of the Federal Government will apply two main criteria to qualify projects for the funds: they will be expected to involve construction that pro-

vincial governments would not otherwise undertake in 1971-72; and they will be expected to contribute directly and quickly to additional employment.

It is expected that this line of credit will permit high-priority projects to go ahead this winter.

Distribution of loans among the provinces will be related directly to unemployment levels. Specifically, distribution follows the number of unemployed persons in excess of 4 per cent of the labour force, determined by averaging rates reported and forecast for the last six months of 1970, together with estimated unemployment among treaty Indians on reserves.

The repayment period will be negotiated between lender and borrower, but will generally be 15 years. Loans will carry interest at the Canada Pension Plan rate, which in December is 7.91 per cent. This represents an interest subsidy to the provinces, whose own rates on market borrowings are at least one percentage point higher.

The loans will be a non-budgetary expenditure of the Federal Government in 1971-72 and will appear in the accounts under Department of Finance estimates.

The program is similar to the proposal of the government of Quebec for a cyclical stabilization fund to protect provincial revenues against serious fluctuations. It represents an interim, one-year response to the Quebec plan pending completion of a federal-provincial study on a possible joint stabilization arrangement.

AIRCRAFT TO NEPAL

The Canadian International Development Agency announced recently that the first major development project financed by Canada in Nepal will consist of two aircraft and some technical support.

An agreement signed recently in Katmandu provides Nepal with a 50-year interest-free development loan of \$1,200,000 for the addition of two Canadian DeHavilland *Twin Otters* to the air fleet of the Royal Nepal Airline Corporation. In keeping with recommendations of the recent foreign policy review, Canada will also pay the cost of ferrying the aircraft to the Himalyan kingdom.

The *Twin Otters*, with short take-off and landing capability, will complement a major Asian Development Bank program to upgrade regional transportation links in Nepal. STOL-type aircraft are especially important because eight of the world's ten highest peaks, including Mount Everest, lie within Nepal's borders, while most of the country's ten million people live by agriculture or stock-raising in valleys that are being linked with the capital by air.

Canada's exports in 1970 rose by \$2 billion to reach almost \$17 billion, while the surplus on merchandise trade in 1970 far exceeded that of any previous year.