

2005-2006

Budget Speech

Budget

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2005-2006 Budget

Budget Speech

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A budget of disciplined, responsible management for economic prosperity and social justice

| | |
|-------------------------------------------------------------------------|--------------|
| INTRODUCTION | 1 |
| A Québec able to take up major challenges | 1 |
| The situation when we came to power | 1 |
| Our government's action priorities | 2 |
| An impressive track record for 2003–2004 and 2004–2005 | 2 |
| The challenges of the 2005–2006 Budget | 4 |
| Pursuing the actions undertaken | 5 |
| STAYING THE COURSE OF OUR PRIORITIES | 6 |
| Health first | 6 |
| Continue to invest heavily while making the system more efficient | 6 |
| Two new action plans | 7 |
| Strengthening our social safety net | 8 |
| Investing in education to prepare for the future | 9 |
| Substantial investments | 9 |
| Promoting arts and culture | 10 |
| Objective: increase private investment | 10 |
| Concrete measures | 10 |
| Families: always at the heart of our actions | 11 |
| March 2004 Budget measures | 11 |
| Implementation of the Québec parental insurance plan | 11 |
| Continuing to ease the tax burden of individuals | 12 |
| A \$300-million tax reduction for workers | 12 |
| Greater social justice for all | 13 |
| Deployment of the plan to combat poverty | 13 |
| Investment in social housing | 13 |
| Better protection for investors | 14 |
| A better quality of life for all | 14 |

| | |
|----------------------------------------------------------------------|---------------|
| FOSTERING WEALTH CREATION..... | 15 |
| Tapping our full potential | 15 |
| Increasing private investment for greater productivity | 16 |
| A situation that had to be redressed | 16 |
| Concrete economic results | 18 |
| Reform of corporate taxation to promote investment..... | 18 |
| Assistance for business financing..... | 20 |
| Support for R&D, innovation and exports | 22 |
| Development and prosperity of our regions..... | 23 |
| Pursuing decentralization | 23 |
| Accelerating the economic diversification of our regions..... | 24 |
| A substantial effort on behalf of the Québec economy | 26 |
| RECORD INVESTMENTS IN INFRASTRUCTURES | 27 |
| Modern road infrastructures..... | 27 |
| Leading-edge facilities in the health and education sectors | 28 |
| Functional urban and municipal infrastructures | 28 |
| Assets that must be kept in good condition | 28 |
| Building on our energy resources | 29 |
| DISCIPLINED MANAGEMENT TO MAINTAIN A BALANCED BUDGET..... | 30 |
| A zero deficit in 2005–2006 | 30 |
| 2006–2007: maintenance of fiscal discipline | 31 |
| Restoring balance and equity within the Canadian federation..... | 31 |
| CONCLUSION..... | 33 |

Introduction

Mr. President:

It is a great honour for me, and a great responsibility, to table my first budget as Minister of Finance—our government's third budget—before this Assembly.

A Québec able to take up major challenges

In the early sixties, Québec was ushered into the modern era with the election of Jean Lesage's "team of thunder."

Driven by the desire to grow and succeed, Quebecers built an accessible, modern public education system. They brought in a universal public health system, accessible to all regardless of income. Over the years, they introduced the most progressive social programs in North America.

They implemented modern, innovative tools to accelerate economic development: Hydro-Québec, the Caisse de dépôt et placement du Québec and major public infrastructures, such as an extensive road network throughout Québec, are just a few examples that come to mind.

We are proud of the previous generations' accomplishments, but today's Québec faces three major challenges:

- First, it must deal with the demographic changes set to have repercussions on all spheres of society.
- Second, it must increase its competitiveness in order to capitalize on globalization and compete with emerging economies.
- Third, it must take action to improve the state of its public finances.

The situation when we came to power

Québec's public finances are beset by major structural problems. These problems were exacerbated by the disastrous legacy of the previous government.

When we took power, Québec's public finances were in a lamentable state. The previous government affirmed a zero deficit. It was not at all the case.

Moreover, the former government took an excessively interventionist approach to the economy, through the Société générale de financement, the Innovatech corporations and designated sites. An "open bar" that resulted in astronomical costs: \$13.1 billion over 15 years. For 2005–2006 alone, the bill is a hefty one: over \$800 million to be paid for previous commitments.

Lastly, we observed the deplorable state of public infrastructures in both the health and education networks as a result of chronic underinvestment. The same observation also applies to our road network as a whole.

Our government's action priorities

To meet the demographic, globalization and public finance challenges facing us, Québec has no choice but to create more wealth.

Modernizing government, rethinking how it works and adopting a more effective approach to economic development and job creation is not a question of ideology. It is a question of ensuring the sustainability of our public services.

That is why, in fall 2002, the Liberal team adopted a government program to enable Québec to meet the challenges of the 21st century. Quebecers identified with the goals and directions we presented, under the leadership of the Premier, to whom I wish to pay tribute.

Our number one priority was to restore public confidence in our health care system. We needed to reinvest and reorganize services to reduce wait times and redress the critical situation inherited from the previous government, in particular due to the retirement of thousands of doctors and nurses.

Our second priority was education, first and foremost academic achievement. We needed to start investing again in a system reeling from the effects of the cuts made by the former government.

Our third priority was to increase prosperity in Québec. The first step was to eliminate economic constraints in order to create more jobs, attract more private investment, increase workers' income and raise Quebecers' standard of living.

Our fourth priority was the development of our regions. Building on their strengths was key to making them full contributors to the growth of Québec's wealth.

In short, we sought to give Québec a government centred on one fundamental value: citizens first.

An impressive track record for 2003–2004 and 2004–2005

That value has guided the choices we have made in running the government and imposed the fiscal discipline that characterized our first two budgets.

In June 2003, given the state of the public finances we had just inherited, our efforts essentially consisted in making up a shortfall of several billion dollars. Much of the manoeuvring room we created through both tight spending control and a revision of the tax assistance for businesses had to be devoted to that end.

In last year's budget, we took a first step toward easing Quebecers' tax burden, especially that of families with children. Through the Child Assistance and Work Premium measures, and simplification of our tax system, we gave over \$1 billion back to Quebecers. We also kept our commitment to fight poverty.

Throughout the past year, our government made strict fiscal discipline a rule, enabling us to meet, to the dollar, the spending objective set in the last budget.

In that regard, I want to congratulate my Cabinet colleagues and, in particular, the Chair of the Conseil du trésor, for having accomplished that feat. Keeping spending within budget is an exploit that doubly deserves to be underscored.

Indeed, it is with great pride that I announce to this Assembly that we succeeded in maintaining a balanced budget in 2004–2005.

Despite a difficult budgetary context, we are on our way to delivering on our promises and putting Québec on a new road to development and prosperity.

Our actions are already yielding tangible results. Québec's economy is healthy, as the indicators clearly show:

- More than 100 000 new jobs have been created since the beginning of our mandate, and that job creation has occurred in the majority of Québec's regions.
- Over 60% of the labour force is working. Never has the employment rate been so high in the history of Québec. And it is young people who have benefited the most. Their current employment rate is higher than that of young Ontarians.
- The unemployment rate is the lowest it has been since 1975, even falling to 8.2% last March.
- In the last two years, the number of social assistance recipients has dropped by over 25 000.
- Despite the appreciation of the Canadian dollar, Québec's international exports are up for the first time in four years.

- Housing starts exceeded 58 000 units, the best performance in 17 years. Since we came to power, an average of 54 000 housing units have been built each year—double the number built during the mandates of the previous government.
- Private investment grew 13.7%, accounting for 19% of all private investment in Canada. The best performance in 12 years.

Mr. President, these results clearly show that Quebecers are in a better economic situation today, in part due to our government's policies.

The challenges of the 2005–2006 Budget

However, the global competitive environment is changing, and this Budget is designed to enable the Québec economy to adapt to those changes while keeping a tight rein on public finances.

The external market, long the engine of Québec's economic growth, now poses major challenges.

Emerging economies, with their much lower labour costs, are increasingly competing with our products and services, not only on the Québec market, but also in the United States, our main export market.

The effects of that heightened competition are amplified by the price of oil, which recently exceeded US\$50 a barrel, and by the over-20% appreciation since 2002 in the Canadian dollar, now worth close to 80 U.S. cents.

Given all of this, economists expect real economic growth to average 2.6% in the years to come.

In addition, the global economic context holds major risks. For example, some economists estimate that the Canadian dollar could climb to 90 U.S. cents and that the price of oil could continue to rise. Even though we do not share those views, we cannot disregard them.

Furthermore, the financial situation remains fragile. That point of view was widely shared by the Quebecers who took part in the Forum des générations last fall.

In addition to the heavy burden left by the former government and heightened competition, we must consider the lingering fiscal imbalance.

As long as the federal government continues to stand alone in denying the very existence of a fiscal imbalance, the Canadian federation will be on a path counter to its fundamental interests. The bilateral agreements recently signed with certain provinces introduced blatant unfairness into the equalization program, which is no longer in keeping with its fundamental objectives. A financially balanced and equitable federation must be instituted in Canada.

The Premier put considerable effort into that during the federal–provincial conferences last fall, which yielded significant gains, notably in federal health funding. Despite those gains, growth in federal transfers is relatively modest when compared with the increase in our health and education spending. We intend to step up our efforts to correct this situation.

In addition, we intend to take action on pay equity so that women working in the public and parapublic sectors attain greater employment equality. We must also take into account the negotiation of the collective agreements of government employees, which will be stepped up in the coming months. Once again, considerable pressure will be brought to bear on government spending. And, once again, Québec taxpayers' ability to pay will guide our actions.

Given all of these factors, we must maintain the very tight control over public finances that has been our hallmark to date. Whether it be the negotiation of collective agreements, pay equity or growth in government spending, it is important to remember that taxpayers still have to foot the bill. We must therefore be cautious and make responsible choices.

Pursuing the actions undertaken

However, that will not prevent us from entering a new phase in the actions undertaken by our government since we took office.

I am tabling today a budget firmly rooted in the liberal vision and values that our team has defended with deep conviction from the outset.

Today, we have two objectives:

- First, this Budget stays the course of our priorities: health, education, culture, family, a lighter tax burden for Quebecers and the fight against poverty.
- Second, we are resolute in our efforts to encourage wealth creation so that all Quebecers, in all regions, may enjoy greater prosperity.

The budget I am tabling today meets our commitments.

It is a budget of disciplined, responsible management.

It is a budget that takes action.

It is a budget that enables Québec to *Shine among the best*.

Staying the course of our priorities

The first objective of this Budget is to continue to invest in our main priorities and, above all, in health and education.

Health first

Continue to invest heavily while making the system more efficient

In the last election campaign, we promised to make health our priority, and we did that. We reorganized services and reversed the underinvestment trend of previous years by reinvesting \$2.1 billion in two years. To give an idea of the effort involved, it is helpful to recall that it represents three quarters of the \$2.9-billion increase in program spending during the same period.

Current and future investments

In 2005–2006, we are injecting another \$826 million to improve direct services to the population. This year's health budget will therefore be \$20.9 billion.

Thus, despite the state of public finances, we have increased health spending by 5.2% a year and fully indexed the amounts allocated to the network, as planned. This is another commitment we have met.

In addition, we will continue on this course by investing in major projects such as Hôpital Sainte-Justine in Montréal, the Centre hospitalier de Jonquière and the Centre hospitalier universitaire de Sherbrooke, as well as in new faculties of medicine in Trois-Rivières and Chicoutimi.

We will also invest substantially in the areas of radiation oncology, cardiology and emergency medicine.

Over the next three years, health spending will represent nearly \$2.6 billion for Québec as a whole.

We are also moving forward with the construction of two university hospitals in Montréal. These projects—the Centre hospitalier universitaire de Montréal and the McGill University Health Centre—will accelerate growth of the life sciences cluster in the metropolis, for the benefit of Quebecers in all regions. Thus, over \$2.5 billion will be invested in health services in Montréal.

The money we are investing will give our physicians and researchers better access to leading-edge technologies. In very concrete terms, that means better care for all Quebecers.

Refocusing services on patients

To refocus the health care system on patients, we reviewed its organization. That led to the creation of health services networks over the last two years. These networks meet people's needs more effectively. They assure citizens of a response tailored to their needs and of access to continuous, quality care.

This is not all we have done.

- We took action in the area of prevention, in particular through a program to promote healthy lifestyles.
- We increased the number of surgeries performed. Knee operations rose 60%, hip operations, 28% and cataract operations, 30%.
- We increased the number of family medicine groups in Québec to 82 from only 17 in March 2003.
- We considerably improved the functioning of our emergency rooms. The average stay dropped, despite an increase of almost 5% in the number of patients. That translates into fewer patients in hallways and more respect for people.
- We substantially increased the number of medical students. Ultimately, 736 additional candidates will be in training.

Our track record in the area of health is sound. We reversed the trend. And this Budget enables us to continue our efforts to provide better health services to Quebecers.

Two new action plans

We will continue our efforts in the coming year, giving special attention to the most vulnerable people.

Thus, my colleague the Minister of Health and Social Services will soon announce two action plans.

- The first is aimed at developing priority mental health services, in particular to help people with a high suicide risk.
- The second is aimed at providing more support for seniors losing their autonomy, in particular by developing community services to provide them with more home care.

Strengthening our social safety net

Free medication for the most disadvantaged seniors

Some of the more disadvantaged seniors must pay up to \$200 a year for medication covered under the public prescription drug insurance plan. That is a substantial outlay given their income.

I am pleased to announce that, as of now, medication will be completely free for persons 65 or older who receive the maximum guaranteed income supplement.

This measure not only benefits our seniors, but is in addition to our fight against poverty. Another promise kept.

Reform of support measures for natural caregivers and persons with disabilities

In keeping with the government's commitments, we are also going to do more to recognize the invaluable contribution of natural caregivers to society. We will not only recognize their contribution when they house an elderly parent, but also when they house a family member, such as a brother, sister, child, uncle or aunt who has a severe impairment.

To that end, I am announcing the introduction of a tax credit for natural caregivers.

- Under the tax credit, a low-income couple that cares for an adult child with a disability will be able to count on additional support of \$1 000 a year.

As well, we will ensure that all people who have a severe impairment are eligible for support that will be increased and indexed.

Thus, thanks to this reform, over 80 000 natural caregivers and people with a physical or mental impairment will receive additional assistance of \$43 million. It is another promise kept.

Ensuring the sustainability of the health care system

We are also going to tackle the problem of long-term funding of our health care system. This is a major challenge for the future.

Population aging and the rapid changes in technology, drugs and medical practices will put considerable pressure on health care costs in the coming years.

I plan to examine, with my colleague the Minister of Health and Social Services, the best scenarios for ensuring the sustainability of our health care system and greater intergenerational fairness.

A task force chaired by Jacques Ménard, which was set up last fall following the Forum des générations, will soon make recommendations in this regard.

Investing in education to prepare for the future

Substantial investments

The other main priority of our government is education. This sector accounts for one quarter of our program spending, that is, \$12.2 billion.

This year, we are going to invest an additional \$321 million in education. Since we took office, we will have invested over \$1 billion in the academic achievement of our children.

With this additional funding, we will be able to better guide students toward success:

- We are going to double the budget of the homework assistance program by injecting another \$10 million. This program, which is now in place in 1 800 of Québec's 2 000 schools, is a huge success that also facilitates work-family balance.
- We will be able to hone the assistance provided to 100 000 underprivileged students.
- We are going to promote health and sports among young people. In addition to the extra hour and a half of physical education introduced in elementary school, we are going to increase the extra-curricular physical activities and sports available to our young people.
- We are going to follow through on our three-year plan to encourage reading in school.
- We are going to introduce, as of September 2006, English second language instruction beginning in the first grade.
- Since 2003, our government has allocated an extra \$380 million to universities. Primarily, these additional funds will enable them to accept new cohorts of students, which are in net growth—proof that Québec is shifting to a true knowledge-based society.

With the investments I have just announced, we will have invested more in education in three years than the previous government did in nine years, reflecting our determination to emphasize success in school. Another promise kept.

Promoting arts and culture

Objective: increase private investment

Culture is not only the mirror of our society, but also the torch that enables it to shine throughout the world.

Last year, we introduced various measures to improve the socioeconomic conditions of Québec creators. It was a gesture in recognition of the tremendous contribution artists make to the growth of our culture.

This year, our objective is to increase business investment in Québec culture. For our cultural industry to flourish, everyone must invest.

That is why the Minister of Culture and Communications set up a steering committee composed of representatives from the cultural community and government. Although the committee has not yet completed its work, it has already proposed scenarios for encouraging private investment.

Concrete measures

I am pleased to be able to implement some of their proposals immediately.

First, I am announcing the creation of Placements Culture, which will support development of the arts and culture thanks to private sector contributions. To get this initiative off to a running start, the government will contribute \$5 million.

The Minister of Culture and Communications will announce the terms and conditions of this measure in the weeks to come.

Again with the aim of fostering increased private-sector contributions to the funding of culture, I am announcing that museum memberships will be given the same tax treatment as theatre subscriptions and, as a result, will be fully tax-deductible.

I am also announcing an additional \$5 million in funding to support some of our museums that are experiencing financial problems.

Lastly, I am announcing that the capital cost allowance rate for businesses that acquire works by our artists will be raised from 20% to 33 1/3%.

Families: always at the heart of our actions

The government also intends to continue placing families at the heart of its actions.

March 2004 Budget measures

Major decisions have already been made regarding Québec families:

- We introduced a new Child Assistance measure under which, every quarter, one million families share \$500 million in non-taxable financial assistance. They have already received two cheques: one in December and the other at the beginning of this month.
- We also introduced the Work Premium, raising the income of 170 000 families.

We strengthened the network of daycare centres by adding 25 000 new spaces so as to complete development of the 200 000 planned spaces for Québec children in the coming months. Another promise kept.

Implementation of the Québec parental insurance plan

In the months to come, we will be able to do even more and take a giant step forward in the area of work-family balance by implementing the new Québec parental insurance plan.

We are happy to say that, as of January 1, 2006, Québec families will be able to take advantage of the new parental leave plan. Québec obtained full control over the plan when it signed an agreement with the federal government on March 1 of this year. Another promise kept.

Contrary to the federal government's employment insurance plan, the new parental insurance plan will actually be administered as an insurance plan. It will be financed through a separate fund administered by the Conseil de gestion de l'assurance parentale, which is composed of employer, worker and government representatives.

We will examine the proposals of the Conseil de gestion de l'assurance parentale regarding the terms and conditions for funding the program as soon as they are tabled.

Never has a government done so much for families!

Continuing to ease the tax burden of individuals

As you know, Mr. President, our government pledged to reduce the income tax paid by Quebecers.

In last year's budget, we chose to focus on families. We returned \$1 billion to taxpayers who were very much in need of it.

A \$300-million tax reduction for workers

This year, we decided to give priority to women and men who work. I am therefore announcing a new deduction of \$500 for workers. This new deduction will take effect on January 1, 2006.

It will benefit 3.1 million salaried workers and 162 000 self-employed workers.

On an annual basis, this tax reduction represents \$300 million. The indexation of personal income tax will give taxpayers an additional \$250 million in 2005-2006.

By adding the new deduction for work-related expenses to the measures announced in the previous budget:

- A couple with two children and two incomes totalling \$75 000 will have an extra \$780 per year.
- A single-parent family with one child and an income of \$25 000 will have an extra \$1 574 in its pockets.

Moreover, to encourage workers to save for their retirement, I am announcing that the caps on RRSP contributions will be raised by \$1 000 a year until 2010. We will bring in an equivalent measure for registered pension plans, which, when fully implemented, will mean an additional \$27 million in tax relief.

A very clear signal

With this tax reduction, our government is sending a very clear signal: taxpayers' disposable income must be increased.

Given our means, this year we chose to target workers in order to give them a fairer return on their efforts and initiatives.

In lowering the personal income tax of workers, our government heightens the incentive to work and encourages effort.

This tax cut is within our means and it is also a mark of sound, disciplined management, affirming our determination to make Québec more fiscally competitive. I want to be very clear: there was never any question of reducing taxes to the detriment of a balanced budget.

Gap between Québec and the Canadian average cut in half

The reduction in personal income tax brings Quebecers' level of taxation closer to the Canadian average.

The fiscal gap between Québec and the Canadian average has been cut almost in half, dropping from \$2.2 billion to \$1.2 billion in three years.

But this is still not good enough. Our government pledged to attain the Canadian average. Midway into our mandate, I am pleased to say that we are halfway there, and that we are on course for meeting our commitment.

At the end of our mandate, Quebecers will no longer be the most heavily taxed people in North America.

Greater social justice for all

Deployment of the plan to combat poverty

We have also stood by our objective of greater social justice for all, by introducing the plan to combat poverty.

The plan includes a series of measures that will lead to \$2.5 billion in investments over five years. For example:

- we substantially increased the income of low-income households through the new Work Premium and Child Assistance measures;
- we will be enhancing the employment assistance program, in particular by establishing a minimum threshold and extending the \$100 monthly exemption for child support to all families; and
- we invested substantially in social housing.

Investment in social housing

We are going to continue our efforts in this area, which is still plagued by problems despite the higher vacancy rate on the rental market. We will be allocating additional funding to build more quality, affordable housing.

I am announcing today an investment of \$145 million for the construction of 2 600 new dwellings under the AccèsLogis program for low-income households.

With this additional investment, our government is paving the way for the construction of 18 600 housing units, for a total investment of \$401 million. That is 5 600 more units than we promised. Yet another promise kept.

Moreover, another \$15 million will be invested to renovate existing social housing and thereby improve the quality of life of a large number of Quebecers.

Better protection for investors

I also want to inform you of a measure that increases protection for Québec investors and will help them save for their retirement. Thus, I am announcing that the government is raising the maximum insured deposit in Québec-regulated financial institutions from \$60 000 to \$100 000. Thanks to this measure, which will take effect on the same date as the increase announced by the federal government in its budget, Québec will continue to provide protection equivalent to that available in the other provinces.

A better quality of life for all

All of these measures I have just announced are proof positive that Quebecers are at the heart of our concerns and that we are well on our way to meeting our commitments.

We are in the process of building a Québec where the sick can receive the care they need when they need it, where children can receive an education that will open the doors to the future, where workers can derive more enjoyment from the fruits of their labour, and where all citizens can receive quality public services.

Fostering wealth creation

The second main objective of this Budget is to foster wealth creation and increase prosperity throughout Québec.

Only a wealthy Québec can ensure the sustainability of its public services. We must build a solid funding base for those services we consider to be a priority—first and foremost, health and education.

We must also increase wealth to ensure a more prosperous Québec for future generations. However, that prosperity must meet the conditions for sustainable development.

Tapping our full potential

Our government is convinced that Québec has everything it takes to do that.

Our diversified economy, top-notch research and innovation capability, qualified and creative labour force, and low startup costs create advantageous conditions for businesses.

That potential is far from fully tapped, and our government wants to eliminate all obstacles preventing us from moving forward.

But there are challenges to be met to reach that goal.

- We must succeed on a more competitive world economic stage characterized by globalization and the spectacular rise of emerging economies.
- We must do so as demographic trends force us to be more innovative and effective in replacing a labour force that will soon begin to decrease.

In the budget I am tabling today, we are taking action on two fronts to meet these challenges.

- We are stimulating private investment and job creation, the engines of economic growth.
- We are making new development tools available to people in the regions to ensure, in particular, the sustainable development of their economies.

I want to point out that the measures I am presenting today are part of the government's sustainable economic development strategy that will be made public shortly by my colleague the Minister of Economic Development, Innovation and Export Trade.

Increasing private investment for greater productivity

For our government, it is clear that economic prosperity and job creation depend above all on a substantial level of private investment.

The government has a role to play in stimulating private investment. We must make Québec even more attractive to investors in order to encourage new projects, draw new businesses and create more jobs.

A situation that had to be redressed

Our actions in the last two years illustrate that approach, which is already yielding very tangible results.

First of all, we had to redress a situation that was both untenable and costly for our society. The previous government assumed the role of private enterprise by taking risks that it is not the state's vocation to assume. The result is well known and Québec taxpayers as a whole are still footing the bill.

From 1998 to 2003, the Québec government invested \$1.7 billion in the Société générale de financement and the Innovatech corporations. We were promised a return far superior to the cost of government borrowings. Instead, for three years, Québec taxpayers as a whole have had to assume losses in excess of \$1 billion. In other words, the government sustained losses equal to nearly 60% of its capital outlays.

The previous government also introduced an array of programs and measures to support businesses that were noteworthy for their complexity and exorbitant cost for taxpayers.

As of our first budget we undertook a complete review of the policy on investments by government corporations.

- We reviewed the mandate of the Société générale de financement and put an end to the previous government's excessive interventionism. The SGF, which is now self-financing, will continue to participate in the development of new projects, to the extent that they are strategic in nature and offer a normal expectation of profit. The SGF plans to invest roughly \$250 million in new projects over the coming fiscal year.
- Innovatech du Grand Montréal was privatized and the new owner, Coller Capital, chose to locate its North America head office in Québec. With nearly \$200 million in new money, the corporation pledged to invest in Québec technology businesses. This transaction will contribute to raising the share of private venture capital in Québec.

- Moreover, an agreement in principle was reached with Capital régional et coopératif Desjardins and with Desjardins Capital de risque to establish a partnership aimed at converting Innovatech Régions ressources into a mixed public-private capital corporation. The \$30 million in new capital will make it possible not only to maintain the value of the current portfolio, but also to ensure funding for the development of new projects in the regions.
- A total of \$10 million will be allocated to Innovatech Québec et Chaudière–Appalaches and Innovatech du sud du Québec during the 2005–2006 fiscal year to enable them to pursue their mission. Our government insists that its investments in these corporations be used as leverage to attract private capital and lead to their conversion into mixed public-private corporations.
- We reviewed the governance of the Caisse de dépôt et placement du Québec with a view to better protecting Quebecers' assets. The Caisse revised its policy directions and is once again one of the leading retirement fund managers in Canada.
- The practices at Investissement Québec were also reviewed. The corporation will remain a pillar of regional development, with over 90% of the projects it backs being approved and managed locally. In 2004, Investissement Québec supported more than 1 200 projects in all regions of Québec.

Our government corporations can once again play an active role in job creation and structuring economic projects. Quebecers can once again be proud of their government corporations. Another promise kept. And we will do more.

- New governance rules for all government corporations of a commercial or economic nature will soon be made public:
 - The positions of chair of the board of directors and of president and chief executive officer will be dissociated.
 - Under the new governance rules, the boards of directors of government corporations will be required to form at least three committees to assist them in their duties: an audit committee, a governance and ethics committee and a human resources committee.
 - Changes will be made to the rules for forming and running boards of directors of government corporations with a view to strengthening the boards.
 - The government will make its corporations more accountable and transparent, in particular by strengthening auditing and accountability practices.

As of our first budget, we also reviewed the intervention and support measures for businesses.

- We overhauled the tax credits for businesses, generating annual savings of \$700 million.
- In response to a longstanding request of the business sector, we grouped the 162 assistance programs for businesses into 10 main programs that are simpler and more coherent.

Concrete economic results

Our efforts are starting to pay off. A few moments ago, I gave an overview of our economic performance and presented results for which we can congratulate ourselves from the standpoint of both growth and job creation.

I am very proud to announce today three series of measures to further stimulate private investment:

- First, our government is implementing a reform of corporate taxation designed to promote investment.
- Second, I am announcing major initiatives to facilitate business financing.
- Third, I am very happy to announce several improvements to the support measures for R&D, innovation and exports.

Reform of corporate taxation to promote investment

I am announcing today a major reform of corporate taxation to foster increased investment and create more jobs. The first element of the reform concerns tax on capital.

Tax on capital cut by more than 50%

For years, analysts have unanimously made the case that the tax on capital is the single most damaging component of our tax system. Québec has the highest tax on capital in Canada. The tax hurts our competitiveness, especially given that some provinces do not even levy it.

The tax on capital is in fact a tax on investment and employment. It deters businesses from investing because their investments add to their tax burden independently of their profitability. Because of the tax on capital, businesses increase their taxes payable simply by investing.

The simplest, fairest and most effective way to stimulate investment is to reduce the weight of the tax on capital as soon as possible.

We pledged to take action on behalf of SMEs first. We did so. We increased the basic exemption for SMEs to \$1 million. As a result, over 75% of businesses in Québec now no longer pay tax on capital. Another promise kept.

Today's budget enables us to do more, by implementing an ambitious plan to reduce the tax on capital for businesses still subject to it.

I am therefore announcing a cut of more than 50% in the tax on capital for all businesses.

The applicable rate will be gradually reduced from the current 0.6% to 0.29% in 2009.

This measure will be largely self-financed by occupying the tax room vacated by the federal government regarding corporate income tax.

5% tax on capital credit for new investments in machinery and equipment

This substantial reduction in the tax on capital will ensure a competitive fiscal environment for those seeking to invest in Québec. But we want to do more.

Specifically, Québec businesses must increase and accelerate their investments in machinery and equipment—the most strategic investments for promoting modernization and productivity. At the same time, it is an investment sector in which Québec lags behind the rest of Canada and the United States.

In 2004, our manufacturing businesses took advantage of the appreciation of the Canadian dollar, increasing their investments in machinery and equipment by more than 12%.

We want this growth in business investment in machinery and equipment to continue and accelerate. I am therefore announcing that, as of midnight tonight, all businesses that make a new manufacturing investment will be entitled to a tax on capital credit equal to 5% of the value of the investment.

In practice, this credit will completely eliminate the tax on capital on new investments in fabrication and processing equipment. It will also substantially reduce the tax on capital payable on the business's other assets, depending on the amount invested in the renewal of machinery and equipment.

All sectors will benefit from this reduction, not just our manufacturing businesses, but also our agricultural producers and our forestry and mining companies.

With the measures I am announcing today, our government is sending a clear message to businesses. We are telling them: "Modernize and you won't have to pay any more tax on capital!"

Reduction in the taxation rate of SMEs

Again in conjunction with the corporate taxation reform, I am announcing today a reduction in the taxation rate applicable to the income of SMEs.

SMEs are the very engine and underlying fabric of our economy. We want to increase their competitiveness. To that end, I am announcing that, as of January 1, 2006, the taxation rate of SMEs will be permanently reduced to 8.5%. That rate will apply to the first \$400 000 of taxable income.

I am presenting a table illustrating the gains that will be realized by businesses. The documents *Additional Information on the Budgetary Measures* and *Budget Plan*, which are an integral part of this Budget, contain full information on the reform.

Assistance for business financing

Financing plays a key role in the growth of businesses. Businesses need to have at their disposal the tools and means necessary to fund the various stages of their existence.

The Brunet report, tabled in December 2003, identified a number of deficiencies in the current methods for financing Québec businesses.

I am announcing today a series of measures intended to correct those deficiencies. The measures rely primarily on existing tools, which we are going to use and develop more effectively.

Seeding and startup

The government introduced an innovative tool: the regional economic intervention fund (FIER).

Its novel public-private capitalization formula has a substantial multiplier effect. When fully allocated, the \$200 million announced in the last budget will generate more than \$500 million in business projects.

Under one of the components of FIER, capital is made available to the regions to support promising projects, notably in the seeding and startup phases, where it is more difficult to attract investment. Since its implementation in the last budget, this component of FIER has been very favourably received throughout Québec.

Nine projects have already been accredited under FIER-Régions, and 16 others are being mounted. The program is so successful that the amounts allocated to FIER no longer satisfy the demand.

I am therefore announcing additional funding of \$78 million, thereby doubling the government's initial capital outlay.

I am confident that this investment will enable FIER to be implemented in all regions of Québec by the end of the year.

To support investment in the same niches, the government will also ensure greater use of the resources accumulated in tax-advantaged funds.

I am announcing that, from now on, the government will recognize, in the calculation of their investment requirement, \$1.50 for every dollar invested in Québec local venture capital funds.

Business growth and expansion

To further promote the financing of businesses in the growth and expansion phases, I am announcing three other initiatives:

- First, from now on, tax-advantaged funds will be able to invest in larger businesses, that is, businesses with assets of up to \$100 million.
- Second, I am announcing the creation of the SME Growth Stock Plan. This is a new tax incentive for individuals investing on the public market that is better targeted in order to provide businesses with improved access to the public savings market.
- Thirdly, I am announcing a new refundable tax credit for businesses that obtain major contracts creating at least 500 jobs in Québec. They will have three years in which to claim the credit, that is, before January 1, 2008.

This measure will provide support for the information technology sector, one of the sectors in which the most jobs are moving to emerging economies. Québec has developed expertise enabling a number of large businesses to solicit major contracts capable of creating new jobs in Québec. Full advantage must be taken of this asset.

Transferring businesses

Paving the way for someone else to take over the reins is a crucial issue for SMEs. The very existence of many SMEs is often tied to the founding director. In this context, encouraging the transfer of knowledge to prepare for the business's changing hands is vital. More often than not, the problems in transferring a business come down to financing: a lack of capital on the part of prospective successors is one of the main reasons that certain SMEs close.

I am therefore announcing Relève PME, a new component of the Financement PME program managed by Investissement Québec.

From now on, we will be better able to facilitate the transfer of businesses to family members, executives or others.

Support for R&D, innovation and exports

Supporting investment means giving special attention to investments in R&D, innovation and exports. In many respects, these investments determine the future of a business and the creation of future jobs.

Supporting R&D

R&D is a decisive factor in bolstering the competitiveness of our businesses. Québec is a leader in the field: that must not change.

It is harder for SMEs than larger businesses to free up the resources needed to invest in R&D. In fact, 85% of industrial R&D in Québec is funded by 300 large businesses. It is crucial that we encourage our SMEs to invest more in their future.

I am therefore announcing that the refundable R&D tax credit will be increased to 37.5% for SMEs. Québec SMEs will continue to enjoy the best R&D tax benefits in Canada.

Making the shift to product development

To be competitive, our businesses must offer consumers products that stand out for their quality.

A number of studies demonstrate the importance of design in product development. Design helps broaden the range of products offered by manufacturers, thereby helping to penetrate foreign markets, compete with imports on the domestic market and offset delocalization.

To provide better support for increasing the competitiveness of our businesses, I am announcing that the design tax credit will be extended to all designers in all industrial sectors. This will raise the number of businesses benefiting from the tax credit from 300 to 700.

With this measure, we want to help businesses make the shift to the design and development of niche products. This measure will be particularly beneficial to the fashion, textile, clothing and furniture sectors.

Supporting export businesses and productivity enhancement

To help our SMEs further improve their performance and enable more of them to take advantage of business opportunities on foreign markets, we are making specialized consulting services available to businesses.

I am therefore announcing that \$15 million will be allocated over three years for that purpose. These amounts will build on the effort already made by the Minister of Economic Development, Innovation and Export Trade.

These services will be offered to manufacturing SMEs in all regions of Québec.

I want to emphasize that the new *Government services for businesses portal* offers Québec entrepreneurs a multitude of information and resources for helping them manage their business. The portal provides easy access to all government services from anywhere at any time. With it, an impressive step has been taken toward e-government.

Development and prosperity of our regions

The regions have assets and economic development potential that must be turned to greater advantage. Our government has been working for two years to enable regional populations to be more autonomous in their development.

We gave the regions tools to enable them to take charge of their development and strengthen their economies while being less vulnerable to the vagaries of dependency on a single sector. Every region of Québec must have access to the means necessary to develop their specificity and enhance their prosperity.

Pursuing decentralization

We plan to continue the decentralization efforts initiated as soon as we took office and which the regions have been demanding for too long.

The creation of regional conferences of elected officers and the transfer of responsibility for local development centres to municipalities and RCMs constituted the first concrete steps taken toward meeting our commitment of bringing decision making closer to people in the regions.

Moreover, I want to confirm that the budgets of the regional conferences of elected officers and local development centres will be renewed for the next three years.

But now we must go further.

In keeping with our commitments, we are examining, with my colleague the Minister of Municipal Affairs and Regions and the other departments concerned, the possibility of transferring certain responsibilities and resources to the municipalities.

I also want to point out at this time that the government has initiated talks with the municipalities to conclude a new fiscal pact that is to take effect on January 1, 2006.

That is a positive response to the desire they have expressed many times to take charge of their future and contribute more actively to the enrichment of Québec as a whole.

Accelerating the economic diversification of our regions

In several regions, the bulk of economic activity hinges on a limited number of sectors of activity. These regions must diversify their economy while ensuring the sustainability of their resources. That is what sustainable economic development is all about.

\$240 million over three years to revitalize the regions

The government is concerned by this situation, which is why it took bold steps, such as establishing the Commission for the study of public forest management in Québec. The Commission recently submitted its report and we have already started implementing its main recommendations.

A 20% reduction in the allowable cut will take effect in the next three years. This measure may have a substantial impact on regions with a forest-based economy, but it is critical to ensuring that our forests are sustained for future generations.

I salute the government's courage and vision in this regard. We pledged to ensure the sustainability of our forests. A promise kept.

We intend to give the regions the tools they need to strengthen their economy and make them less vulnerable to the pitfalls of dependency on a single sector.

To support efforts to adapt and diversify in the regions, I am announcing that we will invest \$240 million over three years, in part to assist communities that rely on a very limited number of industrial sectors for their prosperity.

For 2005–2006, the Québec government will make a budget of \$57 million available to the regions, in part to support single-industry municipalities and those specifically dependent on the forest.

To that will be added a contribution from the federal government, Ottawa having assured me that it will participate in the funding of various initiatives in the regions. We have already agreed that a steering committee will be set up to identify economic projects in which we wish to invest.

The Minister of Natural Resources and Wildlife, along with my other colleagues responsible for implementing this initiative, will unveil the terms of application of this policy in the weeks to come.

Encouraging processing in the regions

To diversify their economies, the regions can count on the support of FIER–Régions, which I talked about earlier. But we want to do more to assist their efforts in developing secondary and tertiary processing activities.

I am happy to announce that the tax credits for secondary and tertiary processing businesses in the resource regions will be extended to the end of 2009. Close to 700 manufacturing businesses in the regions can already benefit from the credits, including nearly 250 in the wood processing sector.

This extension will help stimulate job creation in the resource regions. I will make sure that this tax credit attracts new investors: indeed, the tax credits are not and will not be granted for moving activities or employees from one region to another.

Supporting the agricultural sector

Agriculture is the cornerstone of the economy in many of Québec's regions. In the last two years, this sector has been hard hit by tough economic conditions.

The government pledged to support the agricultural sector. I want to point out that Financière agricole du Québec has \$305 million at its disposal to fund its income security and development support programs.

The government also intends to foster the diversification of agricultural production. In keeping with the steps already taken to support local initiatives in the regions, I am pleased to announce that we will devote \$5 million over the next two years to promoting the marketing and distribution of local products and the development of small-scale alcoholic beverage production in Québec.

Given the growth in sales of wine and other alcoholic beverages made by Québec small-scale producers, special effort will be made to better promote this category of products in the Société des alcools du Québec's network of branches and agencies.

I am also announcing that, in the coming year, the Québec government will participate in the creation of a biofood centre in east Montréal that will include processing plants and a business incubator aimed at facilitating the implementation of innovative projects in the biofood sector.

Developing the tourism industry

Tourism is a major avenue of development for the regions. We are well aware of that, which is why we are going to support new initiatives in this sector.

I am announcing additional funding of \$5 million to support structuring tourism activities in the regions that are based on special events and the development of regional attractions.

400th anniversary of the founding of Québec City

In addition, major investments will be made in the Capitale–Nationale region, in particular as part of the 400th anniversary of the founding of Québec City.

Further to the recommendations of our fellow MNAs for the Capitale–Nationale region, I am announcing that we will allocate a one-time budget of \$110 million for this major event, namely, \$40 million for the organization of the festivities and \$70 million for various infrastructure work, including the revitalization of the banks of the St. Lawrence River.

Preserving our natural heritage

We too often take for granted the beauty and richness of Québec's natural landscape. To enhance the quality of the tourism supply and increase the economic benefits stemming from tourism activities, I am announcing that the Société des établissements de plein air du Québec will invest \$22 million over the next two years in consolidating the quality of Québec's national park infrastructures and improving public safety.

To contribute to the preservation of our natural heritage, I am announcing a program that includes a commitment of \$9 million over three years for the preservation and maintenance of protected areas.

A substantial effort on behalf of the Québec economy

Mr. President, in this Budget we will have put considerable effort into turning Québec's economic potential in all regions to greater advantage. I am proud to emphasize that, with the measures I have just announced, we will be injecting close to \$900 million over three years into fostering wealth creation and the prosperity of our regions.

Record investments in infrastructures

Modernizing infrastructure throughout Québec is an imperative. Our government is therefore making it one of its priorities. It is a dire necessity given that the previous government largely ignored its obligations in this regard.

Our government therefore decided to considerably accelerate the pace of investment in our infrastructures, as promised in our program.

In 2004–2005 alone, these investments totalled nearly \$4.1 billion.

For 2005–2006, capital investments of \$4.9 billion will be made both to maintain existing assets and build new infrastructures. That is almost double the investments made by the previous government at the start of this decade.

The level of investment by our government in three years will have been unparalleled in the history of Québec. Another promise kept.

These investments in public infrastructures will be carried out in part with the collaboration of the federal government, municipalities and, in certain cases, the private sector.

Modern road infrastructures

Everyone agrees that the state of our road network leaves much to be desired. To repair and develop Québec's road network, an unprecedented average investment of \$1.3 billion a year will be made in all regions of Québec until 2007–2008. These investments represent nearly double the annual amount allocated between 1994 and 2002.

In concrete terms, these funds will accelerate many projects as of 2005, in particular the work on Highway 185 in the Bas–Saint–Laurent region, on Highway 175 between Québec City and the Saguenay, on Autoroute 73 and Highway 173 in the Beauce region, on Autoroute 55 in the Centre–du–Québec and Estrie regions and on the bridge of Autoroute 25 linking Montréal and Laval.

Work will also be undertaken on Autoroute 35, heading toward the Vermont border, Autoroute 50 in the Outaouais region, Autoroute 30 in the Montérégie region and Autoroute 20 in the Bas–Saint–Laurent and Gaspésie regions.

In a sustainable development context, public transit is also a priority of the government. Major investments are planned to improve infrastructures and public transit systems.

Leading-edge facilities in the health and education sectors

Moreover, nearly \$2 billion will be invested in health and education facilities in the coming year. The amounts will go to such projects as the expansion of the École de technologie supérieure, the construction of a biology wing at the Université du Québec à Montréal and the enlargement of the site of the Université du Québec à Rimouski in Lévis.

Functional urban and municipal infrastructures

We are also going to give priority attention to the modernization of our urban infrastructures.

In the last budget, we created the Société de financement des infrastructures locales du Québec (SOFIL), which will offer a flexible source of funding to municipalities and their agencies.

Currently, the duties levied on vehicles with large-displacement engines are remitted to SOFIL. This will also be the case for the portion of the federal gas tax transferred to Québec.

Given the considerable needs in regard to municipal infrastructure and public transit, the Québec government intends to increase its contribution to the new corporation.

I am therefore announcing that we will invest in SOFIL a total amount equal to the additional investments by municipalities.

Thus, infrastructure funding through SOFIL will break down as follows: 25% by the Québec government, 25% by municipalities and 50% by the federal government. This will ultimately enable municipalities to invest close to \$1 billion in infrastructures annually.

Assets that must be kept in good condition

All of these new investments represent an exceptional contribution to the improvement of our collective heritage.

That said, we must not neglect the maintenance and consolidation of our existing assets. In this regard, as in many others, an ounce of prevention is worth a pound of cure.

Accordingly, a special effort will be made to implement a new policy on the maintenance of assets.

To that end, I am announcing that the government will make an annual allocation, corresponding to 2% of the value of replacing health, social services and education infrastructures, in order to maintain these infrastructures in good condition.

To do so, we will invest an additional \$1 billion over three years to restore the quality of our public facilities. Quebecers are entitled to expect their schools, hospitals and reception centres to be maintained in good condition.

This is a major shift in direction that will make it possible to counter the obvious deterioration of our infrastructures in the past 10 years.

Building on our energy resources

With the implementation of the Kyoto Protocol, our government intends to do everything to ensure that Québec continues to show leadership in reducing greenhouse gas emissions.

In the years to come, Hydro-Québec will invest more than \$3 billion annually in new hydroelectric power station projects.

In addition, Hydro-Québec recently awarded contracts to build a wind farm with a generating capacity of more than 1 000 megawatts, at an investment of over \$1.9 billion. This extraordinary project will have substantial economic benefits for the Gaspésie and Bas-Saint-Laurent regions.

Thus, Hydro-Québec is taking steps to further diversify its energy supply and develop the abundant clean, renewable energy sources in Québec. That is the sign of a responsible vision guaranteeing the future. An initiative that builds on its new energy efficiency program.

With this Budget, we will also take action in regard to fuel consumption by promoting the use of two renewable, less-polluting energy sources, namely, ethanol and biodiesel.

That is why I am announcing today the introduction of a refundable tax credit for the production and marketing of ethanol in Québec.

We also want to encourage the use of biodiesel and, at the same time, promote public transit. I am therefore announcing today that the fuel tax paid on biodiesel purchased by public carriers will be fully refunded.

Lastly, to encourage the greenhouse industry to diversify its energy sources, I am announcing today a program to implement pilot projects aimed at recovering energy and using alternative energy sources in greenhouse production.

Disciplined management to maintain a balanced budget

To encourage wealth creation and stay the course of our priorities, it is crucial that we continue to exercise fiscal discipline and maintain a balanced budget.

Despite our economic performance, the external economic environment, as I have already mentioned, continues to pose major challenges.

In these conditions, the pace of our economic growth should accelerate slightly, from 2.4% in 2005 to 2.6% in 2006. These growth rates, while comparable to the average rates in recent years, do not provide us with much leeway.

We therefore must continue to be cautious. Caution is all the more necessary given that our financial situation remains fragile.

In addition to the heavy legacy the former government left Quebecers, we must take into account the pressure on our public finances stemming from the fiscal imbalance, our pay equity obligations and the negotiation of the collective agreements in the public and parapublic sectors.

A zero deficit in 2005–2006

In 2005–2006, we are going to continue on the same path: that of disciplined, responsible management of government spending.

Our objective for program spending growth, increased to 3.6%, will enable us to, among other things, achieve our goals regarding pay equity and renewal of the collective agreements of government employees.

We are also going to continue our efforts to modernize government, thereby enabling us not only to save money and meet our spending growth target, but also to provide more efficient, better-quality public services to Quebecers.

Moreover, to foster greater tax fairness, we are going to continue our efforts to fight tax evasion. All taxpayers—individuals and businesses alike—must pay their fair share of taxes in order to fund our public services. With that in mind, the measures already announced last year—in particular, those concerning economic and financial crime—are being renewed.

Thanks to our disciplined, responsible management, I am announcing that our government will achieve a balanced budget again this year, that is, in 2005–2006.

2006–2007: maintenance of fiscal discipline

A balanced budget must also be maintained in the coming years. Nevertheless, achieving that goal raises major challenges for 2006–2007.

Given our determination to assume our responsibilities and obligations regarding the working conditions of our employees and pay equity, we are maintaining our program spending growth at 3.6% in 2006-2007.

We estimate that we will have to make up a budgetary shortfall of \$800 million in order to achieve a zero deficit in 2006–2007.

I can assure you that we will do everything to make up that shortfall without sacrificing the quality of our services. Balancing the budget is and will remain an inescapable obligation.

Lastly, our ability to reduce the debt load in terms of our collective wealth depends on maintaining a balanced budget.

Québec currently has the highest debt load of the Canadian provinces, and that high debt has major consequences, including the ever-increasing cost of servicing the debt.

Reducing the debt load means freeing up resources that could be allocated to other priorities.

Reducing the debt load also means ensuring greater fairness for future generations. I want to emphasize that it is no longer acceptable to live on borrowed money.

The total government debt now stands at 44% of GDP. We will see to it that, by maintaining a balanced budget through tight spending control, that percentage falls to below 40% by the end of this decade.

Restoring balance and equity within the Canadian federation

To maintain a balanced budget while preserving our public services, not only must the Québec government impose strict fiscal discipline, it must also have at its disposal the financial resources necessary to assume its responsibilities.

Last fall we made substantial gains regarding the fiscal imbalance problem. Under the leadership of our premier and thanks to the Council of the Federation, the federal government considerably increased its funding for health services.

For the first time in the history of Canada and to the benefit of Québec, the federal government explicitly recognized the principle of asymmetrical federalism.

There are still major problems, however, regarding equalization and the funding of post-secondary education and other social programs.

On April 11, my colleague the Minister for Canadian Intergovernmental Affairs and I defended Québec's position before the House of Commons Subcommittee on Fiscal Imbalance. In fact, I am tabling today the text of the presentation I gave at that time.

I delivered two main messages:

- First, substantial improvements must be made to federal funding for provincial spending in the areas of post-secondary education and social assistance. The level of funding must be increased and the formula for its allocation among the provinces must be revised. Furthermore, it is imperative that an adequate, predictable mechanism for increasing this transfer, like the one obtained at the first ministers' meeting in September 2004 in regard to health, be introduced.
- Second, the new federal equalization policy runs counter to the objective set forth in the Constitution of Canada, to ensure that "[the] provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." The federal government must go back to the drawing board.

Clearly, the federal government has the necessary manoeuvring room to correct the fiscal imbalance and restore equity within the Canadian federation. One need only recall the continuous succession of budget surpluses of the past eight years totalling more than \$60 billion. And the fact that, in preparing its last budget, the federal government had a leeway of \$93 billion for the next five years.

The fiscal imbalance problem must be corrected and equity must be restored within the Canadian federation.

Thus, there will clearly be just as much ground to cover in regard to federal-provincial relations in 2005 as in 2004. And the Premier will exercise Québec's leadership in all talks and work carried out throughout the year.

Conclusion

This 140th Budget Speech, delivered here before the National Assembly of Québec, draws its inspiration from the vision and values on which Jean Lesage, Daniel Johnson, René Lévesque and Robert Bourassa built modern Québec.

It draws its inspiration first and foremost from the example they set in their drive and unshakeable determination as they fought unrelentingly to protect and ensure the economic security of Quebecers.

They all gave the very best of themselves in building the most precious legacy that can be left to present and future generations: Québec's economic success.

Why has their legacy left such an indelible mark on our history?

The answer to that question undoubtedly lies in the conviction constantly reiterated by one of our greatest premiers, the late Robert Bourassa, that Québec's economic strength is the only path to greater social justice.

Mr. President, the budget I have just tabled bears witness to a determined government, a government that meets its commitments and keeps its word.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS
2004-2005 FISCAL YEAR
(millions of dollars)

| | March 30, 2004 Budget Speech ¹ | Preliminary results |
|----------------------------------------------------------------|-------------------------------------------------|------------------------|
| Budgetary transactions of the Consolidated Revenue Fund | | |
| Own-source revenue | 44 949 | 44 161 |
| Federal transfers | 8 476 | 9 228 |
| Total revenue | 53 425 | 53 389 |
| Program spending | – 46 742 | – 46 742 |
| Debt service | – 6 939 | – 6 868 |
| Total expenditure | – 53 681 | – 53 610 |
| Net results of consolidated organizations | 256 | 221 |
| Consolidated budget balance | 0 | 0 |
| Consolidated non-budgetary transactions | | |
| Investments, loans and advances | – 996 | – 1 075 |
| Capital expenditures | – 1 158 | – 919 |
| Retirement plans | 2 118 | 2 174 |
| Other accounts | – 428 | – 592 |
| Non-budgetary requirements | – 464 | – 412 |
| Net financial requirements | – 464 | – 412 |
| Consolidated financing transactions | | |
| Change in cash position ² | 1 644 | – 813 |
| Change in direct debt ² | 1 365 | 5 359 |
| Retirement plans sinking fund | – 2 545 | – 4 134 |
| Total financing of transactions | 464 | 412 |

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 Data have been adjusted so as to be presented on the same basis as in the 2005-2006 Budget.

2 The preliminary results for 2004-2005 take into account borrowings of \$2 661 million made in advance.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS
2005-2006 FORECAST
(millions de dollars)

| | |
|----------------------------------------------------------------|--------------|
| Budgetary transactions of the Consolidated Revenue Fund | |
| Own-source revenue | 45 528 |
| Federal transfers | 9 607 |
| Total revenue | 55 135 |
| Program spending | – 48 407 |
| Debt service | – 6 995 |
| Total expenditure | – 55 402 |
| Net results of consolidated organizations | 267 |
| Budget balance | 0 |
| Non-budgetary transactions | |
| Investments, loans and advances | – 1 517 |
| Capital expenditures | – 1 242 |
| Retirement plans | 2 016 |
| Other accounts | 309 |
| Non-budgetary requirements | – 434 |
| Net financial surplus (requirements) | |
| Consolidated Revenue Fund | 500 |
| Consolidated organizations | – 934 |
| | – 434 |
| Financing transactions | |
| Change in cash position | 2 661 |
| Change in direct debt | – 1 072 |
| Retirement plans sinking fund | – 1 155 |
| Total financing of transations | 434 |

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.

GOUVERNEMENT DU QUÉBEC **BUDGETARY REVENUE OF THE CONSOLIDATED REVENUE FUND**

2005-2006 FORECAST

(millions of dollars)

| | |
|-----------------------------------------------------------------|---------------|
| Own-source revenue | |
| Income and property taxes | |
| Personal income tax | 16 691 |
| Health Services Fund | 5 031 |
| Corporate taxes ¹ | 4 302 |
| | 26 024 |
| Consumption taxes | |
| Retail sales | 9 715 |
| Fuel | 1 715 |
| Tobacco | 912 |
| Alcoholic beverages | 419 |
| | 12 761 |
| Duties and permits | |
| Motor vehicles | 737 |
| Natural resources | 126 |
| Other | 201 |
| | 1 064 |
| Miscellaneous | |
| Sales of goods and services | 397 |
| Interest | 390 |
| Fines, forfeitures and recoveries | 439 |
| | 1 226 |
| Revenue from government enterprises | |
| Société des alcools du Québec | 682 |
| Loto-Québec | 1 536 |
| Hydro-Québec | 2 125 |
| Other | 110 |
| | 4 453 |
| Total own-source revenue | 45 528 |
| Federal transfers | |
| Equalization | 4 667 |
| Health transfers | 3 060 |
| Transfers for postsecondary education and other social programs | 962 |
| Other programs | 918 |
| Total federal transfers | 9 607 |
| Total budgetary revenue | 55 135 |

1 Includes tax on corporate profits, tax on capital and tax on premiums in lieu of the tax on capital for insurance companies, as well as the tax on telecommunications, gas and electricity.

GOUVERNEMENT DU QUÉBEC
EXPENDITURE OF THE CONSOLIDATED REVENUE FUND
2005-2006 FORECAST
(millions of dollars)

| | |
|--------------------------|-----------------|
| Program spending | – 48 407 |
| Debt service | – 6 995 |
| Total expenditure | – 55 402 |

GOUVERNEMENT DU QUÉBEC **NON-BUDGETARY TRANSACTIONS** **2005-2006 FORECAST**

(millions of dollars)

Investments, loans and advances

| | |
|----------------------------------------------|----------------|
| Consolidated Revenue Fund | – 1 355 |
| Consolidated organizations | – 162 |
| Total investments, loans and advances | – 1 517 |

Capital expenditures

| | |
|-----------------------------------|----------------|
| Consolidated Revenue Fund | |
| Net investments | – 319 |
| Depreciation | 221 |
| | – 98 |
| Consolidated organizations | – 1 144 |
| Total capital expenditures | – 1 242 |

Retirement plans

| | |
|-------------------------------|--------------|
| Contributions | 5 508 |
| Benefits and other payments | – 3 492 |
| Total retirement plans | 2 016 |

Other accounts

| | |
|-----------------------------------------|--------------|
| Consolidated Revenue Fund | 204 |
| Consolidated organizations | 105 |
| Total other accounts | 309 |
| Total non-budgetary transactions | – 434 |

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

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
2005-2006 FORECAST
(millions of dollars)

| | |
|----------------------------------------|----------------|
| Change in cash position | |
| Consolidated Revenue Fund | 2 661 |
| Consolidated organizations | — |
| Total change in cash position | 2 661 |
| Change in direct debt | |
| Consolidated Revenue Fund | |
| New borrowings | 3 930 |
| Repayment of borrowings | — 5 936 |
| | — 2 006 |
| Consolidated organizations | |
| New borrowings | 1 565 |
| Repayment of borrowings | — 631 |
| | 934 |
| Total change in direct debt | — 1 072 |
| Retirement plans sinking fund | — 1 155 |
| Total financing of transactions | 434 |

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.

