

BUDGET SPEECH

BUDGET 2013-2014

Delivered before the National Assembly
by Nicolas Marceau, Minister of Finance and the Economy,
on November 20, 2012.

*Finances
et Économie*

Québec 



Budget 2013-2014
Budget Speech

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INTRODUCTION

Mr. President:

I have the honour of tabling our government's budget for fiscal year 2013-2014, the budget that restores balance.

I am asking for consent to table the following documents:

- the tables presenting the forecasts for the government's consolidated budgetary transactions for 2012-2013 and 2013-2014.

I am also tabling the government's budget plan and the accompanying documents, as well as the Public Accounts 2011-2012.

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Since 1976, the same ambition has driven successive Parti québécois governments: moving Québec forward. They forged a path that enabled us to cover a lot of ground. A three-way path:

- the first consists in remaining close to people and meeting their concrete needs;
- the second leads us to take action to stimulate the economy and create long-term prosperity beneficial to all;
- the third is a requirement, that of managing our public finances with integrity and a keen sense of responsibility, to preserve our ability to take collective action.

Parti québécois governments have left their mark through policies that continue to benefit all Quebecers:

- \$7 daycare centres, which have enabled us to provide equal opportunity to thousands of children, while enabling thousands of women to enter the labour market;
- automobile insurance, which provides Quebecers with cheaper coverage than anywhere else in Canada;
- the Stock Savings Plan, which helped spur the growth of many Québec businesses, or the initiatives for the new economy, which enabled Québec to become a world leader in the video games sector and revitalize districts in Montréal and Québec City.

It was also a Parti québécois government that, in 1998-1999, balanced the books for the first time in the history of modern Québec.

And it is again a Parti québécois government that is putting our finances in order today so as to balance the budget in 2013-2014.

In the past decade, Québec has strayed from this path.

The previous government became out of touch with the population, economic growth became reliant on public spending and the debt, our finances went the way of deficits again, while integrity began to erode.

The time has come for Québec to get back on the three-way path that will enable us to move forward again.

Our government has already begun taking a tough stance on integrity.

As regards finances, our main challenge is to regain control of spending, the former government having abandoned all sense of responsibility in this respect. This budget aims first and foremost to restore order to our public finances by balancing the budget and reducing our debt load.

Despite a difficult situation, we are already beginning to act on our government's commitments. We are doing so within our means, cautiously, and by targeting our priorities. Once the situation is put right, we will be able to move more swiftly on our commitments.

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□ A government close to families

First of all, as it committed to doing, the government will make life easier for families.

The budget will enable tax justice, essential to the proper functioning of our society, to be restored. Middle-class families who struggle to make ends meet will see their financial burden eased.

Conversely, the State will require the more affluent among us to do more. We will also ask the banks and other financial institutions to do more.

In addition, the government will work within its means to help parents of young children—the families that build the future of the Québec nation on a daily basis.

We will continue to invest in health, education and culture.

* * *

□ A government that takes action by focusing on private investment

The global context remains difficult and uncertain, slowing our economy. The government forecasts economic growth for Québec of 0.9% in 2012 and 1.5% in 2013. This is insufficient. It is therefore necessary to stimulate our economy by focusing on private investment.

For years, the growth of the Québec economy has relied too heavily on public spending and indebtedness. Using the State's credit card creates the illusion of prosperity. But that is a dangerous illusion that ultimately leads to impoverishment.

In fact, despite the scale of public spending, our economy is in slow motion. It is therefore urgent to change direction, get back on the path to private investment in order to step up growth.

The government is determined to take robust action to attract major strategic investments that will pave the way for long-lasting wealth creation for all Quebecers.

* * *

□ A responsible government

Our collective ability to help one another and prosper depends on rigorous management of the money entrusted to us by millions of Quebecers.

That is a great responsibility—the requirement that every dollar be spent in the best way possible.

I want to underscore the requirement of integrity, which guides the government’s action as a whole. It is a requirement that also applies to the government’s economic vision.

The fight against corruption and collusion underpins an economy that is healthy, transparent and attractive to investors.

A business climate conducive to investment demands impeccable political mores. The rules for awarding public contracts must be clear and apply fairly to all.

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The requirement of integrity and rigour also applies to our public finances. This requirement is ours. The budget must be balanced: spending must not exceed revenue. Each generation must assume its own decisions.

Given the cloud of uncertainty hanging over the global economy, we must act with a keen sense of responsibility.

I was shaken by the reality I discovered in looking over the state of the public finances we inherited. The previous government simply did not act responsibly.

We can bemoan that, but it will not help us move forward. Rather, we must roll up our sleeves and take firm, rapid action. All departments and agencies are already working to make up the shortfall of \$1.6 billion for the current fiscal year.

We also saw that the frenetic infrastructure spending of recent years has caught up with us. The previous government has left us a difficult legacy. This year, for the first time in our history, debt service has exceeded \$10 billion. It accounts for an increasing share of government spending, which is becoming less and less sustainable.

Moreover, under the former government, there were significant shortcomings in the management of infrastructure projects, causing costs to skyrocket.

The revenue-expenditure gap was set to widen dangerously for the coming years.

There was no time to lose in setting the situation to rights.

Nevertheless, we are staying the course with respect to the targets we set for ourselves.

I am announcing that the budget will be balanced in 2013-2014 and will stay balanced in subsequent years.

Fiscal balance will give us a marked advantage.

That is what differentiates us from our predecessors: responsibility combined with ambition.



1. A GOVERNMENT CLOSE TO FAMILIES

Firstly, Mr. President, our government is close to Québec families. We made a commitment to help those who have difficulty making ends meet.

We are turning talk into action.

* * *

REDUCTION IN THE TAX BURDEN OF MILLIONS OF QUEBECERS

In 2010, the Liberal government introduced the \$200 flat health tax, which Quebecers had to pay regardless of their income.

It is an unfair and unjust tax.

We made a commitment to provide relief to the middle class by asking the more affluent to do more, while ensuring that the effect on public finances and health funding would be neutral.

I am announcing the elimination of the flat health tax and its replacement by a progressive health contribution as of 2013.

We have chosen to improve the situation of as many people as possible.

People who earn under \$18 000—34% of Québec taxpayers—will be exempt from payment of the new health contribution.

Note that \$18 000 is the income of a person who works full time at minimum wage.

Quebecers who earn between \$18 000 and \$42 000 account for 35% of taxpayers.

Their health contribution will be reduced.

Overall, 4.4 million Quebecers—over two-thirds of taxpayers—will pay less or be fully exempt in 2013.

Another element of the former health tax was unfair: it was payable by each spouse, even if one of them had a modest income. The new progressive health contribution will be based on individual income rather than family income. From now on, each member of a couple will pay the health contribution corresponding to his or her own situation.

To offset the decrease in government revenue following these changes and further improve the sharing of the effort,

I am announcing that the tax rate on income over \$100 000 will be increased by 1.75 percentage points.

I am announcing that all revenue from the new health contribution and the increase in the tax rate on income over \$100 000 will be deposited in the Fund to Finance Health and Social Services Institutions.

As a reminder, all the measures contained in this budget are explained in detail in the Budget Plan, an integral part of this budget.

* * *

CANCELLATION OF THE INCREASE IN THE PRICE OF HERITAGE ELECTRICITY

Continuing in the vein of help for families, we are giving them relief from a substantial increase in electricity rates.

The previous government wanted to impose a rate increase of 20% over five years, that is, an increase of 1 ¢/kWh in the price of heritage electricity, as of 2014.

At term, that rise would have resulted in an increase of \$408 a year in the electricity bill for an average-sized house.

I am announcing that the increase of 1 ¢/kWh over five years in the price of heritage electricity is being abolished and will be replaced by indexation to the cost of living.

Like many government rates, the price of heritage electricity will be tagged to inflation.

After five years, this will represent savings of \$288 a year for an average-sized house.

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DEVELOPMENT OF QUÉBEC CHILDREN

That is not all.

Many parents do not have the financial resources necessary for their children to be able to take part in physical, artistic or cultural activities, activities through which young people stay healthy, discover their talents and develop.

I am announcing the introduction of a refundable tax credit for physical, artistic and cultural activities for young people 5 to 16 years of age. The tax credit will correspond to 20% of eligible expenses, up to \$500 per child.

The tax credit will be implemented gradually over five years.

At term, the cumulative effect of the measures I have just announced will enable a couple with two children and a family income of \$70 000 to save \$688 a year.

A couple with two children and one income of \$35 000 will save \$888.

I am very proud to give Québec families this solid financial boost.

* * *

ONE CHILD, ONE SPACE

Still with a view to meeting the needs of families, we made a commitment to finish the work begun in 1997 with the creation of reduced-contribution childcare centres.

Québec was ahead of the times. It continues to be the envy of several other nations.

Children from all backgrounds can have access to quality childcare, regardless of their parents' income.

In addition to encouraging the birth rate, this program has had a major impact on the participation of women in the labour market. In Québec, 73% of women aged 15 to 44 are in the job market; that is more than in Ontario and in Canada. It is good news for the Québec economy.

Unfortunately, many families still have problems finding daycare spaces for their children. Nearly 222 000 spaces have been created, but needs are estimated at 250 000 spaces.

I am announcing that we will fund 28 000 new spaces at \$7, which will meet these needs.

Acting on this commitment will complete the work begun by the Premier in 1997. We will finally be able to say with pride: one child, one space!

* * *

OPPORTUNITY FOR ALL

As a society, we must refuse to accept poverty as a given.

Parti québécois governments demonstrated in the past that it was possible to reduce poverty. In addition to helping our fellow citizens, the fight against poverty benefits society. It is a meeting of the heart and mind.

The Minister of Labour and Minister of Employment and Social Solidarity will present new orientations in the coming months, along with a program aimed at opening the labour market to more young people, immigrants, older workers, people with disabilities and recipients of last resort financial assistance.

The best way to help a person beat poverty is employment.

In addition, to help low-income families who have trouble finding housing,

I am announcing the construction of 3 000 new affordable housing units.

* * *

CUTTING WAIT TIMES FOR FRONT-LINE HEALTH CARE

The health budget will continue to grow at a rate of 4.8% a year.

I am announcing that the health budget will be increased by \$1.5 billion for 2013-2014.

But to improve access to front-line health care and cut wait times, it is not enough to inject ever more funds. Nor is there a magic bullet. Better management is required.

In listening to Quebecers, it is impossible not to know that they are exasperated by the difficulty of accessing front-line health care rapidly.

The Minister of Health and Social Services is devoting a lot of energy to improving the situation. The budget at his disposal will enable him to achieve the government's objective, namely, that another 750 000 Quebecers have access to a family physician within two years.

* * *

MAKING THE SHIFT TO HOME CARE

There is broad consensus in Québec on the need to provide home care and services to people losing their autonomy. From a public finances standpoint, making this shift while our population is aging has become a necessity. Providing care at home is more humane and much less expensive than in an institution.

I am announcing that we will allocate \$110 million more to home care in 2013-2014 than this year.

This reflects the commitment we made.

The Minister of Health and Social Services is preparing a bold home care and services policy.

To improve the health services of Quebecers, the government gave mandates to two task forces. A first task force is looking into the creation of autonomy insurance. In addition, the mandate of the expert panel on activity-based funding in health care is being broadened to propose incentive formulas for patient-based funding.

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ASSISTANCE FOR TEACHERS

To my mind, education is the best path toward growth and prosperity for both individuals and nations.

Despite the difficult budgetary context, the government remains determined to help teachers by offering them more professional support.

I am announcing that the education budget will be increased by 1.8% next year and that of higher education, by 2.0%.

* * *

AN ACCESSIBLE UNIVERSITY SYSTEM

Furthermore, the 82% hike in tuition fees decreed by the former government would have been a significant barrier to accessible higher education for young Quebecers.

Cancelling the hike and repealing the unacceptable provisions of Law 12 were the first two decisions by the new government.

On November 8, 2012, the Premier and the Minister of Higher Education, Research, Science and Technology invited all partners to a summit, to be held in February 2013, in order to reflect on the issues surrounding universities.

At that time, we plan to propose the indexation of tuition fees in order to take into account the cost of living increase.

* * *

FOCUSING ON OUR CULTURE

Our government and society as a whole attach great importance to Québec culture.

Also, despite the difficult financial situation,

I am especially pleased to announce that the budget of the Ministère de la Culture et des Communications will be raised by 2.1%.

The culture budget will account for 1% of government program spending in 2013-2014.

* * *

RETIREMENT PLANS

In recent years, some of our retired workers went through tough times when their retirement plans were affected by the financial crisis. The crisis continues to put strong financial pressure on retirement plans.

Certain municipalities are struggling with retirement plans that cut seriously into their budget.

In addition, many people are not financially prepared for retirement.

All of these questions are being carefully studied by the panel of experts chaired by Alban D'Amours. As soon as we receive the committee's recommendations, we will take action—with all of the players concerned.

In the meantime, we continue to reflect on improvements we could make to the basic public retirement plans.

For workers who do not have access to a retirement plan, we will offer them an additional means of saving for retirement, which will be voluntary.

I am announcing that the government will table in the coming months a bill to establish voluntary retirement savings plans.

* * *

These are actions that give Québec families a break and meet their needs, within our means.

In compliance with our financial framework, we are continuing to invest in health, education and culture.

These are the first steps in laying the groundwork for strengthening solidarity, an important value of the Québec nation.

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2. A GOVERNMENT THAT TAKES ACTION BY FOCUSING ON PRIVATE INVESTMENT

Secondly, Mr. President, our government is taking action by focusing on private investment.

A prosperous economy is without a doubt one of the best paths for making life easier for everyone.

The role of government is to provide a framework for, and support and assist, economic players.

Public investment plays a key role, but Québec taxpayers clearly cannot do more.

In addition, Québec's public capital stock, which represents 28.1% of our GDP, is much higher than that of Canada, which stands at 24.8%.

The time has come for private investment to step up to the plate.

Its relative share in Québec GDP is below the Canadian average.

Efforts to create conditions conducive to investment must therefore be stepped up.

When private investment increases, economic growth picks up, improving our standard of living and increasing our means, as a society, to then invest in social programs.

A number of elements for fostering investment here by Québec or foreign businesses are already in place:

- they have at their disposal the cash resources required for investment;
- the strong Canadian dollar makes it cheaper to buy machinery and equipment abroad;
- an accommodating monetary policy makes for advantageous borrowing conditions; and
- Québec taxation is favourable to investment, the marginal effective tax rate being one of the lowest among our neighbours.

Québec businesses must take advantage of these favourable conditions. Now is the time for them to position themselves in order to benefit from the anticipated acceleration of economic growth in the United States.

* * *

☐ New tax holiday for large investment projects

To encourage businesses to invest, the government is taking action with a pair of measures that deliver a one-two punch.

I am announcing a new ten-year tax holiday for large investment projects: the tax holiday for investments—the THI.

The tax holiday for investments will apply to businesses with new projects of \$300 million or more that are approved within the next three years.

Furthermore, the projects must be in strategic activity sectors—the manufacturing sector, including the mineral and wood processing sectors, value-added distribution centres, and data processing and hosting.

Under the tax holiday, businesses will have, for ten years, a holiday from corporate income tax and from the contribution to the Health Services Fund with respect to their investment projects.

* * *

☐ Extension of the tax credit for investments

I am announcing a second measure to maintain, even enhance, the appeal of our tax environment for investors,

I am announcing the extension, to 2017, of the tax credit for investments available to all regions. In addition, the rates will be increased for businesses in certain resource regions.

As a result of the tax credit, 3 000 businesses in all regions of Québec, including more than 2 500 SMEs, will be able to invest in cutting-edge machinery and equipment, enabling them to boost their productivity and carve out a place for themselves on markets.

* * *

☐ Concrete support for businesses

In her inaugural address, the Premier announced the creation of the Groupe d'action ministériel pour la mise en œuvre des projets d'investissement privé.

The government will be able to offer top-notch coordination and optimize its intervention regarding the implementation of large investment projects that come its way.

Consequently, investors will benefit from assistance in complying with statutory and regulatory requirements.

These provisions represent highly advantageous opportunities for businesses interested in investing in Québec.

I invite all our listeners to spread the word: the best place to invest in the coming years is Québec.

* * *

☐ Creation of the Banque de développement économique du Québec

We have demonstrated our will to better support our entrepreneurs.

To help our businesses obtain flexible financial and technical support tailored to their needs,

I am announcing that the government will create the Banque de développement économique du Québec.

The creation of the Banque will improve the government's economic development efforts. Better coordination will optimize government support, and it will be simpler for businesses to obtain assistance.

It will be the Banque's mission to provide financial assistance to for-profit businesses, cooperatives, social economy businesses and foreign companies looking to establish themselves in Québec.

The Banque will be a driving force for all regions of Québec. Businesses will have easier access to the full range of available services, from assistance to financing solutions.

The Banque will manage the regionalized development fund, which will have an annual budget of at least \$500 million for development in all regions.

These recurring amounts will be augmented by the allocation of a total of \$250 million to both economic diversification funds, intended to support the Mauricie, Centre-du-Québec and Asbestos regions.

I am working with the Minister for Industrial Policy and the Banque de développement économique du Québec on the implementation of these projects.

* * *

❑ **Caisse de dépôt et placement du Québec**

The Caisse de dépôt et placement du Québec, created over 40 years ago amid the Quiet Revolution, has a special place in the hearts of Quebecers, as well it should. It has been a major contributor to the economic development of Québec.

From that perspective, I want to reaffirm that there is no question of the government's interfering in the day-to-day management of this great institution or its investment choices.

The Caisse de dépôt et placement is a government agency that, as emphasized by Jean Lesage when it was created, and I quote:

"will play an absolutely crucial role in the financing of Québec's economic growth." [TRANSLATION]

With net assets of roughly \$160 billion, more than ever the Caisse has at its disposal the resources necessary for carrying out both components of its mission:

— optimizing returns;

and

— contributing to Québec's economic development.

* * *

□ Support for free trade with the European Union

To ensure sustainable economic growth, we must boost our exports, which account for nearly 45% of our GDP.

We still have not returned to the pre-recession international exports level. This deprives Québec of several thousand jobs and leaves the government with a \$600-million revenue shortfall to make up.

To facilitate access to foreign markets, we are actively participating in talks on the free-trade agreement with the European Union. Good headway is being made.

This agreement will give Québec businesses better access to a market of 500 million people.

* * *

CONCRETE ACTIONS TO STIMULATE INVESTMENT IN STRATEGIC SECTORS

□ Industrial strategy for green technology development and transportation

The manufacturing sector is a pillar of our economy and a symbol of Québec's inventiveness.

This sector has weathered many storms in recent years.

To support investment in a strong, modern manufacturing sector, the government will adopt an industrial strategy that will deal extensively with SMEs.

This industrial policy will build on existing niches of excellence in Québec, and on the development of green transportation and energy, a promising avenue for the future.

To support the greening of industry,

I am announcing the creation of a \$200-million fund for the development of clean technology and electric transportation.

* * *

□ Increasing public transit's share

The government is examining transportation infrastructure investment projects. Once the examination has been completed, the government will gradually increase public transit's share of capital investments.

Québec as a whole will benefit from investment in this area of strategic importance for the future.

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❑ Support for the biopharmaceutical sector

Over the years, Québec has introduced conditions favourable to the development of the biopharmaceutical sector; these actions have made Québec a leader in the sector, a position we want to keep.

However, in recent years, the business model of the industry has undergone a sea change.

Increasingly, the biopharmaceutical industry is setting aside its traditional approach of carrying out research and development activities in-house.

Instead, the industry is switching to approaches that facilitate the outsourcing of research activities. For example, businesses in this sector now enter into private-public partnerships facilitating the transition from research to implementation, while sharing cutting edge know-how and infrastructure.

The decrease in research and development expenditures by biopharmaceutical companies stems from these new practices.

Québec government support needs to be adapted to this new context, the objective being, as always, to promote research activities in Québec.

To encourage biopharmaceutical companies to carry out research and development in Québec, the government is taking two measures.

I am announcing that the rate of the refundable tax credit for research and development salaries relative to biopharmaceutical activities will be increased from 17.5% to 27.5%.

I am also announcing a \$125-million matching funding envelope over five years to foster private-public research partnerships in the main niches that play to Québec's strengths.

In so doing, we ensure that companies in this sector continue their development and the creation of quality jobs in a leading area of innovation in Québec.

In 1994, Québec introduced the 15-year rule, a rule that was a significant factor in the growth of Québec's biopharmaceutical sector.

Under this rule, innovative drugs are reimbursed within 15 years following their entry on the list of medications, even if the patent has expired and a less-expensive generic drug is also available.

Following the biopharmaceutical industry's revision of its own business model, the 15-year rule no longer meets its objective, namely, to foster research in Québec.

Changing what no longer works should not be cause for fear.

I am therefore announcing that the 15-year rule will be abolished.

* * *

❑ **A national research and innovation policy**

It was a Parti québécois government that implemented the measures for the new economy, which consist in granting tax assistance on the basis of job creation.

Today, this sector of activity accounts for thousands of cutting-edge jobs in our economy. These businesses are successful globally.

We will continue to support them.

In latter months, the previous government had announced the renewal of the 2010-2013 Québec Research and Innovation Strategy, with its \$150 million in funding. We were stunned to discover that the necessary amounts had not been provided for in its budgetary framework. As this happened with a number of projects and programs announced by the former government, the promised amounts did not exist.

Innovation investment is central to our economic vision. The Minister of Higher Education, Research, Science and Technology is currently preparing a national research and innovation policy.

I am announcing that, during the transitional phase, another \$40 million will be allocated to research and innovation activities, for a total of \$69 million.

This budget will continue to contribute to the overall funding of research and innovation carried out in higher education by various partners, the value of which is over \$2 billion a year in Québec.

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NATURAL RESOURCES DEVELOPMENT FOR THE BENEFIT OF ALL

Development of the North and natural resources offers a substantial potential for wealth creation in Québec.

Our mining potential is immense, and several companies, both Québec and foreign, want to develop it.

However, the subsurface belongs to all Quebecers and resource development must benefit Quebecers above all.

We will therefore make changes to the regimes that establish the framework for developing these non-renewable resources, so that Quebecers derive the maximum wealth from it, and the environment and communities are protected.

We want to bring in these changes in an orderly and responsible manner to ensure the stability of the mining sector. We will consult the industry and the stakeholders concerned about this issue, so that everyone benefits from the changes that will be made.

We also want to make sure that the best environmental practices will be followed.

With the collaboration of the Minister of Natural Resources, I will continue the work in order to propose a regime that optimizes Quebecers' return on these resources.

Moreover, exploitation of our natural resources must be a tool of economic development for all regions of Québec. That is why our government intends to promote local processing of our natural resources.

We want to develop our oil potential as well.

We will do so in compliance with the best practices in environmental protection and social acceptability, and to ensure prosperity for all.

In addition, companies and workers in the forest sector have been hit hard by a serious crisis that has been ongoing for years.

In this regard, the government will adopt a wood charter to promote the use of wood in value-added products.

The increase I am announcing today in the tax credit for investments will also support the forest sector. In addition, to ensure the assistance is available more rapidly,

I am announcing that Investissement Québec and, when it is created, the Banque de développement économique du Québec, will finance 85% of the value of the tax credit in advance.

I also want to serve notice today that it is my intention to call on the federal government to finally do its part, that government having committed a profound injustice by abandoning the forest industry, its workers and the communities affected by the crisis. I hope to do so with the backing of all the MNAs in this chamber.

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☐ Sector-based investments

In the months to come, the government will announce the measures it intends to take to attract investment in several other sectors. There will be:

- a strategy to implement the development plan for the tourism industry;
- an energy policy;
- a food sovereignty policy; and
- a framework law for the social economy.

* * *

Our economic vision is founded on the conviction that investment is necessary to ensure wealth creation for the Québec nation.

To accelerate growth, the government must take action to promote private investment and innovation in strategic sectors.

In the government's economic vision, Québec must offer a stimulating business environment favourable to projects that create wealth and jobs, and guaranteeing entrepreneurs predictable government action with no surprises.

In this regard, a number of businesspeople told us of their concerns pertaining to the acquisition of strategic companies carrying on their activities in Québec. This situation deserves careful study. We will therefore examine whether our legislative framework is adequate for ensuring that centres of decision-making remain, and business development occurs, in Québec. This examination will be done in collaboration with the players concerned.

This budget clearly sets forth our economic vision, and our government will not stray from it.

The government pledges to maintain a competitive tax system in Québec that promotes private investment.

We are laying today the groundwork for sound, long-lasting prosperity for all.



3. A RESPONSIBLE GOVERNMENT

Thirdly, Mr. President, our government is responsible.

A government's good financial health creates a climate conducive to economic development. It gives businesses confidence, encourages their development and ensures Quebecers receive the quality public services to which they aspire.

Everyone benefits from sound management of public finances—all of us as well as future generations.

* * *

MEETING THE TARGETS IN THE *BALANCED BUDGET ACT*

Financial framework for 2012-2013

In recent weeks, the government updated its financial framework and took steps to offset the \$1.6-billion shortfall for 2012-2013.

We saw that spending was spiralling upward, while revenue growth was less than anticipated.

The Chair of the Conseil du trésor immediately asked the departments and agencies to come up with solutions and implement the controls necessary to meet the spending targets established in March.

Thanks to these efforts,

I am announcing that we will meet the deficit target of \$1.5 billion for 2012-2013.

Our financial framework takes into consideration the decision not to refurbish the Gentilly-2 nuclear power plant.

The *Balanced Budget Act* will be amended accordingly, for 2012-2013 only, to account for this one-time element that will have a non-recurring effect on the deficit.

There is no reason not to take a sound economic decision just because it has an accounting impact. Indeed, shutting down the Gentilly-2 nuclear power plant will save Quebecers billions of dollars in the years to come.

* * *

Balanced budget for 2013-2014 and subsequent years

With the tabling of this budget, we are seeing through to completion the plan to restore fiscal balance, which was left unfinished by the former administration.

As I announced earlier, the budget will be balanced in 2013-2014 and will stay balanced in subsequent years.

We are adopting a cautious, responsible approach. Accordingly, the financial framework includes a contingency reserve of \$400 million for 2013-2014 and of \$500 million for each subsequent year.

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OFFSETTING THE BUDGETARY SHORTFALL

To achieve this objective, additional adjustments are necessary because of the substantial budgetary shortfall we inherited for 2013-2014 and 2014-2015.

Three factors explain the budgetary shortfall:

- first, a number of commitments of the previous government, such as the increase in infrastructure investments and the increase in physicians' salaries, meant that the spending growth objective it itself had established could not be met;
- second, the decreases in government revenue due to the slower pace of the economy;
- third, an annual gap of \$875 million as of 2014-2015 identified by the previous government in the financial framework of the last budget, which has not been offset.

If nothing were done, we would end up with a shortfall of \$1.4 billion for 2013-2014 and \$2.8 billion for 2014-2015.

Letting things ride would be unworthy of a responsible government. Consequently, we are taking immediately the steps necessary to balance the budget in 2013-2014 and continue to do so in subsequent years.

Our approach will be balanced. It will be three-pronged:

- strict control of spending;
- an additional effort regarding revenue; and
- to put the public finances in order for the longer term, better management of infrastructure spending.

* * *

□ Strict control of spending

The first step consists in controlling spending.

I am announcing that program spending growth targets have been set at 1.8% for 2013-2014 and 2.4% for 2014-2015.

The government at large—the departments, of course, but also the agencies and government corporations—is being called on.

Agencies and special funds must cut spending by \$200 million in 2013-2014.

We are also soliciting government corporations. Hydro-Québec, the Société des alcools du Québec and Loto-Québec will be asked to do their share.

For example, we have asked Hydro-Québec to move on improving its efficiency.

The government corporation will therefore reduce its operating costs in the very short term by eliminating 2 000 positions through attrition.

This will increase Hydro-Québec's net profit and, consequently, the revenue of its only shareholder, the Québec government. This improvement in the government corporation's performance will not affect consumer services.

To ensure that Hydro-Québec and the other government corporations are more rigorous in managing the resources belonging to all Quebecers,

I am announcing that the Auditor General of Québec will now be able to conduct performance audits in government companies and their subsidiaries.

We are therefore improving the spending management process by obliging the agencies under the aegis of the State to report more thoroughly on their operations.

In addition, we are taking steps to reduce tax expenditures.

I am announcing that certain tax expenditures will be tightened, which will increase government revenue by \$68 million in 2013-2014 and \$115 million in 2014-2015.

These steps consist in suspending two measures announced in the previous two budgets with respect to experienced workers, and in including all refundable tax credits for businesses in the calculation of taxable income.

* * *

An additional effort regarding revenue

Since everything possible has been done in terms of spending, no further steps can be taken without affecting public services. The next step is to take a number of initiatives with respect to revenue.

Increase and extension of the contribution of banks and other financial institutions

First, we are asking banks and other financial institutions to continue and increase their contribution to the efforts to restore fiscal balance.

I am announcing that the contribution of financial institutions, which was to end on March 31, 2014, will be increased and extended to March 31, 2019, which will generate \$211 million in revenue for fiscal 2014-2015.

Fight against tax evasion

As our second step, we are continuing the fight against tax evasion.

Out of a concern for fairness toward taxpayers who meet their tax obligations, the government is doing everything necessary to collect the amounts owing to it.

The government is therefore asking Revenu Québec to recover an additional \$80 million in 2013-2014 and another \$90 million in 2014-2015.

■ **Increase in the specific tax on certain products**

It is also necessary to raise the specific tax on certain products.

First, the smoking rate in Québec is still high and puts pressure on the costs of the health care system. Raising the cost of tobacco products is one of the most effective ways of tackling this scourge.

I am announcing that, as of midnight tonight, the price of a carton of 200 cigarettes will be raised by \$4, for an increase of 2¢ per cigarette.

Taxation of alcoholic beverages has not been increased in the past 15 years.

I am announcing that, as of 3 a.m. tonight, the specific tax on alcoholic beverages will be raised proportionately with respect to beer, wine and spirits.

Concretely, this will mean a tax increase of 3¢ for a bottle of beer and 17¢ for a bottle of wine.

The price of alcoholic beverages in Québec will still compare favourably to those in the neighbouring provinces.

* * *

□ **Improved management of infrastructure spending**

The third step consists in putting the public finances in order for the longer term, through better management of infrastructure spending.

The Liberal government took decisions that caused spending to skyrocket. In point of fact, it mortgaged the future away.

This is the case, for example, with infrastructure spending. Its heavy growth adds undue pressure to current expenditures.

It is as if a couple bought an overly expensive house and was unable to pay the mortgage without cutting back on essential items.

The increase in infrastructure spending was too rapid. A number of shortcomings in project management have come to light.

First, the total investments, although they were included in the financial framework, were not all included in the Québec Infrastructures Plan and were therefore outside the management and monitoring framework.

Moreover, project costs increased significantly between the time they were announced and the time they were incurred. In addition, the prioritization of certain investments gives rise to legitimate questions.

In October, Infrastructure Québec mandated the firm SECOR-KPMG to examine certain critical projects and review certain practices.

The examination of 18 recent priority projects showed that the final costs were 78% higher than the costs initially anticipated.

So, our fears concerning the management of infrastructure projects were founded. We were right to demand that a commission of inquiry be set up to look into the awarding of public contracts in the construction industry.

The previous administration had to yield to our insistence and to that of the public, and ultimately created the Charbonneau commission, which daily discloses the dubious actions of certain individuals and organizations.

Until the commission makes its recommendations, it is the government's responsibility to take immediate action in order to better manage infrastructure investments.

It is not merely a question of making adjustments; practices must be completely overhauled.

We will tighten the rules governing project planning and management, in particular by:

- making sure all projects are included in the Québec Infrastructures Plan;
- prioritizing the projects;
- evaluating the asset stock.

In short, we will make sure that Quebecers get their money's worth.

The numerous investments in recent years have substantially increased the public debt and the payments relative to these investments account for an increasing share of the government's revenue.

Despite very low interest rates, debt service is the government's third largest spending item, after health and education.

In the long term, this pace is not sustainable. We must make sure that infrastructure investment is in keeping with our ability to pay and stop going further into debt.

Our government is undertaking a major shift in order to put us back on a sounder trajectory. Public investment must return to a proper level, one that is lower by \$1.5 billion a year.

I am announcing that the level of capital investments as a whole will be capped at \$9.5 billion a year, on average, for the next five years.

An annual amount of \$9.5 billion is considerable and will enable the quality of our public infrastructure to be maintained.

By investing within our means, projects will be better prioritized and implemented in a more orderly fashion.

In fact, my colleague the Chair of the Conseil du trésor recently tabled Bill 1 on integrity in public contracts.

Passage of this statute will restore healthy competition.

This will lower the cost of work.

In addition, we will give very serious consideration to the Charbonneau commission's recommendations for improving our practices.

It was high time to act. As a result of our actions, Quebecers will finally get their money's worth.

* * *

DEBT REDUCTION PLAN

I have repeated many times in recent years that the debt is a serious problem for Québec.

From 2003 to 2012, the government's indebtedness grew by \$54 billion, that is, nearly 30% of Québec's debt.

Per capita, it rose from \$17 354 in 2003 to \$22 981 in 2012.

Thus, while the Liberals were in power, a debt of \$5 627 per person, children included, was contracted.

It is very important to us to slow the pace of government indebtedness and reduce its relative weight to GDP.

I have already stated that we intend to meet the objectives set in the debt reduction statute.

But we will do so through a balanced approach.

The reduction in public infrastructure investments I announced earlier will help reduce debt growth.

To achieve its objectives, the previous government wanted to pay down the debt by imposing on Quebecers an increase in the price of heritage electricity as of 2014.

As I announced earlier, that increase has been abolished and replaced by indexation to the cost of living.

In addition, new sources of revenue will be dedicated to the Generations Fund, and, consequently, to debt reduction.

As a result of the decision to close the Gentilly-2 nuclear power plant, we will save the billions of dollars it would have cost to refurbish the plant.

I am announcing that annual revenues of \$215 million from the increase in Hydro-Québec's profits further to the abandonment of the project to refurbish the Gentilly-2 nuclear power plant will be deposited in the Generations Fund.

Moreover,

I am announcing that all mining royalties, an estimated amount of \$325 million annually, will be deposited in the Generations Fund as of 2015-2016.

Furthermore, as of 2014-2015, the revenue from the increase in the taxation of alcoholic beverages I announced earlier will go directly into the Generations Fund. This will represent an amount of \$100 million annually.

Lastly, the revenue from the annual indexation of the price of heritage electricity, as of 2014, will be dedicated to the Generations Fund.

The approach we will take to reduce the debt burden is balanced. It is based on diversified revenue sources and on public capital investments more in keeping with our society's ability to pay.

Moreover, we feel it is important to do something immediately to pay down the debt.

I am announcing that, in 2013-2014, \$1 billion will be drawn from the Generations Fund to pay down the debt.

Taken together, all of the actions I am announcing today will enable us to meet the legislative targets for reducing the debt as a function of GDP.

Mr. President, that means that, as of next year, debt load as a percentage of GDP will begin to decline.

* * *

FEDERAL TRANSFERS: TEN-YEAR SETBACK

The government is hampered in its efforts to balance Québec's finances by the federal government's unilateral decisions in the past few years. In fact, we are witnessing a ten-year setback, to the time when Québec as a whole was mobilized around the elimination of the fiscal imbalance.

The federal government's unilateral decisions in 2008 with respect to the equalization program and in 2011 with respect to the Canada Health Transfer have had and continue to have adverse consequences on Québec's public finances. For example:

- in the last four years, Québec has sustained equalization losses of \$6.6 billion;
- in the coming years, the situation is not going to improve. With regard to health, Québec will incur a shortfall of more than \$8 billion over ten years.

Yet the federal government had been clear: it would not put its public finances in order on the backs of Québec and the provinces. That promise was not held.

We are asking the federal government to reverse its decision to impose caps on the equalization program, and to gradually raise its share of health funding to 25% within ten years.

Moreover, the federal government must act on Québec's long-standing claim to restore the Canada Social Transfer to its 1994-1995 level, at a minimum, taking inflation into account. The federal government's disengagement in this area represents a shortfall of \$800 million that Québec must offset in 2012-2013.

Additionally, the Building Canada plan will soon expire. The federal government announced its intention to bring in a long-term public infrastructure plan.

Québec has long requested that it be paid its share through a "block" transfer, that is, a transfer that complies with Québec's jurisdiction to choose the infrastructure projects that are a priority for its development.

We must also settle the securities file once and for all. We are unfortunately still grappling with the federal government's will to interfere in the regulation of this sector.

We will never agree to give up our jurisdiction. We will continue to defend it, while working with the provinces to improve securities oversight.

Our government's viewpoint on federal transfers is in line with that of our predecessors, the difference being that we alone have the courage to express it loud and clear.



CONCLUSION

In closing, I want to emphasize that we are making the most of the means at our disposal, but that we will be able to go much farther if we have all the means of a sovereign country.

Taxation, for example, is a powerful tool. Full control over it will enable us to implement measures to stimulate private investment that are that much more effective.

Elimination of the many cases of administrative overlap between Québec and Ottawa will result in billions of dollars saved and considerably ease the regulatory and administrative burden for all.

And, especially, sovereignty will enable Québec to fully assume its political, economic and social choices, in addition to speaking on its own behalf on the world stage.

There is no doubt in my mind: taking all our decisions ourselves will ensure the prosperity of our nation.

* * *

This first budget of our government is responsible and balanced. It is fair and good for all Quebecers.

I invite my parliamentary colleagues to take the time to seriously and thoroughly study it.

I am therefore proposing, Mr. President, that the National Assembly approve the government's budgetary policy.

Thank you.

☺ • ☺

Québec government
Summary of budgetary transactions
2012-2013 fiscal year
(millions of dollars)

	Revised forecasts
BUDGETARY REVENUE⁽¹⁾	
Own-source revenue	53 192
Federal transfers	15 705
Total	68 897
BUDGETARY EXPENDITURE⁽¹⁾	
Program spending	-62 642
Debt service	-7 917
Total	-70 559
CONSOLIDATED ENTITIES	
Contingency reserve	-200
Extraordinary loss – Closure of Gently-2	-1 805
DEFICIT	-2 426
Deposits of dedicated revenues in the Generations Fund	-879
Exclusion of the extraordinary loss	1 805
BUDGETARY BALANCE⁽²⁾	-1 500

(1) Corresponds to the revenue and expenditure of the general fund.

(2) Budgetary balance within the meaning of the *Balanced Budget Act*. For 2012-2013, the budgetary balance excludes the accounting impact of Hydro-Québec's extraordinary loss of \$1.8 billion relative to the closure of the Gently-2 nuclear power plant. The final impact will be established in Hydro-Québec's financial statements as at December 31, 2012.

Québec government
Summary of budgetary transactions
Forecasts for 2013-2014
(millions of dollars)

BUDGETARY REVENUE⁽¹⁾	
Own-source revenue	56 215
Federal transfers	16 145
Total	72 360
BUDGETARY EXPENDITURE⁽¹⁾	
Program spending	-63 791
Debt service	-8 601
Total	-72 392
CONSOLIDATED ENTITIES	
Contingency reserve	-400
SURPLUS	1 039
Deposits of dedicated revenues in the Generations Fund	-1 039
BUDGETARY BALANCE⁽²⁾	—

(1) Corresponds to the revenue and expenditure of the general fund.

(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

**Québec government
Budgetary revenue of the general fund
Forecasts for 2013-2014**

OWN-SOURCE REVENUE

Income and property taxes

Personal income tax	20 365
Health Services Fund	6 752
Corporate taxes	4 652
	31 769

Consumption taxes

Sales	15 805
Tobacco	863
Alcoholic beverages	544
Other	19
	17 231

Duties and permits

Natural resources	300
Other	280
	580

Miscellaneous

Sales of goods and services	368
Interest	535
Fines, forfeitures and recoveries	624
	1 527

Revenue from government enterprises

Hydro-Québec	2 725
Loto-Québec	1 270
Société des alcools du Québec	1 067
Other	46
	5 108

Total

56 215

FEDERAL TRANSFERS

Equalization	7 578
Protection payment	—
Health transfers	5 118
Transfers for post-secondary education and other social programs	1 539
Other programs	873
Compensation for harmonization of the QST with the GST	1 467
Allocation to FINESSS of a portion of the compensation for harmonization of the QST with the GST	-430

Total

16 145

TOTAL BUDGETARY REVENUE

72 360

Québec government
Budgetary expenditure of the general fund
Forecasts for 2013-2014
(millions of dollars)

PROGRAM SPENDING	
Affaires municipales, Régions et Occupation du territoire	1 567.7
Agriculture, Pêcheries et Alimentation	1 061.9
Assemblée nationale	119.5
Conseil du trésor et Administration gouvernementale	954.5
Conseil exécutif	551.1
Culture et Communications	631.0
Développement durable, Environnement, Faune et Parcs	273.1
Éducation, Loisir et Sport	10 205.4
Emploi et Solidarité sociale	4 225.2
Enseignement supérieur, Recherche, Science et Technologie	6 337.0
Famille	2 474.4
Finances et Économie (excluding debt service)	713.1
Immigration et Communautés culturelles	327.3
Justice	811.5
Persons designated by the National Assembly	82.4
Relations internationales, Francophonie et Commerce extérieur	121.5
Ressources naturelles	405.1
Santé et Services sociaux	31 258.3
Sécurité publique	1 231.3
Transports	709.0
Travail	30.7
Anticipated lapsed appropriations	-200.0
Savings to be made by subsidized consolidated entities	-100.0
Total	63 791.0
DEBT SERVICE	
Direct debt service	5 335.0
Interest ascribed to retirement plans	3 287.0
Interest ascribed to employee future benefits	-21.0
Total	8 601.0
TOTAL BUDGETARY EXPENDITURE	72 392.0

Québec government
Non-budgetary transactions
Forecasts for 2013-2014
(millions of dollars)

INVESTMENTS, LOANS AND ADVANCES	
General fund	-951
Consolidated entities	-551
Total	-1 502
CAPITAL EXPENDITURES	
General fund	
Investments	-413
Amortizations	164
Subtotal	-249
Consolidated entities	
Investments	-8 365
Amortizations	3 568
Less: PPP investments	911
Subtotal	-3 886
Total	-4 135
RETIREMENT PLANS AND EMPLOYEE FUTURE BENEFITS	
	2 625
OTHER ACCOUNTS	
General fund	1 577
Consolidated entities	244
Total	1 801
TOTAL	-1 211

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

**Québec government
Financing transactions
Forecasts for 2013-2014**
(millions of dollars)

CHANGE IN CASH POSITION	
General fund	—
Consolidated entities	—
Total	—
NET BORROWINGS	
General fund	
New borrowings	5 787
Repayment of borrowings ⁽¹⁾	-6 487
Subtotal	-700
Consolidated entities	
New borrowings	9 539
Repayment of borrowings	-5 758
Subtotal	3 781
Total	3 081
Retirement Plans Sinking Fund, other retirement plan assets and funds dedicated to employee future benefits	-1 870
Generations Fund	-1 039
TOTAL FINANCING TRANSACTIONS	172

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) Repayments of borrowings take into account the use of \$1 billion from the Generations Fund to repay maturing borrowings.

