

2004 + 2005 BUDGET

Prebudget Consultations Paper

Québec 

Prebudget Consultations Paper - 2004–2005 Budget

ISBN 2-550-41902-2

Legal deposit, December 2003

Bibliothèque nationale du Québec

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Dear Madam,

Dear Sir,

Every day, we witness profound changes that will shape the Québec of tomorrow. First of all, we must all realize the impact of demographic change. Health services, the education system, the labour market, in every sector of society, we will have to adapt, anticipate, adjust to the aging of the population.

At the same time, we find ourselves in the midst of significant technological developments. Information technologies and biotechnologies that a few years ago seemed pure science fiction are now a fact in countless aspects of our daily life.

Lastly, in an increasingly open economy, the labour market is changing rapidly.

Inevitably, all these changes will have social and political repercussions. Governments must adapt public services and secure their short and long-term funding.

We now expect that over the next ten years, the aging of the population will result in a decline in the number of workers who pay taxes. And as revenues fall, we will have to deal with a rise in public spending, especially in the health sector. If we want Québec to be an avant-garde society ten or twenty years from now, we have to act quickly.

In the June 12, 2003 *Budget Speech*, I announced that I intended to inform and consult with those who use and fund public services. Good budgetary decisions must be transparent. Since then, I have tabled two *Quarterly Presentations of Financial Transactions*. They show how vulnerable Québec's public finances are and how difficult it is, even in 2003–2004, to balance the budget.

The prebudget consultations I am announcing today are particularly important. I intend to use this opportunity to hold the broadest possible discussion on what should be the Québec government's priorities over the

coming years. But in addition, the situation of Québec's public finances demands a realistic and clear-headed approach from all of us.

I hope that these consultations will spark reflection in view of the next budget, of course, but also over a longer time frame. I suggest four major themes for discussion:

- **priorities for meeting the challenges of the next ten years;**
- **sources of funding to meet society's needs;**
- **the tax burden on Québec taxpayers;**
- **simplifying the tax system.**

These very broad themes allow for the expression of all points of view. To inform your thinking, this paper provides information on Québec's demographic, economic and budgetary situation.

The reflection we are undertaking together must help us to better assess the issues facing us and to make better choices. By participating in public hearings or simply by sending your comments directly to us, you can provide me with your suggestions and observations on anything affecting Québec's public finances. I can assure that I will give them every consideration.

Thank you for your contribution.

A handwritten signature in black ink, appearing to read 'Yves Séguin', written in a cursive style.

Yves Séguin
Minister of Finance

Prebudget Consultation Details

Public hearings

The prebudget consultations will consist of public hearings chaired by the Minister of Finance, Yves Séguin. Individuals, groups or organizations interested in filing a brief to be heard at the public hearings are invited to do so. The deadline for filing a brief is January 16, 2004. Public notices will be published to that effect in the daily newspapers and certain weeklies, as well as on the website of the ministère des Finances (www.finances.gouv.qc.ca). The website also contains an invitation from the Minister to participate in the consultations and all the documents published by the ministère des Finances.

The public hearings will be held between January 26 and February 6, 2004. The number and selection of the cities where the hearings will be held will be determined according to the number of individuals, groups or organizations that file briefs.

Online consultations

The public is also invited to forward its opinions, comments and concerns to the Minister of Finance at the following email address: consultation.ministre@finances.gouv.qc.ca.

Details of participation in the public hearings

Individuals, groups or organizations that wish to be heard at these public hearings must:

- 1) Forward a brief on one or more of the themes stated in the prebudget consultations paper. Two copies of the brief must be sent to:

CONSULTATIONS PRÉBUDGÉTAIRES
Cabinet du ministre des Finances
Ministère des Finances
12, rue Saint-Louis – 1^{er} étage
Québec (Québec) G1R 5L3

Briefs may also be sent by email to:
consultation.ministre@finances.gouv.qc.ca

DEADLINE FOR FILING A BRIEF: JANUARY 16, 2004

The Dynamic of Québec's Public Finances: Challenges to be Met

The Dynamic of Public Finances: Challenges to be Met

Background

Introduction

The transformation of Québec society, like that of the environment in which it evolves, requires that we reconsider the action of the state as well as some of our collective choices. It requires that we take a critical look at our situation, and that we look ahead to the future we want for Québec. This vision will be at the heart of our choices and form the basis of the objectives that will guide our action.

One of the observations we can make is that the situation of public finances remains very vulnerable. Québec's taxpayers are heavily taxed and, despite the growth in employment, our collective wealth continues to be below that of other Canadians. Furthermore, although the budget is balanced, Québec's total debt continues to grow.

Major reforms are now necessary. For a long time now, simply achieving savings has not been enough to meet these challenges. The problems of public finances require lasting solutions for Québec both today and in the future.

Québec must find appropriate solutions, adapt to change, preserve its major social gains and its ability to govern itself. For the government, that means adapting its services to new needs and to Quebecers' ability to pay and ensuring that it has the appropriate tools to collect its revenue.

To better appreciate the issues facing Québec, it is useful to begin by setting out the major observations regarding our public finances. These observations focus on the demographic situation, the level of public spending, the tax burden in Québec, Québec's debt and the situation with respect to federal transfers and the fiscal imbalance.

Demographic situation

Québec faces demographic changes that will have major repercussions on Québec society over the coming years. At the end of the 1950s, the fertility rate was 4.0 children per woman, compared with only 1.3 in 2003. At the same time, life expectancy has made remarkable gains. The consequence of these two phenomena is a rapidly aging population whose effects are still difficult to measure.

Turning to public expenditures, spending on health and social services is increasing sharply because the cost of these services rises with age. In addition, the aging of the population means that fewer workers will be funding public services. Currently, there are almost five workers for one retired person. In 2030, this proportion will have fallen to two to one.

Public spending

Not only is Québec's public spending higher than in the rest of Canada, but it is also growing faster. This is exerting pressure on efforts to keep public finances balanced and as a result Quebecers as a whole allocate a very large share of their collective wealth to funding public services.

Every day, Quebecers make choices that affect how public revenues are used. And yet the true cost of various public services is misunderstood. In 2003-2004, for every dollar of the government's revenue, 80 cents went to funding a small number of missions: health and social services, education, and employment, social solidarity, family and child welfare. That left only 20 cents to fund all other services, including assistance to municipalities, economic development, culture, transportation and public security.

Tax burden

Open markets exert constant pressure to maintain a competitive tax system, both for individuals and for businesses. Québec's corporate tax system is competitive on the whole, even though the high capital tax impedes investment. But the situation with personal income tax is worrisome and Québec must reduce its tax burden if it is to become more competitive.

Overall, Québec taxpayers pay more tax than other Canadians. In fact, total tax receipts collected by the two orders of government and local administrations are highest in Québec. High taxes have major consequences for individuals, in particular lower disposable income, an increase in unreported work and lower incentive to work.

Public debt

Québec is the province with the heaviest debt burden. The debt accounts for 44% of our gross domestic product, i.e. \$14 495 per capita, almost double that of Ontario. Even though the budget has been balanced, Québec's total debt continued to grow and, on March 31, 2004 it will reach \$111.5 billion. One consequence of the rise in the public debt is that the government must allocate a growing share of its revenue to pay interest.

In 1970, the government allocated 5 cents of every dollar of budgetary revenue to pay interest; today, that has risen to over 16 cents. These payments take up valuable resources that could be used for other priorities of Québec society. In addition, the financial costs the government incurs to borrow on financial markets depend to a significant degree on its debt load. There is a close relation between the indebtedness ratio and interest rates paid.

Lastly, the size of the debt must be controlled to avoid further mortgaging future generations and Québec's economy.

Fiscal imbalance and federal transfers

Part of the government's revenue consists of transfers from the federal government. After declining in the mid-1990s, federal transfers have risen recently. However, as a proportion of the spending they fund, these transfers remain below their level at that time. This represents a major financial constraint for Québec by reducing the resources available to the government to meet public needs.

In addition, there is a broad consensus that there is a major fiscal imbalance between the federal government and the provincial governments. Accordingly, while the federal government's revenue is rising faster than its spending, provincial governments are faced with the opposite situation. The federal government achieves a budget surplus year after year while the provinces must struggle to avoid deficits. The fiscal imbalance between the federal government and the provinces is a basic issue on which the adequate funding of public services, including health care, depends in part.

Conclusion

These major observations form the backdrop to the reflection the government submits to the public. As a first step, so that everyone is in a position to participate in the exercise, information on the broad parameters of public finances has been gathered. The following tables and charts should provide a better understanding of the impact of the aging of the population on the budget, the sources of the government's revenue, who pays taxes and how they are paid, where our tax dollars are spent and the situation regarding our collective debt.

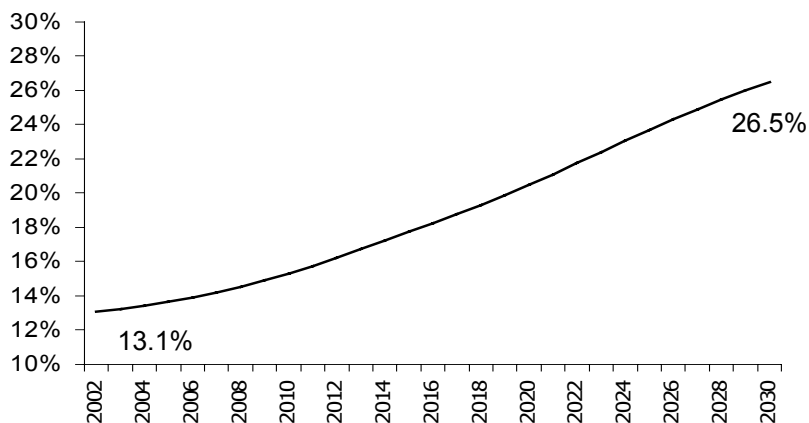
Although the budget is balanced, public finances remain vulnerable

- Québec's population is aging rapidly and its population of working age is expected to decline.
- The standard of living has improved, but remains significantly less than that of the rest of Canada.
- Québec spends more than other provinces, even though its per capita wealth is less.
- Quebecers' tax burden is the heaviest in Canada.
- Québec has the largest debt of all the provinces.

A rapidly aging population

OLDER PERSONS 65 OR OVER

(As a percentage of the total population)

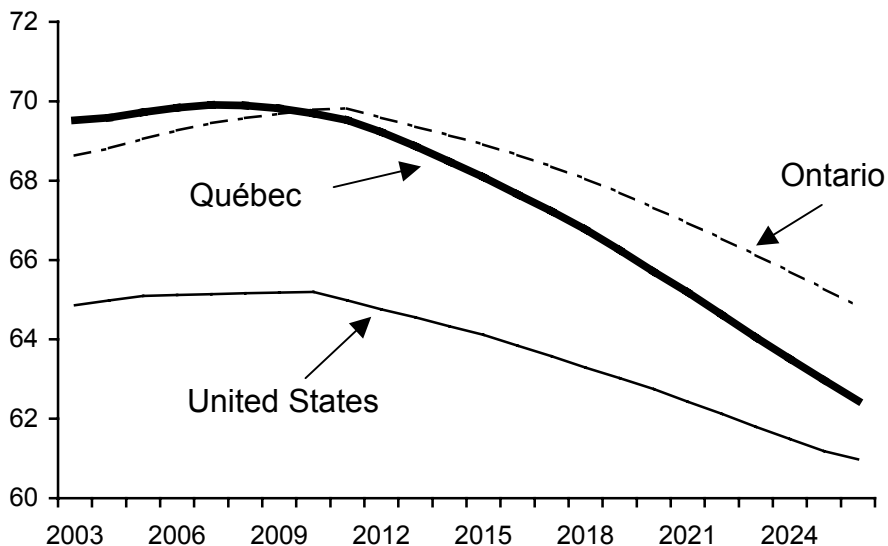


By 2030, the proportion of the population age 65 or over will double.

The expected decline in the population of working age imposes additional constraints on public finances

POPULATION OF THE 15-64 AGE GROUP

(As a percentage of the total population)



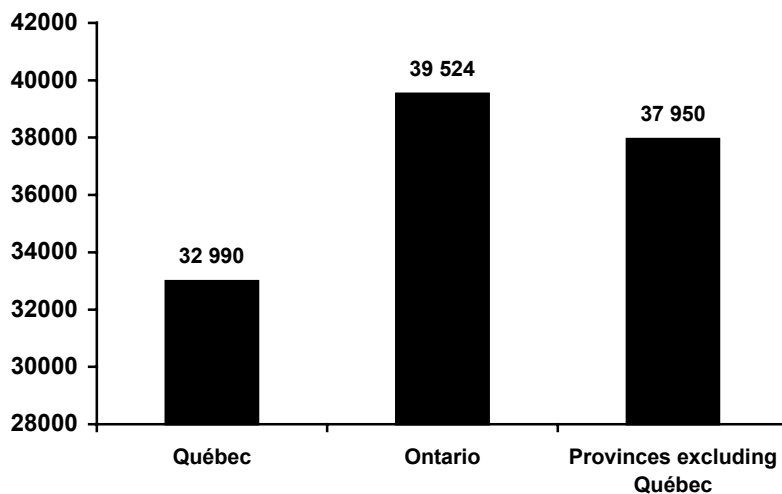
By 2030: two workers for one retired person

- In Québec, in the 1960s, there were eight people of working age for each retired person. Currently, that ratio is five to one and by 2030, there will be only two people of working age for each retired person.
- There will be fewer and fewer workers to fund public services.

Our collective wealth is less than that of Ontario and the other provinces

GROSS DOMESTIC PRODUCT

(Per capita dollars, 2002)

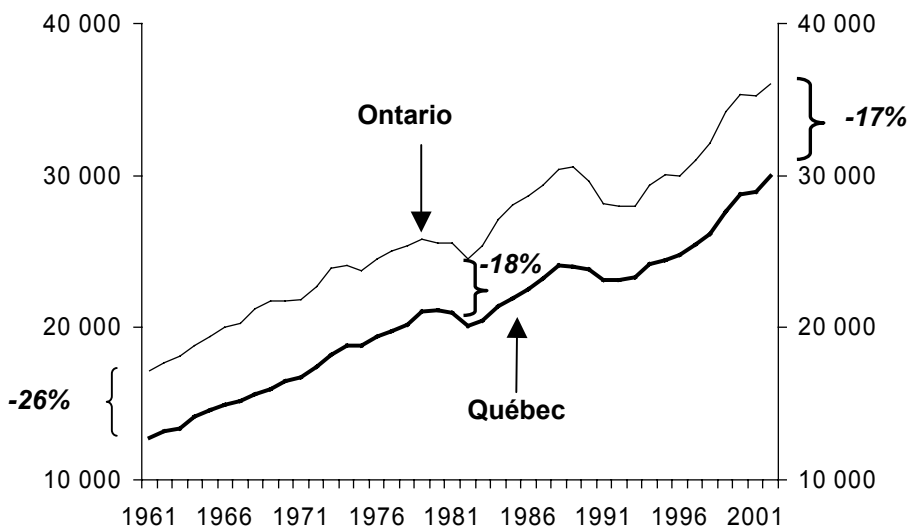


- Québec's collective wealth, as measured by per capita gross domestic product, is less than that of Ontario and the other provinces.
- Yet Québec has implemented a more extensive range of public services than the other provinces.

In 20 years, Québec has failed to make any gains

PER CAPITA REAL GDP

(Constant 1997 dollars)

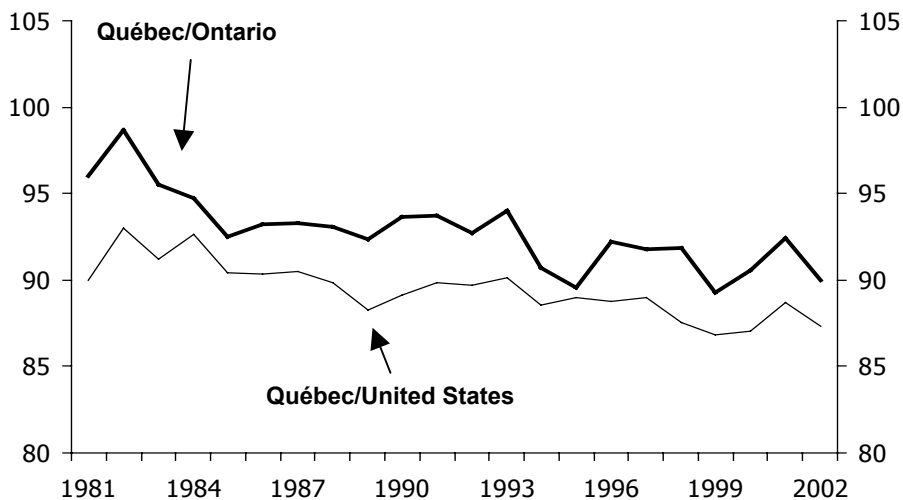


- Since 1961, the gap between the standard of living in Québec and Ontario has narrowed from 26% to 17%.
- However, over the last twenty years, Québec has failed to make any gains.

Productivity is lower in Québec than in Ontario and the United States and the gap is growing

RATIO OF GDP PER HOUR IN QUÉBEC

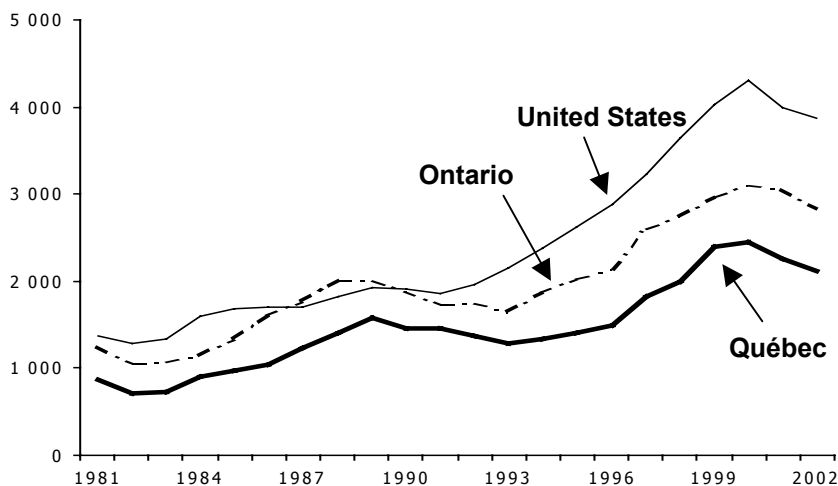
(As a percentage of that in Ontario and in the United States)



- Since the early 1980s, productivity in Québec has fallen compared to Ontario and the United States.

The rate of investment in Québec is less than that of our trading partners

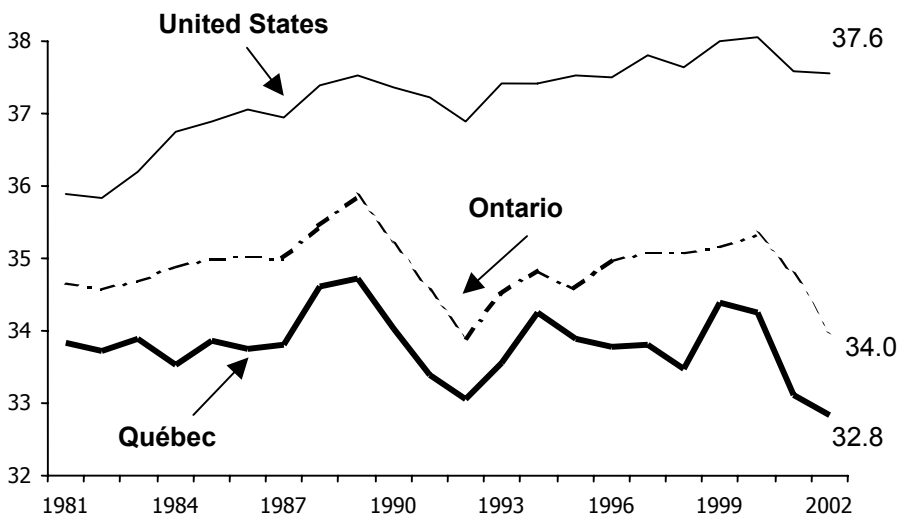
PRIVATE INVESTMENT IN MACHINERY AND EQUIPMENT
(Dollars per capita)



- The decline in Québec’s relative productivity is attributable in particular to a lower rate of private investment compared to our trading partners.

Decline in hours of work

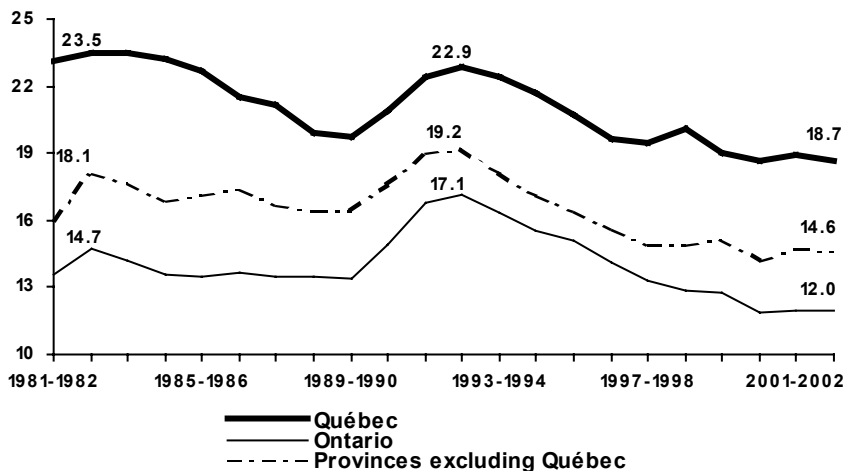
AVERAGE NUMBER OF HOURS WORKED PER WEEK



- In Québec, the average number of hours worked per week is 32.8 compared with 34.0 in Ontario and 37.6 in the United States.
- The gap has widened since the early 1980s.

Québec allocates a larger share of its wealth to fund public services

PROGRAM SPENDING
(As a percentage of GDP)

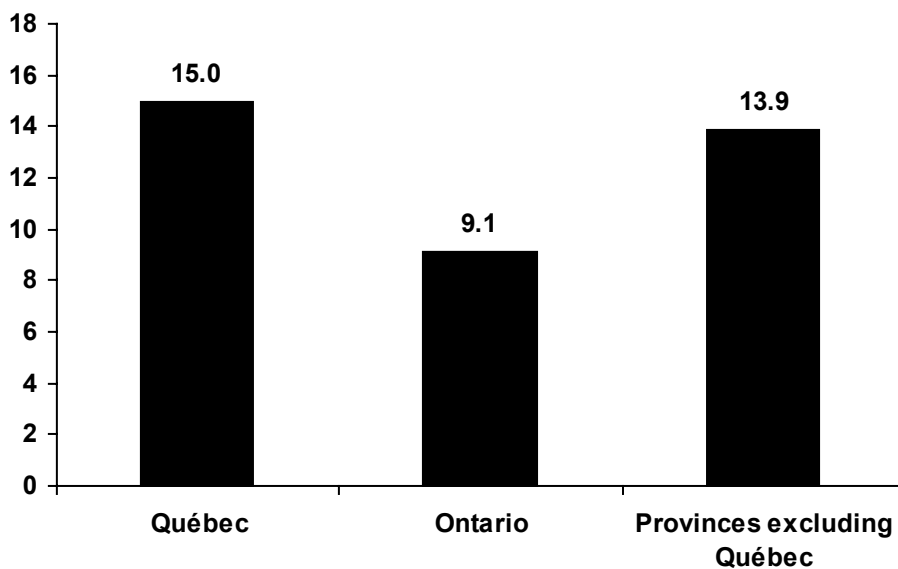


- The Québec state accounts for a huge share of the economy.
- Public spending as a percentage of GDP is higher in Québec than in Ontario and the rest of Canada.

Program spending is growing faster in Québec than in Ontario

PROGRAM SPENDING IS GROWING FASTER IN QUÉBEC

(Percentage growth from 1999-2000 to 2002-2003)

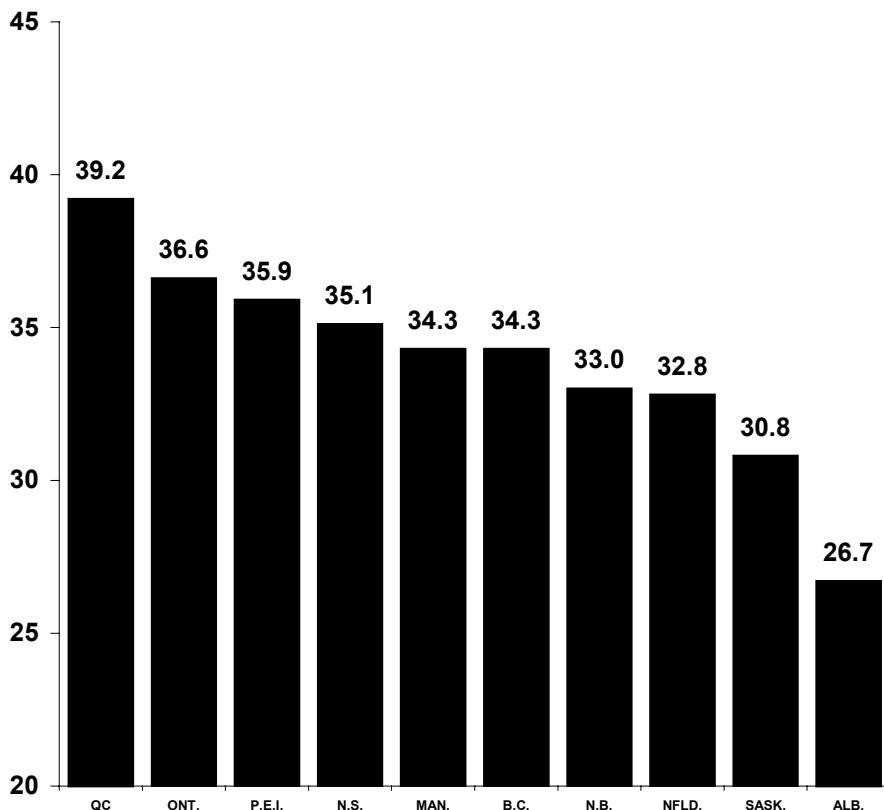


- From 1999-2000 to 2002-2003, program spending rose 15.0% in Québec compared with 9.1% in Ontario.

Quebecers bear the heaviest tax burden in Canada

TAX REVENUES OF ALL PUBLIC ADMINISTRATIONS¹ (2001)

(As a percentage of GDP)



- Tax revenues collected by the two orders of government and local administrations are highest in Québec.

¹ Includes the revenues of the federal administration and provincial and local administrations.

A very heavy personal income tax burden

PERSONAL INCOME TAX DIFFERENTIAL² - 2003

	Diff. Québec - other provinces	
	Millions of dollars	As a percentage of Québec tax
Alberta	5 511	34.0
British Columbia	5 205	32.1
Ontario	4 822	29.7
Saskatchewan	1 715	10.6
New Brunswick	1 060	6.5
Prince Edward Island	751	4.6
Manitoba	568	3.5
Nova Scotia	370	2.3
Newfoundland	-852	-5.2
Average difference	2 128	13.1

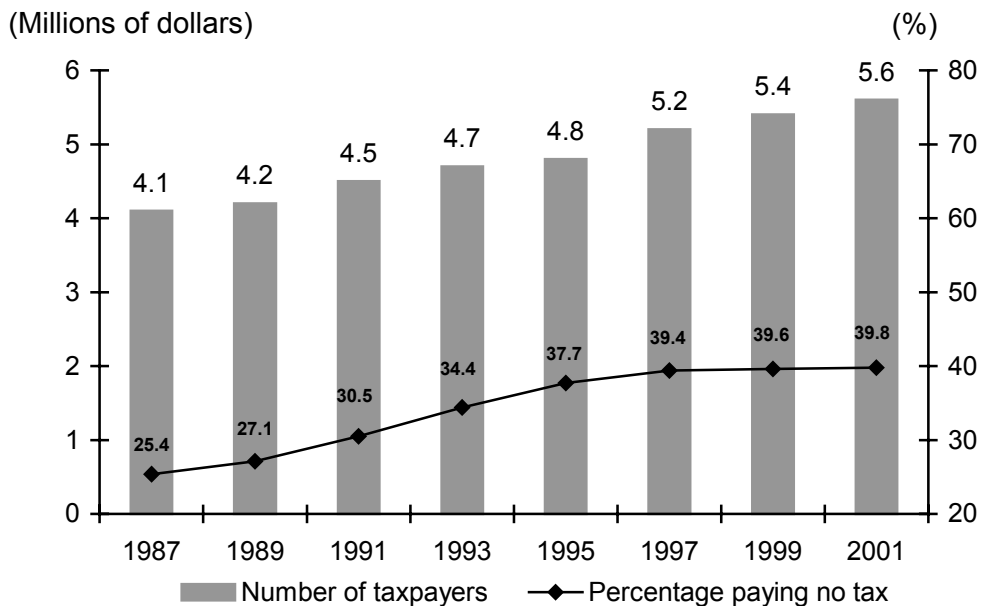
- With the exception of Newfoundland, Quebecers' personal income tax burden is the highest in Canada.
- Quebecers pay \$4.8 billion more in income tax than Ontarians, i.e. 30% more.

² Difference calculated by applying each province's tax structure to Québec.

The number of taxpayers who pay no tax is growing

NUMBER OF TAXPAYERS PAYING NO TAX

(Québec, 1987 to 2001)

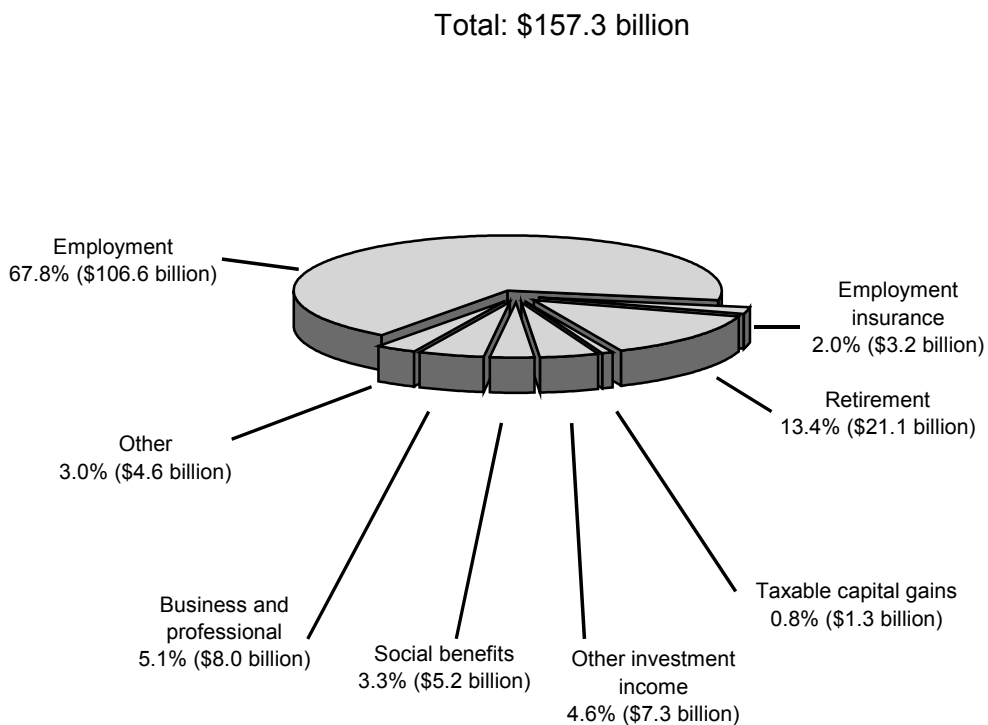


- Since 1987, the number of taxpayers who pay no tax has risen from 25.4% to 39.8% of the total.
- The number of taxpayers paying no tax has risen from 1.1 million to 2.2 million between 1987 and 2001.

Main sources of personal income

TOAL INCOME BY SOURCE (2001)

(Billions of dollars)

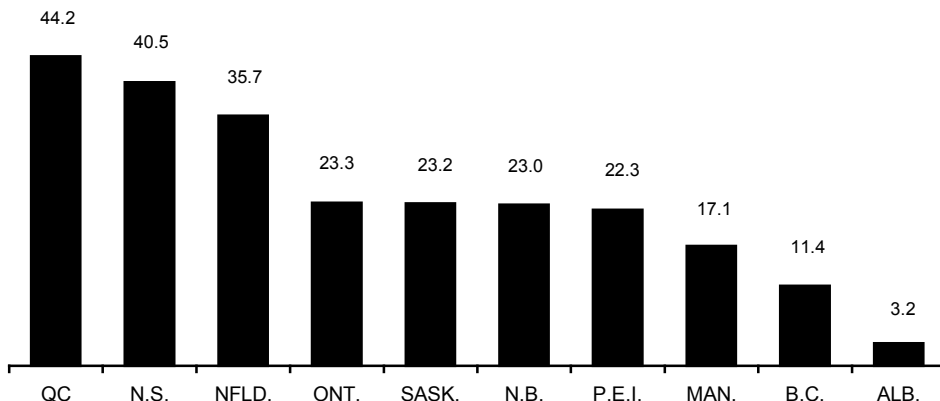


- Retirement income ranks second among taxpayers' sources of income, after employment income.

Québec is the province with the heaviest debt load

COMPARISON OF PROVINCIAL DEBT LOADS AS AT MARCH 31, 2003

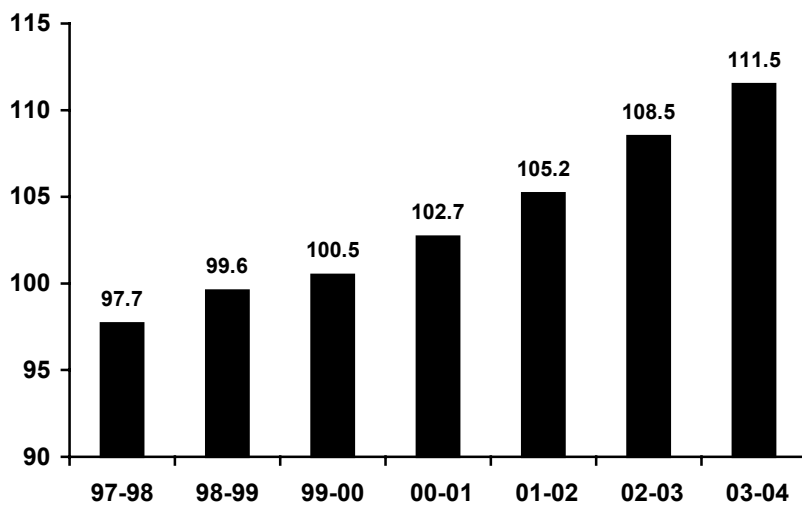
(Total debt as a percentage of GDP)



- Although the budget has been balanced, Québec's total debt continues to rise and will reach \$111.5 billion by March 31, 2004.
- As at March 31, 2003, the debt amounted to:
 - just over 44% of GDP, the highest level in Canada.
 - \$14 495 per person.

The total debt has risen by \$13.8 billion since the budget was balanced

INCREASE IN TOTAL DEBT
(Billions of dollars)



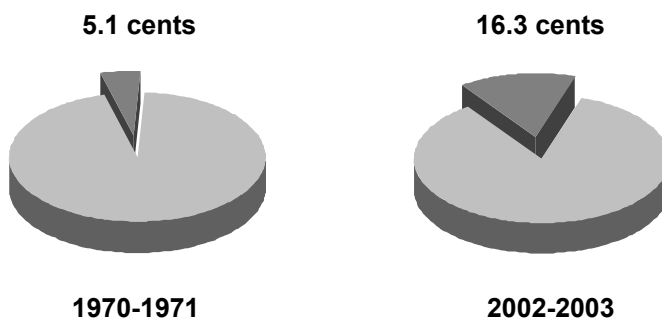
- Since the budget was balanced, the debt has risen by \$13.8 billion because of:
 - the increase in investments in government enterprises;
 - government investments in fixed assets, in particular the road system.
- By way of comparison, Québec’s debt would have to be cut in half to reach the same rate of indebtedness as the rest of Canada.
- The heavy debt load means significant debt servicing costs.

Consequence: debt service is a major spending item

- Debt service is expected to rise from \$7.4 billion in 2003-2004 to almost \$8.0 billion in 2004-2005.
- Debt service is the third largest spending item.
- By way of illustration, debt service in 2003-2004 is equivalent to:
 - 44.6% of personal income tax revenue;
 - 80.8% of QST revenue;
 - 38.5% of health and social services spending;
 - 64.2% of education spending.

Consequence: fewer services for each tax dollar paid by taxpayers

SHARE OF A DOLLAR OF BUDGETARY REVENUE ALLOCATED TO PAY INTEREST³



³ Includes service on the government's debt and subsidies for interest payment paid in particular to institutions in the health and social services and the education networks.

Although its collective wealth is less, Québec spends more than Ontario

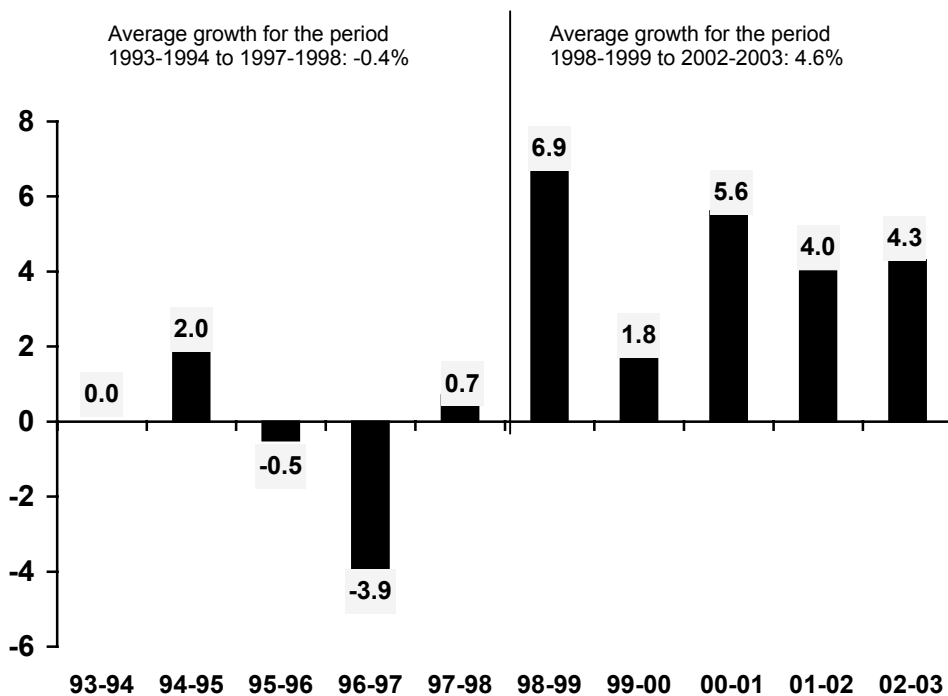
- Québec spends more than Ontario.
- Yet Québec is not as wealthy as Ontario.
- It might be thought that equalization payments enable Québec to afford a higher level of spending despite a lower fiscal capacity.
- But Québec's debt is greater than Ontario's, meaning that it must spend more on debt service.
- This means that equalization is used to pay Québec's additional debt service.
- Result: Québec must impose a heavier tax burden on its taxpayers.

In recent years, one-time items have made it possible to balance the budget

- The remarkable performance of the American economy was of considerable help to Québec's economy.
- The previous government enjoyed a one-time, non-recurring leeway to fund new initiatives while keeping the budget balanced:
 - additional non-recurring federal transfers;
 - inclusion of the CSST in the government's reporting entity;
 - the effect of lower interest rates.
- The dynamic of spending growth was not corrected.
- Since the budget was balanced, spending has risen too fast.
 - the range of programs offered has been maintained;
 - new programs were put in place (child care, prescription drug insurance).

The dynamic of program spending growth has not been corrected

ANNUAL GROWTH IN PROGRAM SPENDING
(Per cent)



- During the five years before the budget was balanced, i.e. from 1993-1994 to 1997-1998, program spending fell by an average of 0.4%.
- During the past five years, i.e. since the budget was balanced, program spending has risen by an average of 4.6% per year.

The previous government's economic and social interventions were costly and lacked sustainable funding

Examples:

- Government assistance to businesses: FAIRE program.
- Heavily subsidized economic development projects.
- Société générale de financement and Innovatech corporations.
- Tax relief for businesses: designated sites (E-Commerce Place, Cité du multimédia, etc.).
- City contracts with Montréal and Québec City.
- New programs: prescription drug insurance and child care.
- Laval metro link.

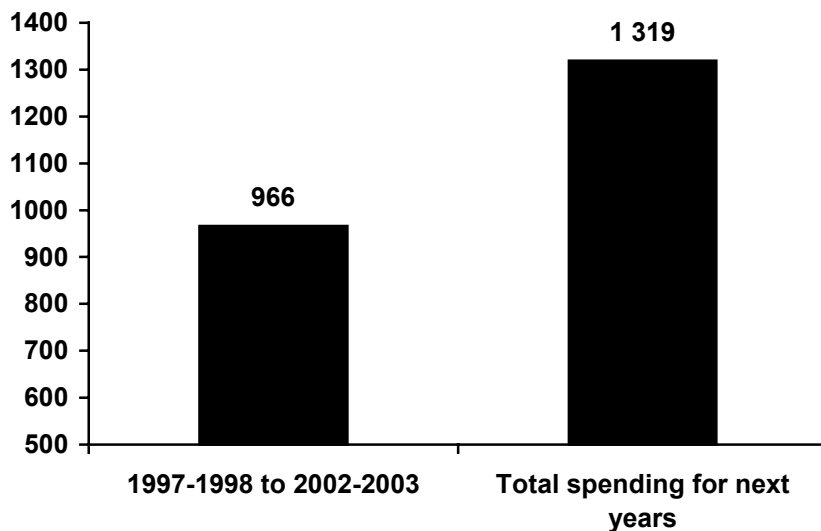
Impact of poor returns of the Caisse de dépôt et placement du Québec on public finances

- The Caisse de dépôt et placement du Québec incurred losses of:
 - \$3.0 billion in 2001, i.e. - 4.99%;
 - \$8.6 billion in 2002, i.e. - 9.57%.
- These losses have a lasting negative impact on:
 - the Commission de la santé et de la sécurité du travail;
 - the Société de l'assurance automobile du Québec;
 - the Retirement Plans Sinking Fund.
- These losses are reflected in lower revenue or higher expenditures for these organizations or for the government.

FAIRE program: prior commitments with major impacts on future spending

FAIRE PROGRAM SPENDING

(Millions of dollars)



- A temporary program that initially was to cost only \$250 million but will end up costing \$2.3 billion:
 - \$966 million already spent;
 - \$1.3 billion in future spending.

Société générale de financement and Innovatech corporations: investments that have not produced the results expected

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC – INVESTMENTS AND RESULTS

(Millions of dollars)

	1998	1999	2000	2001	2002	2003-2005 ^(P)	Total
Government investment	40	150	200	700	200	—	1 290
Profits (losses)	77	116	49	(88)	(172)	(644)	(662)

^(P) SGF projections including \$500 million in 2003, \$106 million in 2004 and \$38 million in 2005.

INNOVATECH CORPORATIONS – INVESTMENTS AND RESULTS

(Millions of dollars)

	Up to 1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	Total
Government investment	253	55	72	80	99	20	579
Profits (losses)	(5)	10	(8)	(51)	(101)	(100) ^(C)	(255)

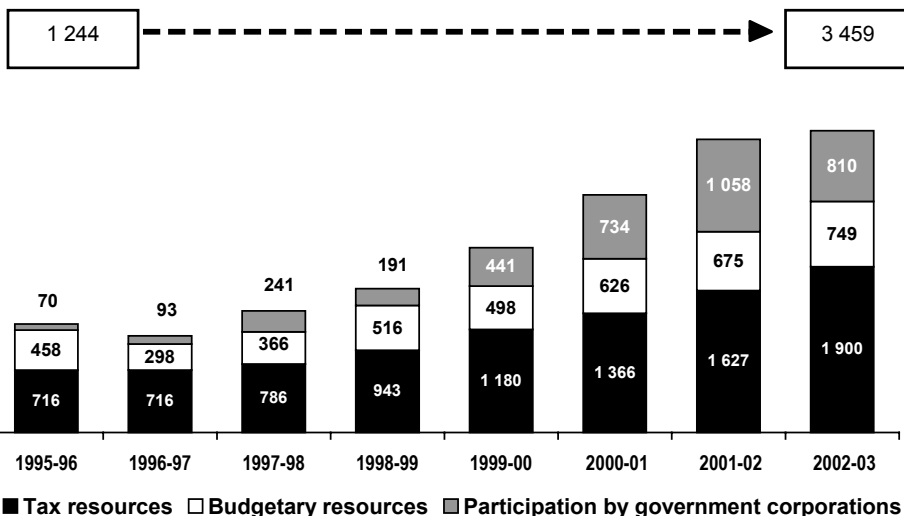
^(C) Allowance charged against results.

- SGF has lost more than half the funds the government has injected in it since 1998.
- Innovatech corporations: losses amount to almost half the government's investment.

Total assistance to businesses

ASSISTANCE TO BUSINESSES

(Millions of dollars)



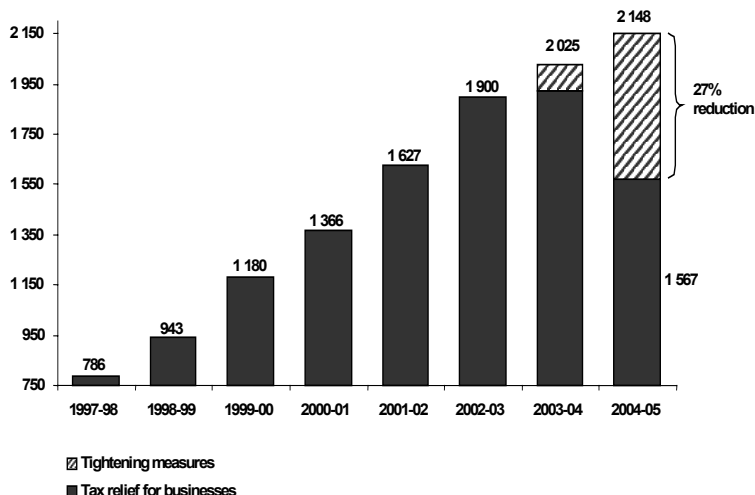
- Total assistance to businesses has risen from \$1.2 billion in 1995-1996 to \$3.5 billion in 2002-2003.
- This assistance has tripled in seven years.

Tax relief for businesses up sharply

CHANGE IN TAX RELIEF FOR BUSINESSES

1997-1998 TO 2004-2005

(Millions of dollars)



- In the last Budget Speech, significant measures tightening tax relief for businesses were introduced, amounting to a reduction of 27%.
- Tax relief for businesses continues to be examined closely.

Challenges to be met to keep the budget balanced and restore public finances to a solid footing

- Scrutinize spending in order to deliver quality public services at lower cost, while giving priority to health and education:
 - continue the review of the role of the state and its structures;
 - the government is determined to do things differently.

- Take steps to restore order to public organizations whose results could have an adverse impact on the government's financial situation:
 - ongoing examination of losses at the SGF and the Innovatech corporations;
 - new legislation to separate the insurance mission of the SAAQ from its other mandates.

- Intensify the fight against tax evasions, smuggling, money laundering, etc.
 - preparation of a vigorous plan.

- Change how the government intervenes in the economy:
 - ongoing review of the mandates of SGF and Investissement Québec;
 - examination of tax benefits to businesses.

- Correct the fiscal imbalance and ensure stable federal transfers:
 - concerted action with the other provinces;
 - crucial negotiations with the federal government on equalization and health.

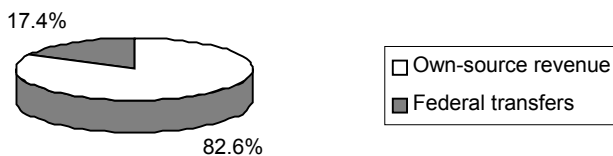
Additional Information

Revenue

The government derives 4/5 of its revenue from income tax and consumption taxes

BREAKDOWN OF BUDGETARY REVENUE IN 2003-2004

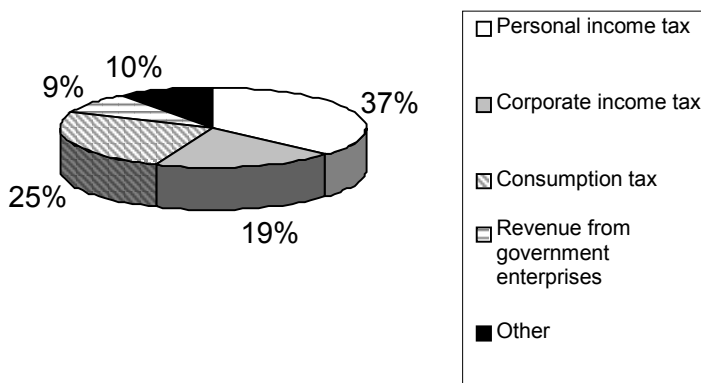
(Per cent)



Own-source revenue

BREAKDOWN OF OWN-SOURCE REVENUE BY SOURCE, 2003-2004

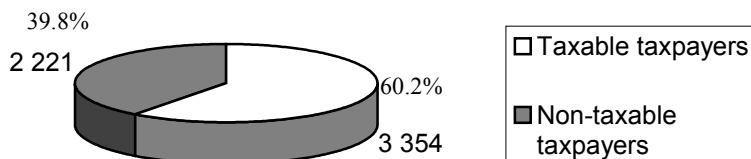
(Per cent)



Who pays income tax?

Forty per cent of Québec taxpayers pay no income tax

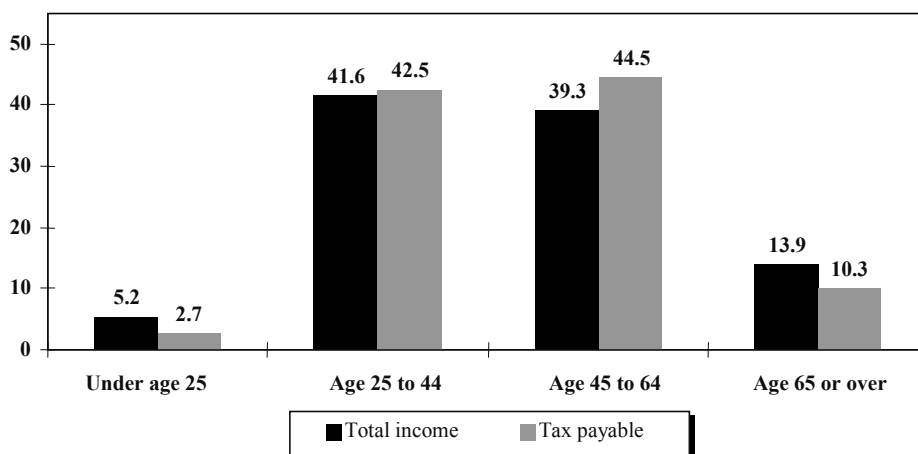
NUMBER AND PERCENTAGE OF TAXABLE AND NON-TAXABLE TAXPAYERS
(Thousands - 2001)



Tax payable is borne essentially by those age 25 to 64.

As this group declines as a proportion of the total population, this will slow the growth of tax revenue.

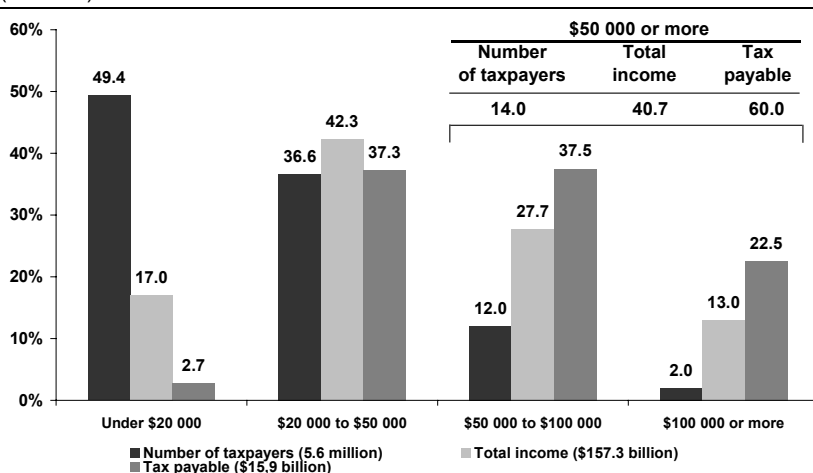
BREAKDOWN OF TOTAL INCOME AND TAX PAYABLE BY AGE GROUP - 2001
(Per cent)



A highly progressive tax system

BREAKDOWN OF TAXPAYERS, TOTAL INCOME AND TAX PAYABLE BY INCOME BRACKET- 2001

(Per cent)



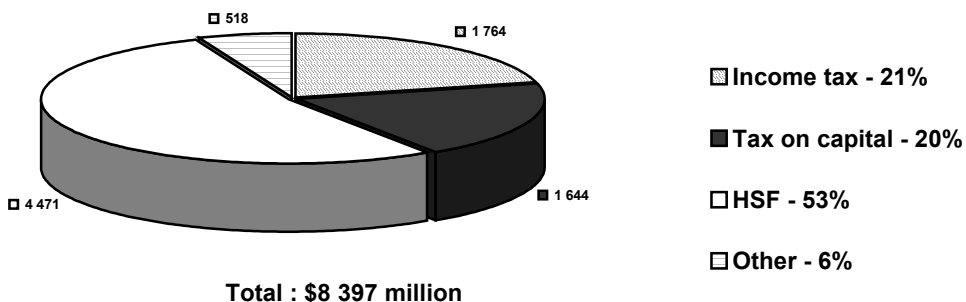
Source: Personal tax statistics – 2001.

- Taxpayers with income over \$50 000 account for 14% of all taxpayers and pay 60% of Québec income tax.
- On the other hand, taxpayers earning less than \$20 000 account for almost 50% of taxpayers and pay 2.7% of income tax.

Corporate taxation

Businesses provide \$8.4 billion or 19% of the government's own-source revenue

BREAKDOWN OF GOVERNMENT REVENUES FROM BUSINESSES - 2003-2004
(Millions of dollars)



Source: Ministère des Finances du Québec

Large corporations account for almost 60% corporate income tax

BREAKDOWN OF CORPORATE TAX - 1999 ¹

(By size of business)

	Small business ²	Medium- size business ³	Large business ⁴	Total
Number	247 014	17 074	4 191	268 279
Net profit (billions of \$)	4.7	6.0	66.6	77.3
Tax payable (millions of \$)				
- Corporate income tax	451 22.4%	389 19.3%	1 175 58.3%	2 015
- Tax on capital	314 16.8%	214 11.4%	1 343 71.8%	1 871
- Contribution to the Health Services Fund	992 28.1%	743 21.0%	1 800 50.9%	3 535
Total	1 758	1 347	4 320	7 421
- Share of corporate tax paid	23.7%	18.1%	58.2%	

¹ Source: Corporate tax statistics, taxation year 1999

² Gross income less than \$2 million (assets less than \$3 million in the manufacturing sector)

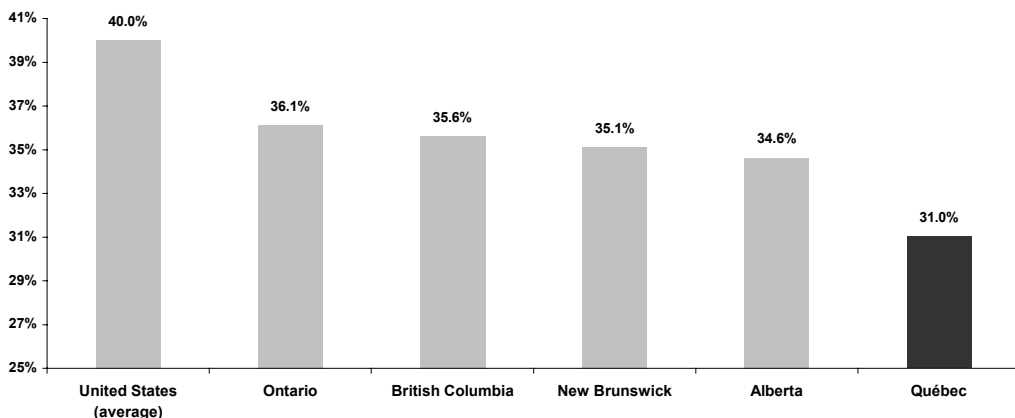
³ Gross income between \$2 and \$20 million (assets between \$3 and \$12 million in the manufacturing sector)

⁴ Gross income greater than \$20 million (assets greater than \$12 million in the manufacturing sector)

For businesses, a tax system that is competitive on the whole
A lower general tax rate compensates for fixed charges that are relatively higher

MAXIMUM RATES APPLICABLE TO ACTIVE INCOME OF CORPORATIONS

(Québec, certain provinces and average rate for the United States – as at January 1, 2004)



Sources: MFQ and KPMG

FIXED CHARGES – APPLICABLE RATES

(Québec and certain provinces – as at January 1, 2004)

	Tax on capital		Payroll tax	
	Rate	Exemption	Rate	Exemption
British Columbia	-	-	-	-
Alberta	-	-	-	-
New Brunswick	0.3%	\$5 million	-	-
Ontario	0.3%	\$5 million	1.95%	\$400 000
Québec	0.6%	\$0.6 million	2.7% to 4.26%	-

Major tax expenditures

COST OF CERTAIN TAX EXPENDITURES IN 2003¹

(Millions of dollars)

Personal income tax

Registered retirement savings plan ²	2 236
Registered pension plan ²	1 467
Tax credit for the flat amount of the simplified tax system	1 098
Tax credits for dependent children	625
Refundable tax credits for the Québec sales tax	456
Tax reduction for families	307
Exemption of the capital gain on principal residences	230
Property tax refund	235
Partial inclusion of capital gains	193
Refundable tax credit for child care	170
Tax credit for contribution to a labour fund	115
Tax credit for donations	120
Non-refundable tax credit for medical expenses	181
Lifetime \$500 000 exemption of capital gains on shares of small businesses	89

Corporate income tax

Refundable tax credits for research and development	472
Refundable tax credit for Québec film and television production	87
Refundable tax credits for E-Commerce Place	65
Refundable tax credits for processing activities in resource regions	60
Tax credit for corporations in the Cité du multimédia	48

Consumption taxes

Zero-rating of basic foodstuffs	882
Exemption of residential rent	370
Exemption in respect of individual insurance of persons	246
Zero-rating of financial services	125
Exemption of health services	102
Zero-rating of books	41

Other tax expenditures	3 753
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TOTAL	13 773
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¹ Taken from the tax expenditures account, 2003 issue, MFQ. Reflects the effect of tightening measures introduced in the 2003-2004 Budget Speech.

² Includes the deduction for contributions and the non-taxation of investment income, less the taxation of withdrawals.

Federal transfers

Declining federal transfers

SUMMARY FORECAST OF FEDERAL TRANSFERS

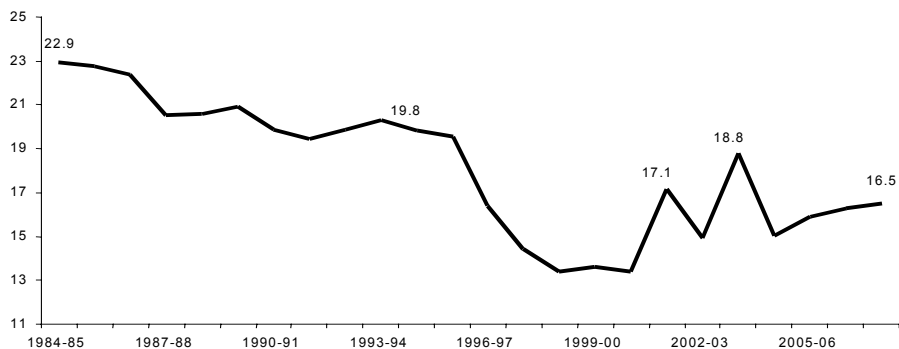
(Including consolidated organizations, millions of dollars)

	2001-2002	2002-2003	2003-2004
Total federal transfers	9 305	9 307	8 884
% change	14.2	0.0	- 4.5

The federal contribution to health funding is falling

FEDERAL CHST TRANSFERS TO QUÉBEC

(As a percentage of Québec's social spending)



Significant imbalance between the federal government and the provincial governments

REVENUE AND SPENDING GROWTH, FROM 2000-2001 TO 2019-2020

(Average annual percentage change)

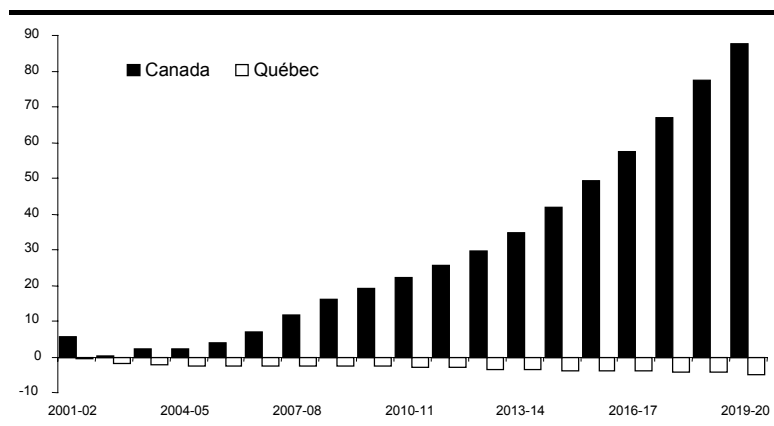
	Federal	Québec
Total revenue	3.2	3.1
Total spending	2.1	3.6
Difference in growth rate	1.1	-0.5

- The existing division of tax resources does not allow Québec to fully cover the growth in its costs.
- On the other hand, the federal government has resources that are growing faster than its needs.

The fiscal imbalance leads to surpluses for the federal government and deficits for the Québec government

BUDGETARY BALANCE OF THE FEDERAL GOVERNMENT AND THE QUÉBEC GOVERNMENT, FROM 2001-2002 TO 2019-2020

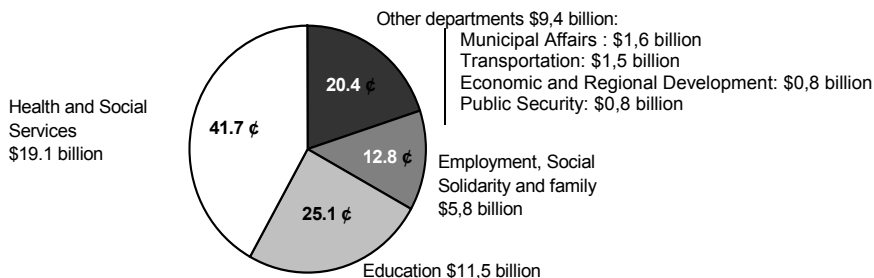
(Millions of dollars)



- To correct this fiscal imbalance, the Séguin Commission estimated that the annual shortfall for Québec was \$2.5 billion in the short term.

The government allocates almost 42 cents out of each dollar of spending to fund health services and social services

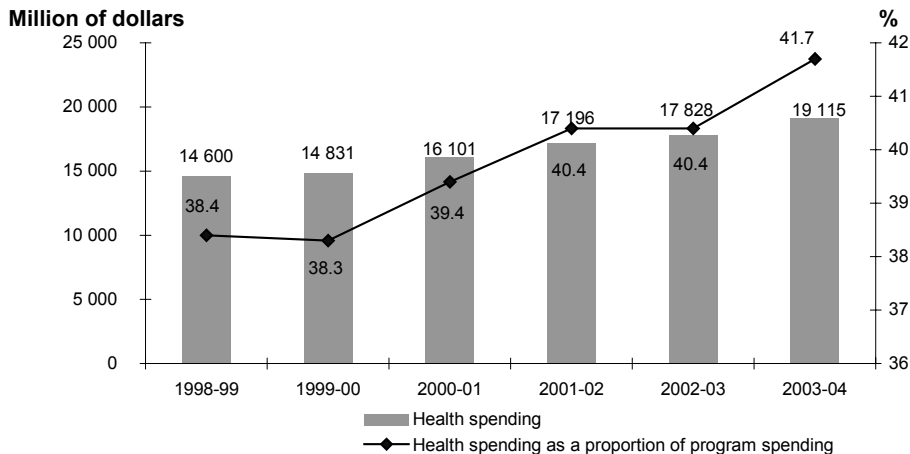
**BREAKDOWN OF A DOLLAR OF SPENDING IN 2003-2004
EXCLUDING DEBT SERVICE**



- For each dollar of spending, 80 cents is allocated to three portfolios: Health and Social Services, Education, and Employment, Social Solidarity and Family.
- The remaining 20 cents must fund the other services offered by all other ministries, including assistance to municipalities, transportation, economic development and public security.

The aging of the population is exerting growing pressure on health spending

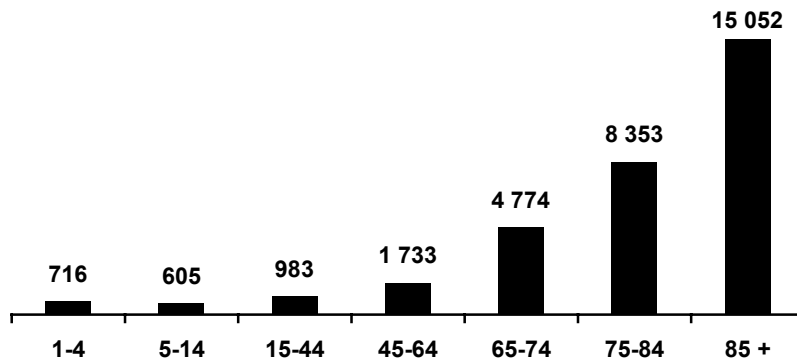
HEALTH SPENDING AND ITS SHARE OF PROGRAM SPENDING SINCE 1998-1999



Source: 2003-2004 Expenditure Budget

Per capita health spending is rising as the population ages

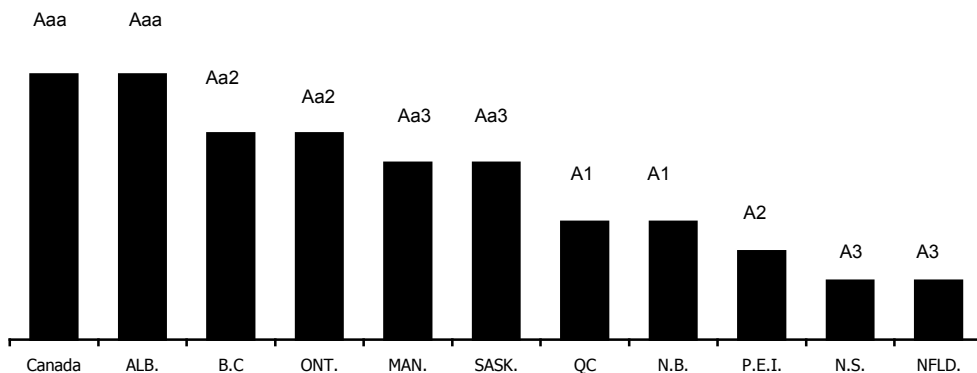
AVERAGE ANNUAL HEALTH SPENDING OF THE QUÉBEC GOVERNMENT BY AGE GROUP (2000)
(Dollars)



Debt

The debt has a major impact on Québec's credit rating

CREDIT RATINGS ASSIGNED BY MOODY'S - 2003



- Québec's credit rating is among the lowest in Canada.

MOODY'S CREDIT RATING STRUCTURE

Moody's
Aaa
Aa1
Aa2
Aa3
A1
A2
A3
Baa1
Baa2
Baa3
Ba1
Ba2
Ba3