

A MORE PROSPEROUS QUÉBEC

Budget | 2007-2008

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Introduction

Over the last four years, the Québec government has taken action to translate into reality the vision of Québec it made a commitment to implement: a modern Québec that is responsible, confident in the future and resolutely embarked on the road to prosperity.

The government has provided the conditions required for Québec to realize its full economic potential. It has taken major initiatives that will enable all Quebecers to contribute fully to the enhancement of prosperity and to reap its benefits.

A More Prosperous Québec presents the government's contribution since 2003 to prosperity. That contribution is the result of a series of actions taken to achieve the following objectives:

- Create an economic and social environment conducive to prosperity;
- Ensure the enhancement of wealth for all Quebecers;
- Support the development of dynamic businesses;
- Promote the economic growth of all regions of Québec;
- Make structuring investments and adopt an energy strategy that reconciles economic and sustainable development.

A renewed vision: providing the conditions conducive to prosperity

The government has created an economic and social environment conducive to prosperity.

- **Discipline in the management of public finances has made it possible to reduce the tax burden of individuals, create an environment favourable to investment and ensure the quality and sustainability of public services.**
- **Major investments have bolstered health and education.**
- **The Generations Fund will make it possible to reduce the debt load.**
- **The credit rating agencies have acknowledged Québec's progress in public finances.**
- **The governance of government corporations is now more transparent and accountable.**

SOUND PUBLIC FINANCES

Sound public finances make it possible to reduce the tax burden of individuals, create an environment favourable to investment and ensure the quality and sustainability of public services. They are a guarantee of stability for people and businesses, and promote economic growth.

Promising results

Concrete action

Maintaining a
balanced budget

Maintaining a balanced budget

Since April 2003, excluding exceptional losses incurred by the Société générale de financement du Québec (SGF) under the previous government and the need to fund pay equity, a balanced budget has been maintained.

Concrete action

The lowest growth
in public spending
in Canada

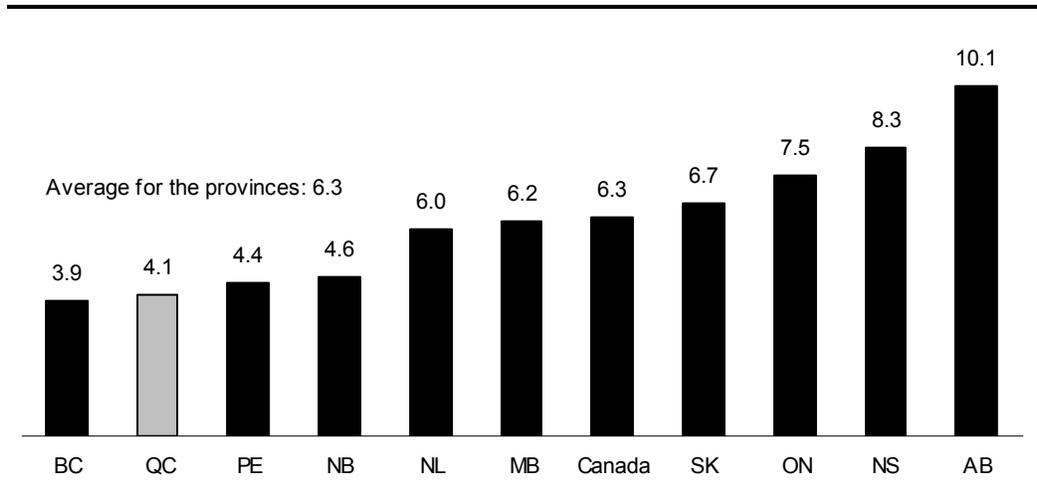
Disciplined management of public spending

A balanced budget has been maintained through disciplined management of public spending. Over the last four years, Québec has had one of the lowest rates of growth in spending in Canada.

- From 2003-2004 to 2006-2007, the average annual rate of growth in program spending in Québec was 4.1%, while the average for the Canadian provinces was 6.3%.
- Average annual growth in spending in Québec over the same period was below nominal GDP growth (4.2%).
- Even taking into consideration the major growth in investments in health and education, government spending now accounts for 18.1% of GDP, one of the lowest rates in 35 years. That level represents a reduction of 5.4 percentage points compared with the record high of 1983-1984.

CHART 1

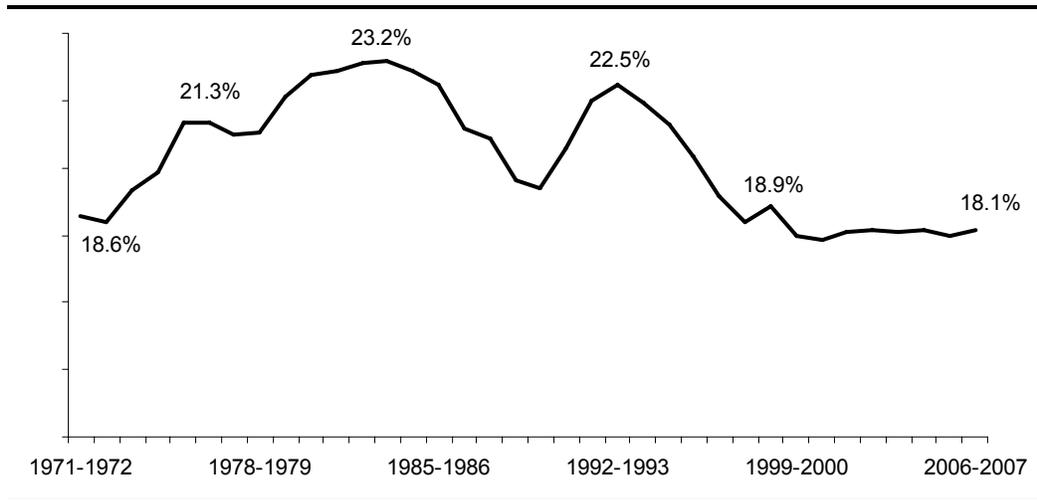
**Average annual growth in program spending
between 2003-2004 and 2006-2007**
(%)



Source: ministère des Finances du Québec.

CHART 2

Program spending
(% of GDP)



P: Preliminary results.

Source: ministère des Finances du Québec.

MAJOR INVESTMENTS IN HEALTH AND EDUCATION

When a government invests in health and education, it contributes directly to prosperity.

Promising results

Major investments in health and education

Concrete action
\$5.7 billion more for
health and \$2.2 billion
more for education

Disciplined management of public spending has particularly enabled the government to invest in the priorities of Quebecers, namely, health and education. Between 2003-2004 and 2007-2008, health spending grew annually by 5.7% and education spending, by 3.7%.

Health spending has increased by \$5.7 billion since April 2003. During that same period, education spending grew each year five times faster than during the mandate of the previous government. It increased by \$2.2 billion.

The boost in health and education spending represented about 80% of the growth in program spending between 2003-2004 and 2007-2008.

Tight management of public service staff

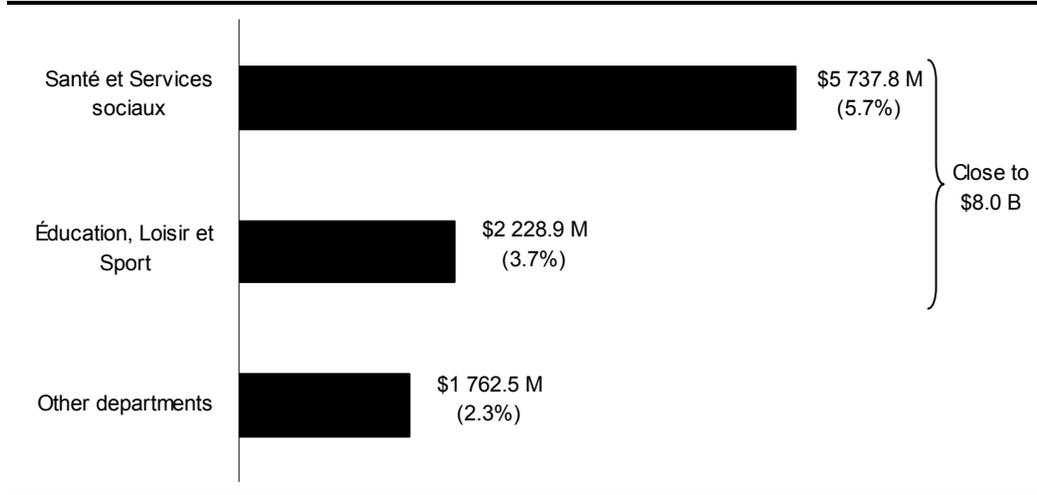
Concrete action
Operating savings of
\$1.1 billion

The government's disciplined management also depends on tight management of public service staff and on a reduction in the government's operating costs. These measures have enabled the government to save a total of \$1.1 billion from 2004-2005 to 2006-2007.

CHART 3

**Increase in program spending from 2003-2004
to 2007-2008**

(millions of dollars and average annual growth in per cent)



Source: ministère des Finances du Québec.

REDUCTION OF THE DEBT LOAD IN THE ECONOMY

Reducing the debt load means promoting equity between generations.

Promising results

The creation of the Generations Fund

Concrete action

Reduce the debt
to 25% of GDP
in 2026

It was the government's duty to put an end to a situation that has made Québec the province with the highest debt. Tackling the debt load in the economy had become imperative, particularly since the debt had been used in the past to finance the bulk of current spending. Hence, in the last budget, the Minister of Finance announced the creation of the Generations Fund.

Dedicated solely to repayment of the debt, the Generations Fund is financed through specific sources of revenue the provision of which did not result in a greater debt load for taxpayers and that made it possible to bank on a renewable natural resource with which Québec is abundantly endowed, namely, water.

The seven sources of revenue that will be exclusively dedicated to repayment of the debt are as follows:

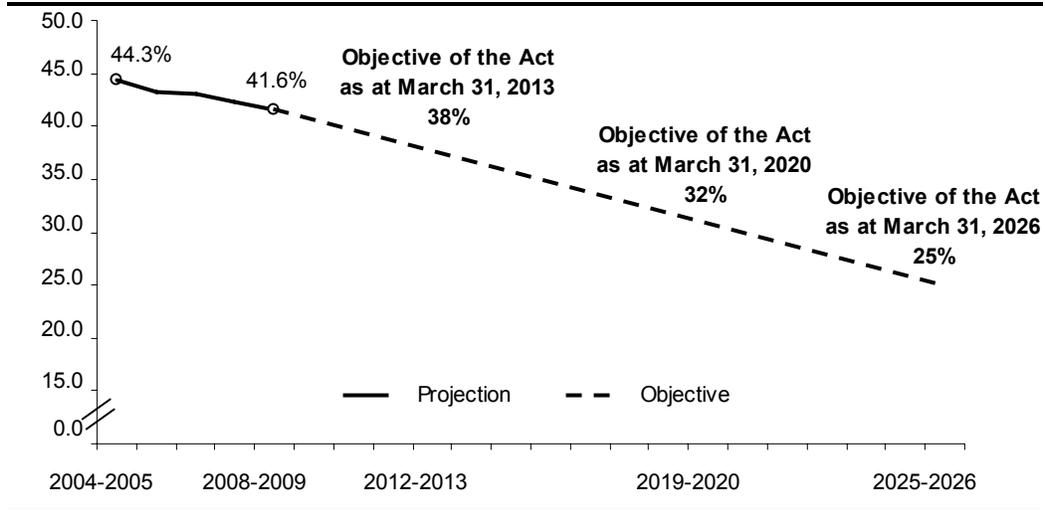
- The water power royalties that Hydro-Québec and private hydroelectricity producers will pay;
- Part of the profits that Hydro-Québec will make by selling electricity outside Québec and that will come from new production capacity;
- Royalties on harnessed water;
- The sale of assets;
- Donations, bequests and other contributions received by the Minister of Finances;
- Property unclaimed from the Public Curator;
- Revenue from the investment of the sums constituting the Fund.

With the specific revenue that now goes into and will go into the Generations Fund and the additional payment of \$500 million announced last October, made possible through the sale of Hydro-Québec's interest in Transelec Chile, the weight of the debt in the economy will be reduced to less than 25% in under 20 years. Given the amounts accumulated in the Generations Fund, the debt burden in the economic will be reduced to 41.6% in 2008-2009.

CHART 4

The Generations Fund will substantially reduce the debt load

(total debt as a percentage of GDP)



Source: ministère des Finances du Québec.

PROGRESS RECOGNIZED BY THE CREDIT RATING AGENCIES

The government's action and, in particular, the on-going efforts to maintain discipline and a balanced budget have been recognized by the credit rating agencies.

Promising results

In 2006, Moody's and DBRS raised Québec's credit rating. Moody's rating rose from A1 to Aa3 in June 2006 and from Aa3 to Aa2 last November. In the case of DBRS, Québec's credit rating increased from A to A (high) in June 2006.

The agencies' decisions were based on the following factors:

- A major improvement in the government's financial position in recent years;
- The government's commitment to keep a steady course in that regard;
- Disciplined management of spending, particularly through the settlement of the collective agreements until 2010;
- The development of a clear debt burden reduction strategy through the creation of the Generations Fund, which will reduce the debt-to-GDP ratio;
- The size and diversification of the Québec economic.

Concrete action
Discipline in the
management of public
finances

MODERNIZATION OF GOVERNANCE IN GOVERNMENT CORPORATIONS

The spotty performance of government corporations and obviously insufficient accountability of a number of them led the government to act to modernize the governance of these corporations.

In the spring of 2006, the government tabled a policy statement entitled *Modernizing the Governance of Government Corporations*, establishing new governance rules applicable to 24 government corporations.

The government's objective was to promote management that meets demanding criteria of transparency, integrity and accountability, in order to guarantee the expected performance of enterprises in the public sector.

Furthermore, again from the standpoint of modernization, the new rules provide for the achievement of parity between women and men on the boards of directors of all government corporations within five years.

Promising results

New governance rules

The purpose of the governance rules established is as follows:

- To clearly define the respective responsibilities of the board of directors and general management;
- To bolster the role of the board of directors through better rules governing its composition and operation;
- To increase government oversight and control over government corporations, without, however, violating their independence.

Gradual implementation

In December 2006, the *Act respecting the governance of state-owned enterprises* was adopted. The legislation introduces new governance rules for seven government corporations: Hydro-Québec, Investissement Québec, the Société de l'assurance automobile du Québec, the Société des alcools du Québec, the Société des loteries du Québec, the Société générale de financement du Québec and the Caisse de dépôt et placement du Québec.

By the end of 2007, legislative amendments will be made for the 17 other corporations contemplated by the policy statement, so that their governance rules comply with the statement, in keeping with the corporations' specific context.

Concrete action

Tabling of a policy statement on governance

Establishment of clear, precise rules of governance

Adoption of the *Act respecting the governance of state-owned enterprises* applicable to seven government corporations

Parity between men and women on boards of directors within five years

More wealth for all Quebecers

Quebecers enjoy greater economic prosperity thanks to a series of economic and social policies.

- Quebecers' tax burden is lower and after-tax income is higher.
- Families are supported in reconciling work and family life.
- Young people have access to better tools to ensure their success.
- The elderly receive more support in coping with the consequences of aging.
- The labour force has more incentive to work than ever.
- Wealth is better distributed and poverty is in retreat.

MAJOR RELIEF FOR TAXPAYERS

The government's recent actions amply testify to its concern with reducing the tax burden of Quebecers. Personal income tax has been gradually reduced, and the government is pursuing its commitment to reduce the tax burden of Quebecers to the Canadian average.

Promising results

A reduction in personal income tax of \$3.8 billion

Québec taxpayers have benefited from major income tax reductions since 2003.

- Income tax reductions have totalled \$3.8 billion over the last four budgets.
- All Quebecers have benefited from income tax reductions, regardless of their family situation or income.

Household purchasing power has improved

Tax measures have contributed to a substantial increase in the purchasing power of all Québec households.

- From 2003 to 2006, the personal disposable income of Quebecers has grown by an average of 4.1% every year.

The tax burden of Quebecers is approaching the Canadian average: the disparity has been reduced by around 65% since 2003

In pursuing the government's commitment to reduce the tax burden, the 2007-2008 Budget announces an income tax reduction of \$464 million, \$250 million of which is from the increase in the taxable income thresholds of the tax table. With this new tax reduction, the disparity between Quebec's tax burden and that of the other provinces will be reduced from \$2.2 billion in 2003 to \$770 million in 2008, a decline of close to 65%.

- In dollars per taxpayer, the disparity will be reduced from \$592 in 2003 to \$211 in 2008.
- From being next to the last in 2003, Québec moved up to seventh place in 2007 and will rise to sixth place among the provinces with the lowest tax burden in Canada in 2008, ahead of Newfoundland and Labrador, Prince Edward Island, Nova Scotia and Manitoba.

Concrete action
Reductions in personal income tax
2004-2005 Budget: \$1.1 billion
2005-2006 Budget: \$372 million
2006-2007 Budget: \$382 million
2007-2008 Budget: \$464 million
Indexation of the tax system from 2004 to 2008: \$1.5 billion
Total: \$3.8 billion

CHART 5

Income tax reduction of \$3.8 billion according to the type of household

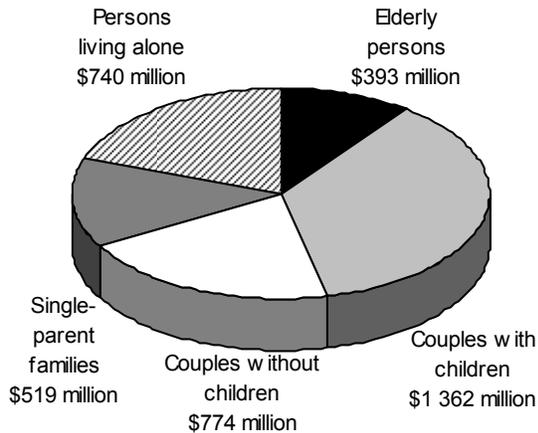


CHART 6

Income tax reduction of \$3.8 billion according to household income

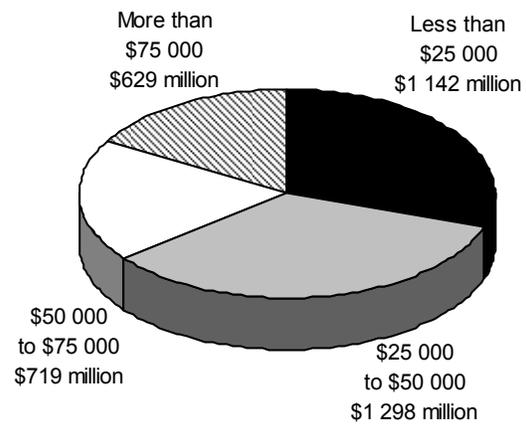


TABLE 1

Personal income tax

Difference in the tax burden between Québec and the other provinces by applying the tax structure of the other provinces to Québec¹

	2003		2008 ²	
	Millions of dollars	Dollars per taxpayer	Millions of dollars	Dollars per taxpayer
Disparity between Québec and the other provinces³				
- Alberta	4 433	1 217	3 544	971
- Ontario	5 627	1 545	3 297	903
- British Columbia	3 538	972	2 793	765
- Saskatchewan	2 234	613	1 092	299
- New Brunswick	1 526	419	503	138
- Manitoba	937	257	- 341	- 93
- Nova Scotia	689	189	- 408	- 112
- Prince Edward Island	1 099	302	- 768	- 210
- Newfoundland and Labrador	- 677	- 186	- 2 778	- 761
Disparity with the Canadian average	2 156	592	770	211

1 Including health contributions and family assistance measures (for example, family allowances and refundable tax credits).

2 Including measures in Québec's 2007-2008 Budget and those in the budgets tabled by the other provinces as at February 7, 2007.

3 The Québec tax abatement of 16.5% is subtracted from the disparity in the tax burden.

INTRODUCTION OF GENEROUS AND UNIQUE FINANCIAL SUPPORT FOR FAMILIES

Concrete action

Implementation of Child Assistance on January 1, 2005: \$2 billion a year

Introduction of the Work Premium on January 1, 2005

Implementation of the Québec Parental Insurance Plan on January 1, 2006

Addition of 36 000 reduced-contribution day care spaces since 2003: \$255 million a year

Reduced rate (\$14 a day) for school day care during spring break: \$4 million a year

Funding of community stopover centres: \$3 million a year

Improvement in the refundable tax credit for child care expenses as of 2007: \$10 million a year

Improved taxation, as of 2007, for parents whose children are pursuing post-secondary studies: \$8 million a year

To deal with the demographic challenge, Québec has introduced a forward-looking family policy. The government's action is aimed at better supporting families financially and promoting better reconciliation of work and family life. The scope of the efforts can now be gauged: Québec is the leader in Canada.

Promising results

Family assistance increased by 30% in four years

Financial support for Québec families will total over \$4.7 billion in 2007, i.e. an increase of more than 30% compared with 2003.

- Child Assistance grants \$2 billion a year to over 856 000 Québec families, i.e. \$500 millions per quarter. The assistance is universal and indexed annually.
- Approximately \$250 million a year is granted under the Work Premium to 240 000 families with children. The Work Premium is indexed annually.
- Overall, financial support for families in Québec is almost two times higher than in Ontario.

Better reconciliation of work and family life

Households now have more flexibility in reconciling work and family activities.

- Québec now has 200 000 reduced-contribution day care spaces at \$7 a day for children under 5. Moreover, 160 000 children attend school day care on a regular basis. The government contribution totals \$1.7 billion in 2007.

The Québec Parental Insurance Plan is more accessible, flexible and generous in enabling parents to care for their newborn children during their first year of life.

- In 2006, benefits totalling \$817 million were paid to some 100 000 Québec parents.

The average number of children per Québec woman has increased significantly over the last three years, from 1.49 in 2003 to 1.6 in 2006.

CHART 7

Financial support for families granted by the Québec and Ontario governments
(billions of dollars)

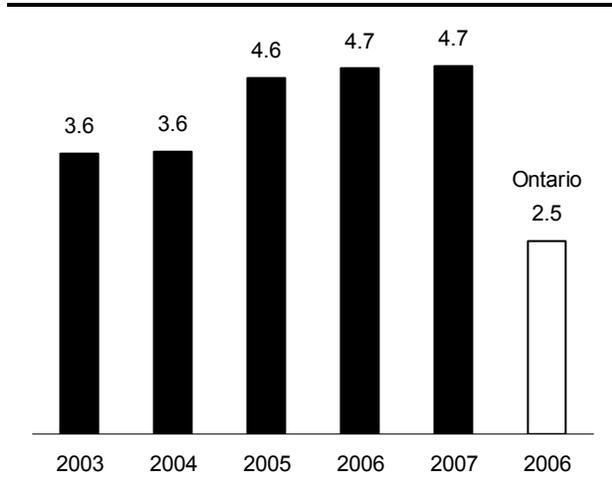
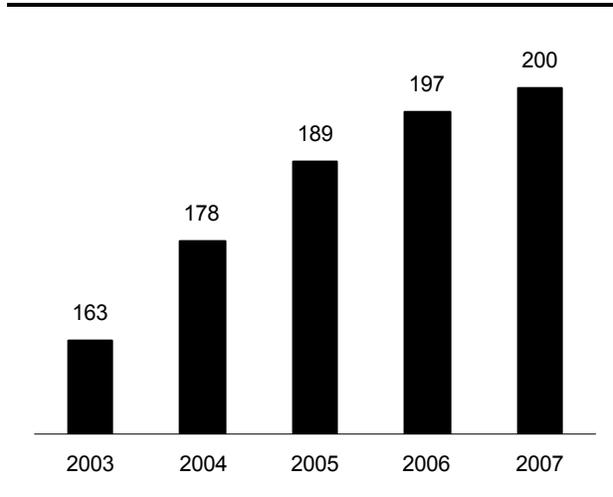


CHART 8

Number of reduced-contribution day care spaces for children under 5¹
(thousands)



1 Situation as at March 31 of each year.
Source: ministère de la Famille, des Aînés et de la Condition féminine.

INTRODUCTION OF GENEROUS AND UNIQUE FINANCIAL SUPPORT FOR FAMILILES

Promising results

More money in families' pockets

In the last four budgets, Québec families made sizable gains in the wake of income tax reductions and family support measures.

For example, the disposable income of a couple with two children and two employment incomes increased:

- By \$4 774 for a family income of \$25 000;
- By \$1 855 for a family income of \$50 000;
- By \$1 305 for a family income of \$100 000.

Assistance more generous than elsewhere

Considering the cost of day care services, Quebec families have a greater after-tax income than that of families in the other provinces.

- For example, the disposable income of a couple with two child of pre-school age and two incomes totalling \$50 000 is \$41 818 in Québec, compared with \$30 012 in Ontario, i.e. \$11 806 more.

TABLE 2

Gain for 2008 from Québec measures since the 2004-2005 Budget for a couple with two children¹ and two employment incomes

(dollars)

Employment income	Tax assistance for families			Other tax relief ³	Increase in disposable income
	Child Assistance ²	Work Premium	Sub-total		
0	1 750	—	1 750	199	1 949
15 000	1 750	2 780	4 530	269	4 799
25 000	2 224	1 780	4 004	771	4 774
35 000	920	780	1 700	1 222	2 922
45 000	710	—	710	1 229	1 939
50 000	660	—	660	1 195	1 855
75 000	570	—	570	1 711	2 281
100 000	—	—	—	1 305	1 305

Notes: Since the figures have been rounded off, the sum may not correspond to the total indicated.
Each spouse earns 50% of the income.

- 1 Children 7 and 9 years of age.
- 2 Impact of Child Assistance minus the non-refundable tax credits for children, the income tax reduction for families and family allowances.
- 3 All other tax relief announced since the 2003-2004 Budget, including the single tax system, the deduction for workers, the increase in taxable income thresholds of the tax table and the indexation of the tax system.

TABLE 3

Disposable income for a couple with two children of pre-school age and two employment incomes - Québec and other provinces - 2006

With \$7-a-day child care spaces for Québec and \$35-a-day child spaces for the other provinces

(dollars)

	Family income of \$50 000		Family income of \$75 000	
	Disposable Income	Difference in favour of Québec families	Disposable Income	Difference in favour of Québec families
- Québec	41 818	—	55 170	—
- Ontario	30 012	11 806	45 161	10 009
- Newfoundland and Labrador	27 766	14 051	43 013	12 157
- Prince Edward Island	27 949	13 869	43 635	11 535
- Nova Scotia	28 297	13 521	43 762	11 408
- New Brunswick	28 037	13 781	43 788	11 382
- Manitoba	28 969	12 848	45 255	9 915
- Saskatchewan	28 500	13 318	44 391	10 779
- Alberta	28 734	13 084	44 348	10 822
- British Columbia	27 517	14 300	44 679	10 491

Notes: Since the figures have been rounded off, the differences calculated may differ from the amounts indicated.
One spouse earns 60% of household income and the other, 40%.

NEW RESOURCES TO ENSURE THE SUCCESS OF ALL YOUNG PEOPLE

The challenges the Québec society must face compel us to adopt a perspective ensuring that future generations live in a prosperous, dynamic Québec. The government wishes to equip young people with the appropriate tools to build their own and Québec's future.

Concrete action

\$1.6 billion over three years in measures for young people including:

2006-2009 Youth Action Strategy: \$111 million

Introduction of a tax credit for new graduates working in a remote resource region: \$78 million

New tax credit education savings: \$70 million

Homework assistance: \$60 million

Increased elementary school teaching time: \$379 million

Promising results

Young people, Québec's future

The measures intended specifically for young people total \$1.6 billion for the period from 2006 to 2009. For example:

- The 2006-2009 Youth Action Strategy, including the implementation of 50 structuring youth actions in 14 different regions through the regional youth investment funds;
- The addition of 1 800 professionals to support the success of disabled students;
- Assistance for 4 000 young Québec families under the Support for Young Parents program.

In addition, Québec encourages the return of young people to the regions. These young people have made major gains over the last few budgets.

- For example, the disposable income of a young graduate with an income of \$50 000 who works in a remote resource region will increase by \$3 598 in 2008.

Accessibility to post-secondary studies has been broadened, particularly through:

- The introduction of a refundable education savings tax credit;
- The improvement of tax assistance for education in order to relieve the tax burden of parents who financially support their children pursuing post-secondary studies.

TABLE 4

Measures in place for young people – 2006-2007 to 2008-2009

(millions of dollars)

Budgetary measures in place for young people	
- Increase in teaching time in elementary school	379
- Greater support for disabled students or students with adjustment or learning difficulties	90
- Integrated perinatal and early childhood services through the Support for Young Parents component	66
- Homework assistance program	60
- Other	208
Sub-total	803
Fiscal measures	
- Tax credit for tuition or examination fees	294
- Tax credit for new graduates working in a remote resource region	78
- Tax exemptions for bursaries and awards	90
- Tax credit for on-the-job internships	82
- Tax credit for interest paid on a student loan	72
- New refundable education savings tax credit	70
Sub-total	686
2006-2009 Youth Action Strategy	
- Renew and improve the regional youth investment funds	30
- Extend and improve the Youth Entrepreneurship Challenge	17
- Assistance for 16-24 year olds with special problems	10
- Support regional youth forums	9
- Other	45
Sub-total	111
TOTAL	1 600

Sources: ministère des Finances du Québec and Secrétariat à la jeunesse.

TABLE 5

Gain for 2008 from Québec measures since the 2004-2005 Budget for new graduates working in a remote resource region

(dollars)

Employment income	Tax credit for new graduates working in a remote resource region	Other tax relief ¹	Increase in disposable income
10 000	—	520	520
20 000	751	426	1 177
30 000	2 321	659	2 980
40 000	3 000	643	3 643
50 000	3 000	598	3 598
100 000	3 000	1 023	4 023

1 All other tax relief announced since the 2003-2004 Budget, including in particular the Work Premium, the deduction for workers, the increase in taxable income thresholds of the tax table and the indexation of the tax system.

BETTER SUPPORT FOR THE ELDERLY AND THEIR INFORMAL CAREGIVERS

The Québec government has implemented a series of measures enabling the elderly to have a better income at retirement. In addition, measures have been aimed at helping the elderly remain in their living environments as long as possible with their informal caregivers.

Promising results

Concrete action

Possibility of splitting retirement income since 2007: \$106 million a year

Increase from \$1 000 to \$1 500 in the amount of the tax credit for retirement income since 2007: \$37 million a year

Improvement of the refundable tax credit for home support of an older person since 2007: \$74 million a year

Refundable tax credit for informal caregivers since 2006: \$28 million a year

New refundable tax credit for people providing respite for informal caregivers, introduced in 2007: \$10 million a year

Free medication for the elderly with low incomes: \$13 million a year

More comprehensive financial assistance for the elderly

Close to 370 000 retired couples will benefit from an average income tax reduction of \$286 through retirement income splitting that enables one spouse to transfer up to 50% of retirement income to the other spouse.

More than 356 000 people will benefit from the increase from \$1 000 to \$1 500 in the amount of the tax credit for retirement income, corresponding to a reduction in income tax of up to \$200 for a couple in 2007.

Since July 2005, more than 45 000 elderly people have been entitled to free medication and that number will increase to 74 000 in July 2007.

Promote home support of the elderly with the assistance of their informal caregivers

The government has introduced measures to help the elderly remain in their living environments as long as possible.

- 180 000 more elderly people have access to the refundable tax credit for home support, for a total of 290 000 in 2007. These people can benefit from an amount of up to \$3 750;
- 76 000 informal caregivers avail themselves of a refundable tax credit of up to \$1 020 in 2007;
- 10 000 volunteers will provide respite in 2007 for informal caregivers of a person with a disability.

Greater financial support for the elderly

Between 2003 and 2008, the fiscal measures for the elderly will increase from \$303 million to \$661 million, a boost of over 100%.

TABLE 6

Tax measures for the elderly and informal caregivers since 2003
(millions of dollars)

	2003	2004	2005	2006	2007	2008
Measures for the elderly						
- Refundable tax credit for home support of an elderly person	60	78	94	107	194	203
- Splitting of retirement income	-	-	-	-	106	107
- Tax credit for retirement income	58	59	60	61	99	100
- Age-related tax credit	137	140	142	145	147	149
- Non-taxation of the guaranteed income supplement or the spouse's allowance	32	34	36	37	39	41
Measures for informal caregivers						
- Refundable tax credit for informal caregivers ¹	16	16	16	49	50	51
- Refundable tax credit for people providing respite to informal caregivers	-	-	-	-	5	10
TOTAL	303	327	348	399	640	661

1 Including the refundable tax credit for housing a parent before 2006.

TABLE 7

Gain¹ for 2008 from Québec measures since the 2004-2005 Budget for an elderly couple 70 years of age or older with a single retirement income²
(dollars)

Retirement income	Tax assistance for the elderly			Sub-total	Other tax relief ³	Increase in disposable income
	Improvement of the tax credit for home support	Splitting of retirement income	Increase in the tax credit for retirement income			
Home support expenses of \$5000, \$1000 of which is for nursing care						
- 30 000	330	574	200	1 104	648	1 752
- 50 000	330	786	200	1 316	888	2 204
- 70 000	330	1 674	-	2 004	998	3 002
Home support expenses of \$15 000						
- 30 000	990	574	200	1 764	648	2 412
- 50 000	990	786	200	1 976	888	2 864
- 70 000	990	1 674	-	2 664	998	3 662

1 After federal pension income splitting.

2 Excluding retirement pensions under the Québec Pension Plan, which can already be split.

3 All other tax relief announced since the 2003-2004 Budget, including in particular the single tax system, the increase in taxable income thresholds of the tax table and the indexation of the tax system.

A LABOUR FORCE WITH MORE INCENTIVE TO WORK THAN EVER

Access to and participation in the labour market contribute not only to the realization of an individual's potential and to a higher standard of living but also to the enhancement of collective wealth. The purpose of the measures implemented by the government is to increase participation in the labour market and make use of the full potential of each individual of working age.

Promising results

Concrete action

Implementation of the Work Premium on January 1, 2005: \$330 million a year

Introduction of a deduction for workers of \$500 on January 1, 2006, increased to \$1 000 on January 1, 2007: \$588 million a year

Increase in the minimum wage from \$7.30 an hour in 2003 to \$8.00 an hour on May 1, 2007

Commitment to encourage phased retirement

A personal income tax system that provides more incentive to work

The government will devote more than \$900 million in 2007 solely to the Work Premium and the deduction for workers. In 2007:

- More than 540 000 working households will benefit from the Work Premium, which can total \$2 846 for a family;
- 3.2 million workers will benefit from the deduction for workers, which can total \$480 for a working couple;
- These two measures are particularly advantageous for low-income workers: they create a substantial incentive to enter and remain in the labour force.

As regards older workers, the government is prepared to ease the retirement plan taxation and regulatory provisions in order to encourage people to extend their time in the labour force.

- Québec is in discussions with the federal government with a view to establishing new rules, which could mean that, four times out of ten, a worker will choose to stay in the labour force for another year rather than retire immediately at 60 years of age.

Progression of minimum employment income

In addition, to increase the incentive to work, the government ensures that workers have minimum acceptable conditions.

- The minimum wage was increased from \$7.30 an hour in 2003 to \$7.75 on May 1, 2006. On May 1, 2007, it will rise to \$8.00. Québec will then be in the front ranks of the Canadian provinces, with a minimum wage equal to that of Ontario, Manitoba and British Columbia.

Given the increase in the minimum wage, the Work Premium and Child Assistance, the disposable income of a couple with two children, one spouse of which is paid the minimum wage, will have increased by 34% between 2003 and 2008, i.e. by \$7 375.

TABLE 8

Gain for 2008 from Québec measures since the 2004-2005 Budget for a working couple with two children and two employment incomes
(dollars)

Family Income	Tax assistance for workers			Other tax relief ¹	Increase in disposable income
	Work Premium	Deduction for workers	Sub-total		
10 000	1 600	—	1 600	1 949	3 549
15 000	2 850	—	2 850	1 949	4 799
20 000	2 502	—	2 502	1 949	4 451
25 000	2 032	—	2 032	2 743	4 774
30 000	1 554	275	1 829	2 305	4 134
40 000	578	314	891	1 372	2 263
50 000	—	320	320	1 651	1 971
75 000	—	360	360	1 719	2 079
100 000	—	400	400	1 174	1 574

Note: One spouse earns 60% of household income and the other, 40%.
Includes the Québec tax measures only.

- 1 All other tax relief announced since the 2003-2004 Budget, including the single tax system, Child Assistance, the increase in taxable income thresholds of the tax table and the indexation of the tax system.

TABLE 9

Change in the personal disposable income of a family working at the minimum wage¹ – 2003 and 2008

(dollars)

	Single-parent family with one child ²	Couple with two children ³ and one income
2008	25 724	29 374
2003	20 238	21 999
Difference	5 486	7 375
Change	27%	34%

1 Income equal to 1 950 hours at \$7.30 an hour in 2003 and \$8.00 an hour in 2008.

2 Child 5 years of age.

3 Children 7 and 9 years of age.

BETTER SHARING OF WEALTH

Concrete action

Plan of action to combat poverty and social exclusion:
\$3 billion over five years including:

Annual indexation of employment assistance benefits:
\$465 million

\$100 a month exemption of support income in the calculation of benefits:
\$46 million

Introduction of a minimum threshold for employment assistance:
\$35 million

Free medication for about 250 000 recipients without severely limited capacity for employment:
\$65 million

Commitment to build 20 000 social housing units for 2009:
\$446 million

Renewal of emergency rent supplements:
\$56 million

Adaptation of 6 010 dwellings for disabled people:
\$39 million

Improvement in the legal aid thresholds:
\$47 million

The well-being of all Quebecers can increase only if the greatest possible number of people contributes to the enhancement of wealth and wealth is shared with the least advantaged. This commitment has been substantiated in a package of structuring measures that contribute and will continue to contribute to improving the fate of those most in need.

Promising results

Poverty at a historically low level

The decline in poverty has been unprecedented in Québec.

- Between 2003 and 2006, the number of employment assistance beneficiaries dropped by more than 52 000.
- The number of people living below the low-income cutoff decreased from 1.4 million in 1997 to 831 000 in 2004 (a reduction of 40%).
- The proportion of people living below the low-income cutoff declined from 19.3% in 1997 to 11.2% in 2004, the lowest proportion recorded in Québec since data have existed (1980).
- For the first time, the proportion of people living below the low-income cutoff is equal to that for Canada as a whole.

Measures that substantially increase the disposable income of people with low incomes

People receiving employment assistance benefits have a disposable income of:

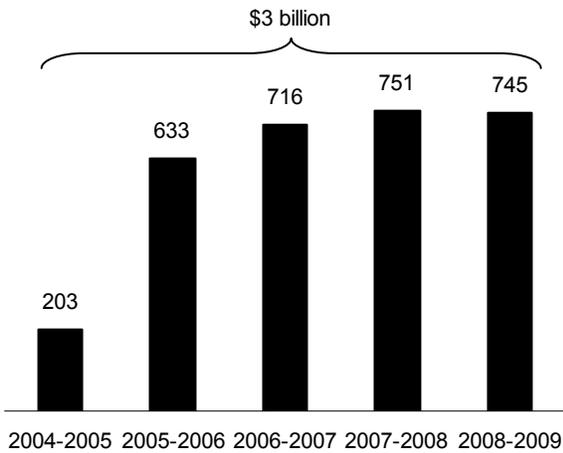
- \$16 169 for a single-parent family with one child, an increase of \$3 060, or 23%, since 2003;
- \$22 078 for a couple with two children, an increase of \$3 979, or 22%, since 2003.

Unprecedented additional investments

The government's action plan to combat poverty and social exclusion has brought an improvement in the financial support for low-income households. For the period from 2004-2005 to 2008-2009, a total of \$3 billion will have been invested over five years.

CHART 9

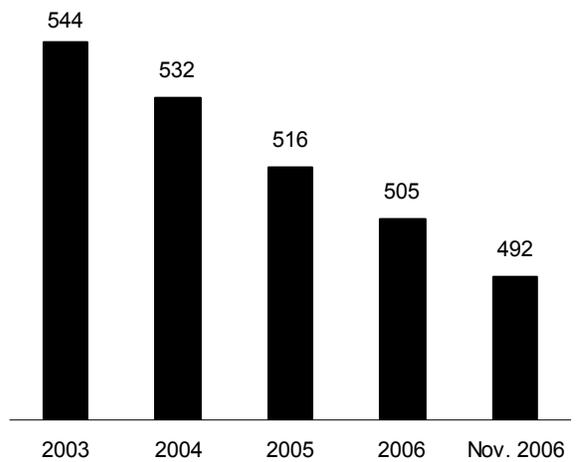
Investments in the action plan to combat poverty and social exclusion
(millions of dollars)



Sources: ministère des Finances and ministère de l'Emploi et de la Solidarité sociale.

CHART 10

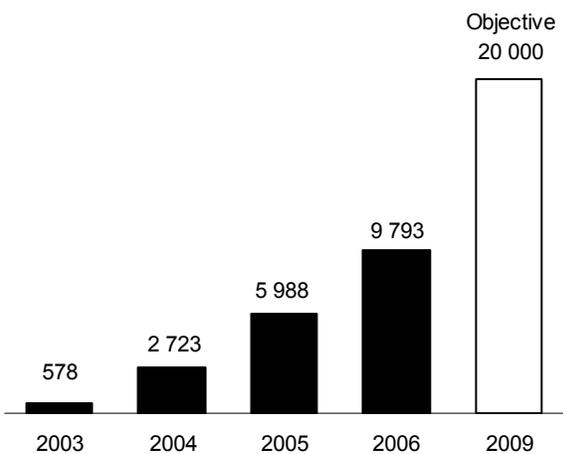
Change in the number of employment assistance beneficiaries¹
(thousands)



1. Number of beneficiaries for the months of April 2003 to 2006 and the number of beneficiaries for the month of November 2006.
Source: ministère de l'Emploi et de la Solidarité sociale.

CHART 11

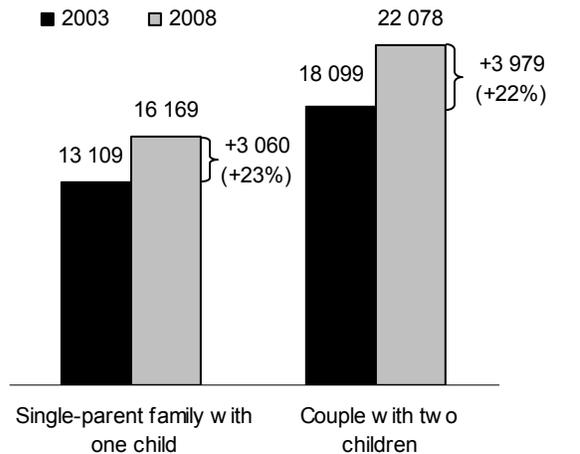
Cumulative number of social housing units delivered as at December 31 of each year
(housing units)



Source: Société d'habitation du Québec.

CHART 12

Change in the personal disposable income of a family with no employment income — 2003 and 2008
(dollars)



1. Child 5 years of age.
2. Children 7 and 9 years of age.

Dynamic businesses

Businesses that invest become more productive and play a greater role in the enhancement of prosperity.

- The cost of investing in Québec has never been so low.
- Major investments have been made to remain at the forefront of technological progress.
- Rewarding partnerships have been established with the private sector to bolster investment.
- The financial sector is performing better.

THE COST OF INVESTING IN QUÉBEC HAS NEVER BEEN SO LOW

The government has acted to encourage businesses to invest. Taxation and regulation have been eased in order to motivate businesses to pursue their development in Québec. The cost of investing in Québec has never been so low, particularly for SMEs.

Promising results

Concrete action

Reduction in the SME
tax rate to 8%

Capital tax reduction
from 0.6% to 0.29%
by 2009

Introduction of the
capital tax credit for
new investments
until 2012:

— 10% for new
manufacturing
investments

— 15% for the forest
sector

Increase in the capital
tax exemption
threshold from
\$250 000 to \$1 million

Easing of constraints
related to manpower
training

Improvement in the tax
treatment of dividends

Reduction
in the tax rate for
corporate investment
income

New investments are no longer taxed

Three main measures contribute to removing the tax from new investments in Québec or reducing their cost:

- The elimination of the tax on capital for 210 000 SMEs, i.e. 75% of businesses;
- The reduction of over 50% in the capital tax rate;
- The application, until 2012, of the 10% capital tax credit for new manufacturing investments and the 15% capital tax credit for the forest sector.

For SMEs: a tax rate reduced to 8%

This measure benefits 100 000 businesses and enables them to better contribute to Québec's economic vitality.

Easing of the regulations for SMEs

Among other things, 26 000 businesses are now exempt from the regulatory constraints related to the financing and administration of a manpower training plan.

More than \$825 million in reductions of the tax burden of businesses

Tax relief gives businesses leeway conducive to investment. In all, the government has granted more than \$825 million in reductions of the tax burden of businesses, which they can reinvest in their development. Our businesses can thus remain competitive in a context of accelerated globalization.

TABLE 10

Reduction of the corporate tax burden — 2011-2012

(millions of dollars)

	Amount
Measures to reduce the tax on capital	
- Elimination of the tax on capital for 210 000 SMEs	- 146
- Reduction of over 50% in the tax on capital	- 1 001
- Capital tax credit	- 206
- Deduction of \$5 million for agricultural and fishing corporations	- 6
Sub-total	- 1 359
Measures concerning corporate income tax	
- Increase in the tax rate for large corporations	635
- Reduction to 8% in the rate for SMEs	- 82
- Improvement in capital cost allowance rates	- 20
Sub-total	533
TOTAL	- 826

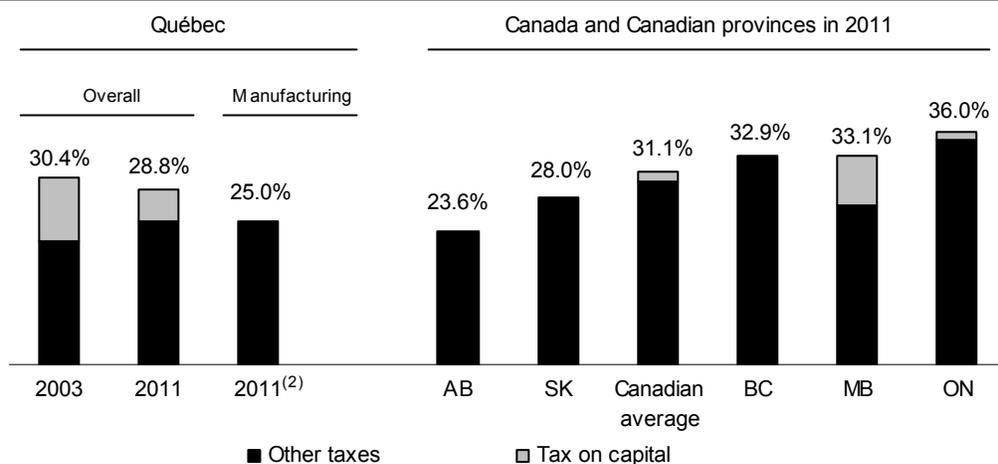
Thanks to the action of the government in recent years, the competitiveness and effectiveness of the tax system as regards investment will continue to improve.

With these capital tax reduction measures, Québec will henceforth be in an advantageous position in Canada in terms of the weight of taxation on each dollar invested, as measured by the marginal effect tax rate on investment. In 2011, for a manufacturing investment project eligible for the capital tax credit in Québec, Québec's tax rate on investment (25%) will be comparable to that of Alberta (23.6%).

CHART 13

Comparison of marginal effective tax rates (METRs)¹ on investment in Canada – Main Canadian provinces

(percentage)



1 METRs are aggregate indicators of the impact of the tax system on new investments. They represent the effect of all tax charges and rules affecting the return on capital invested.

2 Manufacturing investment project eligible for the capital tax credit.

Sources: Finance Canada and ministère des Finances du Québec.

MAJOR INVESTMENTS IN ORDER TO REMAIN AT THE FOREFRONT OF TECHNOLOGICAL PROGRESS

Substantial means have been established to translate research results into economic spillovers and job creation.

These efforts have enabled Québec to remain at the forefront of technological progress and to consolidate its high technology sectors, such as aerospace, information and communication technologies and biotechnologies.

Promising results

Greater commercialization of the results of research and innovation

In the framework of the *Québec Research and Innovation Strategy*, the government will inject \$888 million to increase the commercialization of research results:

- \$640 million to strengthen the excellence of public research, \$408 million of which for top-level infrastructures;
- \$148 million to better support industrial research and business innovation;
- \$100 million to supplement and strengthen mechanisms for the development of R&D and its transfer to businesses.

With the budgetary measures totalling \$278 million in the 2006-2007 Budget Speech, the additional support for research and innovation will reach about \$1.2 billion by 2010.

More businesses have access to improved tax credits for R&D and design

The asset threshold giving entitlement to the improved R&D and design tax credit rates has increased from \$25 million to \$50 million. Close to 350 businesses active in R&D and design will benefit from much more generous tax credits to support these strategic activities.

Concrete action

QUÉBEC RESEARCH AND INNOVATION STRATEGY

Public research

Support for public research infrastructures

Support for the development of strategic technologies

Industrial research and business innovation

More businesses eligible for the improved rates of the R&D and design tax credits

Support for the establishment and growth of private R&D activities in Québec

Development and transfer

Greater financial support for technology maturation and more seed funding for technology companies

Bolstering of industrial research, liaison and transfer support organizations

R&D expenditures will total 3% of GDP by 2010

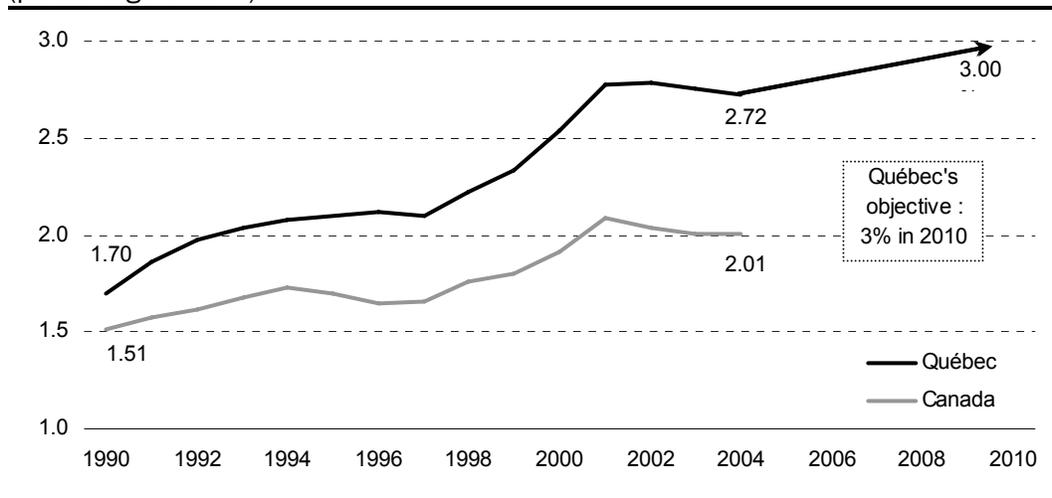
Already at the forefront in terms of R&D in Canada, Québec is mobilizing all economic players so that R&D expenditures rise from 2.72% to 3% of GDP by 2010.

- The increase in R&D expenditures will bring more investments to Québec and will lead to greater commercialization of the results of public research.

CHART 14

Gross domestic expenditures on R&D - 1990-2010

(percentage of GDP)



Source: Institut de la statistique du Québec.

REWARDING PARTNERSHIPS WITH THE PRIVATE SECTOR IN SUPPORTING INVESTMENT

Venture capital investors play a vital role in the financing of start-up firms or in helping existing businesses realize their full development potential. To complement the role of investors, the government's capital contribution is now conditional on the participation of the private sector.

Promising results

Concrete action

Introduction of FIER investment funds

Privatization of the Société Innovatech du Grand Montréal

Conversion of the Société Innovatech Régions resources into a mixed public-private capital corporation

New categories of investment for tax-advantaged funds:

— Local and foreign funds

— FIER Partenaires

Repositioning of the activities of the Société générale de financement du Québec with a self-financing objective

New strategic investment support program (PASI)

New investment strategy of the Caisse de dépôt et placement du Québec

Introduction of the SME Growth Stock Plan

A winning combination with the private sector

Through FIER, the government will bring together, in partnership with the private sector, investment capital of over \$1 billion to be placed at the disposal of businesses in every region. The private sector will participate at the rate of some 70%.

- With the financial support of the business community in each of the 17 administrative regions, the introduction of FIER-Régions and FONDS-SOUTIEN will provide for investments in businesses of \$342 million throughout Québec.
- In partnership with the tax-advantaged funds, the introduction of FIER Partenaires will generate about \$800 million for the creation of investment funds and the financing of structuring projects. Six investment funds have already been created, including Go Capital and CTI Sciences de la vie.

In addition, the Société Innovatech Régions resources was converted into a mixed public-private venture capital company. Since then, Desjardins Capital régional et coopératif has invested \$50 million in the new company in order to fund projects in the regions.

More partnerships with private and foreign investors

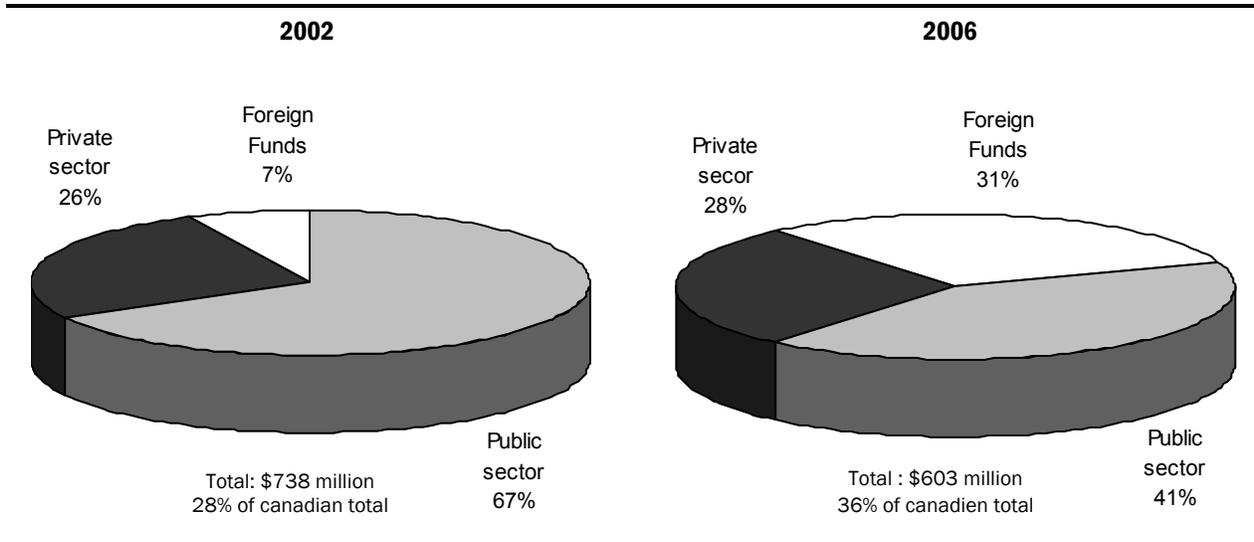
Since 2002, foreign venture capital investments have grown by 250% in Québec to total \$185 million in 2006. Québec has now reached the Canadian average. A total of 31% of the venture capital in Québec is from foreign funds.

- More than 15 new private and foreign investment funds recently entered Québec. For example, the sale of the portfolio of the Société Innovatech du Grand Montréal to Collier Capital of London had led to the creation of the Multiple Capital fund and the injection of \$200 million in Québec industry.

The new government approach to venture capital has enabled the Québec industry to experience very dynamic growth. In 2006, private and foreign investors took the public sector's place as the principal venture capital investors in Québec with roughly 60% of the sums invested.

CHART 15

Venture capital investments – according to source of funds
(percentage)



Note: The percentages have been rounded off. The public sector category includes government funds, tax-advantaged funds and institutional funds.

Sources: Thomson Financial and ministère des Finances du Québec.

REWARDING PARTNERSHIPS WITH THE PRIVATE SECTOR IN SUPPORTING INVESTMENT

Promising results

\$316 million in regional funds for the financing of business projects

The enthusiasm of regional investors for FIER had made it possible to create 40 regional funds with an aggregate capitalization of \$316 million in order to support the start-up and growth of firms. Two-thirds of the capitalization is intended for firms in regions outside the main urban centres.

TABLE 11

FIER — Regional funds accredited or closed as at February 7, 2007
(number and millions of dollars)

	Number of funds	Government participation	Capitalization
1. Regions			
Bas-Saint-Laurent	2	5.3	8.0
Saguenay–Lac-Saint-Jean	3	22.0	33.0
Mauricie	2	5.3	8.0
Estrie	4	25.3	38.0
Outaouais	2	12.0	18.0
Abitibi-Témiscamingue	2	5.3	8.0
Côte-Nord	2	8.0	12.0
Nord-du-Québec	2	4.0	6.0
Gaspésie–Îles-de-la-Madeleine	2	10.0	15.0
Chaudière-Appalaches	3	16.6	24.9
Lanaudière	1	3.3	5.0
Laurentides	1	8.0	12.0
Montérégie (except Longueuil)	4	13.1	19.7
Centre-du-Québec	1	6.0	9.0
Sub-total	31	144.2	216.6
2. Urban centres			
Québec capital	3	22.0	33.0
Montréal	2	20.0	30.0
Laval	2	12.0	18.0
Longueuil	2	12.0	18.0
Sub-total	9	66.0	99.0
TOTAL	40	210.2	315.6

Note: The amounts have been rounded off. The data include FIER-Régions and FONDS-SOUTIEN funds, and exclude the FIER Partenaires component.

Sources: Investissement Québec and ministère des Finances du Québec.

A FINANCIAL SECTOR THAT IS PERFORMING BETTER

In recent years, the government has encouraged the implementation of an effective financial system that inspires confidence in investors and businesses. That is an essential element for the creation and preservation of prosperity.

Promising results

The Caisse de dépôt et placement du Québec: depositor return above all

The mission of the Caisse de dépôt et placement du Québec has been overhauled. The return for depositors is now the priority of the institution, while it contributes to the economic development of Québec.

The securities passport initiative

The passport system is an illustration of effective interprovincial collaboration. It facilitates access by businesses to the capital markets of participating provinces, while maintaining the best level of protection for investors. The provinces have harmonized their regulations in that regard. Québec, like the other jurisdictions, has, in particular, adopted rules to improve oversight of investment funds and their management.

Concrete action

Reform of the governance of the Caisse de dépôt et placement du Québec

Adoption of provisions to ensure better oversight of investment funds and their management

Better securities oversight: Passport system based on collaboration between the provinces in keeping with Québec's jurisdictions

Introduction of a tax credit for the hiring of young employees specialized in derivatives

The success of the Bourse de Montréal and support for the financial sector

The government has supported the strategy of specialization of the Bourse de Montréal in the derivatives niche, which has experienced exceptional growth. It is a significant partner in this field on a North American scale.

The government continues to support to development of cutting-edge expertise in the financial field.

- A new 20% tax credit for the salaries paid to employees specialized in derivatives was introduced.

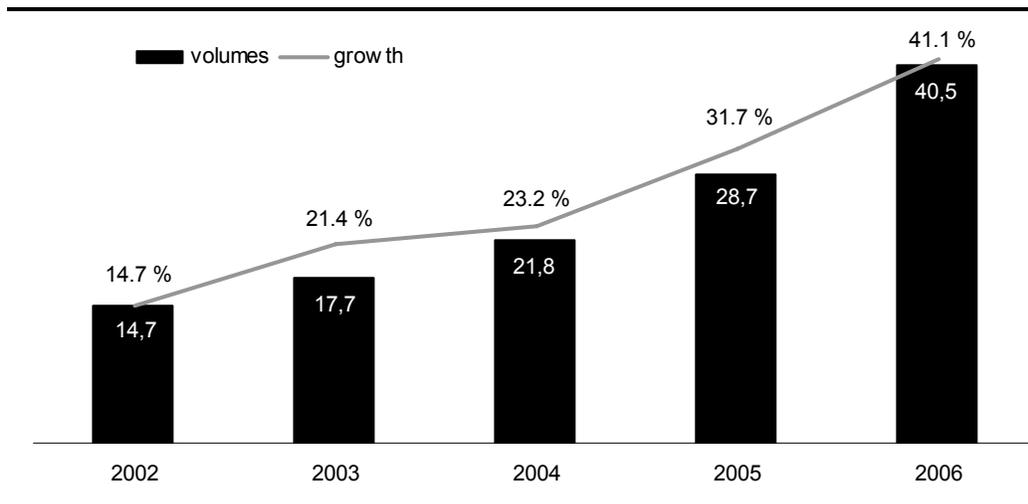
Lastly, new strategic alliances consolidate the development of the activities of the Bourse de Montréal and confirm its status as a leader in the derivatives market in Canada:

- With the New York Mercantile Exchange Inc., which acquired a strategic interest in the Bourse de Montréal, an alliance that provides for the creation of a new Canadian energy derivative corporation;
- With the Chicago Climate Exchange to order to create a Canadian greenhouse gas emission trading system.

CHART 16

Bourse de Montréal

(millions of contracts traded and percentage increase)



Source: ministère des Finances du Québec.

Economic growth throughout Québec

Prosperity must benefit all cities, towns and regions of Québec.

- **Regional autonomy: the foundation of the development of the regions.**
- **The *Strategy for the Development of Every Region*: greater resources and more autonomy.**
- **Responsible management ensuring the sustainability of the forest.**
- **The recovery of the agricultural sector.**

AUTONOMY: THE FOUNDATION OF THE DEVELOPMENT OF THE REGIONS

Since 2003, the government has made the autonomy of every region the central focus of its regional development strategy. It has taken action with a view to ensuring better governance and providing the regions with better adapted economic development tools. It has taken action from two standpoints:

- The transfer of powers and responsibilities to the regions and the granting of the resources to exercise them;
- Access to the economic instruments required for the development of the regions.

Promising results

Greater resources for the regions to exercise their powers and responsibilities

Since 2003, the government has taken concrete action to foster the autonomy of the regions, particularly by:

- The creation and funding of the regional conferences of elected officers (CREs);
- The transfer to the regional county municipalities (RCMs) of responsibility for local development centres (CLDs);
- The agreement on a new fiscal and financial partnership with the municipalities;
- The announcement of the new *National Policy on Rurality*;
- The regionalization of government services and their adaptation to the socioeconomic realities of the regions.

The improvement of economic intervention for the benefit of the regions

In recent years, the government has implemented new initiatives for the economic development of the regions:

- With improvement of the financing of businesses;
- With support for young people and the development of a culture of entrepreneurship;
- With support for the diversification of regions and territories with particular needs.

Powers and responsibilities

The regional conferences of elected officers (CREs) as focal points of regional development decision-making

In creating the CREs, the government enshrined the principle that those at the grassroots are more able to make decisions that stimulate the development of their region.

Resources available and managed locally for the economy, entrepreneurship and employment

The government has transferred to the regional county municipalities (RCMs) responsibility for the local development centres (CLDs). In addition, it has improved the loan envelope for the capitalization of local investment funds (FLIs) for the benefit of businesses, by increasing it to \$171 million.

\$3.8 billion more to enable municipalities to provide better services

The agreement on the new partnership with the municipalities for the period 2007-2013 is the most advantageous ever concluded with the municipal world by the Québec government. Under the agreement, the municipalities are given the financial means to provide their populations with quality public services, while keeping citizens' tax burden as low as possible. The cities of Montréal and Québec will receive \$898.9 million and \$282.6 million, respectively, under the agreement.

\$280 million for the National Policy on Rurality

The *National Policy on Rurality* for the period 2007-2014 earmarks \$213 million for the renewal of rural pacts with the RCMs and \$67 million for different initiatives to encourage the sustainable development of rural communities, including the creation of the Fonds d'initiatives pour l'avenir rural.

Regionalized government services

With a view to efficiency and to ensuring greater leeway for regional stakeholders, the government has chosen to locate services in various regions in order to ensure that decision-making is brought closer to the milieux concerned or to contribute to the vitality of the regions.

Economic instruments

\$316 million for the financing of business projects in the regions

With FIER-Régions and FONDS-SOUTIEN, the government is supporting, in partnership, business initiatives and projects throughout Québec's regions. Private partners have responded favourably to the invitation by creating 40 funds with \$316 million in capitalization to support the start-up and growth of firms in the regions.

Facilitating the return to the regions of new graduates

To support the peripheral regions and motivate young graduates to settle there, a tax credit of up to \$8 000 has been introduced for new graduates working in remote resource regions. To date, more than 32 000 new graduates have taken advantage of the tax measure. In 2005, \$61 million was devoted to it.

Support for single-industry cities and towns experiencing difficulties

The government has provided financial assistance of \$75 million to financially support the action and recover plans designed by municipalities experiencing economic difficulties and the municipalities' diversification efforts. To date, 20 diversification and development projects have been signed with an equal number of RCMs.

THE STRATEGY FOR THE DEVELOPMENT OF EVERY REGION: GREATER RESOURCES AND MORE AUTONOMY

Each Québec region has assets that must be developed. Through the new *Strategy for the Development of Every Region*, the government gives the regions more powers and resources to develop and contribute directly to Québec's prosperity. The government is earmarking \$825 million over the next five years for the regions. In addition, \$333 million will be devoted to the *Contaminated Site Restoration Plan*.

Promising results

Additional resources under the regions' authority

An additional budget envelope of \$300 million over five years is earmarked for the Fonds de développement régional (FDR) in order to strengthen CRE action.

— Among other things, the regional conferences of elected officers (CREs) can now adapt government programs to regional characteristics and take part in their region's economic diversification efforts.

The regions can also take responsibility for their development with stronger economic instruments under their authority:

— \$75 million will be devoted to the development of niches of excellence stemming from ACCORD projects;

— \$90 million will be earmarked for the regions to improve their entrepreneurial base;

— \$25 million will be attributed to the Québec capital for the preparation and implementation of an economic development strategy. To that amount is added \$110 million awarded to the Ville de Québec for the celebration of the 400th anniversary of its founding.

The Ville de Montréal will have available \$140 million for the deployment of its development strategy *Imagining — Building Montréal 2025*.

The new regional natural resource and land commissions will have \$45 million over five years to support their operations and the preparation of integrated regional resource and land development plans.

Concrete action

Improvement of the Fonds de développement régional

Development of niches of excellence: ACCORD projects

Improvement of the entrepreneurial base of the regions

Support for the development of the Québec capital

Support for the development of Montréal

Funding of regional natural resource and land commissions

Support for investment and productivity of businesses in the regions

Support for the mining sector

Support for agriculture and tourism in the regions

Additional government mobilization in its programs for the regions

The new *Strategy for the Development of All the Regions* devotes \$150 million over five years for the economic development of the regions:

- \$99 million to encourage business investment and productivity;
- \$21 million to evaluate mining potential;
- \$30 million to support agriculture and fishing, as well as the development of tourism in the regions.

TABLE 12

Strategy for the Development of Every Region

(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Total
1. Additional resources under the regions' authority						
Fonds de développement régional (FDR) – under the authority of the CREs – for their financing, the adjustment of government programs and assistance for economic diversification	55	55	60	65	65	300
Economic development efforts shepherded by the regions						
— Support for the development niches of excellence – ACCORD projects	10	12	17	18	18	75
— Improvement of entrepreneurship through the action of the CLDs in the regions	11	17	20	21	21	90
Sub-total	21	29	37	39	39	165
Support for the development of the Québec capital ¹	5	5	5	5	5	25
Support for the economic development of Montréal	17	18	35	35	35	140
Funding of the regional natural resource and land commissions	9	9	9	9	9	45
Sub-total	107	116	146	153	153	675
2. Additional government mobilization in its programs in favour of the regions						
Support for business investment and productivity	14	15	21	24	25	99
Support for the mining sector	7	7	7	—	—	21
Support for agriculture and fishing	5	5	5	5	5	25
Tourism in the regions	5	—	—	—	—	5
Sub-total	31	27	33	29	30	150
TOTAL – Strategy for the development of every region	138	143	179	182	183	825

1 Amounts to which is added \$110 million for the celebrations of the 400th anniversary of the foundation of the Ville de Québec.

RESPONSIBLE MANAGEMENT ENSURING THE SUSTAINABILITY OF THE FOREST

Given the economic significance of the forest industry for a number of Québec regions, the government has acted energetically to help the industry weather the crisis stemming from the softwood lumber trade dispute.

A series of measures have been implemented to come to the assistance of workers and local communities, and to foster the diversification of businesses and the consolidation of the industry.

Furthermore, with a view to ensuring the sustainability of the resource, the government has taken a number of initiatives in the wake of the report of the Commission for the study of public forest management in Québec (the Coulombe Commission).

Promising results

Investments of \$1.4 billion for the recovery of the forest sector

With the support given the forest sector, namely, roughly \$1.4 billion over four years, the government makes it possible, in particular, to modernize businesses and provides special support to workers and communities in Québec regions affected by the softwood lumber trade dispute.

Since the announcement of the support plan in October 2006:

- More than \$500 million in projects have been submitted under the forest industry support program;
- \$80 million in work eligible for the refundable tax credit for the construction and major repair of public interest access roads and bridges in forest areas has been submitted;
- More than 6 500 workers have availed themselves of measures introduced for them;
- 20 diversification and development contracts have been signed with an equal number of RCMs as part of support for territories with particular needs.

In addition, the support of the Québec government in resolving the softwood lumbar dispute will enable forest businesses to recover over \$950 million in countervailing and anti-dumping duties.

Concrete action

Loan envelope of \$425 million to support investments and consolidation in the industry

15% capital tax credit for primary forest product processing manufacturing investments

90% refundable tax credit for the construction and major repair of access roads and bridges in forest areas

Opportunities for training, new jobs or financial support for workers

Support for the economic diversification of communities

Appointment of a chief forester

TABLE 13

Support plan for the forest sector – 2007-2010

(millions of dollars)

	Amount
1. Work force	
Targeted initiative for elderly workers	10.0
Maintenance of remuneration during training	4.6
Increase in the amount for early retirement from \$4 000 to \$6 000 a year for three years	9.0
Program of support for elderly workers (55-59 years of age) who are laid off	31.2
Sub-total	54.8
2. Communities	
Fund to support territories experiencing difficulties	6.0
Fund to support single-industry municipalities	39.0
Sub-total	45.0
3. Financing support	
Loans for working capital and consolidation	150.0
Projects for investment in and the acquisition of assets	275.0
Sub-total	425.0
4. Forest management	
Increase from 40% to 90% in the tax credit for forest environment access structures	132.0
Sylvicultural investment strategy:	
– Measure aimed at full reforestation	45.0
– Protection of sylvicultural investments and other infrastructures in the forest	20.0
Sub-total	197.0
TOTAL	721.8
Measures in the 2006-2007 Budget ¹	480.0
Measures in the 2005-2006 Budget	167.3
GRAND TOTAL	1 369.1

1 Excluding the loan envelope of \$425 million.

THE RECOVERY OF THE AGRICULTURAL SECTOR

The government actively assists the agricultural sector in regaining its momentum. To that end, it created the Commission on the future of Québec agriculture and agri-food in order to conduct a complete assessment of the sector. In addition, agricultural taxation was eased and streamlined. Measures were established to help farmers meet environmental requirements and deal with animal and human health risks.

Promising results

The Commission on the future of Québec agriculture and agri-food

The Commission on the future of Québec agriculture and agri-food, announced in June 2006, demonstrates the determination of the government to examine from a global standpoint and exhaustively the issues facing the Québec agricultural and agri-food sector in order to lay the groundwork for its future.

Easing and streamlining the taxation of agriculture

The government modified in depth the municipal and school tax refund program for agricultural operations. For farmers, that means:

- Easing and streamlining of administrative procedures;
- A stop to the increase in the property tax burden on their operations;
- \$103 million to be granted to them in 2007.

Furthermore, the deduction applicable to the calculation of the capital tax deduction for farm or fishing corporations has been increased to \$5 million. That measure means:

- The complete elimination of the tax on capital for 99% of the corporations;
- An injection of about \$9 million into the working capital of the corporations and a recurring reduction in their operating costs;
- A leverage effect likely to encourage investment.

Lastly, the tax credit for child care expenses will be accessible to farming couples.

Concrete action

Improvement of the property tax refund program

\$5 million increase in the capital tax deduction for farm or fishing corporations

New refundable tax credit for the acquisition of pig manure treatment facilities

Upgrading of epidemiological surveillance and animal disease laboratories

Assistance for foreign farm workers

Assistance for the use of alternative energy sources in the greenhouse industry

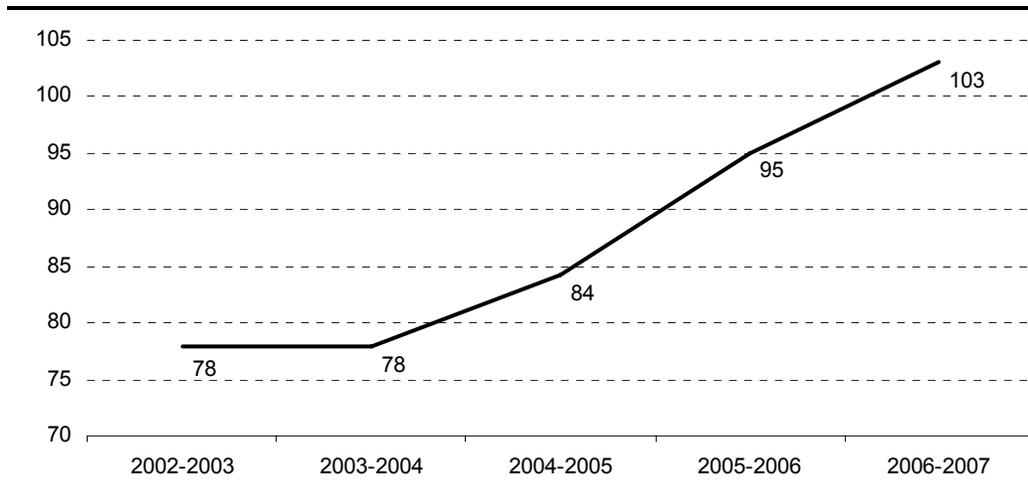
Support for local products and small-scale alcoholic beverage production

Financière agricole: portfolio of \$4.2 billion in guaranteed loans

CHART 17

Municipal and school tax refund for farmers

(millions of dollars)



Source: ministère de l'Agriculture, de Pêcheries et de l'Alimentation du Québec.

Environmentally friendly agriculture and preventive risk management

In order to respond to public health, animal health and environmental requirements, the government has taken a number of steps, notably by earmarking, in particular:

- \$18 million for the new refundable tax credit of 30% for the acquisition of pig manure treatment facilities;
- \$79 million for the upgrading of epidemiological surveillance and animal disease laboratories in Saint-Hyacinthe and Québec City.

Major increase in the level of investment in public infrastructure

The well-being of Québec's citizens and the development of its economy require structuring investments.

- The pace of investment in public infrastructure must be stepped up in order to meet the population's growing needs.
- The government has respected its priorities and those of the population by investing in health, education and transportation.
- Greater incentives are provided for the use of public transit throughout Québec.
- Better access to modern and safe sports facilities is ensured in order to foster the well-being of the population and prevent health problems.
- Cultural heritage garners increasing support.
- Energy development and the fight against climate change are tangible examples of the reconciliation of economic and sustainable development.

STRUCTURING INVESTMENTS

High quality, well maintained, cutting edge public infrastructure contributes directly to economic prosperity, for the benefit of all Québec regions.

Promising results

Infrastructure of benefit to all Québec regions

Transportation infrastructure (roads, bridges and so on) is essential to the movement of goods and people.

The various municipal infrastructures, particularly those for water purification and treatment, are vital to the operation of businesses, as well as to the health and quality of life of individuals.

Health and education infrastructures are indispensable for the well-being and health of the population, and contribute to training, research and innovation.

Since 2003, capital investments have risen from an average of \$2.9 billion for the period from 1997-1998 to 2002-2003, to \$4.7 billion in 2006-2007. A portion of these investments is devoted to maintaining assets.

- For example, hospitals and educational institutions now have an envelope equal to 2% of the value of the immovables in order to ensure they are maintained in good condition, to which is added, for health, an envelope of 1% for redevelopment and conversion work to improve the quality of services.

The effort in terms of infrastructure has been particularly impressive as regards the road network. A total of \$7.9 billion will be invested in the road network over the next four years, \$1.7 billion of which in 2007-2008.

- \$550 million for its development;
- \$1 150 million for its preservation and to improve its safety.

In 2009-2010, the budget for the road network will increase by 160%, compared with the average for the budgets earmarked during the years from 1997-1998 to 2002-2003.

Concrete action

Capital investment has risen from \$2.9 billion to \$4.7 billion over four years

Concrete action

\$1.7 billion for the road network in 2007-2008

TABLE 14

Public capital investments

(government contribution in millions of dollars)

	Average for 1997-1998 to 2002-2003	2006-2007	Change
Health and social services institutions	575	1 007	432
Educational institutions	704	784	80
Road network	649	1 197 ¹	548
Municipal and public transit Infrastructure	261	623	362
Other public infrastructure	740	1 114	374
TOTAL	2 929	4 725	1 796

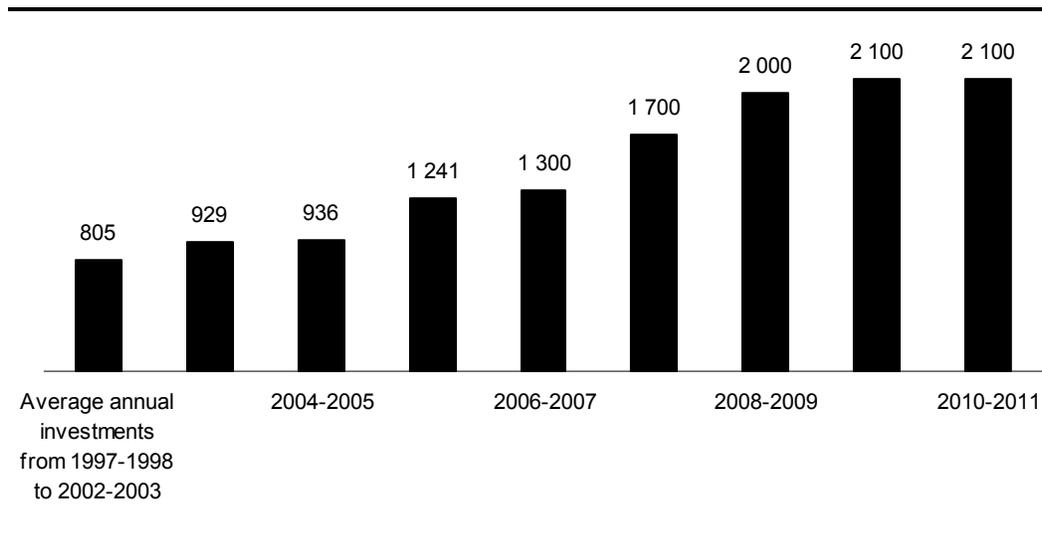
1 The budget for the road network totals \$1 300 million, including non-capitalizable expenditures of \$103 million.

Source: ministère des Finances du Québec.

CHART 18

Evaluation of road investments

(millions of dollars)



Source: ministère des Transports du Québec.

STRUCTURING INVESTMENTS

Concrete action

Major projects for health, education and transportation throughout Québec

The increase in investments in education is vital in order to maintain and improve the competitiveness of our educational institutions at a time when the knowledge economy and high technology are the main factors in economic prosperity.

Capital investments in the health field provide facilities that ensure the provision of better health services to the public and enable us to meet growing needs in that field.

Promising results

For health
<ul style="list-style-type: none"> ▪ \$3.6 billion for the construction of the Centre hospitalier de l'Université de Montréal and the McGill University Health Centre, and for implementation of Hôpital Sainte-Justine's Grandir en santé project; ▪ \$112 million to expand the Centre hospitalier universitaire de Sherbrooke; ▪ \$40 million to expand the Hôpital Saint-Eustache of the Lac-des-Deux-Montagnes health and social services centre; ▪ \$15 million for the Institut de cardiologie de Montréal; ▪ \$14 million for the construction of the Cancer Research Pavilion of McGill University; ▪ \$7.1 million for the Centre de recherche Université Laval–Robert-Giffard.

For education
<ul style="list-style-type: none"> ▪ \$57.3 million for the École de technologie supérieure expansion project; ▪ \$28 million to expand the Pavillon Joseph-Angers of the Cégep de Jonquière; ▪ \$25 million for the new Pavillon de sciences biologiques of the Université du Québec à Montréal; ▪ \$22 million for the establishment of the Centre de traitement sur le bois d'œuvre at Université Laval; ▪ \$14.5 million for the Centre multidisciplinaire de développement en génie tissulaire in Québec City; ▪ \$14 million for a new school in Mirabel.

STRUCTURING INVESTMENTS

A well-developed road network promotes economic development by facilitating the transport of people and goods. It is a paramount factor for businesses choosing to set up shop in Québec. Moreover, it is the best way to ensure the prosperity of all Québec's regions as it reduces the problem of remoteness from major urban centres.

Promising results

For transportation throughout Québec
<ul style="list-style-type: none">▪ The investment of \$157 million to extend Autoroute 20 from Cacouna to Trois-Pistoles in the Bas-Saint-Laurent region;▪ \$70 million to build the Promenade Samuel-De Champlain in Québec City;▪ The investment of over \$300 millions to renovate the facilities of the Montréal metro;▪ The investment of \$30 million for highway 73/173 in the Chaudière-Appalaches region;▪ \$15 million to modernize Jean-Lesage International Airport in Québec City;▪ Major investments for the completion of Autoroute 30 and Autoroute 25;▪ The investment of \$256 million to extend Autoroute 50 in the Outaouais region;▪ Financial support for the extension of the Robert-Bourassa highway (formerly the Autoroute du Vallon) in Québec City;▪ The investment of \$300 million for the development of eastern Montréal train service;▪ The \$100-million investment project to extend highway 138 between the localities of Kégaska and Vieux-Port in the Basse-Côte-Nord region;▪ The agreement between the Québec and Canadian governments on the completion of Autoroute 30 on the south shore of Montréal westward.

STRUCTURING INVESTMENTS

Concrete action
Promote public transit
for the benefit of
sustainable
development

In June 2006, the government made public the new Québec public transit policy. The policy is directly in keeping with the implementation of sustainable development because of the economic, environmental and social dimensions related to the use of public transit.

The government's objective is to increase the use of public transit throughout Québec, both in urban and rural centres. To that end, the government supports initiatives aimed at improving services, the modernization of equipment and the elaboration of alternative solutions to the automobile.

Promising results

Promote public transit

In addition to financing under the regular programs of the ministère des Transports and the Société de financement des infrastructures locales (SOFIL), the policy provides that the government will devote to public transit a supplementary amount of \$130 million a year from the Green Fund established in conjunction with the *Action Plan on Climate Change*.

STRUCTURING INVESTMENTS

Moreover, to guarantee access to modern and safe sports facilities, the 2006-2007 Budget Speech announced the creation of the Fonds de développement du sport et de l'activité physique. The government uses the fund as leverage in generating half a billion dollars in investments in sports and recreational facilities in the regions.

Lastly, the 2006-2007 Budget Speech also stepped up the government's efforts for the benefit of heritage with the announcement of the creation of the Fonds du patrimoine culturel québécois, for which an envelope of \$10 million a year was earmarked. In the next five years, a total of \$200 million will enable a number of regions to carry out projects to develop Québec's cultural heritage.

Promising results

Modern and safe sports facilities

A total of 169 projects are now under study and 15 have been authorized in principle. The cost of these projects already under way is \$20.6 million, \$10 million of which is from the fund.

Concrete action

\$500 million for sports facilities

Developing cultural heritage

Twelve projects have been announced to date for total commitments of \$8 million, \$1.6 million of which from the fund. Here are some examples:

- Municipality of Saint-Cyprien: construction of the municipal library;
- Municipality of Esprit-Saint: relocation of the municipal library;
- City of Rivière-du-Loup: restoration of heritage buildings;
- Historical village of Val-Jalbert: reroofing of the general store.

Concrete action

\$200 million to develop cultural heritage

ENERGY DEVELOPMENT AND THE FIGHT AGAINST CLIMATE CHANGE: THE CONVERGENCE BETWEEN ECONOMIC AND SUSTAINABLE DEVELOPMENT

For all economies, energy is a strategic component of prosperity, particularly “green” energy. With the 2006-2015 Québec energy strategy, the government is strengthening the security of our renewable energy supplies, accelerating the development of hydroelectricity and fostering the development of the wind energy cluster. The strategy is a key element in the fight against climate change and it places Québec at the forefront of sustainable development.

Promising results

Implementation of the 2006-2015 Québec energy strategy

Québec will invest \$25 billion over the next ten years in hydroelectricity and the creation of 70 000 jobs. In addition, the recent start-up of the Eastmain 1-A/Rupert diversion/La Sarcelle project will add close to \$5 billion in investment and very significant spin-offs for Québec’s regions.

Furthermore, investments of \$6 billion will be invested to develop the wind power sector and create more than 6 000 jobs.

Lastly, the adoption of an energy efficiency plan will make it possible to realize energy savings equal to the production of a 1 300 mW hydroelectric power station.

— In 2010, more than \$1 billion in energy savings will be achieved for Quebecers through the impact of Hydro-Québec’s energy efficiency programs.

The 2006-2012 Action Plan on Climate Change

Québec’s energy strategy and the *Action Plan on Climate Change*, both published in 2006, are closely linked.

By making the right choices and by adopting the proper behaviour in terms of energy, it is estimated that, in 2015, Québec should be able to save \$2.5 billion a year on its energy bill and avoid the emission of roughly 10 million tons of greenhouse gases.

Concrete action

IMPLEMENTATION OF THE QUÉBEC ENERGY STRATEGY:

Start-up of major hydroelectricity projects totalling 4500 mW by 2010

Development of existing wind power potential with an objective of 4000 mW by 2015

Preparation of a general energy efficiency plan dealing with all markets and all forms of energy

Action Plan on Climate Change: \$350 million funding agreement with the federal government

Profitable investments in keeping with the principles of sustainable development

The acceleration of the development of our hydroelectric resources will facilitate the financing of our public services, and therefore the well-being of Québec society as a whole.

The investments stemming from the development of the wind energy cluster illustrate the government's commitment to sustainable development. Those investments will directly benefit the resource regions.

Lastly, the resources gained by the energy efficiency measures will be assigned to better uses for the benefit of all.

TABLE 15

Installed power, annual production and the cost of certain hydroelectric projects

Projects	Investment (\$M)	Power (mW)	Energy (GWH)	Implementation schedule
Completed projects				
Grand-Mère	450	220	1 200	2004
Toulnostouc	1 000	526	2 700	2005
Eastmain 1	2 300	480	2 700	2006
	3 750	1 226	6 600	
Projects under way				
Mercier	175	51	282	2004-2007
Chute Allard/Rapide-des-coeurs	690	138	864	2005-2008
Péribonka	1 200	385	2 200	2004-2008
	2 065	574	3 346	
Projects announced on January 11, 2007				
Eastmain 1-A	4 995	768	2 300	2007-2011
Sarcelle		125	900	2007-2012
Rupert diversion		-	5 300	2007-2009
	4 995	893	8 500	

Source: Hydro-Québec.

**A more prosperous Québec
to the benefit of all Quebecers**

A MORE PROSPEROUS QUÉBEC FOR THE BENEFIT OF ALL QUEBECERS

Since 2003, the government has established a series of economic and social policies to enhance prosperity, see that it is in line with sustainable development and ensure that all Quebecers benefit from it. The measures and commitments will have a major impact on employment, investment, and the supply and quality of the labour force, as well as on Québec's competitiveness. By improving their standard of living, Quebecers will be better able to fund public services and support those most in need.

Promising results

Concrete action

Reduction in personal income tax

Measures for corporations, including the objective of eliminating the tax on capital

Increase in spending on post-secondary education

Increase in electricity production

Québec Research and Innovation Strategy

Public infrastructure investment plan

A more prosperous society

All else being equal, the government's policies will ultimately mean an additional increase of roughly \$1 500 in per capita GDP in 2005 dollars.

They will thereby reduce by about 18% the wealth gap that persists between Québec and the rest of Canada.

A better standard of living for all Quebecers

These gains will mean an increase in the income of all households. More particularly, low-income households will see their disposable income increase by roughly 8%, compared with the current level.

Therefore, the government's policies will reduce the poverty rate by about 15%.

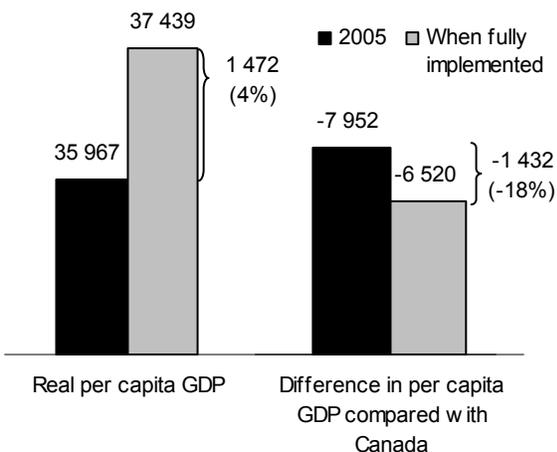
A complete range of policies for a prosperous, cohesive and green Québec

The policies of the government set the stage for ensuring the prosperity of Québec and giving it the means to achieve its objectives from a social standpoint by acting in regard to businesses, individuals, organizations and certain key sectors of economic activity.

The measures for corporations will enable Québec business to be competitive, given the intensification of international competition, and thus serve as an engine for economic growth and job creation. The measures that target individuals will have the greatest impact in reducing poverty and redistributing wealth.

CHART 19

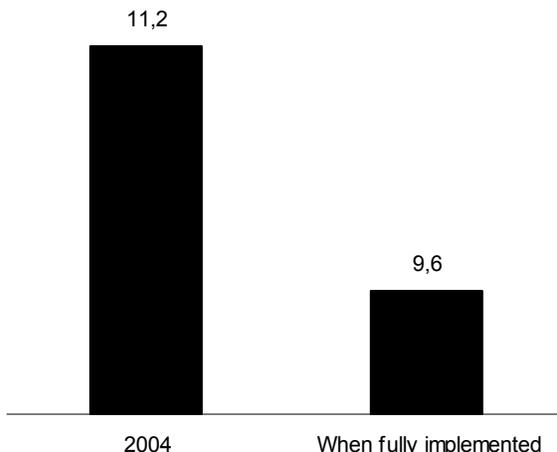
Impact of government policies on real per capita GDP and on the gap with the rest of Canada
(dollars)



Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ) and Provincial Economic Accounts, Statistics Canada.

CHART 20

Impact of government policies on the poverty rate¹
(percentage)



1. Portion of the population with an income below the poverty line.
Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

CHART 21

Contributions to the increase in real per capita GDP

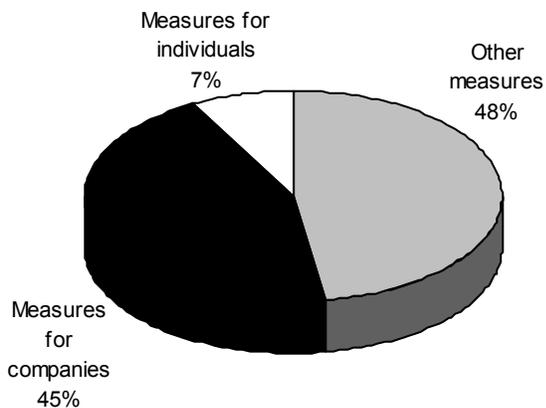
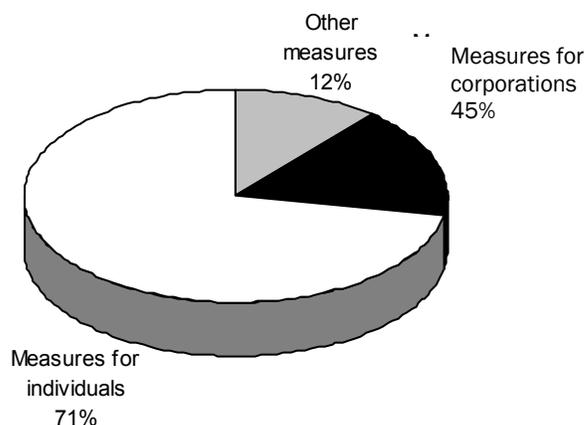


CHART 22

Contributions to the reduction in the poverty rate



Note: The measures for individuals include those announced in the 2003-2004 to 2007-2008 budgets and the commitment to reduce the tax burden to the Canadian average for personal income tax. The measures for corporations include those announced in the 2003-2004 to 2007-2008 budgets and the objective of eliminating the tax on capital. The other measures are the increase in spending on post-secondary education, the increase in hydroelectric capacity, the Québec Research and Innovation Strategy and the public infrastructure investment plan.

Source: Dynamic general equilibrium model of the ministère des Finances du Québec (GEMFQ).

Conclusion

For almost four years, the Québec government has taken action to help the Québec economy realize its full potential. The government's action has focused on the disciplined and transparent management of public finances so that investment can be made in the main priorities of Quebecers, namely, health and education, easing the tax burden of individuals and businesses, reducing the debt load, improving infrastructure, and measures to stimulate investment.

Today, the Québec economy is in sound health.

Since 2003, Québec has had solid economic growth. In fact, the real growth of the economy has been 2% a year on average, a level comparable to that observed over the last 20 years.

In addition, despite pressure on the manufacturing sector, 168 400 jobs have been created in Québec since 2003. The unemployment rate declined to an average of 8% in 2006, the lowest level in over 30 years. In January, it actually dropped to 7.7%.

This good performance by the Québec economy has been achieved in a difficult international context characterized by the high price of oil, the rapid and substantial appreciation in the Canadian dollar, a slowdown in demand in the US and the softwood lumber trade dispute, as well as increasing international competition.

If the Québec economy is in sound health, it is thanks to good growth in domestic demand. Household demand and business investment, in particular, have remained high since 2003, and this has bolstered employment.

It is also, first and foremost, thanks to the efforts of workers and businesses, and these efforts have been supported by the action of the government.

Today, Québec is better equipped to face the challenges already looming.

