

Budget Speech

Delivered before the National Assembly
by Monique Jérôme-Forget,
Minister of Finance
and Minister responsible for Infrastructure
on March 19, 2009.

2009
BUDGET



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2009-2010 Budget

Budget Speech

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Protecting Jobs and Preparing for Recovery

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INTRODUCTION

Mr. President:

There are times when History is made, when one feels the world will no longer be the same. Later on, we will come to see the years 2008 and 2009 as defining periods during which a new era full of hope was forged in the brutality of a global financial crisis.

This budget was prepared during these turbulent times.

This budget reflects the impact of a global recession. It protects our jobs and our services.

This budget gives hope. It will enable Québec to bounce back as soon and as high as possible once recovery begins.

This budget mobilizes. It invites society's players, unions, businesses, community groups and government corporations to come together as a team to counter the economic recession.

This budget is comprised of three components:

- tackling the recession and preparing for recovery;
- ensuring Québec's social development;
- maintaining sound public finances.

Since the last economic and financial update, which I presented last November 4, the global economic outlook has become much bleaker. Investment guru Warren Buffet said a few days ago that "the economy fell off a cliff" at the end of 2008.

Moreover, in January, the International Monetary Fund revised its fall projections and announced a deep recession.

According to the IMF, in 2009:

- the United States will post a decline of 1.6%;
- the euro area will contract by 2.0%; and
- Japan's economy will shrink by 2.6%.

Since then, the situation has deteriorated further. The private-sector economic growth forecast for 2009 has been revised to – 2.8% for the United States, – 2.6% for the euro area and – 5.8% for Japan.

Québec is not insulated from the global economic situation. Over 50% of everything we produce is destined for export markets. And nearly 75% of our international exports go to the United States.

However, because we were among the first to take action to support our economy, the recession will not be as deep here as elsewhere.

As the Premier said in his inaugural address, “While many governments in the world are still trying to figure out how and how much to invest in infrastructure to support their economy, worksites are operating and creating jobs in all regions of Québec. While others are trying to figure out what to do, Québec is building. While others are talking, Québec is investing. While others are consulting, Québec is acting.”

Indeed, at the very first signs of a slowdown, our government deployed the most ambitious infrastructure rehabilitation plan we have ever known. A \$37-billion plan to rehabilitate our hospitals, our schools, our roads and our municipal facilities has already been under way for 18 months. We also reduced personal income tax for the middle class by more than \$1 billion in 2008.

We have continued our action to support the economy and we have stepped up our efforts each time the situation required it.

- We protected Quebecers’ purchasing power by raising the tax credit for retirement income and introducing full indexation of social assistance benefits and the personal income tax system.
- We launched the Employment Pact with our social and economic partners: \$1 billion over three years to increase labour force activity.
- We made available \$1 billion through Investissement Québec’s Renfort program and \$1 billion to the Société générale de financement to stimulate business investment.
- We introduced a refundable home renovation tax credit to create jobs.
- We relaxed the rules governing retirement plans to keep them solvent while protecting the financial position of businesses.
- We provided tax relief for businesses by gradually eliminating the tax on capital, which will be no more than a memory at the end of 2010.
- We announced an increase of \$0.50 an hour in the minimum wage, which will take effect on May 1.
- We also increased investments in the Québec Infrastructures Plan by more than \$4 billion, raising them to nearly \$42 billion for the next five years.

Our government is in full action mode.

Our actions have produced results.

The Québec economy grew by 0.8% in 2008. That result is in keeping with our forecast of last November.

That result shows that Québec has weathered the global financial crisis and recession better than others. The United States, remember, has been in recession for more than a year.

However, because of the scale of the global recession, we expect Québec's economy to shrink by 1.2% in 2009, which corresponds to the average forecast of private-sector experts.

The economic situation should improve as early as next year. We foresee 1.9% economic growth for Québec in 2010.

We expect the unemployment rate to rise from a record low of 7.2% in 2008 to an average of 8.9% in 2009. This rate is still well below that of previous recessions, when the jobless rate reached 14.2% in 1983 and 13.2% in 1993.

We are better prepared than in the past to deal with difficult times.

But I am well aware that it is an ordeal for every person who loses their job.

Jobs are the priority of our government. We are making support for workers a mission for Québec society as a whole.

Mr. President:

That is the backdrop against which I prepared my third budget.

We consulted Quebecers a lot. Nearly 4 500 Quebecers shared their thoughts in online consultations. That is a record participation.

My parliamentary assistant, the MNA for Viau, and I also met with groups from all spheres of society. In fact, meetings were held with close to 50 groups.

In addition, the three task forces—on the financial sector, economic development and the labour market—set up by the government to monitor the economic situation were consulted and over 100 briefs also gave us food for thought.

I also consulted the opposition parties.

I thank everyone who helped prepare this budget.

Mr. President:

In light of the worsening global economic situation, Quebecers want us to continue our efforts to stimulate our economy. That is the first component of this budget: tackling the recession and preparing for recovery.

To tackle the recession, I am announcing:

- additional cash resources for our businesses, in particular a new stock savings plan;
- an unprecedented effort to train workers, through enhancement of the Employment Pact.

We must look beyond the recession and affirm our confidence. Starting immediately, we must do what it takes to enable us to seize the opportunities that arise when the economy begins to recover:

To prepare for economic recovery, I am announcing:

- a plan to make Québec a world leader in clean and renewable energy;
- a first step toward implementing the important Northern Plan;
- bold measures to affirm Québec's place as a world leader in the environment and green technology.

Mr. President:

Economic development has meaning only if it comes with social progress. That is the second component of my budget: ensuring Québec's social development.

I am announcing:

- greater support for families;
- measures to improve the quality of life of seniors;
- more quality affordable housing;
- continued investment in health and education;
- additional support for our creators.

Mr. President:

The economic climate is seriously affecting public finances. A number of countries have posted budget deficits. It is the case of the United States and Canada.

Several Canadian provinces have also provided for a return to budget deficits. It is the case, for example, of British Columbia, Ontario and Alberta.

Over 70% of participants in the online consultations feel that, during a recession, budget deficits are necessary to protect jobs and services for Quebecers. We share that opinion.

I am announcing a deficit of \$3.9 billion in 2009-2010.

That deficit represents 1.3% of our GDP. It is worth noting that the U.S. government's deficit is 12.3% of GDP, while the Canadian government's deficit accounts for 2.2% of GDP.

However, while Quebecers accept budget deficits, they want their government to lay the groundwork for restoring balance.

That is the third component of this budget: maintaining sound public finances.

I am announcing:

- a plan to restore budget balance within five years;
- maintenance of 4.5% program spending growth in 2009-2010 to safeguard our public services, our jobs and our economy;
- maintenance of contributions to the Generations Fund to reduce our debt load.

Mr. President:

Quebecers have always been able to roll up their sleeves. We must all make an effort to weather this recession. As the Premier said, "We must all feel responsible for each other."

This budget invites all society's players, unions, businesses, community groups and government corporations to come together as a team to protect our jobs.

This budget prepares Québec for economic recovery.

This budget continues our investments in social development.

This budget provides, as of today, for restoring budget balance.

This budget consolidates the present and paves the way for future generations.

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1. OUR ACTION PLAN FOR TACKLING THE RECESSION AND PREPARING FOR RECOVERY

Mr. President, I have come to the first component of this budget: tackling the recession and preparing for recovery.

As the Premier said, “We are going to invest in our economy as no other government has done before.”

We are going to step up the action already undertaken.

The measures in this budget will inject nearly \$3.4 billion more into the Québec economy in 2009 and in 2010.

These new measures are in addition to those already announced. In total, we are injecting \$15 billion in additional cash resources into the Québec economy. That is 4.9% of Québec’s GDP.

- That exceeds the 2% of GDP objective proposed by the IMF.
- That is more than the federal government, at 4.1% of Canada’s GDP.
- That is on a scale comparable to the United States’s stimulus plan, at 4.8% of U.S. GDP.

We are among the governments that are addressing the economic slowdown the most aggressively.

All the measures contained in this budget are explained in detail in *Additional Information on the Budgetary Measures*, an integral part of this budget.

Additional cash resources to protect our businesses and safeguard our jobs

Businesses have been feeling the impacts of the recession for a few months now. Sources of capital have dried up and credit conditions have become tighter. It is therefore much harder for businesses to fund investments that would enable them to become more productive and competitive and bounce back when the economy recovers.

We have announced several initiatives to help businesses.

- Last fall, the government made an additional \$1 billion in financing available to businesses under the Renfort program.
- Last January, the Société générale de financement was given a mandate to invest an extra \$1 billion in large-scale projects of Québec businesses.

We have taken action. But more needs to be done.

We are going to facilitate financing for medium-sized businesses on public savings markets.

I am announcing the creation of a new stock savings plan. The SSP II will grant a tax deduction to individuals who invest in eligible Québec businesses. The deduction will be 150% until December 31, 2010, and 100% thereafter.

It is a way of encouraging Quebecers to become directly involved in the economic recovery and the vitality of our businesses. This stock savings plan will benefit medium-sized businesses with assets of less than \$200 million. It will make more capital available to exchange-listed Québec businesses.

In addition, to counter the drying up of funding sources, to make more cash resources available to our businesses and to accelerate economic recovery, we are creating emergency and recovery funds.

To help large businesses keep Quebecers working:

I am announcing the creation of a two-year, \$500-million emergency fund, in partnership with the Fonds de solidarité FTQ and the Société générale de financement. The fund will invest in businesses in all sectors of activity, enabling them to finance their investment projects.

To support employment and SMEs:

I am announcing an additional \$60 million for FIER-Régions funds. This increase will enable new FIER-Régions funds to be created and some existing ones to be recapitalized.

To support social economy businesses, which combine entrepreneurship with solidarity:

I am announcing an injection of another \$5 million into the Réseau d'investissement social du Québec, a non-profit venture capital fund whose mission is to provide financing tailored to the reality of social economy businesses.

To accelerate recovery, stimulate innovation and support our entrepreneurs:

I am announcing the creation, in partnership with the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ, of a new, \$825-million fund to finance venture capital funds. Two hundred million dollars of that amount will be provided by the government. The new fund will make it possible to finance some 20 funds to support technology firms in the startup or expansion phase.

I am also announcing the creation of three seed funds totalling \$125 million, of which \$50 million will be provided by the government. The funds will finance new businesses in the sectors of information and communications technology, life sciences and other technologies.

We are using every lever at our disposal to stimulate investment, protect jobs and prepare for recovery. My colleague the Minister of Economic Development, Innovation and Export Trade will be announcing the terms and conditions of these initiatives soon.

❑ *Tax relief for businesses*

To ensure economic growth, Québec must improve its productivity and investment record.

In the last two budgets, we announced several measures as a result of which, today, our tax system no longer penalizes investment: it rewards it.

The tax on capital has been eliminated for SMEs and the manufacturing sector. It will be no more than a memory for all businesses as of the end of 2010. The reduction in the tax on capital rate represents tax relief of almost \$300 million this year and almost \$700 million in 2010.

We also introduced an investment tax credit, the rate of which depends on distance from major urban centres. In addition, we improved the payroll tax credit for information technology firms and made it available throughout Québec.

We are doing more in this budget.

I am announcing the extension, to the end of 2011, of the 50% accelerated depreciation for manufacturing and processing equipment. This measure will benefit 15 000 businesses.

I am also announcing an accelerated depreciation measure for computer equipment. The rate will be 100% for assets acquired before February 2011. This measure will benefit 70 000 businesses.

These measures will help businesses modernize and integrate information technologies.

We will also provide more support for small businesses.

I am announcing an easing of their tax burden. We are raising, from \$400 000 to \$500 000, the limit on the amount of income eligible for the reduced tax rate for small businesses.

These three measures will ease the tax burden of businesses. They will make it easier for them to weather the recession, better protect jobs and better meet the competitive challenge.

□ *Support for the forest sector*

Certain economic sectors require special attention. It is the case of the forest sector, whose already difficult situation has been made worse by the global economic recession.

Since 2005, the government has committed \$1.4 billion to facilitate restructuring of the forest sector and help workers and communities affected by these difficult times.

We are doing more in this budget. Today we are concentrating our efforts on putting conditions in place to foster recovery of the forest sector.

I am announcing additional assistance of \$65 million over the next two years, in particular to improve the Silvicultural Investment Program, finance the production of seedlings and develop new markets for the forest sector.

I am also announcing the enhancement of the Renfort program and its extension to the forest sector.

It is crucial to help out the forest sector. It has an important place in the development and future of several regions of Québec. It provides direct employment to nearly 70 000 people.

My colleague the Minister of Natural Resources and Wildlife will present the particulars of these measures.

An unprecedented effort to train workers

To come out of this recession as quickly as possible, all players in the labour market must put their shoulder to the wheel. This mobilization will help prepare for economic recovery by emphasizing worker training and, once the economy picks up, meet the major labour challenges of tomorrow.

All of the measures in the Employment Pact are in the process of implementation and the initial results are very encouraging. Overall, roughly 240 000 people and 9 200 businesses have benefited from Emploi-Québec measures and services.

As a result, despite the difficult economic situation, the number of adults receiving benefits under social assistance programs has fallen by more than 6 200 since the Employment Pact's inception.

In the current context, we are counting even more on the Employment Pact to support our workers and businesses.

I am announcing the improvement and broadening of the Employment Pact. Combined with the contributions from the federal government and private sector, the total investment in the Québec labour force under the Employment Pact will rise from \$1 billion to \$1.5 billion over three years.

These investments will make it possible to meet the challenges raised by the recession. The new investments in training will benefit workers and the unemployed affected by the economic situation. In particular, we will:

- allocate additional amounts to support the newly unemployed in all sectors of activity;
- broaden to all regions the scope of the support program for workers affected by collective dismissals; and
- intervene directly with businesses to encourage them to opt for worker training instead of dismissals.

My colleague the Minister of Employment and Social Solidarity will soon unveil the particulars of the new measures under the Employment Pact.

Furthermore, forest and mining corporations are especially affected by the tough economic conditions, particularly by the decline in raw material prices.

I am announcing the broadening of the tax credit for manpower training to include the mining and forest sectors.

Never has so much effort been put into increasing the level of skills and productivity of the workforce, broadening access to the labour market and valuing jobs.

Preparing for economic recovery

Québec's efforts to protect jobs and spur economic activity are unprecedented. We must immediately start looking beyond this economic recession and building a vision for the future.

Québec has enormous potential. Our economy is diversified. We are leaders in several cutting-edge industries.

We have clean and renewable energies that are the envy of our neighbours.

We have a labour force whose skills are recognized worldwide.

Our government wants to bank on these strengths.

This budget provides for:

- an ambitious plan to continue to make Québec a world leader in clean and renewable energy;
- actions to begin implementing the Northern Plan;
- bold measures to affirm Québec's place as a world leader in environmental protection and green technology;
- substantial funding to develop and market Quebecers' know-how in the new industries of the future.

This budget effects changes to broaden our horizons and increase our development capacity. We are continuing to build a new economic space for Québec.

Québec: a world leader in clean and renewable energy

Québec has immense energy potential. Since 2003, more than 2 000 megawatts of power have been added to the grid with the Eastmain-1, Mercier and Péribonka powerhouses in particular.

In addition to these projects, the Québec Energy Strategy provides for 4 500 megawatts of hydroelectricity and 4 000 megawatts of wind power. The strategy includes, in particular, 918 megawatts from the Eastmain-1-A-Sarcelle-Rupert project and 1 550 megawatts from the La Romaine project. Work will begin on the La Romaine project next summer. This project represents overall investments of \$8 billion and will provide work for 34 000 Quebecers.

We are going further still.

I am confirming that we are mandating Hydro-Québec to carry out projects that will produce another 3 500 megawatts of electricity, of which 700 megawatts will be reserved for the development of other renewable energy sources, in particular wind power.

The projects recently implemented or scheduled for implementation in the short and medium terms raise our targeted energy development to 14 000 megawatts of hydroelectricity and other forms of renewable energy by 2035.

That is an unparalleled pace of development since James Bay.

That is more than \$70 billion invested in clean and renewable energy. As a result, 20 million tonnes of greenhouse gas emissions, the equivalent of 5 million cars, will be avoided.

Energy development is intended to first meet Québec's energy needs. But we also want to increase exports of this renewable energy.

In the coming weeks, my colleague the Minister of Natural Resources and Wildlife will embark on a series of meetings and missions with decision-makers and stakeholders from New England, the state of New York and Ontario in order to open new markets for Québec electricity.

Boosting our clean energy exports will help improve North America's greenhouse gas emissions record.

Going forward with the Northern Plan

The Premier has a major project for the future of Québec, a project for a generation that consists in developing northern Québec in partnership with the First Nations, the Inuit and all local communities inhabiting a vast territory twice the size of France.

The Northern Plan will be drawn up in consultation with all interested parties. It is a comprehensive plan incorporating development of energy, mining, recreational tourism, transportation and communities in a sustainable development model.

With this budget, we are taking the first steps toward giving life to this vision for the future.

First, we are taking action to develop access to this territory in partnership with the communities concerned.

I am announcing the extension of Highway 167 to the Otish Mountains from Chibougamau via Mistassini. I am also announcing improvement work on Highway 389 between Baie-Comeau and Fermont. These two investments total \$698 million.

In addition, I am announcing a \$106-million envelope to improve northern airports.

Thus, we are laying the groundwork for this major sustainable development project.

□ *Stimulating gas exploration in Québec*

The geology of Québec has the features of natural gas deposits. The development of Québec must also tap this energy sector.

Exploration in Québec has yielded promising results in recent years. If just one quarter of the gas potential were recovered, production could satisfy Québec's needs for more than 40 years.

However, the gas sector is also affected by the economic situation, at a time when Québec's potential is becoming better known and increasingly recognized.

Québec intends to pursue hydrocarbon development on its territory in a responsible and respectful manner. However, the drop in oil and natural gas prices and the global financial crisis have undermined investor confidence. These circumstances complicate efforts to raise funds.

To encourage gas corporations to continue to invest:

I am announcing the implementation of a program to enhance knowledge of our hydrocarbon potential, particularly in the Gaspésie and Bas-Saint-Laurent regions.

In addition, I am announcing a five-year royalty holiday for natural gas wells put into production by the end of 2010, in order to promote exploration and stimulate investment for 2009 and 2010.

Québec: a world leader in environmental protection and green technology

In June 2006, Québec confirmed its ambition to be a leader in sustainable development, by publishing its 2006-2012 action plan on climate change.

The action plan includes a series of measures the results of which are already being felt. Québec already has the best record in Canada for per capita greenhouse emissions.

As Al Gore said in Montréal last April, global warming would be on its way to being resolved if more countries followed the Québec government's example.

For Québec to be able to take full advantage of its competitive position, Canada must commit to the establishment of a North American cap-and-trade system for polluting emissions.

To that end, it must draw on the objectives sought by the Western Climate Initiative, which groups, in addition to Québec, 10 U.S. states and Canadian provinces.

Moreover, we must continue our talks with the rest of Canada to determine Canada's position for the United Nations Climate Change Conference to be held in Copenhagen in December. The Conference should result in the conclusion of a treaty setting new greenhouse gas emissions reduction targets for 2020.

Canada must follow Québec's example and set ambitious targets for the reduction of greenhouse gas emissions.

Our sustainable development partners are calling on us to continue demonstrating leadership in the fight against climate change. That is what we are doing.

We are stepping up our efforts to reduce greenhouse gas emissions. We are involved in the development of new green technology sectors.

I am announcing the implementation of a \$500-million capital expenditure program for the installation of bioenergy production equipment. The program is intended primarily for municipalities to enable them to convert household waste into energy.

I am also announcing the creation of a research and development program for new energy technologies, such as next-generation biofuels, electric vehicles, solar energy and geothermics.

In addition, we are continuing to work toward our targets by modernizing our facilities.

I am announcing that the Québec government will demonstrate leadership by adopting, as of 2009-2010, higher energy efficiency standards for the construction and renovation of public buildings.

I am also announcing the acceleration of the \$204-million plan to modernize management of public dams.

To reach our greenhouse gas emissions reduction targets, we must also encourage consumers to buy greener products, such as cars with very low fuel consumption and electric vehicles.

I am announcing a refundable tax credit for the purchase or lease of new green vehicles. This tax credit will be higher for the purchase or lease of electric vehicles.

With the 2006-2012 action plan on climate change, we have set ourselves ambitious objectives for reducing greenhouse gas emissions.

Today, with this budget, we are giving ourselves new means for achieving them.

Developing Quebecers' know-how

Québec relies on research and innovation to set itself apart from other economies and thus ensure its prosperity.

As I mentioned, one of Québec's strengths lies in its cutting-edge industries, where we are a world leader.

However, we must not stop innovating and commercializing our discoveries if we wish to remain among the frontrunners of the innovative and wealth-creating economies.

Innovation must be turned into business opportunities. But innovative businesses are hit especially hard by the scarcity of financing.

In addition to the technology and seed funds mentioned earlier, we are taking action to better develop university research and profit more from our inventions.

I am announcing a 10-year tax holiday for new corporations that commercialize intellectual property.

With this budget, we are stimulating investment, we are protecting jobs, we are helping workers, we are promoting Québec innovation and entrepreneurship and we are growing the economy.



2. ENSURING QUÉBEC'S SOCIAL DEVELOPMENT

Mr. President, I have come to the second component of my budget: ensuring Québec's social development.

Economic development has meaning only if it comes with social progress.

The improvement of our quality of life has been at the centre of our government's action since 2003.

We have substantially increased support for families, improved the quality of life of our seniors and invested heavily in our health and education services.

We have also eased the tax burden of Quebecers, resulting in more disposable income for all families, but particularly low- and middle-income households.

The expression "social safety net" becomes especially meaningful during a recession. Our social programs will be of great help in getting us through these difficult times. We are adopting other targeted measures.

This budget:

- increases support for families;
- improves the living conditions of seniors;
- further develops quality affordable housing;
- continues our investments in health and education;
- provides even better support to our creators and our artists.

Increased support for families

Social development begins with support for families.

In recent years, the government implemented a family policy that is unique in North America. In particular, we introduced the Québec Parental Insurance Plan, reinstated family allowances, which had been eliminated under the previous government, and developed our childcare services network.

Since 2003, Québec financial assistance for families has increased almost 60%, to \$6.5 billion in 2009.

Québec families will receive total financial assistance of \$10 billion in 2009, taking into account the support from both levels of government.

In that regard, I'll quote the book *Le Québec, un paradis pour les familles?*, by economists Luc Godbout and Suzie St-Cerny: "... the proportion of work income that remains at a family's disposal once benefits, income tax, social contributions and child care expenses have been taken into consideration is highest in Québec, out of a selection of G7 and northern countries. ... Québec has clearly chosen families." End of quote.

To choose families also means adopting policies that will encourage them to have children. The results are conclusive: in the last three years, the birth rate has risen considerably, something that had not been seen in a long time. We have reversed the trend and many are talking about a new baby boom. The figures speak for themselves. There were 72 478 births in Québec in 2002. Since then, the number of births has climbed steadily, reaching 87 600 in 2008.

I invite all Quebecers to consult the paper entitled *Status Report on Québec's Family Policy*, which accompanies the budget and presents the results of our actions to support families.

Today, we are continuing to enhance our support for families.

Québec families benefit from one of the most generous tax credits for child care expenses in Canada. We are going further.

I am announcing an improvement in the tax credit for child care expenses that will benefit close to 100 000 families.

As a result of the improvement, the cost of childcare services will be the same for both subsidized day care centres and unsubsidized private day care centres, up to a family income of \$125 000. The amount eligible for the tax credit for child care expenses will also be raised. It will be increased from \$7 000 to \$9 000 for children under 7 years of age. Single-parent families receiving benefits under the parental insurance plan will now also be able to claim the credit.

In addition, I am confirming that we will reach the target of 220 000 \$7-a-day childcare spaces by the end of 2010.

Improvement of seniors' living conditions

Seniors want to enjoy a living environment that meets their needs and they want to participate in our society.

The consultation on the living conditions of seniors conducted by my colleague the Minister responsible for Seniors revealed that certain more vulnerable seniors need special support.

I am announcing that support for seniors will be raised by \$4 million a year for initiatives aimed at countering abuse and breaking the cycle of isolation.

The accelerated aging of the Québec population will have major repercussions, in particular on the organization of living environments and local communities. Several municipalities have already undertaken to adapt their services and infrastructure in order to better provide for the health, safety and quality of life of their seniors.

I am announcing that we are going to support the “Age-Friendly Municipalities” program and fund concrete local projects as part of the action strategy for the elderly.

It will be recalled that the last two budgets allocated \$2.3 billion over five years for the improvement of seniors’ living conditions.

More quality affordable housing

The government is sensitive to the problems experienced by many families in finding affordable housing. That is why our investments in public infrastructure include the development of affordable housing.

Last year, we announced the construction of 2 000 new housing units under the AccèsLogis Québec program, which raised to 24 000 the number of new social housing units announced.

I am announcing the construction of 3 000 additional social housing units.

Overall, the government will have provided for 27 000 new social housing starts through investments of \$1.3 billion—more than double the initial objective of 13 000 units. Québec’s performance in this regard is the best in Canada.

Investing in health and education

Health and education are essential missions of the government.

In an economic slowdown, we must continue to invest in our health and education services. We will not do as others before us, who slashed these budgets at the first sign of a problem.

Health budgets will be raised by 5.7% this year. This \$1.5-billion increase will make it possible to, among other things, continue our effort to make services and health care more accessible.

These investments will enable us to meet the rising needs due to population aging. We will also be able to address various social issues, such as behaviour problems, domestic violence and young people in difficulty.

As well, we will be able to better meet the special needs of people with a physical or intellectual impairment and facilitate their social integration.

Lastly, we will continue to establish family medicine groups.

Education budgets will increase this year by 3.5%, representing investments of \$490 million.

In particular, these investments will enable us to step up our fight against school dropout. My colleague the Minister of Education, Recreation and Sports will soon propose a new approach adapted to each region of Québec aimed at mobilizing our schools and communities in an effort to encourage our youth to stay in school.

Delivering on our promises, the government will reduce elementary and secondary class sizes. As of the new school year, class sizes will be reduced by 20% in grades 3 and 4 in disadvantaged areas and by 10% in Grade 3 in all other areas.

Moreover, these investments will support our efforts to train workers in these tough economic times. Accordingly, gateways will be created to enable people who lose their jobs to start vocational training more rapidly.

Supporting the cultural sector

Our creators are a source of pride; they embody the soul of our people and inspire an industry that creates wealth and jobs. We will support the cultural sector so that it contributes to the economic recovery.

In 2006, our government set up Placements Culture to encourage the private sector to invest in culture. Since its creation, Placements Culture has helped raise nearly \$20 million from the private sector, enabling the creation of 200 endowment funds.

The organizations that have benefited from Placements Culture include Jeunesses Musicales Canada, the Corporation de l'Observatoire du Témiscouata and the Musée de la Gaspésie.

I am announcing that we will raise Placements Culture's budget by \$5 million.

This additional funding will make it possible to support some 40 cultural organizations with private-sector fundraising objectives.

I am also announcing funding of \$3 million a year to enable our creators and artists to showcase their talent and shine on the world stage.

This measure will make up for the funding cuts by the federal government to programs that helped our artists reach international audiences. We will continue to demand the reinstatement of this federal support, but we are not waiting to act.

My colleague the Minister of Culture, Communications and the Status of Women will see that these additional sums give our artists greater international visibility.

Furthermore, in January, I announced higher basic rates for the tax credits for film and television production.

I am announcing today that the tax credits for cultural businesses that work in the sound recording sector or produce shows will be enhanced.

These measures will help keep Québec's cultural sector vibrant and robust.



3. MAINTAINING SOUND PUBLIC FINANCES

Mr. President, I have now come to the third component of my budget: maintaining sound public finances.

The global recession is seriously affecting public finances of all governments. Our priority at this time must be to limit the impact of the recession on our jobs, even at the price of deficits.

Quebecers accept deficits in a recession. But they want their government to provide immediately for a plan to restore budget balance.

This budget proposes a vigorous action plan to gradually restore budget balance by 2013-2014.

A deficit to support jobs and protect our social programs

Budget balance will be achieved in 2008-2009. This shows that Québec has weathered the global economic turbulence better up to now.

To balance the budget, we will use \$2 billion from the \$2.3-billion budgetary reserve that we prudently set up. We will also draw on the contingency reserve of \$200 million.

Because of the economic situation and the choices we are making to support jobs, a deficit of \$3.9 billion is forecast for 2009-2010, after using the \$295-million remaining in the budgetary reserve.

This deficit is the result of:

- the drop in budgetary revenues in a recession;
- our decision to maintain program spending growth at 4.5%;
- funding economic support measures totalling \$826 million.

The deficit represents 1.3% of our GDP. This is lower than the federal deficit, which stands at 2.2% of GDP. It is also much lower than the deficits in previous recessions.

However, if the government does not take the necessary steps, the deficits will grow, rather than decrease, in the years to come.

Such a situation is acceptable in the short term, but unviable in the long term; it must be corrected.

We have chosen not to interrupt our payments to the Generations Fund. The pre-budget consultations showed me that the Generations Fund has broad support. Young people from all horizons want the government to continue its disciplined management of the public debt. They are right.

The book value of the sums accumulated in the Generations Fund will be \$1.9 billion as at March 31, 2009. We will pay \$715 million in 2009-2010 and \$880 million the following year, with the result that the Generations Fund will reach \$3.5 billion as at March 31, 2011.

The size of the deficits forces us to suspend the effects of the *Balanced Budget Act*, as other governments have done.

The government still subscribes fully to the objectives of the *Balanced Budget Act*.

Restoring budget balance

To avoid returning to the chronic deficits of the 1990s, a vigorous plan to restore budget balance must be prepared now.

There will be major challenges ahead to achieve balance. Tough choices will have to be made once economic recovery is under way.

Our plan provides for a return to budget balance by 2013-2014.

The plan is predicated on renewed economic growth in 2010 and underpinned by an unwaveringly rigorous approach for restoring order to public finances.

First, we will exercise tight control over spending as of 2010-2011 and for the duration of the plan to restore budget balance.

Second, we will implement measures to increase revenues as of 2011-2012, in particular through a new policy for the funding of public services.

It is worth noting that we do not plan any increases in personal or corporate income tax.

Moreover, as I mentioned, the government will continue to make payments to the Generations Fund, without interruption, for the duration of our plan to restore budget balance.

This ambitious plan does more than eliminate the deficit. It aims to bring spending and own-source revenue as a percentage of GDP to the pre-recession level in 2013-2014.

❑ **Controlling spending**

Major initiatives have been taken in recent years to achieve budget balance. We have managed public spending growth rigorously while investing in our priorities.

In fact, Québec is the province that has done the best job, along with British Columbia, of controlling spending since 2003-2004.

Spending growth averaged 4.6% a year in Québec, whereas it averaged 6.6% at the provincial level and 5.9% at the federal level.

We are going to concentrate our first efforts to control spending by limiting its annual growth to 3.2% for 2010-2011 and subsequent years, when economic recovery is well under way.

To meet that demanding objective, we will have to review and prioritize our spending in order to free up additional resources. We will avoid slashing health and education spending as others before us chose to do.

I am certain that my colleague the Chair of the Conseil du trésor will be able to count on the cooperation of all Cabinet members in achieving that objective.

❑ **Collecting enough revenue to fund public services**

Substantial effort will be required with regard to government revenue as of 2011-2012, when the economy has picked up.

We will do three things to that end:

- ensure everyone pays their fair share of income tax;
- obtain a larger contribution from users of public services;
- raise the Québec sales tax by one percentage point as of January 1, 2011.

* * *

Our first action will be to make sure that all taxpayers pay their fair share of income tax.

I am announcing that we will step up our efforts to counter tax evasion and avoidance so that the government can collect the revenue necessary to fund public services.

We will do so through, among other things, a review of the legislative framework applicable to aggressive tax planning.

Aggressive tax planning is generally described as a tax avoidance scheme that satisfies the letter of the law but abuses its spirit. Last February, we undertook a consultation on the matter. The consultation will end on April 1.

In addition, we will step up the fight against tax evasion, in particular in the construction sector.

Revenu Québec must be able to do more to recover revenue lost to the tax authorities. We are therefore going to grant it additional resources so that it can fully carry out its mission.

Overall, we anticipate additional revenue of \$900 million in 2013-2014 by making sure that everyone pays their fair share of taxes.

Our second action will be to implement a new policy for the funding of public services.

User fees must be centred on the notion that those who use a service must also pay for it. That is the user-payer principle.

The price of a public service must reflect the true cost assumed by the government.

A lot of government services are thought to be “free.” That is an illusion that leads to individual conduct that results in the waste of our resources. They are our taxes, so society as a whole foots the bill for these services. Ultimately, the result is a heavier tax burden than elsewhere, which curtails economic growth.

As pointed out by the Task Force on Fees for Public Services, chaired by economist Claude Montmarquette, “the factor in question goes beyond the strictly financial question: user fees are an essential tool to manage our collective behaviour as efficiently as possible in the best interests of all Quebecers.”

Most of the fees levied in Québec for public services have increased less rapidly than inflation for the past 10 years.

Currently, \$3 billion in revenue from user fees paid for public services is not indexed. To date, the ministère des Finances has identified hundreds of fees that are not indexed in government departments and agencies. Some have not changed in over 10 years. For example, \$15 has been charged since 1996 for birth, marriage and death certificates.

I am announcing that, as of January 1, 2011, all fees that are not presently indexed will be indexed annually at the rate of inflation. The only exception will be \$7-a-day childcare services.

User fee revenues contribute to improving the quality of services. Furthermore, the obligation to pay for a service prevents waste and encourages the efficient use of public resources.

The government will implement a funding policy to ensure the sustainability of public services. This new policy will enable better oversight of fee setting. It will be based on the following principles:

- coverage of costs;
- transparency;
- solidarity toward the most disadvantaged;
- application of user fee revenues to fee-based services; and, finally,
- accountability.

* * *

As I just mentioned, user fee revenues must be applied to fee-based services.

Currently, spending to improve and develop the road and public transit network is funded through the taxes levied by the Québec government, as is spending on health, education and the government's other missions. Although contributions are collected from motorists, the amounts are not applied directly to the funding of road and public transit infrastructure.

I am announcing that we will expand the role of the road network preservation and improvement fund, which will serve to make funding available not only for road infrastructure, but also for public transit infrastructure.

The above fund will henceforward be called the Road Infrastructure and Public Transit Fund.

In accordance with the beneficiary-payer principle, dedicated revenues—in particular the specific fuel tax and licence fees and registration duties—will be deposited in the fund.

* * *

I have now come to the third action we are taking relative to government revenue.

To restore budget balance, we will tax consumption more.

I am announcing that, as of January 1, 2011, the Québec sales tax (QST) rate will be increased by one point, to 8.5%.

In addition, I am announcing that, to protect low-income households, the refundable Québec sales tax credit will be increased by \$150 a year for a couple and \$125 for a person living alone, for an annual amount of \$250 million.

Thus, the increase in the sales tax rate will have no impact on the financial situation of low-income households.

Increasing sales tax is preferable to increasing income tax, for several reasons:

- a sales tax increase does not hurt the competitiveness of our exports, because it does not apply to goods and services sold abroad. Income tax is reflected in the price of products;
- contrary to income tax, consumption tax does not discourage work effort;
- in addition, consumption tax is not a disincentive to save.

Restoring budget balance will take a lot of effort on our part. That effort will ensure the sustainability of our public services—a proud heritage we will be leaving for future generations.

☺ • ☺

CONCLUSION

Mr. President, I have come to the conclusion of this budget.

This budget was not prepared in isolation. Rarely have so many Quebecers taken part in the consultations that enabled its directions to be determined.

Quebecers asked us to protect jobs and our social programs in this time of economic recession. We listened to them.

The effort to support economic activity and protect jobs compares favourably with the anticipated impact of the measures implemented in Canada and the United States, even though Québec is presently less affected by the recession.

Quebecers want to contribute to the collective effort needed to get through these tough economic times. This budget gives corporations, unions and social economy businesses the means to contribute to economic recovery.

This budget also gives Québec workers who wish to complete their training or acquire new knowledge the opportunity to do so. We are supporting them in their efforts.

Quebecers accept the incurring of deficits, but they want us to plan for renewed budget balance. This budget includes a five-year plan that will enable the government to reconnect with the fiscal policy directions that have guided its action in recent years. We will not add to the burden of future generations.

Quebecers want their government to look beyond the current situation to prepare Québec for recovery. This budget includes an ambitious plan to position Québec as a technology, energy and environmental power.

Mr. President:

This budget is a responsible budget. It is a budget for today and a budget that makes ready for the Québec of tomorrow.

Thank you, Mr. President.



Gouvernement du Québec
Summary of consolidated budgetary transactions
2008-2009 fiscal year
(millions of dollars)

	March 2008 Budget	Preliminary results
BUDGETARY REVENUE		
Own-source revenue	48 917	48 555
Federal transfers	14 063	13 924
Total	62 980	62 479
BUDGETARY EXPENDITURE		
Program spending	– 56 948	– 57 400
Debt service	– 6 907	– 6 589
Total	– 63 855	– 63 989
NET RESULTS OF CONSOLIDATED ENTITIES	447	205
Contingency reserve	– 200	—
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	– 628	– 1 305
Deposit of dedicated revenues in the Generations Fund	– 742	– 569
BUDGETARY BALANCE BEFORE BUDGETARY RESERVE	– 1 370	– 1 874
Deposit in the Generations Fund from the budgetary reserve	—	– 132
Use of the budgetary reserve	1 370	2 006
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	0	0

Gouvernement du Québec
Summary of consolidated budgetary transactions
2009-2010 forecast
(millions of dollars)

BUDGETARY REVENUE	
Own-source revenue	47 371
Federal transfers	14 841
Total	62 212
BUDGETARY EXPENDITURE	
Program spending	– 59 989
Debt service	– 6 104
Total	– 66 093
NET RESULTS OF CONSOLIDATED ENTITIES	355
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	– 3 526
Deposit of dedicated revenues in the Generations Fund	– 715
BUDGETARY BALANCE BEFORE BUDGETARY RESERVE	– 4 241
Use of the budgetary reserve	295
BUDGETARY BALANCE FOR THE PURPOSES OF THE <i>BALANCED BUDGET ACT</i>	– 3 946

Gouvernement du Québec
Budgetary revenue of the Consolidated Revenue Fund
2009-2010 forecast
(millions of dollars)

OWN-SOURCE REVENUE	
Income and property taxes	
Personal income tax	18 203
Health Services Fund	5 597
Corporate taxes ¹	3 266
	27 066
Consumption taxes	
Retail sales	10 498
Fuel	1 653
Tobacco	593
Alcoholic beverages	440
	13 184
Duties and permits	
Motor vehicles	755
Natural resources	– 74
Other	188
	869
Miscellaneous	
Sales of goods and services	396
Interest	588
Fines, forfeitures and recoveries	509
	1 493
Revenue from government enterprises	
Hydro-Québec	2 700
Loto-Québec	1 295
Société des alcools du Québec	800
Other	– 36
	4 759
Total	47 371
FEDERAL TRANSFERS	
Equalization	8 355
Health transfers	4 137
Transfers for post-secondary education and other social programs	1 413
Other programs	936
Total	14 841
TOTAL BUDGETARY REVENUE	62 212

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

Gouvernement du Québec
Budgetary expenditure of the Consolidated Revenue Fund
2009-2010 forecast
(millions of dollars)

PROGRAM SPENDING	
Affaires municipales, Régions et Occupation du territoire	1 827.1
Agriculture, Pêcheries et Alimentation	720.3
Assemblée nationale	116.2
Conseil du trésor et Administration gouvernementale	672.6
Conseil exécutif	343.8
Culture, Communications et Condition féminine	668.0
Développement durable, Environnement et Parcs	211.2
Développement économique, Innovation et Exportation	914.9
Éducation, Loisir et Sport	14 431.0
Emploi et Solidarité sociale	4 228.4
Famille et Aînés	2 066.5
Finances (excluding debt service)	177.8
Immigration et Communautés culturelles	296.4
Justice	680.4
Personnes désignées par l'Assemblée nationale	70.6
Relations internationales	115.9
Ressources naturelles et Faune	576.7
Revenu	1 050.0
Santé et Services sociaux	26 872.4
Sécurité publique	1 081.8
Services gouvernementaux	171.3
Tourisme	138.9
Transports	2 770.9
Travail	32.1
Subtotal	60 235.2
Anticipated lapsed appropriations	– 150.0
Deferred appropriations in 2010-2011	– 96.3
Total	59 988.9
DEBT SERVICE	
Direct debt service	3 760.0
Interest ascribed to the retirement plans	2 344.0
Total	6 104.0
TOTAL BUDGETARY EXPENDITURE	66 092.9

Gouvernement du Québec
Consolidated non-budgetary transactions
2009-2010 forecast
(millions of dollars)

INVESTMENTS, LOANS AND ADVANCES	
Consolidated Revenue Fund	– 1 119
Consolidated entities	– 226
Total	– 1 345
CAPITAL EXPENDITURES	
Consolidated Revenue Fund	
Net investments	– 436
Depreciation	257
Subtotal	– 179
Consolidated entities	– 3 125
Total	– 3 304
NET INVESTMENTS IN THE NETWORKS	– 1 004
RETIREMENT PLANS AND EMPLOYEE FUTURE BENEFITS	2 490
OTHER ACCOUNTS	
Consolidated Revenue Fund	– 406
Consolidated entities	526
Total	120
TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS	– 3 043

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

Gouvernement du Québec
Consolidated financing transactions
2009-2010 forecast
(millions of dollars)

CHANGE IN CASH POSITION	
Consolidated Revenue Fund	5 984
Consolidated entities	—
Total	5 984
NET BORROWINGS	
Consolidated Revenue Fund	
New borrowings	4 278
Repayment of borrowings	– 5 245
Subtotal	– 967
Consolidated entities	
New borrowings	7 082
Repayment of borrowings	– 2 893
Subtotal	4 189
Total	3 222
RETIREMENT PLANS SINKING FUND AND FUNDS DEDICATED TO EMPLOYEE FUTURE BENEFITS	
	– 2 217
GENERATIONS FUND	
	– 715
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	
	6 274

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.