

2005-2006 BUDGET

Thursday, April 21, 2005

Balanced budget maintained in 2004-2005

- The Québec government achieved a zero deficit in 2004-2005, in accordance with the *Balanced Budget Act*.

2005-2006 Budget

- A balanced budget will be achieved in 2005-2006:
 - through responsible, disciplined management of public finances.
- Program spending will grow by 3.6% in 2005-2006:
 - the increase is concentrated in the government's priorities:
 - health, 4.1% and education, 2.7%.
 - the ratio of program spending to GDP should be 17.3% in 2005-2006:
 - the lowest level in 35 years.

Personal income tax reduction of \$372 million

- This reduction stems mainly from the new \$500 tax deduction for people who have jobs.
- The ceiling on RRSP contributions will be increased by \$1 000 per year until 2010.
- The fiscal gap between Québec and the Canadian average is being cut in half, dropping from \$2.2 billion to \$1.2 billion in three years.

Reform of corporate taxation

- A cut of more than 50% in the rate of the tax on capital by 2009 is being announced:
 - As of January 1, 2006, the applicable rate will gradually fall from 0.6% to 0.29%.
- In addition, any new manufacturing investment in fabrication and processing equipment will be entitled to a tax on capital credit equal to 5% of the value of the investment:
 - In other words, the tax on capital is being eliminated for new manufacturing investment.
- The taxation rate of SMEs is being reduced from 8.9% to 8.5%.

Reduction in the debt burden

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

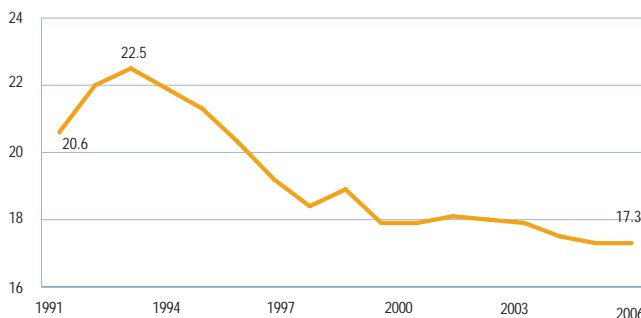
SUMMARY OF CONSOLIDATED BUDGETARY AND FINANCIAL TRANSACTIONS¹

(in millions of dollars)

	2004-2005	2005-2006
Budgetary transactions of the Consolidated Revenue Fund		
Own-source revenue	44 161	45 528
Federal transfers	9 228	9 607
Total revenue	53 389	55 135
Program spending	-46 742	-48 407
Debt service	-6 868	-6 995
Total expenditure	-53 610	-55 402
Net results of consolidated organizations	221	267
Consolidated budgetary balance	0	0
Consolidated non-budgetary requirements	-412	-434
Consolidated net financial requirements		
Consolidated Revenue Fund	552	500
Consolidated organizations	-964	-934
Total	-412	-434

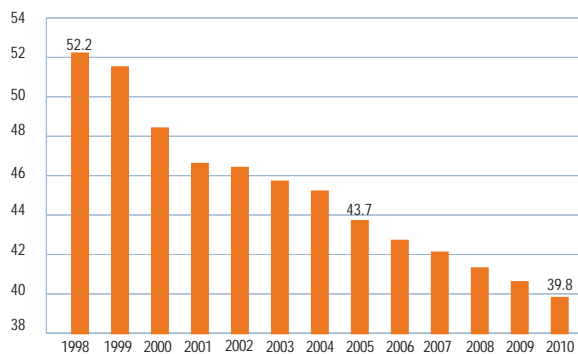
¹ Preliminary results for 2004-2005.

PROGRAM SPENDING¹ (as a percentage of GDP)



¹ Fiscal year ended March 31. Preliminary results for 2004-2005.

TOTAL DEBT¹ (as a percentage of GDP)



¹ Fiscal year ended March 31. Preliminary results for 2004-2005.



Economy

- The economy grew by 1.9% in 2004, the same rate as in 2003%:
 - Québec was adversely affected by the more than 20% rise in the Canadian dollar over a two-year period.
- Exports grew by 3.4%, the first increase in four years.
- 60 800 new jobs were created and the unemployment rate fell to 8.5%, the lowest level since 1975.
- Economic growth should rise to 2.4% in 2005:
 - a forecast comparable to the forecasts of private-sector economists.

A FEW ECONOMIC INDICATORS

	2004	2005
Real GDP	1.9%	2.4%
Nominal GDP	5.3%	4.6%
Exports	3.4%	4.2%
Imports	8.4%	4.6%
Consumer prices	1.9%	2.3%
Unemployment rate	8.5%	8.4%

FINANCING PROGRAM GOVERNMENT AND FINANCING FUND (in millions of dollars)

	2004-2005 ¹	2005-2006
Consolidated Revenue Fund		
Basic program		
Net financial requirements (surplus) ²	-552	-500
Repayment of borrowings	5 434	5 936
Change in cash position	-1 848	-2 661
	<u>3 034</u>	<u>2 775</u>
Optional program		
Optional repayment of borrowings	385	0
Retirement Plans Sinking Fund	4 134	1 155
Pre-financing	2 661	0
	<u>7 180</u>	<u>1 155</u>
Total – Consolidated Revenue Fund	10 214	3 930
Financing Fund³	2 311	2 000
Total	12 525	5 930

¹ Preliminary results.

² Excluding the net financial requirements (surplus) of consolidated organizations and government corporations.

³ The Financing Fund makes loans to certain consolidated organizations and government corporations.

- Financement-Québec is a government corporation that contracts borrowings on financial markets to meet the needs of health and education network institutions.
- Financement-Québec contracted borrowings of \$1.9 billion in 2004-2005:
 - its financing program for 2005-2006 amounts to \$2 billion.

Financing program

- The borrowings of the Consolidated Revenue Fund and the Financing Fund amounted to \$12.5 billion in 2004-2005.
- Higher borrowings than planned allowed for:
 - pre-financing of \$2.7 billion;
 - deposits of \$1.5 billion into the Retirement Plan Sinking Fund that were to be made in 2005-2006.
- Favourable conditions made it possible to carry out two issues on the international market:
 - US\$1 billion (CAN\$1.4 billion) in May 2004;
 - 1.5 billion euros (CAN\$2.4 billion) in February 2005.
- For 2005-2006, the needs of the Consolidated Revenue fund and of the Financing Fund amount to \$5.9 billion:
 - a \$500-million public issue has already been floated on the Canadian market on April 8th 2005.

FINANCEMENT-QUÉBEC FINANCING PROGRAM (in millions of dollars)

	2004-2005	2005-2006
	<u>1 919</u>	<u>2 000</u>



is published by:
Direction de la planification et de la coordination
Ministère des Finances
12, rue St-Louis, bureau 2.09
Québec (Québec) G1R 5L3
Telephone: (418) 691-2250
Fax: (418) 528-5549
Email: sri@finances.gouv.qc.ca

This document and the budget papers are available:
www.finances.gouv.qc.ca
Subscriptions accepted

Legal deposit at the Bibliothèque nationale du Québec
2nd quarter 2005