

**2006-2007 Budget
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2006-2007 Budget Speech

The Generations Fund

“Beginning to repay the debt will help improve equity toward future generations and protect Québec’s capacity to maintain the level and quality of public services.”

- Michel Audet

Québec, March 23, 2006 – In the 2006-2007 Budget Speech, Finance Minister Michel Audet followed up on the announcement concerning the creation of the Generations Fund made by the Premier during his recent inaugural address. “The Generations Fund is our response to Quebecers who are concerned about our debt,” the Finance Minister explained.

“In the past three years, we have practised responsible, rigorous management in order to put Québec on the road to prosperity. We did so for the present generation, but also for future generations. Our budgetary discipline was demanding, but it was also profitable, because today it enables us to continue our efforts while maintaining a balanced budget and giving ourselves the means to reduce the debt burden,” declared Mr. Audet.

The debt: a major problem

The paper on the Generations Fund that accompanies the 2006-2007 Budget takes stock of the problem of Québec’s debt. It states that, as at March 31, 2006, the debt will reach \$118.2 billion, i.e. \$15 551 for each Quebecer, or 42.7% of GDP.

In this document by the ministère des Finances, it can be read that such a high level of debt would be justified had it essentially served to fund capital assets or cost-effective investments in government corporations with an economic mission. “But that is not the case. More than three quarters of Québec’s debt has been accumulated over the last 30 years to fund current spending. As a result, there now remains a large debt that future generations will have to repay while receiving few benefits in return.”

The importance of acting now

Therefore, beginning to reduce the debt burden now will, more than anything else, help improve equity toward future generations, while ensuring sustainable funding for public services.

Mr. Audet thus explained that the government had to “take concrete steps right away.”

The Generations Fund

Accordingly, the Minister of Finance announced that the government has decided to set a demanding target: reduce the burden of debt in the economy to 25% by 2025, i.e. the current average of the Canadian provinces.

Creating the Generations Fund through legislation and entrusting the Caisse de dépôt et placement du Québec with administering the monies paid into it will ensure that the fund will be a permanent tool that will be used to reduce the debt burden.

Mr. Audet also announced that the Generations Fund will be financed by revenue sources that will not raise existing taxes, thus limiting the harmful impact on the competitiveness of Québec's tax system.

Indeed, the following sources will make it possible to capitalize on responsible water use:

- water-power royalties that Hydro-Québec Production will pay beginning in January 2007. Hydro-Québec Production will be invited to absorb the cost of the royalties chiefly through efficiency gains and by increasing export earnings
- water-power royalties already collected by the government from private producers of hydro-electricity;
- a portion of the profits Hydro-Québec will earn on foreign sales of electricity from new generating capacities;
- a royalty on water harnessed in Québec.

These last two sources will be studied in detail before being implemented.

Concrete results

Thanks to the Generations Fund, Québec is making an important and unprecedented effort to reduce the debt burden. Achieving the objective of 25% of GDP by 2025 will have tangible, positive effects on Québec's public finances and economy.

Within 20 years, \$30 billion will have been allocated to reduce the debt burden.

Lastly, debt repayment will create a favourable environment for improved economic growth and a higher standard of living for Quebecers.

“By creating the Generations Fund, we are taking a responsible and historic step for the future of our children,” the Finance Minister concluded.

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