

2002-2003 BUDGET

Highlights

Highlights of the Budget Speech
delivered before the National Assembly
by Pauline Marois,
Deputy Prime Minister
and Minister of State for the Economy and Finance,
on November 1, 2001.

***Message from the Deputy Prime Minister and
Minister of State for the Economy and Finance***

Since September 11, the world economy has been directly affected by the tragic events that occurred in New York and Washington. The Québec economy felt their aftershocks as well. We are taking action now to enable Québec to navigate the current difficulties with the least turbulence possible.

The Budget being tabled today strengthens the means at our disposal for ensuring personal security. It aims to bolster consumer confidence and contains measures for people with low incomes. It accelerates \$3 billion in public-sector investments and introduces measures to stimulate private-sector investments.

This action plan, which is designed to support employment and growth, will not jeopardize the efforts made in the past to achieve a zero deficit. A balanced budget will be maintained.

The Québec economy has experienced remarkable progress in recent years. Through this Budget, we are making every effort to preserve our achievements. I hope that it helps Quebecers to address this new challenge and view the future serenely and enthusiastically.

Pauline Marois

IN BRIEF

- ☐ More pronounced slowdown of the Québec economy, especially since September 11.
- ☐ Zero deficit maintained for 2001-2002 and 2002-2003.
- ☐ Maintenance of the spending targets set in the Budget of last March for 2001-2002 and 2002-2003.
- ☐ Initiatives to ensure the personal and collective security of Quebecers.
- ☐ \$400 million more for consumers.
- ☐ \$3 billion in accelerated public-sector investments, of which \$500 million comes from government corporations.
- ☐ Several measures to support SMEs and encourage the private sector to accelerate its investments.

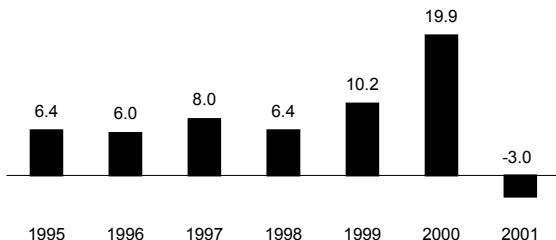
I. AN UNCERTAIN ECONOMIC CONTEXT

a) *Before September 11: an already perceptible slowdown*

- ☐ Slowdown of the U.S. economy more pronounced than anticipated.
- ☐ Decrease of 3.0% in Québec's international exports during the first seven months of 2001.

QUÉBEC'S INTERNATIONAL EXPORTS

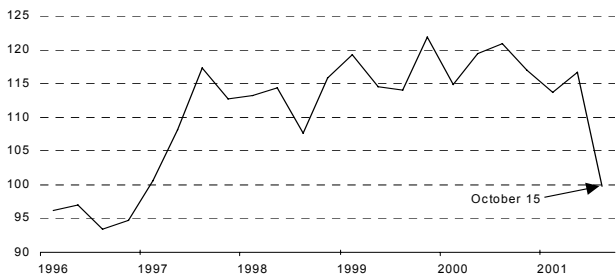
(percentage change, in constant dollars)



b) Since September 11: a level of confidence to be sustained

- ❑ The Québec economy is directly affected by the accentuation of the slowdown in the United States:
- some of the sectors hardest hit are sectors of activity in which Québec is a major player: aerospace, tourism, etc.;
 - substantial staff cuts have been announced by a number of large firms;
 - household confidence has been shaken.

QUÉBEC CONSUMER CONFIDENCE INDEX
(Conference Board Index)

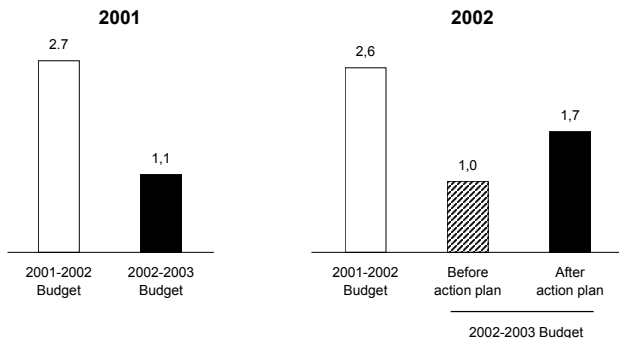


An action plan to offset the difficult economic situation

- ❑ The action plan announced in this Budget will increase GDP in Québec by 0.7% in 2002.

GROWTH IN REAL GDP IN QUÉBEC

(in percent)



II. PRIORITY GIVEN TO BALANCED PUBLIC FINANCES

a) *A balanced budget is maintained in 2001-2002 and 2002-2003 despite the difficult economic situation*

- ☐ The \$1.8-billion downward revision of revenue forecasts for 2001-2002 and 2002-2003 is partly offset by a \$944-million decline in debt service costs.
- ☐ Measures needed to maintain a balanced budget:
 - meet the spending targets set in the last Budget;
 - use the \$670-million balance of the budgetary reserve;
 - tap new revenue sources:
 - increase in the tobacco tax of \$2.50 per carton;
 - new measures to curb tax evasion.

b) A self-financing action plan to redress the economy in 2001-2002 and 2002-2003

- ☐ The action plan announced today will make it possible to create or maintain 16 000 jobs in Québec in 2002.
- ☐ The cost of the action plan will be limited to \$641 million.
- ☐ The financial impact of the action plan is offset by:
 - tax receipts of \$306 million generated by the economic impact of the action plan;
 - a reallocation of \$281 million in spending to finance spending measures under the plan.

**REVISION OF THE GOVERNMENT'S FINANCIAL PLAN FOR
FISCAL 2001-2002 AND 2002-2003***(in millions of dollars)*

**a) Revisions and measures to achieve a
balanced budget**

Revision of revenue	– 1 815
Revision of debt service	944
Use of budgetary reserve	670
Revenue measures	255
Sub-total	54

b) Action plan

Financial impact of action plan	– 641
Tax receipts generated by economic impact of action plan	306
Reallocation of spending	281
Sub-total	– 54

Total	0
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III. THE GOVERNMENT'S ACTION PLAN

COST OF THE GOVERNMENT'S ACTION PLAN FOR FISCAL 2001-2002 AND 2002-2003

(in millions of dollars)

A prerequisite: ensuring personal security	43
Transfer for consumers	367 ¹
Acceleration of public-sector investments	75
Support for private investments and other measures	156
Total	641

- 1 An amount of \$36 million is added to the amount of \$367 million for the indexation of social assistance benefits for persons with a severely limited capacity for employment, bringing the total to \$403 million.

a) *A prerequisite: ensuring personal security*

- ❑ Injection of \$8 million in 2001-2002 and \$35 million in 2002-2003 to:
 - improve intelligence and investigation activities;
 - tighten checks on prospective immigrants and tighten up the criteria for issuing birth certificates;
 - set up multidisciplinary response teams (firefighters, police officers, ambulance attendants, etc.) to enhance personal security and civil protection;
 - increase bioterrorism prevention;
 - improve surveillance and monitoring in the biofood sector.
- ❑ Need for Québec and Canada to participate in a North American security perimeter.

b) \$400 million more for consumers

- ❑ A rapid injection of \$250 million to support consumption:
 - increase of \$100 per adult – \$200 per couple – in the QST credit paid in December 2001.
- ❑ Full indexation of the personal income tax system on next January 1, at a rate of 2.7% rather than 1.8%, an increase equal to \$77 million over a full year.
- ❑ \$75 million for persons with low incomes:
 - indexation, on January 1, 2002, of the social assistance benefits of persons with a severely limited capacity for employment (\$29 million);
 - indexation, on January 1, 2002, of the social assistance benefits of persons able to work (\$46 million).

IMPACT OF MEASURES¹ ON THE DISPOSABLE INCOME OF CERTAIN TYPICAL HOUSEHOLDS

(in dollars)

Employment income	Couple with no children and two incomes	Couple with two children and one income	Single person
0	460	460	275
5 000	460	460	275
10 000	460	460	107
20 000	208	208	145
40 000	64	140	60
50 000	92	140	60

1 Taking into account all the effects of full indexation.

c) *Nearly \$500 million to build or renovate 40 000 housing units*

- ☐ Construction of 13 000 new affordable housing units over the coming years:
 - new joint program designed to stimulate the supply of affordable housing;
 - renewal of the AccèsLogis program for five years.
- ☐ Renovation of 27 000 housing units for households with modest incomes.

HOUSING INVESTMENTS¹

Program	Investment (millions of \$)	Number of housing units
New affordable housing program	105	6 500
AccèsLogis program	257	6 500
Revitalizing Older Neighbourhoods Program	95	21 200
RénoVillage program	16	6 000
Total	473	40 200

1 Except for the RénoVillage program, these measures are included in the public-sector investment acceleration plan.

d) \$3 billion in accelerated public-sector investments

- ❑ \$500 million more for health and social services:
 - construction and renovation of residential and long-term care centres to provide better accommodations for older persons losing their autonomy;
 - renovation of a number of hospital emergency rooms;
 - purchase of new equipment and upgrading of information processing systems.
- ❑ \$457 million for housing.
- ❑ \$400 million more for education:
 - improvement of the quality of instructional premises and construction of new schools and university buildings.

- ❑ \$400 million more for the road network:
 - this is the first phase of the \$3-billion, 10-year action plan to be implemented by the ministère des Transports.
- ❑ \$350 million more for municipal infrastructures:
 - infrastructure work for drinking water supply, wastewater collection and treatment and local road networks;
 - implementation of projects with economic, urban or regional repercussions.
- ❑ \$100 million more for research, science and technology:
 - accelerated implementation of investment projects, such as the construction or enlargement of research centres and laboratories.

- ❑ \$100 million more for cultural facilities:
 - construction and renovation of cultural venues such as libraries, museums and performance halls;
 - restoration of Québec's built heritage, including places of worship;
 - enrichment of library collections;
 - renewal of exhibitions in museums throughout Québec.
- ❑ \$100 million for the development and upgrading of information technology systems.
- ❑ \$50 million more for building early childhood centres.
- ❑ \$500 million more from the acceleration of investments by government corporations.

PUBLIC-SECTOR INVESTMENT ACCELERATION PLAN

(in millions of dollars)

Health and social services	500
Housing	457
Education	400
Road network	400
Municipal infrastructures	350
Research, science and technology	100
Cultural facilities	100
Information technology	100
Early childhood centres	50
Sub-total	2 457
Government corporations	500
Total	2 957

e) *Support for SMEs and incentives to accelerate private-sector investment*

\$525 million in additional liquidity for SMEs

- ☐ SMEs will be able to defer their tax instalments for the entire fourth quarter of 2001.
- ☐ As of January 1, 2002, employers whose monthly source deductions do not exceed \$1 000 will be able to remit the amounts they must deduct at source on a quarterly rather than a monthly basis. This measure will eliminate the filing of 800 000 forms.

La Financière du Québec: powerful support for SMEs

- ❑ Creation of La Financière du Québec:
 - granting of loans to businesses, in addition to loan guarantees;
 - innovative financing formulas, established on a business basis, to offer flexible solutions to meet the increasingly diversified needs of SMEs;
 - additional budgetary appropriations to grant \$140 million for working capital assistance to businesses, for start-up businesses and for small cooperatives and social economy businesses.

Three initiatives for acting on the investment decisions made today

Stimulation of private investment: reduction of tax on capital

- ❑ 60% of businesses, or over 160 000 firms, will no longer pay tax on capital as of January 2003.
- ❑ The general rate of tax on capital will decline gradually, from 0.64% to 0.30% between now and 2007.

TAX RATES AND THRESHOLD FOR TAX ON CAPITAL IN QUÉBEC

	Current	2003	2004	2005	2006	2007
Tax rate (in %)	0.64	0.60	0.525	0.45	0.375	0.30
Paid-up capital exempt from tax on capital (in thousands of \$)	—	250	500	750	1 000	1 000
Exempt enterprises						
– in thousands	—	162	169	203	210	210
– in %	—	58.1	67.8	72.6	75.1	75.1

Accelerated implementation of major projects: enhancement of the FAIRE¹ program

- ☐ Increase in the commitment envelope of the FAIRE by \$150 million in 2001-2002 and an additional \$200 million in 2002-2003.
- ☐ More investment projects eligible thanks to the lowering of the minimum threshold from 100 to 50 jobs.
- ☐ Extension of the FAIRE program until 2004-2005.

Measures targeting the new economy

- ☐ Extension of new economy assistance programs throughout Québec until December 31, 2013.
- ☐ Broader tax assistance for E-commerce businesses located in the territory adjacent to E-Commerce Place.

1 FAIRE: Private Investment and Job Creation Promotion Fund

Continuation and intensification of efforts in favour of the regions

- ☐ Zero tax for 10 years on income, capital and payroll for businesses whose paid-up capital is less than \$30 million, not \$15 million as initially provided for.
- ☐ To promote the maintenance of existing jobs, changes are being made to the refundable tax credit for processing activities.
- ☐ The cut-stone sector is now eligible for the refundable tax credit for exploration activities, which will have a direct impact on exploration activities in the Côte-Nord, Gaspésie and Haute-Gatineau regions.
- ☐ An additional \$12 million for SOQUEM for carrying out exploration work in concert with the private sector, for a total of \$20 million.
- ☐ Support for rural areas:
 - introduction of the Villages branchés du Québec program in order to connect public institutions through a telecommunications network;
 - injection of funds into the RénoVillage program.