# BUDGET EXPRESS

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March 11, 2003

## PROVINCIAL BUDGET SPEECH OF MARCH 11, 2003

1. Fiscal Comments

2. Economic Comments


Office of the Vice-president, Tax Service
Office of the Vice-president, Economic Studies


INFORMATION BULLETIN


Fédération des caisses Desjardins du Québec

# FISCAL COMMENTS

Québec's minister of Finance, the Economy and Research Pauline Marois tabled her 2003-2004 budget this afternoon. The budget offers no tax cuts whether for individuals or businesses. Because of the upcoming election call, it is possible that the National Assembly will not adopt this budget.

As has been its custom for several years, the provincial government chose tax credits rather than a general tax cut. This budget focuses special attention on remote resource regions with the establishment of many new tax credits and the broadening of others.

## MEASURES AFFECTING DESJARDINS - BUSINESSES

**Introduction of a refundable tax credit for new graduates working in a remote resource region**

To encourage employers operating in these regions to hire new graduates at the vocational, college or university levels, tax assistance will be introduced for every job occupied in any of these regions by such graduates. This tax assistance will provide the employer with support for the additional financial cost required for the apprenticeship and support of an employee in his first working experience in a job related to his field of specialization.

More specifically, the tax assistance in this respect will consist of a refundable tax credit of 20% that an eligible employer who carries on a business in a remote resource region may claim regarding the eligible salaries he pays to his eligible employees. The credit will be calculated based on the eligible salaries paid to eligible employees for a period of 52 weeks. The eligible salary will be limited to $40,000 on an annual basis. So, the credit can not exceed $8,000 per eligible employee.

In addition, the employee must have successfully completed training leading to the awarding of a recognized diploma. The employee must begin working within twelve months after he or she has completed the training.

The eligible regions are as follows:

- Bas-Saint-Laurent (region 01);
- Saguenay-Lac-Saint-Jean (region 02);
- the Haut-Saint-Maurice RCM
- the Mékinac RCM;
- Abitibi-Témiscamingue (region 08);
- Côte-Nord (region 09);
- Nord-du-Québec (region 10);
- Gaspésie-Îles-de-la-Madeleine (region 11);
- the Antoine-Labelle RCM;
- the Vallée-de-la-Gatineau RCM;
- the Pontiac RCM.

The new credit is available for eligible salaries paid after March 11, 2003 for employees hired after this date.

**Improvement of the tax credit for on-the-job training periods in remote resource regions**

The current credit for on-the-job training, that allows businesses to claim 40% of the eligible expenses related to such training periods, is improved for training periods carried out in remote resource regions mentioned earlier.

More specifically, the ceiling on the eligible expenses, which was $500 or $625 a week depending on the eligible study program, is raised to $1,000 and $1,250 respectively. In addition, the eligible hourly rate for an apprentice is raised, from $15 to $25.

These measures are in effect for the training periods that begin after March 11, 2003.

**Clarifications concerning international financial centres (IFC)**

Québec's tax legislation contains several measures designed to promote the growth of Québec's financial sector. These measures relate in particular to the conducting of eligible international financial transactions (QIFTs) through international financial centres (IFC).

Under existing legislation, the Minister of Finance, the Economy and Research must, in particular, annually issue to an operator of an IFC an eligibility certificate according to which, in her view, the activities of the business or part of a business of the operator of an IFC concerned QIFTs. In addition, the Minister of Revenue must identify the portion of the income of the operator of an IFC that relates to QIFTs. This situation could cause harm to the operator of an IFC that acted in good faith when some of the activities of the business were covered by a certificate from the Minister of Finance, the Economy and Research, thereby giving the impression that the transactions underlying such activities were QIFTs, and, in the course of a subsequent audit, the Minister of Revenue is of the view that the transactions in question are not QIFTs for the purposes of the calculation of the income of the operator of an IFC.

Accordingly, a clarification will be made, applicable both for the past and the future, to ensure that the Minister of Revenue may not disqualify a given transaction as a QIFT when such given transaction is covered by a certificate issued by the Minister of Finance, the Economy and Research.

**Relaxation of investment requirements imposed on CRCD and certain mutual fund corporations**

Each of the acts under which the Capital Régional et Coopératif Desjardins, FTQ and Fondaction investment companies were constituted stipulates in particular that, in the course of each fiscal year, the proportion of investments made by the company concerned in eligible entities, entailing no security or hypothec, must represent, on average, at least 60% of its average net assets for the preceding year. If the company fails to comply with this investment requirement, referred to hereafter as the "60% requirement", it will incur a sanction.

Various amendments will be brought to the 60% requirement to relax the investment requirement imposed on these companies, namely the inclusion of investments in limited partnerships as eligible investments. In the coming months, the government will review the 60% requirement with the companies involved.

## MEASURES CONCERNING INDIVIDUALS

**Improvement of the refundable tax credit for housing a parent**

Currently, under some conditions, taxpayers who house an eligible parent may claim a refundable tax credit of $550, which is not reduced on the basis of the parent's income. Only the father, mother, grandfather, grandmother or another direct ascendant, or the uncle, aunt, great-uncle or great-aunt, of the taxpayer or the taxpayer's spouse are considered eligible parents for the purpose of the application of this tax credit, provided they are 70 or older, or at least 60 and have a severe and prolonged mental or physical impairment.

Starting in the 2003 taxation year, due to the broadening of the definition of "eligible relative", this tax credit will become the "refundable tax credit for natural caregivers." In addition, it will be raised to $600.

So, the expression "eligible relative" of an individual will mean :

- the individual's spouse, where the spouse has a severe and prolonged mental or physical impairment rendering him or her unable to live alone, as attested to by a recognized practitioner;

- or a person who:

  is 18 or older and the child, grandchild, nephew, niece, brother, sister, father, mother, uncle, aunt, grandfather, grandmother, great-uncle, great-aunt or another direct ascendant of the individual or the individual's spouse;

  or has a severe and prolonged mental or physical impairment, unless the person is 70 or over and the father, mother, grandfather, grandmother or another direct ascendant, or the uncle, aunt, great-uncle or great-aunt, of the individual or the individual's spouse.

**Introduction of a refundable tax credit for maternity or adoption leave taken by self-employed workers**

In 2001, the government of Québec adopted the *Act respecting parental insurance* in order to provide tax assistance to self-employed workers

during a maternity leave or an adoption. For various reasons, the bill is still not in effect.

Meanwhile, the government is introducing a tax assistance package of up to $5,070 in the form of a refundable tax credit for the year during which a self-employed worker has a child or adopts one. In general, when transformed in a tax credit, this assistance will represent, on the basis of a maximum annual income of $39 000, the equivalent of 55% of self-employment income, for twelve weeks. The assistance will be reduced of any benefit received under the *Employment Insurance Act*, if applicable.

The tax credit will apply as of the 2003 taxation year.

**Introduction of a refundable tax credit for new graduates working in a remote resource region**

“Eligible individuals” who reside in an “eligible region” may claim a refundable tax credit of 40% of their eligible salary for the year, without exceeding the amount by which $8,000 exceeds any amount claimed as this tax credit for a taxation year prior to the taxation year concerned.

An "eligible individual" means an individual who has successfully completed the training leading to a recognized vocational, college or university diploma and who receives an “eligible salary” during the year. As a rule, an "eligible job" refers to an employment that an individual takes up within 24 months after having successfully completed the training, as long as the training is related to the employment and that the work location is located in an “eligible region”.

The term "eligible region" means the territories included in the following administrative regions and regional county municipalities (RCMs):

- Bas-Saint-Laurent (region 01);
- Saguenay-Lac-Saint-Jean (region 02);
- the Haut-Saint-Maurice RCM;
- the Mékinac RCM;
- Abitibi-Témiscamingue (region 08);
- Côte-Nord (region 09);
- Nord-du-Québec (region 10);
- Gaspésie-Îles-de-la-Madeleine (region 11);
- the Antoine-Labelle RCM;
- the La Vallée-de-la-Gatineau RCM;
- the Pontiac RCM.

The credit will apply for an individual that begins an eligible job after March 11, 2003.

**Interest paid on student loans and residents of remote resource regions**

To lighten the burden resulting from the obligation to pay interest on a student loan, a non-refundable tax credit is granted to taxpayers who file their income tax return under the general tax system. The tax credit for interest paid on a student loan corresponds, for a given taxation year, to 20% of the amount by which the total interest paid since 1998 on a student loan granted notably under the *Act respecting financial assistance for education expenses*. Any unused portion of the tax credit for interest paid on a student loan may be applied against the income tax payable for a subsequent year.

To encourage young graduates to settle in a remote resource region after their studies, the terms and conditions for calculating the tax credit will be modified so as to double the financial assistance granted with regard to the interest paid on a student loan during each of the years they live in such a region.

The taxpayer must be living in a remote resource region on December 31 of the year. The eligible remote resource regions are the same as those listed previously in the refundable tax credit for new graduates.

This measure will apply for interest paid as of 2003.

**Tax relief for employee transit passes**

To decrease energy consumption, the government announces tax relief where an employee pays for a subscription-type transit pass or an employer compensates the employee for the pass, if the taxpayer purchased the pass to commute between his or her regular place of residence and place of work.

This measure applies for eligible subscription-type passes valid for after February 2003 and any other type of eligible transportation provided by an employer after February 2003.

**Deduction of employee transit passes**

Along the same lines, the employees who are not reimbursed by their employer may deduct in the calculation of their income any amount paid in the year to purchase an eligible subscription-type transit pass, provided the pass is acquired to commute between the place of residence and the place of work.

For employees to benefit form this deduction, employers must indicate that they did not provide any reimbursement or a non-taxable allowance for travel expenses.

This measure will apply for the purchase of eligible subscription-type transit passes valid for a period after February 2003.

**Medical expenses for dependants**

The tax system currently provides for a non-refundable tax credit to offset a portion of the medical expenses paid by taxpayers, where the expenses exceed a certain level of income. As a rule, individuals who pay eligible medical expenses for themselves, their spouse and the dependants who ordinarily live with them can deduct, in the calculation of their income tax otherwise payable, an amount equal to 20% of the portion of the expenses that exceeds 3% of family income.

However, when taxpayers include expenses paid for a dependant other than their spouse in the calculation of their eligible medical expenses and the dependant's income exceeds the amount for recognized essential needs for the purpose of the application of the basic amount ($6,150 in 2003), the amount of the non-refundable tax credit for medical expenses to which they would otherwise be entitled must be reduced by an amount representing 58% of the amount by which the dependant's income exceeds the amount for recognized essential needs.

To better recognize the contribution of persons who support relatives and further simplify the tax system, individuals will no longer be obliged, as of the 2003 taxation year, to reduce the non-refundable tax credit for medical expenses otherwise determined in order to take into account the portion of the income of dependants for whom medical expenses were paid that exceeds the amount for recognized essential needs.

**More eligible adoption expenses for individuals residing in outlying regions**

The tax system grants taxpayers who adopt a child a refundable tax credit equal to 30% of the eligible adoption expenses paid by them or their spouse, provided the adoption process is completed. However, the adoption expenses eligible for the tax credit are capped at $20 000. Thus, taxpayers who adopt a child may claim a refundable tax credit of up to $6 000.

Eligible adoption expenses include, among other things, the travel and accommodation expenses paid by the parents when they go to a foreign country to bring home their child, the child's travel expenses for the trip to his or her new home, as well as the travel expenses of an escort if the parents do not accompany the child on the trip.

The tax legislation will be amended to provide that travel and accommodation expenses paid by parents to pick up, in a major urban centre in Québec, an adopted child escorted only as far as the centre constitute eligible expenses for the purpose of the application of the refundable tax credit for adoption expenses.

This amendment will apply to final adoption judgements rendered after December 31, 2000 or, where applicable, to certificates of registration of an adoption issued by the clerk of the Court of Québec after that date.

**Extension of tax benefits relating to flow-through shares**

A flow-through share system that provides eligible investors with a tax deduction in their Québec income tax return is currently set up. In March 2001, an announcement was made that the system would be replaced by a refundable tax credit on eligible corporations. The flow-though share system could be used until the end of the 2001. On September 14, 2001, an extension to the end of

2003 was announced. This budget provides for a further extension to the end of 2004.

Accordingly, for taxation year 2004, individuals may continue to claim deductions equal to 125% or

175%, as the case may be, regarding oil and gas exploration expenses incurred in Québec prior to January 1, 2005 by exploration companies with no resource development profits.

**Foreign employees**

Certain adjustments are brought to the five-year tax holiday granted to certain foreign employees.

The tax legislation stipulates that an individual, who ordinarily does not reside in Canada, is deemed to reside in Québec throughout an entire taxation year if, during such year, his or her stays there during one or more periods total at least 183 days. Accordingly, in situations where a foreign individual who stayed in Québec for 183 days or more during

a year, for instance to engage in university studies,

and commences employment with an eligible employer, in such year, though without beginning to reside ordinarily in Canada, this presumption of residence would result in such individual being deemed to reside in Québec since the beginning of such year, and he or she would be unable to benefit from any tax holiday for foreign employees.

In this context, so to achieve the objective of the tax holidays encouraging the recruitment of foreign employees, the tax legislation will be amended so that similar tax treatment is afforded in all situations where a foreign individual comes to Québec to hold a job with an eligible employer.

This change will apply as of taxation year 2003.

## MEASURES CONCERNING BUSINESSES

**Deductibility of patronage dividends paid by a co-operative (other than a credit union)**

Currently, the tax legislation stipulates that the amount of the allowable deduction for a patronage dividends, in calculating the income of a co-operative for a taxation year, is limited depending on the sales it achieved with its members.

The budget proposes that eligible co-operatives may a partial attribution of residual surplus. In short, the additional patronage dividends will be equal to share of its residual surplus as a proportion of the value of the business with its members. The residual surpluses must be paid in preferred units redeemable only after five years and carrying no right to dividends.

***Example:***

- Co-operative surplus $1,000,000
- Percentage of business with members 60%
- Residual surplus $400,000
- Patronage dividends currently allowable as a deduction $600,000

Additionnal amount allowable as a deduction as eligible surplus patronage dividends :
$400,000 x 60% = $240,000

Total patronage dividends allowable as a deduction $840,000

This measure will apply to patronage dividends paid after the date the bill amending the *Cooperatives Act* to authorize such attribution is assented to. Note that this rule does not apply to caisse's patronage dividends.

**Various measures**

-clarifications concerning transfers from a Farm Income Stabilization Account;

-streamlining relating to an innovative project carried out in a designated site (CDTI, CNE, CDB);

-consolidation of certain responsibilities with Investissement Québec;

- simplification of the refundable tax credit for corporations specializing in the production of multimedia titles;

- eligibility of certain corporations that do not pay tax for various tax incentives;

- tightening measures to ensure a portion of the funding of the new Québec film and audio-visual production policy;

- new component added to the regional increase for a Québec film or television production;

- other measures regarding culture.

# ECONOMIC VIEWPOINT

# Québec Budget 2003

Desjardins

Economic Studies

www.desjardins.com/economics

March 11, 2003

## Again a balanced budget without much room to manoeuvre

### Highlights

Deputy Premier and Minister of Finance, the Economy and Research Pauline Marois handed down her third budget today. A balanced budget for a sixth year in a row. However, the balancing of public finances during the next two years will require reallocating nearly $1B in operating expenditures. The Landry government kept its promises by avoiding a sprinkling just before elections are called. In fact, Premier Landry is sticking with his action plan by carrying on with the economic development of Québec and increasing social measures. All in all, the new expenditure measures, except for health care, are not very substantial and have little impact on the large balances of public finances as they will be offset by equivalent budgetary reallocations.

- The government's fiscal balance is maintained due to a sustained increase of own-source revenues that are increasing more rapidly that nominal GDP and a more moderate increase in budgetary expenditures during fiscal 2003-2004 and 2004-2005.
- In addition to maintaining a fiscal balance, the government will allocate $1.7B to health and social services in fiscal 2003-2004.
- A $809M reserve is also set aside to help fund health care over the coming years without threatening the zero deficit objective.
- The budget provides for several new expenditure measures that promote investments in businesses, especially those in the technology sector, and the fight against poverty.
- The government also wants to increase prosperity in Québec's regions by encouraging young workers to return and increasing the vitality of regional businesses, especially in the agri-food and tourism industries.

### Summary of Budgetary Transactions

| In millions of $ | 02-03e | 03-04e | 04-05e |
|---|---|---|---|
| Own-source Revenues | 43,712 | 46,084 | 47,949 |
| - Ann. Var. in % | 6.6 | 5.4 | 4.0 |
| Federal Transfers | 9,108 | 10,566 | 8,538 |
| - Ann. Var. in % | -2.1 | 16.0 | -19.2 |
| **Total Budgetary Revenues** | **52,820** | **56,650** | **56,487** |
| **- Ann. Var. in %** | **5.0** | **7.3** | **-0.3** |
| Operating Expenditure | -45,540 | -48,160 | -48,748 |
| - Ann. Var. in % | 3.6 | 5.8 | 1.2 |
| Public Debt Charges | -7,280 | -7,681 | -8,242 |
| - Ann. Var. in % | 0.3 | 5.5 | 7.3 |
| **Total Budgetary Expenditures** | **-52,820** | **-55,841** | **-56,990** |
| **- Ann. Var. in %** | **3.1** | **5.7** | **2.1** |
| Reserve for Health Education, etc... | -- | -809 | -- |
| Health Funding following the Federal Announcements | -- | -- | 503 |
| **Budgetary Balance** | **0** | **0** | **0** |
| Non Budgetary Surplus | -1,927 | -1,074 | -1,422 |
| Program Spending-to-GDP Ratio (%) | 18.4 | 18.4 | 17.8 |
| Total Debt Service to Budgetary Revenues (%) | 13.8 | 13.6 | 14.6 |

e: estimates.
Source: Ministère des Finances, de l'Économie et de la Recherche.


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**A tight budget, based on realistic yet fragile assumptions…**

Overall, the Marois budget is based on rather realistic assumptions that stem from private-sector forecasts, as has been the case for several years. Our estimates for the growth of nominal GDP in 2003 and 2004 are slightly higher, which makes the ministère des Finances estimates seem conservative. However, our estimates for short-term interest rates are slightly higher for 2003, which could mean higher interest charges on the debt.

The scenario of economic estimates on which the budget projections are based are counting on a quick and damage-free settlement in the U.S./Iraq conflict and on a continuing economic recovery in the U.S. If not, the budget estimates could be optimistic.

**Economic and Financial Forecast**

| | 2003 | | 2004 | |
|---|---|---|---|---|
| | Québec Budget | Mouvement Desjardins | Québec Budget | Mouvement Desjardins |
| Québec nominal GDP (%) | 5.5 | 5.8 | 4.6 | 5.0 |
| Québec real GDP (%) | 3.5 | 3.2 | 3.2 | 3.1 |
| Canadian 90-day Treasury Bonds (%) | 3.0 | 3.4 | 4.4 | 4.6 |
| Canadian 10-year Bond (%) | 5.2 | 5.3 | 5.8 | 5.7 |

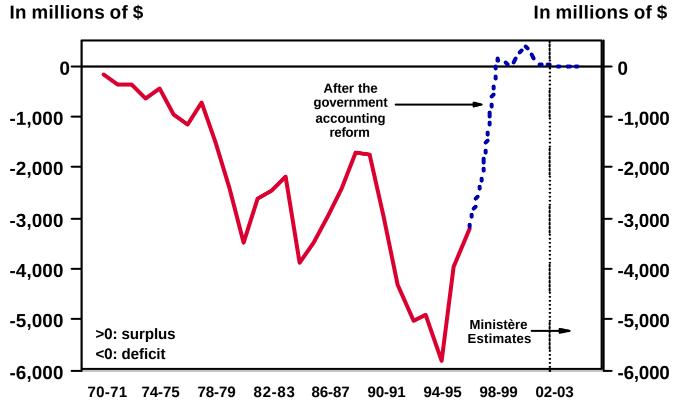
Sources: Ministère des Finances, de l'Économie et de la Recherche; Economic Studies, Mouvement Desjardins.

In any case, the minister of Finance is tabling a balanced budget that indicates improving financial ratios, although very slightly. However, the fiscal environment remains uncertain and to maintain the fiscal balance, the government must tighten the budget by $400M and $648M respectively for fiscal 2003-20004 and 2004-2005. In addition, the program expenditure ratio-to-nominal GDP remains the same and has remained at some 18.5% for the past four years. In other words, the program expenditures are growing at the same rhythm as GDP, which leaves the government with no room to manoeuvre or pay down the debt.

Finally, according to the government's budget projections, the share of debt service to government revenues, which has been going down for five years, will stop decreasing during the next two fiscal years. On the other hand, the ratio of net debt-to-GDP was brought down significantly, from 47.0% during fiscal 1997-1998 to 39.2% in fiscal 2002-2003. With the expected increase in interest rates in the next two years, it will definitely be more difficult to bring down the weight of the debt in comparison with the size of the economy.

The government is then tabling a balanced and responsible budget, but its fiscal environment remains shaky.

**Budgetary Balance Is Maintained at Zero**



Source: Ministère des Finances, de l'Économie et de la Recherche.

**Health of course gets the lion's share…**

As promised, minister Marois handed down a budget in keeping with her financial means, with few new budget initiatives other that a significant increase in health spending. Under the February 2003 agreement on the renewal of health care, Québec will be benefiting in 2003-2004 from a $1.1B increase at least in federal transfers. This increase could even reach $1.6B if the federal surplus is over $5B in 2003-2004. As a result, budget expenditures allocated to health will be increased to $1.7B in 2003-2004, i.e. $838M funded by additional federal transfers and $814M coming from Québec. The remaining unused federal transfers will be allocated to a reserve that should help maintain the new recurring expenditures next year.

In addition to the increasing health expenditures, the Landry government is also proposing several other expenditure measures of limited scope, including measures to fight poverty, to improve the school system, to build and renovate social housing, to improve the quality of the environment, to help culture and to help balance work and family life. Other measures are also put forth to improve the competitiveness of Québec's economy through investment incentives, help to regions and support for manpower development.

However, Québec taxpayers will see very new measures on their plates. Of course, minister Marois is announcing a host of measures to reduce the tax burden of individual Quebecers and decrease corporate taxes. But the amounts involved are minimal. In fact, the tax burden of individuals and corporations will be reduced by a mere $39M in 2003-2004 and $148M in 2004-2005.

Finally, as indicated by the table opposite, new initiatives affecting expenditures and revenues (when excluding the increase in health spending) will total $400M in 2003-2004. This amount will be a little higher in fiscal 2004-2005, i.e. $648M. However, it is important to point out that these new measures will be limited in their impact. Indeed, to ensure that the public finances remain balanced, they will be entirely funded by a reallocation of revenues and expenditures. So, what the Landry government gives with one hand, it takes back with the other. Unfortunately, the 2003-2004 budget remains essentially silent on what the tightening measures that will need be brought in to fund today's new initiatives will be. It seems that a large part of it will be funded by a reduction of the credits allocated to several existing programs, diluting the negative impact of such a reallocation.

**NEW 2003-2004 BUDGET INITIATIVES AND TIGHTENING MEASURES**

| In millions of $ | 2003-2004 | 2004-2005 |
|---|---|---|
| **New Initiatives** | | |
| - affecting revenues | -39 | -148 |
| - affecting expenditures* | -361 | -500 |
| **Sub-total** | **-400** | **-648** |
| **Tightening Measures** | | |
| - affecting revenues | -- | 148 |
| - affecting expenditures | 400 | 500 |
| **Sub-total** | **400** | **648** |
| **Total** | **0** | **0** |

(*): With the exception of the increase in healts spending.
Source : Ministère des Finances, de l'Économie et de la Recherche.

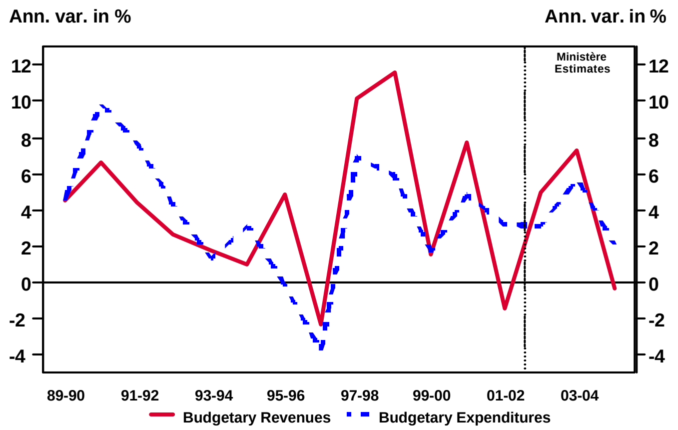
In addition to these measures, the many investments that the government of Québec expects to be making in education, health and social services, housing, cultural facilities, research infrastructures and the road network must be added. Several announcements were made public recently. These investments will not be directly reflected in the 2003-2004 budgetary results as only their amortization is entered every year. In total, the ministère des Finances du Québec expects to invest a little over $2B in public infrastructures in 2003-2004.

**NEW BUDGETARY MEASURES FOR 2003-2004**
**(in millions of $)**

| | |
|---|---|
| **Health Expenditures** | **1,700** |
| **Other Expenditure Measures:** | |
| - Help for Regions | 85.1 |
| - Fight against Poverty | 50.9 |
| - Improving the School Network | 43.7 |
| - Investment Incentives | 43.6 |
| - Help for Culture | 38.1 |
| - Manpower Support | 34.0 |
| - Assistance to the Technology Sector | 27.8 |
| - Social Housing Construction and Renovation | 16.5 |
| - Other Measures | 21.3 |
| Total: Other Measures and Expenditures | 361.0 |
| **Other Revenue Measures:** | |
| - Measures for Individuals | 30.0 |
| - Measures for Corporations and Tax Exemptions on Biodiesel | 9.0 |
| Total: Other Revenue Measures | 39.0 |
| Total: Other Expenditure and Revenue Measures | 400.0 |
| **Reallocations of Financial Resources** | **-400.0** |
| **New Budgetary Measures Balance** | **1,700** |

Source : Ministère des Finances, de l'Économie et de la Recherche.

**Budgetary Revenues and Expenditures**

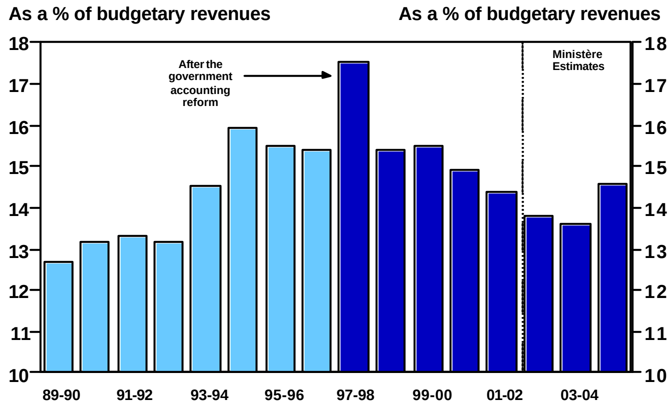



Source: Ministère des Finances, de l'Économie et de la Recherche.

**Impact on the financial markets**

The third Marois budget has clearly shown a determination in balancing the government's financial statements. The gradual tax cuts, the balancing of the budget for a sixth year in a row, even though the room to manoeuvre is ever tighter, combined with an improvement in the economic environment, are the main points.

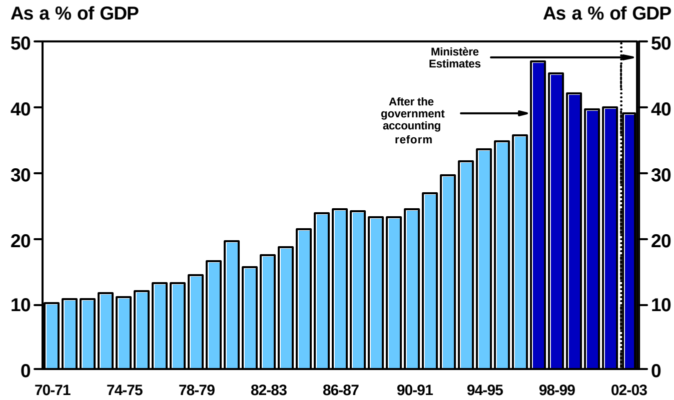
**Drop in the Total Debt Services**




Source: Ministère des Finances, de l'Économie et de la Recherche.

However, the level of the public debt remains very high, especially when taking into account all public administrations, for which the government guarantees loans. As opposed to the federal government, there is no effective plan to reduce the debt. In addition, even with the recent tax cuts, Quebecers remain among the highest taxed individuals in North America. Finally, the share of the floating interest rate debt (approximately 32%) and the foreign currency debt (approximately 20%) are high to say the least, which threatens the balance of public finances in Québec in the future.

**Slow Fall in the Net Debt**




Source: Ministère des Finances, de l'Économie et de la Recherche.

Overall, since the shift co-ordinated by the former minister of finance and current Premier, public finances keep improving. The rating agencies even pointed this out recently. Moody's brought the province of Québec's rating up from A1 stable to A1 positive. Yet the road to a first rate financial picture still appears to be a long way off.

**Conclusion: A budget that reveals the government's precarious financial situation**

The budget tabled on March 11, 2003 does not include any new large budget measures aside for the amounts allocated to health care. In addition, over 50% of the amount come from the federal government following last February's agreement between the provinces and Ottawa. The budget has a series of measures totalling $400M (helping regions, fighting poverty etc.). However these new initiatives must be funded by "budget tightening measures" in various programs to be determined subsequently.

Obviously, the government had no room to manoeuvre and could not do anything more. The economic slowdown in 2001 brought down tax revenues and they did not increase enough since despite the economic growth and the high job creation. There are no real tax cuts to speak of, i.e. a mere $39M. So, the government was right in choosing to keep up its fiscal balance.

In many respects, the government of Québec's financial situation remains fragile. On the economic front, the persistent geopolitical uncertainties seriously threaten the budget's economic assumptions and so, tax revenues. In addition, during the next two years, the government should be facing rising interest rates that could adversely affect the debt service.

The government's tax situation remains precarious. First, the size of Québec's debt puts it in the highest bracket, especially when health and education networks as well as municipalities are included. Finally, Quebecers' tax burden remains one of highest in Canada. So, despite a sixth balanced budget in a row, the government of Québec must stay the course and keep improving financial ratios. In addition, it will have to keep working on tax cuts for individuals in the coming years.