

# ECONOMIC STATEMENT

by the Minister of Finance and Minister  
responsible for Infrastructure, Monique Jérôme-Forget

January 2009

MINISTER'S  
STATEMENT

## ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT THE ECONOMY AND EMPLOYMENT



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# MINISTER'S ECONOMIC STATEMENT

## Additional Immediate Actions To Support The Economy And Employment

Mr. President,

In the course of the election campaign, we made a commitment to make the economy our government's priority. Quebecers recognized the merits of electing a stable government to deal with the economic storm.

This sign of confidence is a call to us as a government team, in the first place, but it is also a call to all elected members of this assembly.

We also recognize that Quebecers wanted the government to work with a strong and vigilant opposition. That is healthy for our democracy.

We will have to act with discipline, compassion and empathy, and where possible by speaking with one voice in this chamber. We must always be focused on the interests of those who will be directly affected by the economic storm.

We often talk about the economy in statistical terms. And though we can say, with figures to back us up, that our economy is holding up well, Mr. President, it is still the case that for each worker who loses his job, the unemployment rate is not 7%, but rather 100%. For these families, the issue is not declining growth, but rather projects that have to be abandoned. What is affected is quality of life.

We will have to think of these workers and these families over the coming weeks and months.

That is why we are making protection of jobs, preservation of families' purchasing power and help for companies facing tighter credit conditions, our priorities.

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Mr. President,

In terms of the economy, our actions over the last two years have been hailed by observers for being relevant and coherent.

The action plan the Premier presented during the election campaign was in the same vein.

Today, we are gathered for an extraordinary session to adopt a number of measures of our economic action plan.

Today I am announcing six new targeted measures that will:

- support the construction industry by stimulating home renovation;
- support investment by granting more financial resources to the Société générale de financement du Québec;
- support our companies and our workers by easing rules governing pension plans;
- support our artists and artisans of the film and television industry with more generous tax credits;
- support the purchasing power of wage-earners by raising the minimum wage;
- support employment in every region by accelerating investment in our public infrastructures.

These measures, which have an immediate effect, also begin the consultations leading to the next Québec budget.

Last fall, the government implemented an important process to monitor the situation carried out by three groups of decision-makers: the first monitors the economic situation and is chaired by my colleague the Minister of Economic Development, Innovation and Export Trade, the second monitors the labour market situation and is chaired by my colleague the Minister of Employment and Social Solidarity, and the third, which I chair, keeps a close watch on the financial situation. These three groups assist the government in keeping a close eye on the situation.

Looking ahead to the next budget, I am committed to meeting the opposition parties to discuss proposals that are consistent with Quebecers' priorities while at the same time taking the government's budgetary situation into account.

Quebecers expect solutions. They also expect constructive and realistic propositions from the opposition. Together, we must form a united Parliament working in the best interests of Québec.

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Mr. President,

The economic storm that is buffeting every continent is growing in intensity. The financial crisis has grown worse, leading to significantly tighter bank credit throughout the world.

Consumers and businesses have cut their spending, adding to the difficulties of the labour market in most countries.

Asia is in the grip of a sharp economic downturn. The United States and Europe are already in recession. Canada will not be spared.

Québec is one of the economies most open to the world. 50% of our economy relies on export markets. Almost 75% of our international exports are shipped to the United States.

Québec is thus directly affected by the slowing world economy and more particularly by the recession that has hit our neighbours.

Still, almost all economists agree that Québec will fare better than its neighbours.

There are five main reasons for that.

- First, Québec benefits from its diversified economy.
  - Some of our industries, which rank among the leaders in the world, continue to do well. Examples include the aerospace industry and the energy sector.
  - In addition, Québec is much less dependent on the sectors most affected by the global slowdown, such as automobiles, oil and natural gas.
- Second, the real estate sector in Québec is not experiencing the same problems as in the United States, where it has been ravaged by subprime mortgage loans that contributed directly to the over-indebtedness of consumers.
- Third, we are better prepared. We constituted a budgetary reserve through our prudent and disciplined management. This reserve has enabled us to act to counter the downturn.
- Fourth, we have undertaken the most extensive infrastructure program in our history and the largest in Canada. This program, together with intensive energy development, is generating economic activity in every region of Québec.
- And fifth, our government has cut taxes. By protecting the purchasing power of middle-class families we have supported consumer spending.

The structure of our economy, together with the decisions that have been made, mean that so far, Québec has resisted the global economic slowdown. Accordingly, the strength of our domestic economy is offsetting the decline in exports. For example:

- for the first three quarters of 2008, our economy grew by 1.1% compared to last year;
- for the first ten months of 2008, retail sales rose by 5.6% compared to last year;
- unlike the situation elsewhere in Canada and the United States, housing starts stayed at a very high level of 47 800 new units in 2008;

— lastly, reflecting our economy's good overall shape, the unemployment rate remained at the historic low of 7.2% for 2008 as a whole.

Accordingly, it is true that, so far, we have been hit less hard by the economic slowdown than our partners. However, the coming months will be more difficult because of the deterioration of the international situation.

Moreover, most economists expect activity to contract in 2009. That is why today, before the tabling of the federal budget, we are adopting new targeted support measures to mitigate the effects of this economic slowdown.

Québec's economic portrait will be influenced by the next federal budget, which will be crucial, and by the recovery plan of the new American administration. Our next budget will reflect the impact of the actions taken by these governments.

For 2008-2009, the government's financial results meet expectations and the budget will be balanced. The government has a large budgetary reserve available to deal with the situation.

For 2009-2010, our objective remains a balanced budget.

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Mr. President,

The measures we are announcing today counter specific effects of the financial crisis and will help mitigate the economic slowdown.

These new measures are consistent with Québec's financial capacity. I want to emphasize this point. There is no question of abandoning the discipline that has characterized our management of public finances for almost six years now.

These measures are in addition to those announced in the economic update of last November 4 and in the last two budgets.

Mr. President, on those occasions, I announced in particular:

- tax cuts of more than \$1 billion for Québec taxpayers and for the middle class in particular;
- an infrastructure investment plan of \$37 billion over five years;
- a \$300-million reduction in corporate taxes in 2009 by means of the plan to reduce the tax on capital;
- a vigorous action plan for the manufacturing sector;
- a \$1.4-billion plan for the forest sector that will be adapted to reflect the needs of the industry;

- three measures to support the purchasing power of Quebecers: an increase in the tax credit for retirement income, full indexing of social assistance benefits and indexing of the personal income tax system.

I also announced that the government would make \$1 billion available for Québec companies in the form of loans and loan guarantees. The Renfort program, administered by Investissement Québec, was announced by my colleague the Minister of Economic Development, Innovation and Export Trade, last December 17.

Mr. President,

Today, we are adopting six new measures to support employment, protect the purchasing power of Quebecers and support our companies that must deal with sources of credit that have dried up.

**First**, I am announcing, in accordance with the commitment made during the election campaign, the implementation of a new refundable tax credit for home improvement and renovation.

- This tax credit, which is offered for 2009, represents a refund of up to \$2 500 for home improvement and renovation work in a principal residence.
- It will help support jobs in the home renovation and construction sector throughout Québec, at a time when we anticipate new housing starts to weaken.
- We expect that 170 000 households will thus benefit from \$250 million in tax relief to carry out renovation work.

**Second**, I am announcing, in accordance with the commitment made during the election campaign, a contribution of \$1 billion to the capital of the Société générale de financement du Québec to increase its investments in companies active in Québec. This contribution will be paid over two years, i.e. in 2009 and 2010.

- This increase in the investment capacity of SGF, in the form of equity, quasi-equity or loans, will help support Québec companies and jobs in a difficult economic context.
- This contribution to the capital of SGF, together with the Renfort program, means we are sticking to our economic action plan that called for \$2 billion to be made available to Québec companies to counter the effect of tighter credit conditions.

**Third,** I am announcing, in accordance with our campaign commitment, an easing of the rules governing company pension plans. Here I want to praise the leadership of my colleague the Minister of Employment and Social Solidarity, who has tabled a bill to that effect that, we hope, will be supported by the opposition. In recent weeks, he has led productive discussions involving the unions and employers on the complex situation of pension funds and today we are implementing the unanimous recommendations resulting from this work.

— These measures secure the solvency of the pension funds of Québec companies while protecting the financial situation of the companies. They are indicative of the maturity of labour relations in Québec and the willingness of unions and employers to work together to get through this period of economic turbulence.

**Fourth,** I am announcing, in accordance with our campaign commitment, an improvement to the support for film and television production. This industry, which generates more than 32 000 jobs, is facing increased competition from other Canadian provinces. To contribute to the dynamism of this industry and attract more productions, we are raising the base rates of the tax credit for film and television production from 29 to 35% and from 39 to 45%. In addition, we are adding another 10% for productions that receive no public funding to enable Québec's economy to benefit further from the spin-offs of this industry that is both a field of excellence in Québec and a lever of cultural affirmation.

**Fifth,** we are acting on our commitment to raise the minimum wage to protect the purchasing power of low-wage workers. The minimum wage will be raised by 50 cents an hour next May 1, bringing it to \$9.00 an hour.

**Sixth,** we are accelerating infrastructure investments to further support employment.

— In October 2007, I announced, with the Premier, the *Québec Infrastructures Plan* involving investments of \$37.7 billion over the period from 2007 to 2012. This was the first phase of an immense undertaking to renew all public infrastructures over a period of 15 years.

— In accordance with the provisions of the Act to promote the maintenance and renewal of public infrastructures, passed in December 2007, the government is tabling the update to the plan. Accordingly, planned investments for 2008-2013 will amount to \$41.8 billion, i.e. \$4.1 billion more than in the earlier plan.

— Taken together, investments in public infrastructure and investments in energy development will total \$13.9 billion in 2009 and \$13.8 billion in 2010.

— This is a record amount of investment at a time when our economy is going through the worst of the economic and financial storm. This is a tested approach that economists as a whole agree can counter the economic

downturn. More than 100 000 people will be mobilized in every region to modernize Québec.

In all, these new actions and those previously implemented will add \$6.9 billion to the economy as of 2009.

I want to take advantage of this occasion to table two documents that describe in greater detail the six measures I have announced: the explanatory document *Additional Immediate Actions to Support the Economy and Employment* and the document *Additional Information on the Fiscal Measures*. Mr. President, the first document includes, in particular, the annual report on the use of the investment budget for fiscal year 2007-2008, as stipulated in the Act to promote the maintenance and renewal of public infrastructures.

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Mr. President, our government has also worked to make what is known as the Montréal Accord a reality. An agreement was reached on Christmas Eve by the parties involved to carry out a restructuring of asset-backed commercial paper (ABCP).

There is \$32.8 billion of ABCP not issued by banks in Canada, of which more than half is held by the Caisse de dépôt et placement du Québec, certain Québec public-sector entities and by two major financial institutions in Québec. Private investors also hold ABCP.

In September 2007, the Pan-Canadian Investors Committee, chaired by Mr. Purdy Crawford, was formed. On December 23, 2007, the committee announced that it had reached an agreement-in-principle on the overall restructuring of ABCP not issued by banks.

However, the significant deterioration of financial markets in 2008, especially during September, prompted the main players of the Montréal Accord to review a number of parameters of the restructuring. Further to the ensuing negotiations, the Crawford Committee officially sought the participation of governments last month.

Four governments, namely the federal government and those of Québec, Ontario and Alberta, decided to participate in the restructuring of ABCP and a formal agreement among all the parties involved was reached on December 24.

The matter was discussed at very senior levels up until one minute before midnight. Both the Premier of Québec and the Prime Minister of Canada were involved. I also took part to bring the other governments to become involved in this process of key importance.

Tremendous work was done to minimize the damage and protect our institutions.

At no time could either the Premier or myself even imagine walking away from the Montréal Accord.

We fought tooth and nail to protect our institutions and the savings of Quebecers.

We should all welcome this positive outcome that is essential to the orderly working of our financial system.

In passing I want to express my appreciation for the work done by the new Governor of the Bank of Canada, Mark Carney, who brought all his influence to bear.

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Mr. President,

We are acting now to deal with the crisis.

But we are also working to prepare for the recovery and be among the first to rebound at the first ray of light.

Our government is driven by an economic vision that will accelerate and intensify the recovery. For more than a year, the Premier has been at work on a new economic space for Québec.

During President Sarkozy's visit to Québec City, Québec and France signed an agreement, the first of its kind in the world, on the recognition of prior learning and skills. This agreement will enable a trained worker from one side of the Atlantic to practise his trade on the other side. It is a part of the response to one of the greatest economic challenges facing Québec: the coming shortage of qualified workers to hold the jobs of tomorrow.

Another part of the response to this challenge is to have as many Quebecers as possible contribute. I am thinking here specifically of this Employment Pact that brings together the government, unions and employers in an unprecedented initiative to develop our workforce. Québec needs all of its strength and particularly all of its brains.

In addition, in the coming months we will continue our efforts to reach a new trade agreement between Canada and the European Union, making Québec Europe's chief port of entry to North America.

We will implement a new alliance with Ontario that will give rise to North America's third-largest economic zone, after California and Texas.

We will reach an agreement on full labour mobility across Canada.

And we will take the first steps in a major project to develop the mining, energy and tourism potential of the North in partnership with the northern communities including the First Nations and the Inuit.

Taken together, these five components of the new economic space - the France-Québec agreement, the agreement with Europe, a trade agreement with Ontario,

pan-Canadian labour mobility and the plan for the North – constitute a true repositioning of Québec.

We will also continue to stimulate business investment, innovation and new business start-ups in the sectors of the future. To do so, we will in particular foster a fully competitive personal and corporate tax system.

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Mr. President,

As I mentioned at the beginning of my remarks, this statement is the beginning of the budget consultations.

Over the coming weeks, I will be consulting unions, representatives of employers, community groups and those in the social economy. I will also pay heed to suggestions from the three committees of economic decision-makers we formed in the fall.

Citizens will soon also be able to contribute over the internet, an additional channel that facilitates relations between the government and citizens.

And of course I will consult the opposition parties. I hope our future meetings will be productive and fruitful, in a necessary spirit of cooperation.

I will carry out these consultations with an open mind, but also with the rigor and discipline needed for the sound management of public finances.

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Mr. President,

I am very optimistic for Québec's future.

When we Quebecers are united, we can meet any challenge.

I am confident in the capacity of Quebecers to meet the greatest challenges. I am confident in Quebecers' enthusiasm for work. I am confident in Quebecers' entrepreneurial spirit and ingenuity. And I am confident in our spirit of solidarity in the face of adversity.

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Mr. President,

I am confident that at the first signs of recovery, Québec's economy will be well prepared to rebound.

I am confident that Québec will move forward to sustainable and prosperous growth for future generations.

Thank you, Mr. President.

