

Full-court Press

Fiscal Year 09/10

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The Province of Quebec is projecting four years of deficits as it temporarily applies the fiscal accelerator in an attempt to counter deteriorating economic conditions. The FY2009/10 deficit will be \$3.9 bln or 1.3% of GDP, as the Province increases program spending and focuses on its infrastructure program—still, that’s less than half the size of the deficits seen in the early-1990s. Meantime, total stimulus measures are estimated at \$15 bln over the next two years, or an aggressive 4.9% of GDP. Of that amount, \$3.4 bln represents new measures announced in this budget, though a good chunk of that (\$2.4 bln) is expected to be picked up by the private sector and other levels of government. The FY2008/09 budget remains balanced, as previously projected in November, though that now includes a larger transfer from the reserve fund (\$2.0 bln, up from \$1.2 bln). The budget is projected to return to surplus in FY2013/14 through a combination of tighter spending and tax/fee increases.

Total revenue is expected fall 0.4% to \$62.2 bln in FY2009/10, with own-source revenue down 2.4%, owing largely to lower corporate and personal consumption tax receipts. Federal transfers will total \$14.8 bln, up 6.6% from the prior year. There are some modest corporate tax measures, including an extension of accelerated depreciation on manufacturing equipment and computer hardware, and an increase in the amount of income eligible for reduced small business taxes—these measures will cost a modest \$31 mln in FY2009/10. The Province also previously announced (in January) a tax credit on home renovation similar to that seen in the Federal budget, which provides a 20% rebate on building materials up to a maximum of \$2,500.

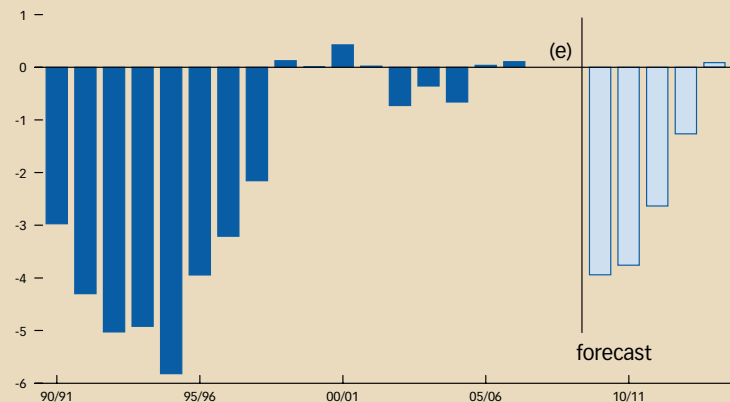
Total spending is slated to rise 3.3% to \$66.1 bln in FY2009/10, driven by a 4.5% increase in program spending. Health care and education will see strong spending growth, projected to rise 5.7% and 3.5% respectively, while training and social services are also priorities.

The Province also continues to undertake the previously-announced five-year, \$42 bln infrastructure renewal program.

The budget is accompanied by a five-year fiscal and economic plan that outlines a path to return to surplus by FY2013/14. To achieve this goal, the Province will limit the rate of program spending growth to 3.2% per year starting in FY2010/11, increase the Quebec Sales Tax by 1 ppt to 8.5% (effective Jan-2011, generating \$1.2 bln per year) and index user fees to inflation (daycare is excluded). An economic recovery is also expected to begin in 2010, with real GDP rising 1.9%, and growing at a 2.5% pace thereafter.

Quebec’s total borrowing requirements will be \$9.8 bln in FY2009/10 from \$12.9 bln in

Budgetary Balance
(\$ billions)



Source: Provincial forecasts e = estimate
Estimate and forecasts for the purposes of the Balanced Budget Act

Fiscal Outlook

(C\$ millions)

	estimate		forecast	
	08/09	09/10	10/11	11/12
Revenues	62,479	62,212	64,017	66,189
Expenditures	63,989	66,093	68,525	71,492
Program Spending	57,400	59,989	61,879	63,829
Debt Service	6,589	6,104	6,646	7,663
Consolidated entities	205	355	563	688
Public Accounts Balance	(1,305)	(3,526)	(3,945)	(4,615)
Generations Fund	(701)	(715)	(880)	(957)
Reserve Allocation	2,006	295	—	—
Plan to restore balance	—	—	1,065	2,933
Consolidated Budget Balance*	0	(3,946)	(3,760)	(2,639)

() = deficit

Note: Totals may not add due to rounding.

Source: Provincial forecasts

* for the purposes of the *Balanced Budget Act*

the prior year, rising to \$15.4 bln in FY2010/11. Borrowing for the Consolidated Revenue Fund and Financing fund will be \$7.0 bln in FY2009/10, rising to \$12.6 bln in the following year. Meantime, Financement-Quebec will borrow \$2.8 bln in the coming two fiscal years.

Quebec's debt will rise to \$129.9 bln in the coming year, or 42.8% of GDP. The ratio will trend up further to 46.3% by 2011. Still, that ratio is below the near-55% seen in the late-1990s. The long-term goal remains to reduce the debt burden to 25% of GDP by 2026.

The Quebec economy is under pressure as crumbling U.S. demand weighs on the export sector while domestic conditions also continue to deteriorate. The province has shed more than 52,000 jobs in the past three months and the unemployment rate has moved up to nearly 8%—

indeed, this budget is aimed squarely at near-term job creation. Still, Quebec appears relatively well-positioned thanks in part to public-sector investment (even before the stimulus outlined in this budget) and a more diversified manufacturing sector with no major auto-industry exposure. We expect real GDP to contract 1.6% in 2009, a more modest decline than for Canada as a whole, but more pessimistic than the Province's 1.2% forecast.

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