

## Budget Highlights

### Measures Identified

**Fiscal Year 10/11**
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 Economist

**March 30, 2010**  
 4:00 pm

**The Province of Quebec is projecting a \$4.5 bln deficit in FY2010/11 and has taken big steps toward returning to balance in five years.** At 1.4% of GDP, this coming year's deficit remains modest compared to those of the mid-1990s, while the FY2009/10 deficit was improved by \$438 mln to \$4.3 bln, largely reflecting higher-than-expected tax revenues. The Province will restrain spending and implement further tax increases to rein in the deficit by FY2013/14. Importantly, substantial progress has been made in "measures to be identified", which represented previously unidentified savings or revenue increases from last year's budget. This

unidentified source of funds now totals a little over \$300 mln in FY2011/12-FY2012/13 and \$1.5 bln by FY2013/14—the latter is a major improvement from a previous \$5.1 bln gap.

**Total revenue is expected to rise 4.5% to \$65.5 bln in FY2010/11**, with own-source revenue rebounding 5.8%, owing to higher tax receipts. Federal transfers will total \$15.8 bln, up 0.6% from the prior year. Chief among the revenue-related measures is an additional 1 ppt increase in the QST in January-2012, to 9.5% (recall that there is also a 1 ppt increase slated for January-2011). The combined 2 ppt increase will ultimately add \$2.7 bln to revenues, with a \$400 mln boost this coming fiscal year.

Meantime, the Province is also introducing a health contribution fund, which will be implemented on July 1, 2010. This is an annual tax, collected at tax filing time, that will be dedicated to health care spending. The amount of the health contribution will be \$25 per adult for 2010, \$100 per adult for 2011 and \$200 in 2012, with some exemptions for lower income individuals. This tax will generate \$180 mln in FY2010/11 and almost \$1 bln when fully phased in by FY2012/13 (offset by additional health funding). As well, consideration will be given in the coming months to a health deductible (ie: a \$25 fee per medical visit), but this budget does not build that in.

Other major revenue-generating policy changes include a 1-cent per-year increase in the fuel tax through 2013 and temporary (through 2014) increase in the compensatory tax on financial institutions. All

### Fiscal Outlook

(C\$ millions)

	estimate		forecast	
	09/10	10/11	11/12	12/13
Revenues	62,650	65,477	68,521	72,496
Expenditures	66,923	69,541	71,739	74,031
Program Spending	60,769	62,561	63,907	65,282
Debt Service	6,154	6,980	7,832	8,749
Consolidated entities	598	750	979	1,072
Public Accounts Balance	(3,675)	(3,314)	(2,239)	(463)
Contingency Reserve	(300)	(300)	—	—
Generations Fund	(715)	(892)	(972)	(1,061)
Stabilization Reserve	433	—	—	—
Unidentified Measures	—	—	311	324
Consolidated Balance*	(4,257)	(4,506)	(2,900)	(1,200)

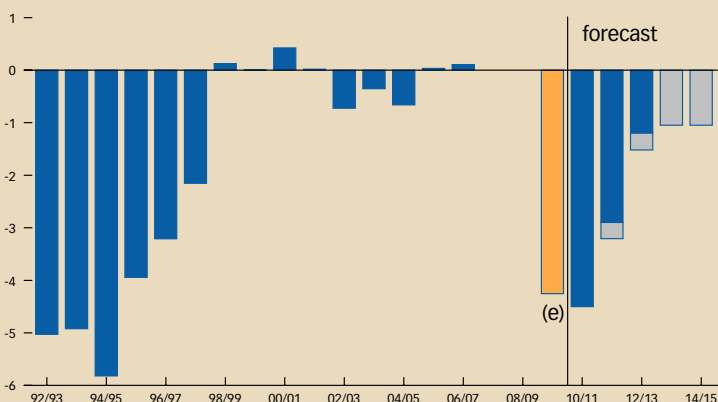
( ) = deficit

Note: Totals may not add due to rounding.

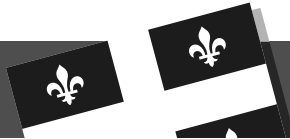
 \* For the purposes of the *Balanced Budget Act* Source: Provincial forecasts

### Budgetary Balance

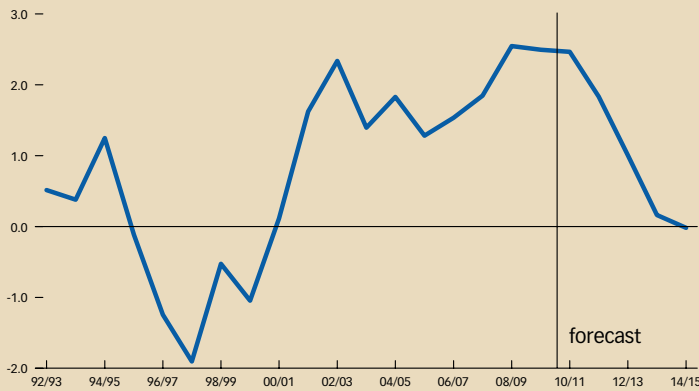
(\$ billions)



Source: Provincial forecasts Grey area = measures to be identified

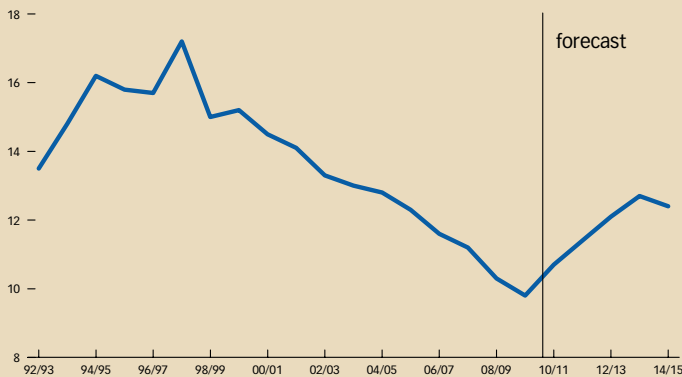


**Real Program Spending per Capita**  
(5-year annualized % chng)



Source: Provincial forecasts

**Debt Service Cost**  
(% of total revenue)



Source: Provincial forecasts

told, revenue-raising measures in this budget will help drive 4.7% annual revenue growth through FY2014/15, slightly above the long-run average.

**Total spending is slated to rise 3.9% to \$69.5 bln in FY2010/11**, with program spending increasing 2.9%. Health care and education will see firm growth of 3.7% and 2.2%. However, cost-cutting measures are also being taken, including a two-year pay freeze for ministers, a three year payroll freeze for civil servants and a gradual 10% reduction in administrative operating expenses by FY2013/14.

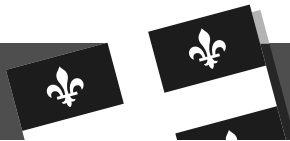
The Province is targeting 2.7% annualized program spending growth through FY2014/15, or about flat on a real per-capita basis. This is less aggressive restraint than was seen during the mid-1990s, and projected by most other Provinces so far this budget season.

**Quebec's total borrowing requirements will be \$12.9 bln in FY2010/11 versus \$15.5 bln in the prior year**, but rising again to \$17.9 bln in FY2011/12. Borrowing for the Consolidated Revenue Fund and Financing fund will be \$4.9 bln and \$4.5 bln, respectively, while Financement-Quebec will borrow \$3.5 bln. **Quebec's gross debt will rise \$10.5 bln to \$170.6 bln by the end of FY2010/11, or to 54.5% of GDP.** The ratio will peak at 55.1% at the end of FY2011/12. This higher debt load will lift debt servicing costs to 10.7% of total revenues in

FY2010/11, rising to 12.7% by FY2013/14—this remains below the late-1990s high of 17%.

**The Quebec economy succumbed to global recessionary forces** despite holding up relatively better than Ontario and most of Western Canada during the downturn, but the focus has now shifted to recovery. Manufacturing activity has begun to rebound from depressed levels, with shipments jumping almost 20% from the mid-2009 lows, while non-residential construction, helped by the Province's five-year infrastructure program, is also lending support. We expect real GDP to rise 2.8% in 2010 and 2.9% in 2011, more modest than for Canada as a whole. The Province is conservatively expecting growth of 2.3% and 2.6%.

**The Bottom Line:** Through a combination of tax increases, revenue enhancements and spending restraint, the Province of Quebec is making substantial progress toward reining in the deficit within four years. While there remains about \$1.5 bln in measures to be identified by that time, that is a marked improvement over the shortfall outstanding just a few months ago.



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