

Stay the course: Balanced budget in 2013-14

Highlights

- **Plan to balance the budget by 2013-14 maintained.**
- **Deficit for 2009-10 downwardly revised by \$1.1 billion to \$3.2 billion, due to higher-than-anticipated budgetary revenue and improved results of consolidated entities, which more than offset higher spending programs and allowed the government not to draw down on the contingency reserve.**
- **Increase in the deficit for the current and next two fiscal years solely due to an increase in the contingency reserve in 2010-11 and to the introduction of contingency reserves in the next two fiscal years.**
- **At the end of the last fiscal year, the gross debt stood at 53.8%. The target is still to reduce that ratio to 45% by 2025-26.**

Review

Quebec Finance Minister Raymond Bachand released today an Economic and Financial Update, and at the same time launched the pre-budget consultation for 2011-2012. The objective of returning to a balanced budget and control the debt within three years remains the premise of those consultations.

The budget deficit for the year ended March 31, 2010 is \$1083 million less than expected 9 months ago. Within the meaning of the Balanced Budget Act, a deficit of \$4257 million for 2009-2010 was projected when the 2010-2011 Budget was presented. However, the actual deficit for the last fiscal year was \$3174 million (1% of Quebec GDP), despite higher than expected program spending of \$810 millions. Revenues from government's own source and consolidated entities were better than projected and more than offset the increase in spending. This allowed the Government not to draw on its \$300 million contingency reserve for fiscal year 2009-2010.

The outlook

Coming out of the last recession, GDP growth proved stronger than expected and contributed to boost provincial revenue. Looking ahead, Finance Minister Bachand assumes GDP growth of 2.2% in 2011. This is in line with our own forecast. Basically the only changes to the path towards balanced budget by 2013-14 is related to the introduction of contingency reserves for the next two fiscal years as well as a \$100 million increase in the current fiscal year reserve. The plan towards the elimination of the deficit by 2013 remains on track, with deficits of \$4.6 billion for 2010-11, \$3.2 billion in 2011-12 and \$1.4 billion in 2012-2013.

Borrowing requirements

As of November 30th 2010, \$ 11.1 billion of financing had been completed. The 2010-2011 borrowing program has been revised upward by \$1.9 billion to \$14.8 billion mainly due to deposits to the Retirement Plans Sinking Fund. At this stage financing requirements for next year are projected at \$17.8 billion, including \$3.5 billion for Financement Quebec.

Mid-term challenges

Like all other public administrations, the Province of Quebec will have to deal with the aging of its population over the coming years. Of course, this will have significant implications on the demand for health care, but the impact on the labour market should also be taken into account. In the 2010-2011 budget documents, the Government pointed out that the

working age population will start to shrink in 2014, just when the return to fiscal balance is expected to be reached. If nothing is done potential GDP growth could fall significantly over time compared to its long term average. In order to maintain the gain realized on the fiscal front and insure proper funding of public programs, it will be important that public initiatives to support labour productivity gains be implemented as well as initiatives aimed at fostering labour market participation of people aged 55+.

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FINANCIAL FRAMEWORK, FALL 2010¹

(millions of dollars)

	ACTUAL RESULTS	FORECASTS		PROJECTIONS		
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Budgetary revenue	63 155	65 721	68 781	72 806	76 028	78 934
Budgetary expenditure						
Program spending	- 61 579	- 62 917	- 64 264	- 65 640	- 67 046	- 69 644
% change	5.2	2.2	2.1	2.1	2.1	3.9
Debt service	- 6 117	- 7 004	- 7 723	- 8 681	- 9 492	- 9 591
Total budgetary expenditure	- 67 696	- 69 921	- 71 987	- 74 321	- 76 538	- 79 235
Net results of consolidated entities	1 601	836	979	1 067	612	812
Contingency allowance	—	- 400	- 300	- 200	—	—
Measures to be identified	—	—	299	304	1 015	1 015
SURPLUS (DEFICIT)	- 2 940	- 3 764	- 2 228	- 344	1 117	1 526
Payments to the Generations Fund	- 725	- 842	- 972	- 1 056	- 1 117	- 1 526
Stabilization reserve	433	—	—	—	—	—
Accounting changes	58	—	—	—	—	—
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	- 3 174	- 4 606	- 3 200	- 1 400	0	0

¹ The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.

Source: Finances Québec