

## Budget balance still targeted for 2013-14 and new structural measures introduced

### Highlights

- Return to budget balance maintained for fiscal 2013-14. This target will require additional revenues in 2013-14 of \$1 billion from sources yet to be identified.
- Deficit of \$4.2 million for the fiscal year ending March 31 – \$306 million less than was budgeted last spring. Revenues exceeded budget more than spending did and revenues from consolidated entities also exceeded budget. If the contingency reserve is not drawn on by March 31, the deficit will in fact be \$3.9 billion.
- Deficit of \$3.8 billion for 2011-12 – \$900 million more than was projected last spring. Of this increase, \$300 million is due to addition of a contingency reserve, \$311 million to a decrease in efforts to be identified in the plan to restore fiscal balance and \$196 million to downward revision of net revenues from consolidated entities.
- \$850 million in new revenue for Quebec universities in 2016-17, including \$265 million from tuition fee increases of \$325 each year for the next five years and \$430 million from budgetary spending.
- QPP contribution rate to increase 0.15 percentage points each year for six years beginning January 1, 2012, bringing the rate to 10.8% in 2017 from the current 9.9% (no fiscal impact). Also effective next January 1 is a tax credit for Quebecers who keep working after age 65. Further incentive to defer retirement will be provided by changes in QPP benefits to increase the penalties for retiring before 65 and the rewards for retiring after 65.
- Real GDP growth assumed at 2.0% in 2011 and 2.2% in 2012.
- Ratio of gross debt to GDP estimated at 54.7% this March 31, peaking at 55.7% at the end of the coming fiscal year. Target of 45% by 2026 is maintained.
- Financing requirement (including Financement Québec) of \$17.4 billion for 2011-12, including \$9.2 billion in refinancing. The 2012-13 requirement is projected at \$15.0 billion.
- \$1.6 billion in funding for northern resource development (Plan Nord) over five years.

### Opinion

The new measures introduced in this budget will have little impact in fiscal terms – \$171 million in 2011-12, \$215 million in 2012-13, \$335 million in 2013-14. The increase in program spending, after the creation of special funds, is projected at 2.4% in 2011-12 and 1.7% on average in the following two years. The rise for 2011-12 is higher than the 1.4% projected in last spring's budget (after restatement). The acceleration is due to unforeseen spending of \$584 million on items including pay equity, day care and new measures in today's budget. Revenue is projected to grow 4.8% in 2011-12 and 5.0% on average in the following two years, in part as a result of two previously announced one-point increases in QST.

The \$900 million increase in the 2011-12 deficit does not worry us unduly. The economic growth assumption of the budget seems highly conservative to us – nominal growth of only 3.9%. If our forecast of close to 5% is on the mark, the deficit will be no higher than was projected last spring.

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As for the longer term, even if the economy continues to do well there is no room for complacency. The aging of Quebec's population may well require additional revenue sources after 2013-14. In this perspective, we see the Plan Nord as strategic for Quebec's long-term economic development. The disaster that recently struck Japan has many countries, in particular the U.S., taking a second look at the nuclear power option. We see this development as an opportunity for Quebec to revisit its strategy for development of its energy potential. Global conditions now justify not just implementation but acceleration of the Plan Nord.

With credit-rating agencies becoming pickier and investors choosier, Quebec's high debt load requires that it maintain a credible plan for returning to budget balance and that it start introducing incentives for later retirement. We think this budget does the job.

**Stéfane Marion**

**Québec government's financial framework – 2011-2012 Budget<sup>1</sup>**  
 (millions of dollars)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Budgetary revenue</b>						
Own-source revenue	46 925	50 336	53 883	56 351	58 311	60 296
% change	6.3	7.3	7.0	4.6	3.5	3.4
Federal transfers <sup>2</sup>	15 451	15 039	15 204	15 736	16 313	17 043
% change	1.9	-2.7	1.1	3.5	3.7	4.5
<b>Total budgetary revenue</b>	<b>62 376</b>	<b>65 378</b>	<b>69 087</b>	<b>72 087</b>	<b>74 624</b>	<b>77 339</b>
% change	5.2	4.8	5.7	4.3	3.5	3.6
<b>Budgetary expenditure</b>						
Program spending	-59 819	-61 284	-62 113	-63 325	-65 510	-67 836
% change	2.4	2.4	1.4	2.0	3.5	3.6
Debt service	-6 934	-7 794	-8 646	-9 334	-9 333	-9 499
% change	13.4	12.4	10.9	8.0	-0.0	1.8
<b>Total budgetary expenditure</b>	<b>-66 753</b>	<b>-69 078</b>	<b>-70 759</b>	<b>-72 659</b>	<b>-74 843</b>	<b>-77 335</b>
% change	3.5	3.5	2.4	2.7	3.0	3.3
<b>Net results of consolidated entities</b>	<b>1 209</b>	<b>1 143</b>	<b>1 119</b>	<b>655</b>	<b>742</b>	<b>972</b>
Contingency reserve	-300	-300	-200	—	—	—
Balance of measures to be identified	—	—	300	1 025	1 025	1 025
<b>SURPLUS (DEFICIT)</b>	<b>-3 468</b>	<b>-2 860</b>	<b>-453</b>	<b>1 108</b>	<b>1 548</b>	<b>2 001</b>
Payment of dedicated revenues to the Generations Fund						
- Regular payments	-732	-940	-1 047	-1 108	-1 203	-1 336
- Increase in the price of heritage electricity pool					-315	-630
- Mining, oil and gas royalties					-30	-35
<b>BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT</b>	<b>-4 200</b>	<b>-3 800</b>	<b>-1 500</b>	<b>0</b>	<b>0</b>	<b>0</b>

1 The government's five-year financial framework includes the measures under the plan to restore fiscal balance as well as the special funds set up over the last year: the Land Transportation Network Fund (FORT), the Fund to Finance Health and Social Services Institutions (FINESSS) and the Tax Administration Fund (FRAF).

2 The fiscal arrangements legislation, which determines the payment formulas for equalization, the Canada Health Transfer and the Canada Social Transfer, is in force until 2013-2014. The projection for these transfers as of 2014-2015 was made using the formulas currently in effect.

Since fiscal 2009-10 the government has consolidated the debt of public-sector health and education establishments and liabilities stated on a calendar-year basis are now stated on a fiscal-year basis. The adjustment of gross debt at March 31, 2011 to \$163.9 billion from \$160.1 billion is due in large part to these changes. The government is sticking to its objective of reducing debt representing accumulated deficits (liabilities less all assets) to 17% of GDP in 2026 from 35.1% at March 31, 2011. Debt representing accumulated deficits is projected to decline not only relative to GDP but in absolute

terms – for gross debt, a decrease of 4% between 2012-13 and 2015-16. To meet these debt-reduction targets the government has announced that it will make additional payments to the Generations Fund beginning in 2014-15, drawing on an increase in mining, oil and gas royalties.

The government's financing program is budgeted at \$17.4 billion in 2011-12. The figure would have been \$20.3 billion if some borrowing had not been brought forward to the 2010-11 year. The 2011-12 borrowing program includes \$9.2 billion to refinance maturing debt. Of the projected gross borrowing, \$3.5 billion is for Financement Québec, \$4.5 billion for the Financing Fund and \$9.4 billion for the Consolidated Revenue Fund. If market conditions are favourable, the government can be expected to bring forward its borrowing for future years. Past experience suggests that an amount ranging from \$2.9 billion to \$3.5 billion would not be surprising. That would put total borrowing in 2011-12 in the neighbourhood of \$20.6 billion. For 2012-13 the government projects a gross requirement of \$15 billion. Of the debt issued in 2010-11, 57% matured in 6 to 10 years, 39.1% in more than 10 years and 3.9% in 5 years or less. At March 31, 2011, the average maturity of the debt should be 11 years.