

## An action plan for budget balance by 2013-14

### Highlights

- **Return to budget balance maintained for fiscal 2013-14.**
- **Deficit elimination to be based on tighter spending control and revenue growth. Measures announced to date will raise 91% of the funds needed to eliminate the deficit.**
- **Target for growth of program spending before the new health contribution lowered to 2.8% from 3.2%.**
- **Public-service wage bill frozen until 2013-14.**
- **A second one-point increase will bring the QST to 9.5% effective January 1, 2012.**
- **A new health contribution tax is to be phased in beginning July 1.**
- **Fuel tax: four consecutive annual increases of one cent per litre beginning April 1.**
- **Compensatory tax on financial institutions: temporary increase levied until March 31, 2014.**
- **Electricity rates for individuals and businesses to rise ¼ cent annually over four years beginning April 1, 2014.**
- **GDP assumed to grow 2.3% in 2010 and 2.6% in 2011.**
- **Ratio of gross debt to GDP projected to rise from 53.2% as of tomorrow to a peak of 55.1% in 2011-12 and then decline to 52% at the end of the five-year financial plan and to 45% in 2026.**
- **The borrowing requirement for 2010-11 (including Financement Québec) is budgeted at \$12.9 billion, including \$7.2 billion for refinancing. In 2011-12 the borrowing requirement is projected to rise to \$17.9 billion.**

### Opinion

Given the task at hand, we expected much of Finance Minister Raymond Bachand's budget. We are not disappointed. The new measures announced will total \$4.9 billion in 2013-14. In last year's budget, only 51% of the effort required to balance the books was identified. This year's budget brings that to 91%, leaving only \$1 billion to be identified.

The deficit for the fiscal year just ending is estimated at \$4.3 billion, \$400 million less than projected in October, thanks to an improvement of the economy that made use of the contingency reserve unnecessary. The deficit for the coming year is budgeted at \$4.5 billion, down from \$4.7 billion in October. Since we think the economy may well grow faster than the budget assumes, the contingency reserve may not be needed this year either, which will reduce the deficit accordingly.

The measures announced today introduce new sources of revenue and tighter control of spending. Restraint of program spending to growth of 2.8% will make an \$800-million difference in 2013-14. Quebec's emerging demographic challenge requires less traditional measures to raise revenue. We like the decision to introduce a "health contribution" – \$25 per adult in 2010, \$100 in 2011 and \$200 beginning in 2012. In 2013-14 this tax will bring in \$945 million. The additional QST hike and the fuel tax increase will together net about \$1.7 billion.

The budget exercise assumes average economic growth of 2.3% from 2010 to 2014 and a return of short-term interest rates to the neighbourhood of 4% by the end of that period. Although interest rates are about to rise, we note that the average maturity of Quebec's debt is 11 years, making it less vulnerable to a rise in short rates. Debt service is nevertheless projected to rise from 9.8% of budgetary revenues in the year just ending to a peak of 12.7% in 2013-14 before edging

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down to 12.4% the following year. This continuing large burden shows that the reduction of debt as a percentage of GDP must be pursued beyond the five-year financial plan. Whence the pertinence, once the deficit is eliminated, of paying the revenues from the rise of heritage-electricity rates into the Generations Fund. The finance minister has set two objectives: to reduce the debt representing accumulated deficit (gross debt minus total assets) from 35.4% of GDP in 2010 to 17% in 2025-26, and to reduce gross debt (debt plus net pension-fund and benefit liabilities) from 53.2% to 45%.

The borrowing requirement of \$12.9 billion budgeted for 2010-11 includes \$3.5 billion for Financement-Québec. However, the government customarily borrows an average \$3.4 billion in advance each year. If market conditions are right, borrowing can thus be expected to total more than \$16 billion this year.

After the most serious global economic crisis since the 1930s, there were fears that Quebec could bog down in structural deficits. Mr Bachand's budget has taken up the challenge of restoring Quebec's financial health in a way that should calm such fears. The downturn has only hastened a debate that would soon be forced upon Quebecers in any event. Not only has the debate been held but an action plan has been put in place.

*Stéfane Marion*

Financial framework of the 2010-2011 Budget incorporating the measures identified in the Plan to return to budget balance  
(millions of dollars)

	Preliminary data	Forecasts		Projections		
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Budgetary revenue</b>						
Own-source revenue	47 421	50 152	53 840	57 563	60 333	62 703
% change	- 3.0	5.8	7.4	6.9	4.8	3.9
Federal transfers	15 229	15 325	14 681	14 933	15 395	15 979
% change	8.6	0.6	- 4.2	1.7	3.1	3.8
<b>Total budgetary revenue</b>	<b>62 650</b>	<b>65 477</b>	<b>68 521</b>	<b>72 496</b>	<b>75 728</b>	<b>78 682</b>
% change	- 0.4	4.5	4.6	5.8	4.5	3.9
<b>Budgetary expenditure</b>						
Program spending	- 60 769	- 62 561	- 63 907	- 65 282	- 66 686	- 69 282
% change	3.8	2.9	2.2	2.2	2.2	3.9
Debt service	- 6 154	- 6 980	- 7 832	- 8 749	- 9 588	- 9 737
% change	- 5.4	13.4	12.2	11.7	9.6	1.6
<b>Total budgetary expenditure</b>	<b>- 66 923</b>	<b>- 69 541</b>	<b>- 71 739</b>	<b>- 74 031</b>	<b>- 76 274</b>	<b>- 79 019</b>
% change	2.9	3.9	3.2	3.2	3.0	3.6
<b>Net results of consolidated entities</b>	<b>598</b>	<b>750</b>	<b>979</b>	<b>1 072</b>	<b>618</b>	<b>828</b>
Contingency reserve	- 300	- 300				
Other measures to be identified in the Plan to return to budget balance			311	324	1 051	1 051
<b>SURPLUS (DEFICIT)</b>	<b>- 3 975</b>	<b>- 3 614</b>	<b>- 1 928</b>	<b>- 139</b>	<b>1 123</b>	<b>1 542</b>
Payments to the Generations Fund						
- Dedicated revenues	- 715	- 892	- 972	- 1 061	- 1 123	- 1 227
- Rise in the price of heritage pool electricity						- 315
Stabilization reserve	433					
<b>BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT</b>	<b>- 4 257</b>	<b>- 4 506</b>	<b>- 2 900</b>	<b>- 1 200</b>	<b>0</b>	<b>0</b>