

## QUEBEC BUDGET 2014

February 20, 2014

### Delayed return to balance confirmed

If you believe the rumours, the budget presented today by Quebec Finance Minister Nicolas Marceau is the unofficial launch to an election campaign that will lead to a provincial vote this spring. Minister Marceau's government has been in a minority status since it was elected in September 2012 and would need support from opposition parties to pass Budget 2014, which news reports suggest is unlikely.

As far as representing an 'election budget', the plan offered today is unusual in that it is of the low key variety, containing few 'election goodies' (mostly targeting regional development, social housing and culture) and emphasizing instead the government's stated resolve to control its spending. In fact, by announcing increases in the parental contribution into the popular \$7 a day childcare services, it could be argued that this budget may not have been designed to be a middle class pleaser.

Of course, the more eye-popping announcement came in the 2013 Economic and Financial Update released this past November when Minister Marceau revealed that his government was delaying the return to balance by two years to 2015/16. Perhaps more troubling was the fact 1) the budget misses in 2013/14 and 2014/15 were substantial : instead of zero deficits, they were revised to deficits of \$2.5 billion and \$1.75 billion in 2014-15, respectively — both larger than the \$1.6 billion shortfall in 2012/13— and 2) there was still \$1.0 billion worth of additional measures that the government needed to identify in 2015/16 to balance its budget.

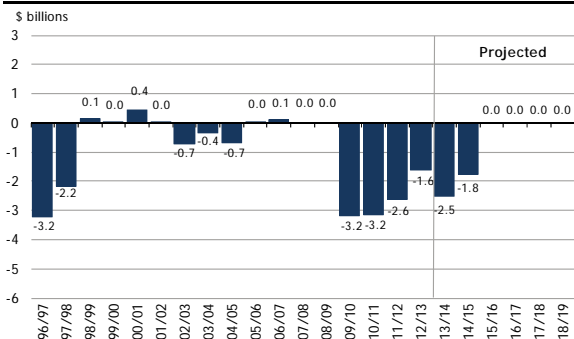
As expected, Budget 2014 leaves the fiscal plan bottom line unchanged from the November update. It shows deficits of \$2.5 billion in 2013/14 and \$1.75 billion in 2014/15, and a return to balance thereafter. This unchanged profile reflected in large part the very similar economic underpinnings being assumed — Quebec's real GDP is now forecasted to grow by 1.2% in 2013, and 1.9% in both 2014 and 2015, all representing only marginal upgrades from the November assumptions.

Changes to revenues and expenditures since the November update were a wash. On the revenue side, the government lowered its own revenue projections (by \$39 million in 2013/14, \$112 million in 2014/15 and \$212 million in 2015/16) but this was more than compensated for by higher expected federal transfers (boosted by \$50 million in 2013/14, \$613 million in 2014/15 and \$532 million in 2015/16). On the expenditure side, the most noteworthy change was the government's allocation of an extra \$430 million to its Fund to Finance Health and Social Services Institutions (FINESSS) in 2014/15 (using the Canada Health Transfer). The government also is demanding its various departments to find savings worth \$150 million in 2014/15. Downwardly revised interest rates will reduce debt service payments by \$73 million in 2013/14, \$78 million in 2014/15 and \$125 million in 2015/16.

In light of the various changes in today's budget—especially the higher federal transfers—Minister Marceau considers having identified all but \$530 million to balance the books in 2015/16.

The plan to achieve this objective continues to focus heavily on fairly ambitious expenditure restraint. Program spending is projected to grow by an

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Source: Ministère des Finances du Québec, RBC Economics Research

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average of 2.0% over the next three years. This will represent minimal growth in inflation-adjusted terms and likely imply small declines on a real per capita basis. Meanwhile, total revenues (i.e. including federal transfers) are forecasted to rise by an average of 3.4% during the same period.

While this budget may not make a big splash in terms of new announcements, it contains nonetheless a number of new measures. These include:

- An increase in the parental contribution to childcare services from the current \$7 a day to \$8 on September 1, 2014, \$9 on September 1, 2015 and an estimated \$9.20 in September 2016 (the contribution will be indexed to the annual change in personal disposable income).
- A \$270 million investment to build 3,250 affordable housing units starting in 2018/19.
- \$100 million to foster mining exploration over 2014/15 to 2016/17.
- \$150 million over three years to help Quebec's cultural sector in their 'digital shift' and commercialization of their creative works.
- The budget announces a host of mostly small spending and investment initiatives at the local and regional levels, including funding for municipal capital projects.

### **Greater prudence returns!**

While there is still no contingency reserve for 2014/15, Minister Marceau added a reserve of \$125 million for 2013/14 and doubled the reserves to \$400 million for the out-years of the fiscal plan. These additions bring back some greater degree of prudence that was lost in the November update. These added prudence factors should go some way in protecting the plan against unexpected developments. We judge the economic assumptions underlying the fiscal plan's estimates reasonable—the government's real GDP growth forecasts are roughly in line with our own forecasts of 1.1% in 2013, 1.8% in 2014 and 1.6% in 2015—although they are not particularly conservative in our opinion.

### **Debt profile little changed from November**

With the deficit projections remaining the same as in November (and no update being provided for the multi-year Infrastructures Plan), Budget 2014 shows very little change in Quebec's debt profile. Gross debt (debt contracted on financial markets and the net liability for the retirement plans and for employee future benefits of public and parapublic sector employees, minus the balance of the Generations Fund) is projected to rise from \$198 billion at March 31, 2014, to \$213 billion at March 31, 2019. As a share of GDP, however, gross debt is expected to peak at 54.4% in 2015 and then steadily decline to 48.8% in 2019. The government projects the debt representing accumulated deficits (gross debt less financial and non-financial assets) to reach \$123 billion in 2015 (from \$120 billion in March 2014) and fall in absolute terms thereafter to a level of \$113 billion by 2019. As a share of GDP, debt representing accumulated deficits will fall from 32.7% in 2014 to 25.9% in 2019. The Quebec government remains committed to achieving its long-standing targets of 45% for the gross debt-to-GDP ratio and 17% for accumulated debt-to-GDP ratio by 2026.

### **Financing requirements to decrease next year**

The government expects its financing program to total \$15.4 billion in 2014/15 (excluding \$4.4 billion in pre-financing made during 2013/14), \$16.6 billion in 2015/16 and \$19.2 billion in 2016/17. In 2013/14, the government estimates its financing program at \$19.4 billion, which includes the \$4.4 billion pre-financing.

### **Will this be the final 2014 budget?**

To be sure, Quebec fiscal situation remains challenging and it is comforting to see that the focus on balancing the books through strict control over spending is maintained despite the major setback revealed in November. Time will tell whether this budget will stand as the final 2014 budget given the provincial elections that are apparently just around the corner.

## Quebec's consolidated fiscal plan

(\$ millions)	Actual		Forecast					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Total budgetary revenues	65,515	67,566	69,817	71,583	74,621	77,071	79,465	81,823
Total expenditures	68,851	70,013	72,335	73,733	75,127	76,773	79,140	81,511
Program spending	61,503	62,247	63,825	65,132	66,442	67,802	70,033	72,226
Interest on public debt	7,348	7,766	8,510	8,601	8,685	8,971	9,107	9,285
Net results of consolidated entities	1,548	1,808	1,215	1,696	1,818	2,443	3,010	3,445
Contingency reserve	-	-	125	-	200	400	400	400
Measures to be identified	-	-	-	-	530	-	-	-
Surplus/(Deficit)	(1,788)	(639)	(1,428)	(454)	1,642	2,341	2,935	3,357
Payments to the Generations Fund	(840)	(961)	(1,072)	(1,296)	(1,642)	(1,916)	(2,510)	(2,932)
Additional deposits to the Generations Fund	-	-	-	-	-	(425)	(425)	(425)
Budgetary balance for the purposes of the Balanced Budget Act	(2,628)	(1,600)	(2,500)	(1,750)	-	-	-	-
Extraordinary loss - Closure of Gentilly-2	-	(1,876)	-	-	-	-	-	-

Source: Ministère des Finances du Québec, RBC Economics Research

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