

QUEBEC 2013-2014 BUDGET UPDATE

November 28, 2013

Quebec to miss its zero-deficit targets both this year and next

Quebec Finance Minister Nicolas Marceau today revealed in his fall 2013 Economic and Financial Update that his government is now facing deficits of \$2.5 billion this fiscal year (2013-14) and \$1.75 billion in 2014-15, thereby coming well short of balancing the books in both years as pledged as recently as this past March. Not only are these \$2.5 billion and \$1.75 billion deficits substantial misses from the earlier targets, they will represent a significant deterioration from the \$1.6 billion shortfall recorded in 2012-13 (excluding a one-time \$1.9 billion charge for the closure of the Gently-2 nuclear plant). Minister Marceau blamed the shortfalls entirely on weaker-than-expected tax revenues due to downwardly revised economic growth and inflation projections, as well as a higher savings rate on the part of Quebec households.

In today's update, the Quebec government revised its real GDP growth forecast in the province lower to 0.9% in 2013 (from 1.3% previously) but left it unchanged at 1.8% in 2014. More importantly, however, is the fact that the government reduced its projections for nominal GDP growth to 2.1% in 2013 (from 3.6% previously) and 3.6% in 2014 (from 3.9%) to reflect downward revisions to inflation.

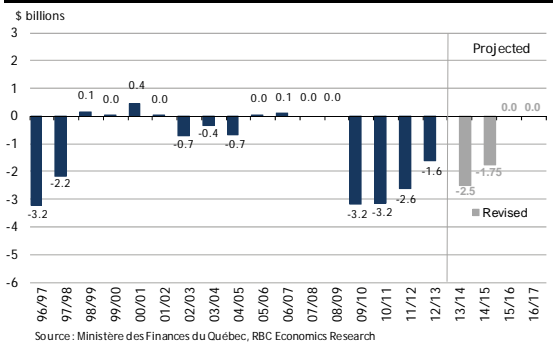
Minister Marceau indicated that a lower own-revenue base set in the audited provincial accounts for 2012-13 (which undershot the estimate in the most recent budget update in March 2013 by \$1.0 billion) and the downward adjustments to economic projections will cause own source revenues to come in \$2.5 billion, \$2.8 billion and \$2.5 billion lower than previously expected in 2013-14, 2014-15 and 2015-16, respectively. Downward revisions were made to all major sources, including personal income tax, corporate taxes, consumption taxes and mining duties. Higher anticipated transfers from the federal government will provide partial offset.

On the expenditure side, program spending in 2013-14 is being maintained at the same level (\$63.8 billion) as at the March budget update; however, this represents a stronger growth rate from 2012-13 (2.5%) than previously projected (1.9%) because the actual 2012-13 base (from the audited provincial accounts) came in modestly lower than earlier estimates. The government is committing to slow the rate of program spending increases in the next three years to 2.0% annually from an average of 3.0% annually in its previous plan. This will cut \$1.1 billion in annual program spending by 2015-16 from the previous baseline.

To be sure, the government's plan to restrain expenditure increases is ambitious, especially considering that it is facing approximately \$500 million in additional annual pension charges resulting from new actuarial valuations for retirement plans of public and parapublic sector employees. The government concedes that \$1.0 billion worth of additional measures still need to be identified by 2015-16 to balance its budget.

The new fiscal plan presented today dropped the contingency reserve both this year and next and cut it by half thereafter to \$200 million annually. This represents a reduction in the degree of prudence usually shown in the budg-

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eting exercise, and leaves little room deal with other unexpected adverse turns of events.

The deficits in 2013-14 and 2014-15 will cause Quebec's net debt to rise faster than previously projected. Net debt is now expected to climb from \$175 billion (49.0% of GDP) at March 31, 2013, to \$182 billion (49.8%) in 2014, \$191 billion (50.5%) in 2015 and \$194 billion (49.3%) in 2016. These levels will be up from \$181 billion (48.8% of GDP) in 2014, \$188 billion (48.8%) in 2015 and \$190 billion (47.5%) in 2016 in the previous fiscal plan.

The documents released today showed that the financing program for 2013-14 will increase by \$3.8 billion to \$15.5 billion, of which \$3.5 billion remained to be completed.

Quebec's consolidated fiscal plan

(\$ millions)	Actual				Forecasts			
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Total revenues	62,650	65,515	67,566	69,806	71,468	74,243	76,622	78,993
Total expenditures	67,062	68,851	70,013	72,408	73,785	75,200	76,834	79,187
Program spending	59,978	61,503	62,247	63,825	65,106	66,390	67,750	69,981
Interest on public debt	7,084	7,348	7,766	8,583	8,679	8,810	9,084	9,206
Net results of consolidated entities	2,022	1,548	1,808	1,171	1,463	1,818	2,420	2,990
Contingency reserve			-			200	200	200
Measures to be identified					400	1,000	400	400
Surplus/(Deficit)	(2,390)	(1,788)	(639)	(1,431)	(454)	1,661	2,408	2,996
Payments to the Generations Fund	(760)	(840)	(961)	(1,069)	(1,296)	(1,661)	(2,408)	(2,996)
Budgetary balance for the purposes of the Balanced Budget Act	(3,150)	(2,628)	(1,600)	(2,500)	(1,750)	-	-	-
Extraordinary loss - Closure of Gently-2	-		(1,876)	-	-	-	-	-

Source: Ministère des Finances du Québec, RBC Economics Research

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