

## QUEBEC FISCAL UPDATE 2014

December 3, 2014

### Tightening the fiscal belt to return to balance

Quebec Finance Minister Carlos Leitao presented a mid-year report on the state of the province's finances yesterday, revealing that the government remains on target to achieving a balanced budget in 2015/16. A deficit projection of \$2.35 billion for the current 2014/15 fiscal year was maintained with additional measures aimed at both curbing government spending and boosting revenues accompanying the report. An unexpected improvement in the budget deficit in 2013/14 was also revealed, coming in at a shortfall of \$2.824 from the June budget estimate of -\$3.1 billion (although below the initial November 2012 budget estimate of a \$1 billion surplus).

In the June budget, the Quebec government announced that a total of \$7.2 billion in fiscal savings would be needed to ensure that the government achieves its balanced budget target in 2015/16. At the time, \$3.6 billion in savings initiatives were identified including \$3.1 billion in government expenditure savings or "disciplined spending management" as it is referred to in the document. The fiscal update extended the list of identified restraint measures by outlining an additional \$2.5 billion in savings initiatives. The remaining \$1.18 billion in additional measures is expected to be included in Budget 2015.

The measures amounting to \$2.5 billion announced yesterday included \$1.13 billion in public service cost reductions, \$0.74 billion from program reviews and \$0.60 billion in savings on tax expenditures. To achieve these cost reduction targets, a detailed list of measures was presented and include:

#### Public Service Cost Reductions

- \$925 million in savings as a result of curtailing compensation costs for government employees (\$689M) and the province's physicians (\$194M) and suspending bonuses of senior level government employees (\$42M). An additional \$200 million in "savings" resulting from the government reducing its contingency reserve from \$300 million to \$100

#### Program Reviews

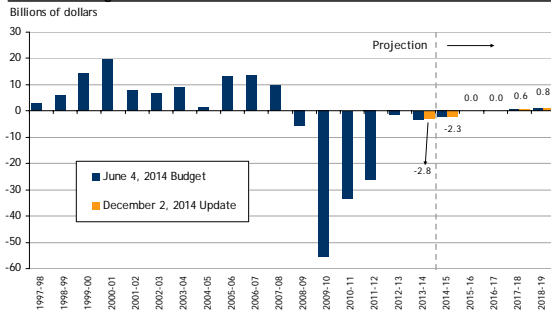
- A plan to reduce transfers to the province's municipalities is expected to yield \$300 million in savings. A review of childcare funding and spending within the healthcare sector is expected to find \$398 million in savings with an additional \$38 million to come from other program spending adjustments.

#### Review of the Tax System

Of the tax initiatives presented in the fiscal update, those targeting corporations are expected to yield \$338 million in savings while those directed towards individuals will result in savings of \$262 million in 2015/16.

- The introduction of a minimum eligible expenditure threshold for R&D credits and the investment tax credit ranging from \$50K to \$225K de-

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pending on the value of a company's assets. As well, a temporary increase in the rates paid by financial institutions was announced including, but not limited to, 1.68% of wages paid by banks, loan corporations and trust corporations. Finally, the government will eliminate the 2% tax rate reduction on capital of insurance corporations applicable to personal insurance premiums and the lower tax rate on automobile insurance premiums.

- Tax measures directed to individuals include the harmonizing of work premium eligibility criteria with the federal working income tax benefit as well as a 10pp reduction in the conversion rate for tax credits for union and professional dues (from 20% to 10%).

The 'Update on Quebec's Economic and Financial Situation' was presented on a line-by-line consolidated basis to incorporate detailed transactions of the government's consolidated entities. Under this framework, revenues are projected to come in 2.9% higher in 2014/15 than the previous fiscal year (at \$95.9 billion) and outpace a projected 2.2% increase in consolidated expenditure (at \$97.0 billion). A \$1.3 billion transfer to the Generations Fund adds to the estimated budget shortfall in 2014/15.

On a comparable basis to Budget 2014, own-source revenues are tracking 1.2% lower than expected at \$54.4 billion while some offset is being provided by higher federal transfers (1.9% to \$16.8 billion). Program spending is slated to remain relatively unchanged from the Budget 2014 at \$65.7 billion. Savings related to lower debt servicing costs are expected to provide additional offset to weaker revenues in 2014/15.

The province's net debt stood at \$ 181.3 billion or 50.0% of GDP at March 31, 2014. This is modestly lower than the projected \$182.0 billion (50.1 % of GDP) in Budget 2014. It is projected to reach a peak of 51.1% of GDP (at \$191.2 billion) by March 31, 2015 before easing to 45.0% by 2018/19.

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