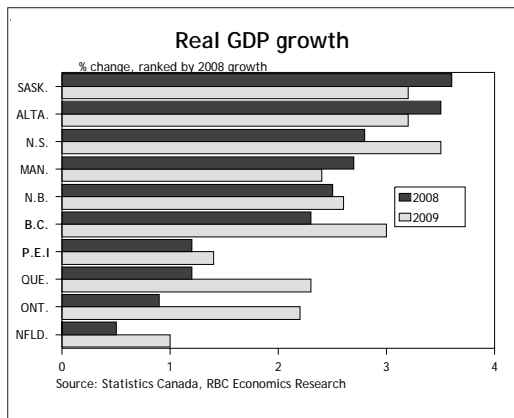
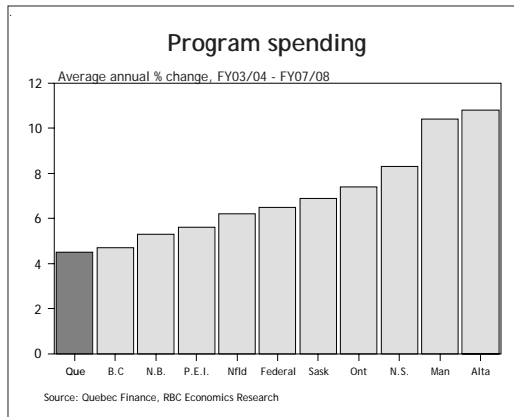
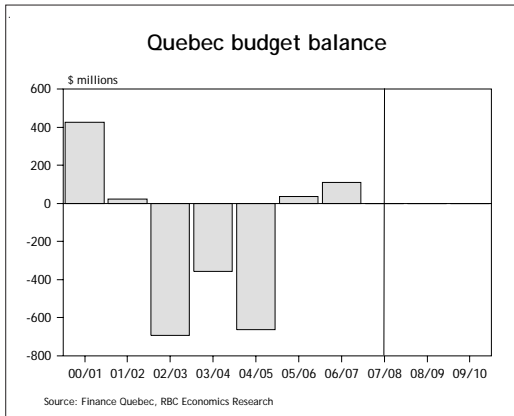


## QUEBEC'S BUDGET

March 13, 2008



### Derek Holt

Assistant Chief Economist  
derek.holt@rbc.com  
416-974-6192

### Amy Goldbloom

Economist  
amy.goldbloom@rbc.com  
416-974-0579

### Eating into reserves to avoid a deficit

Quebec's minority Liberal government has narrowly avoided deficit projections over the next two fiscal years only by dipping into its budgetary reserve. Higher than anticipated tax receipts and greater-than-expected profits from Hydro-Quebec made room for a \$717 million surplus in FY07/08. There are presently downside risks to economic growth amid a slowing U.S. economy and continued challenges for the province's critical manufacturing sector. The government has scaled back their economic growth forecast by a full percentage point since last year's budget to 1.5% in 2008 (slightly above our 1.2% call for 2008 growth).

Quebec's disciplined track record for responsible program spending will continue. Program spending growth is expected to drop to 4.2% in FY08/09 and 3% in FY09/10. Most of the \$2.3 billion increase in program spending will be channelled into health (\$1.3 billion) and education (\$612 million) spending. The \$30 billion infrastructure investment announced last year is under way and will continue to contribute approximately \$6 billion a year until 2011/12. Lastly, the budget targets families, through more public day care spaces and assistance for children in poverty, plus a variety of measures for seniors. These programs will cost a cumulative \$2 billion over five years.

Revenues are forecast to be virtually flat in FY2008-09 at \$63 billion, although they are expected to rise by \$2.2 billion in FY2009-10. This will go towards funding a 2.8% increase in spending that year. Key revenue initiatives in this budget include matching Ontario's move to eliminate the capital tax as applied to the manufacturing sector effective immediately, but unfortunately maintaining the tax for another two fiscal years for other businesses (again, like Ontario). This budget also brings forth a new investment tax credit of 5% for the purchase of manufacturing and processing equipment, but then scales the credit higher to as much as 40% for businesses in depressed regions of the province. Lastly, a tax credit equal to 30% of salaries for new information technology companies was introduced.

### Quebec's fiscal plan (millions of dollars)

	Actual	Est.	Forecast	
	06/07	07/08	08/09	09/10
Revenue	60,700	62,920	62,980	65,184
Expense	58,796	61,638	63,855	65,648
Net results of consolidated orgs.	89	-162	447	833
Contingency reserve			-200	
<b>Budget balance for purposes of public accounts</b>	1,993	1,120	-628	369
Deposits of dedicated revenues in the Generations Fund	-584	-403	-742	-816
<b>Budgetary balance before reserve</b>	1,409	717	-1,370	-447
Deposit in the Generations Fund from the budgetary reserve		-200		
<b>Budgetary reserve</b>	-1,300	-517	1,370	447
<b>Budgetary Balance for the purposes of the <i>Balanced Budget Act</i></b>	109	0	0	0