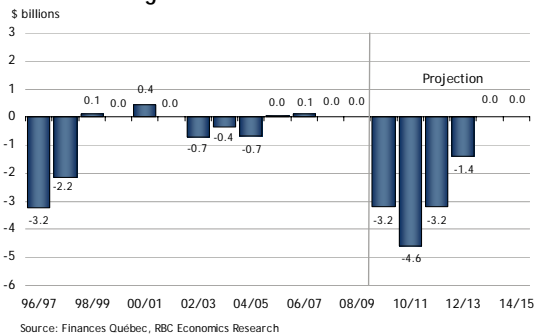


QUEBEC MID-YEAR FISCAL UPDATE

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Quebec budget balance



The Quebec Fall Update, released today, confirmed that the province is still on track to meet the ambitious deficit reduction goals outlined in the 2010-11 budget. The detailed plan presented by the government last March aimed to eliminate the deficit by 2013-14 through a combination of spending cuts and tax increases. While the fall update contains some minor changes to the economic and fiscal outlook, deficits are still expected to shrink in line with budget projections.

The backdrop for this fiscal update is a period of deceleration after stronger-than-expected activity in late 2009 and early 2010. The government's GDP forecasts have been revised to reflect this, with an upgraded projection of 2.6% GDP growth in 2010 (vs. 2.3% in the budget), but slightly slower growth in 2011 (2.2% vs. 2.6% in the budget.) To account for risks to the growth outlook, the government has decided to set aside additional contingency funds for these years, bringing the contingency allocation to \$400 million this year (from \$300 million in the budget), \$300 million in 2011/12 and \$200 million in 2012/13.

Despite the improved growth projections, the update presents only minor changes to the fiscal outlook for 2010/11. Expected revenues have increased by \$244 million (to \$65.7 billion) while expenses have increased by \$380 million (to \$69.9 billion.) After factoring in results from consolidated entities, changes in the contingency allowance and contributions from the Generations Fund, this leaves the province with a \$3.7 billion deficit, \$100 million higher than projected in the budget. The increase in revenues was largely due to strong personal and consumption tax receipts, resulting from higher wages and levels of construction activity this year. Most of the change in expenditures (\$356 million) was due to increased contributions to retirement plans, based on new actuarial valuations.

The update also presents the final 2009/10 figures, which came in substantially stronger than expected. The deficit was \$1.1 billion lower than projected at \$3.2 billion. Revenues were \$505 million higher than expected, due to strong corporate tax receipts (\$116 million), fees and licenses (\$148 million) and revenues from government enterprises (\$276 million.) Expenditures were \$810 million larger than expected, largely due to provisions for doubtful accounts at Revenu Quebec and increased expenditures at health institutions. This is perhaps a source of concern given that 62% of the reduction in the deficit to 2012/13 is expected to come from decreased program expenditures. However, these were offset in 09/10 by a \$1 billion improvement in the results of consolidated entities.

Quebec's fiscal plan

(\$ millions)	Actual	December Update			Projected Outlook (March Budget)	
		2009/10	2010/11	2011/12	2012/13	2013/14
Total revenues	63,155	65,721	68,781	72,806	76,028	78,934
Total expenditures	67,696	69,921	71,987	74,321	76,538	79,235
Program spending	61,579	62,917	64,264	65,640	67,046	69,644
Interest on public debt	6,117	7,004	7,723	8,681	9,492	9,591
Net results of consolidated entities	1,601	836	979	1,067	612	812
Contingency allowance		(400)	(300)	(200)		
Measures to be identified			299	304	1,015	1,015
Surplus/(Deficit)	(2,940)	(3,764)	(2,228)	(344)	1,117	1,526
Payments to the Generations Fund	(725)	(842)	(972)	(1,056)	(1,117)	(1,526)
Stabilization reserve	433					
Accounting changes	58					
Budgetary balance for the purposes of the Balanced Budget Act	(3,174)	(4,606)	(3,200)	(1,400)	0	0

Source: Finances Québec, RBC Economics Research

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