



# Provincial Budget Briefs

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## QUÉBEC BUDGET 2009

Québec has tabled a budget aimed at dulling the economic impact of a world-wide recession and positioning the province for economic recovery beginning in 2010. To achieve these goals the government will boost spending primarily in health, education and job training as well as through targeted tax reductions. Total stimulus measures will add up to \$15 bn over the next two years, and \$3.4 bn of that represents new money announced in this budget. Falling revenues, along with growing expenses are expected to lead to a \$3.9bn deficit in 2009/10, but the province will begin to address its fiscal imbalance starting in 2011 resulting in a balanced budget by 2013/14.

Table 1 \$Billions	Fiscal Summary					
	2007/08	2008/09			2009/10	2010/11
	Actual	08 Budget	09 Budget	Change	09 Budget	09 Budget
<b>Revenue</b>	<b>63.1</b>	<b>63.0</b>	<b>62.5</b>	<b>-0.5</b>	<b>62.2</b>	<b>65.1</b>
Own-Source	49.5	48.9	48.6	-0.4	47.4	50.2 <sup>#</sup>
% change	-0.4	-1.1	-1.8	-0.7	-2.4	6.0
Federal Transfers	13.6	14.1	13.9	-0.1	14.8	14.9
<b>Expenditures</b>	<b>61.8</b>	<b>63.9</b>	<b>64.0</b>	<b>0.1</b>	<b>66.1</b>	<b>68.5</b>
Program Spending	54.8	56.9	57.4	0.5	60.0	61.9
% change	6.0	3.9	4.7	0.8	4.5	3.2
Public Debt Interest	7.0	6.9	6.6	-0.3	6.1	6.6
Net Results of Consolidated Organizations	0.4	0.4	0.2	-0.2	0.4	0.6
Less: Deposit in Generations Fund	0.6	0.7	0.7	0.0	0.7	0.9
Less: Budgetary Reserve	1.0	-1.2 <sup>*</sup>	-2.0	-0.8	-0.3	0.0
<b>Budget Balance per <i>Balanced Budget Act</i></b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-3.946</b>	<b>-3.760</b>
Generations Fund Revenues & Deposits	0.4	0.7	0.6	-0.2	0.7	0.9
<b>Consolidated Budget Balance</b>	<b>0.449</b>	<b>0.742</b>	<b>0.569</b>	<b>-0.173</b>	<b>-3.231</b>	<b>-2.880</b>

\* net of contingency reserve

# includes measures to restore fiscal balance

Although the global economic downturn began last year, Québec's economy fared better than the nation as a whole on the back of a strong consumer sector and a jump in both public and private nonresidential investment. Nevertheless the province estimates that real GDP grew by 0.8% in 2008, less than the 1.5% pace assumed in the 2008/09 budget. That contributed to a slightly larger than expected drop in own source revenue for the outgoing fiscal year, although the province managed to hold on to a balanced budget due a \$2.0 bn transfer from its budgetary reserve. Looking ahead to the 2009/10 fiscal year, Québec will not be able to escape the fiscal implications of a deepening recession both at home and abroad, especially given its tight linkages to the US. The province expects real GDP growth to fall by 1.2% in 2009, which is in line with the average of private sector forecasts, but expects only a modest economic recovery by 2010.

That projected growth path will continue to weigh on revenues, leaving Québec with a \$3.9 bn deficit in 2009/10 as the government boosts spending to support and stimulate the economy. The province is projecting annual budget deficits through to 2012/13, but has introduced a number of measures to get back to a surplus position by 2013/14, although most of these initiatives will only kick in once economic growth gets back on trend in 2011. These provisions include increasing the provincial sales tax by 1%-pt to 8.5%, and indexing all non-indexed government fees except for those related to childcare.

Despite an expected budgetary shortfall in 2009/10, Québec is committing to boost program spending by 4.5% in order to tackle the recession while devoting more resources to social services. While most of the spending increases will go to health, and education, the budget also includes additional support for worker training valued at \$222 mn in 2009/10, as well as support for northern Québec and environmental technology. Program spending is expected to hit a high of 19.8% of GDP in 2009/10 but go back to its pre-recession level of 18.5% by 2013/14. The longer term fiscal plan anticipates the debt-to-GDP ratio peaking at 45.5% in 2009 before falling to 44.3% by 2014.

## Pre-Funding Eases 2009/10 Requirement

Québec borrowed \$12.9 bn in 2008/09, mostly in bonds/MTNs, opting to pre-fund \$6bn of 2009/10's requirement. The Québec government is planning to borrow \$9.8 bn in the coming fiscal year, again heavily weighted towards bonds/MTNs. Québec's strategy of diversification led the government to further increase its borrowing in foreign currency to 41.1% in 2008/09. Currency movements in the outgoing fiscal year gained the government \$1.6 bn, reducing borrowing requirements for 2009/10.

This financing plan does not include estimates of pre-funding, but looking ahead substantial borrowing requirements projected for 2010/11 suggests that issuance will move well above \$10 bn in the coming fiscal year. Included in these numbers is borrowing by Financement-Québec, which plans to issue \$2.75 bn in both 2009/2010 and 2010/11. These totals do not include Hydro Québec term borrowing.

Table 2	Financing Plan		
	\$Billions	2008/09P	2009/10F
<i>Borrowing Requirements:</i>			
Consolidated Budget Balance	0.6	-3.2	-2.9
Net Financial Requirements <sup>1</sup>	-0.1	5.0	5.0
Maturities and Calls <sup>2</sup>	4.6	5.2	3.8
Retirement Plans Sinking Fund	2.7	0.0	0.0
Pre-financing	6.0	0.0	0.0
Change in Cash	-2.4	-6.0	0.0
Transactions under credit policy <sup>3</sup>	-1.6		
Financing Fund <sup>4</sup>	3.7	5.5	6.5
<b>Total</b>	<b>12.9</b>	<b>9.8</b>	<b>15.4</b>
<i>Sources:</i>			
Bonds and MTNs	11.8	8.4	14.0
Retail Products	0.5	0.6	0.6
Immigrant Investor Prgm. & CPP	0.5	0.8	0.8
<b>Total</b>	<b>12.9</b>	<b>9.8</b>	<b>15.4</b>
<i>Net New Issues</i>			
Bonds & MTNs	8.4	4.5	11.5

<sup>1</sup> Excludes consolidated organizations, and adjusted to take into account non-receipt of RPSF income and of funds dedicated to employee future benefits

<sup>2</sup> Includes maturing retail/immigrant lending products & optional repayments

<sup>3</sup> The government received \$1558 million in 2008-2009 following exchange rate movements hence reducing financial requirements

<sup>4</sup> Borrowings are made for consolidated orgs. & gov't corps. (excl. Hydro Quebec)

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