

2010-2011 BUDGET PRESS RELEASE No. 5

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Paying Down Our Debt: A Matter of Intergenerational Equity

Québec, March 30, 2010 – “This budget addresses the common good of all Quebecers. Equity and solidarity are as much a practice between generations as between individuals,” the Minister of Finance, Raymond Bachand, said in tabling the 2010-2011 Budget. He announced major measures in respect of the debt, namely, introducing a new source of funding to the Generations Fund and revising the debt reduction objectives.

“In 2006, our government created the Generations Fund to ensure that our children and grandchildren assume only their fair share of the debt contracted by their parents and grandparents. Our indebtedness is the highest of all the Canadian provinces. Even though part of that indebtedness represents quality assets, even though the Québec economy is diversified, even though Québec has abundant natural resources, this situation is cause for concern. We must not place a heavier burden on future generations of Quebecers. Making future generations pay for part of the services that we provide ourselves with today is out of the question. To do that would be to deprive them of quality services that they themselves will need,” the Minister affirmed.

New source of funding to the Generations Fund

“How are we going to reduce the debt? As of 2014, i.e. once public finances have been balanced, we are going to gradually raise the price of heritage pool electricity supplied by Hydro-Québec to reach an increase of 1 cent per kilowatt hour in 2018. The increase will result in an average rate increase of 3.7% a year for almost all Hydro-Québec customers. Companies will absorb half the impact of the increase,” the Minister explained. Less affluent households will be shielded from the impact of the rate increases. The new solidarity tax credit will be adjusted to account for the higher rates.

“Quebecers are proud of the hydroelectric development carried on in Québec,” he went on to say. “It has played a major role in developing our economy, our regions and our society. It is a source of wealth that we will rely on to pay down our debt. When fully implemented, in 2018, the increase in the price of heritage pool electricity will represent additional revenues of \$1.6 billion annually. All of these revenues will go directly into the Generations Fund to pay down the debt. They will enable us to attain

our indebtedness objectives. By agreeing to pay a little more for electricity, which will remain exceptionally cheap, Quebecers and Québec businesses will discharge their responsibility to future generations."

Maintaining competitiveness

The Minister explained that industrial customers paying the large-power rate ("L") will be exempt from the increase in the price of heritage pool electricity, but not from Hydro-Québec's normal rate increases so that they continue to pay a competitive rate. "For these customers, which include 150 large industrial companies, electricity accounts for a large portion of production costs. Many of these companies are located in the regions, where their contribution to the economy and employment is vital. Higher electricity costs would considerably reduce their profitability and could even cause some of them to close."

Moreover, a few energy-intensive companies concluded special supply contracts with Hydro-Québec in the 1980s. Several of these contracts expire between 2014 and 2016. The Minister announced that these contracts will not be renewed. Hydro-Québec will therefore be able to bring in an additional \$160 million a year.

Energy efficiency

"The rates Quebecers pay for their electricity are lower than almost anywhere else in North America. Electricity prices in New York and Boston are at least three times higher than in Québec. In Toronto, the price of electricity is 66% higher than in Québec. The low rate has caused Québec consumers to undervalue this precious resource. There is little incentive for Quebecers to improve their energy efficiency," the Minister declared.

In this context, and to mitigate the impact of the higher price for heritage pool electricity, the government is asking Hydro-Québec to enhance its energy efficiency objective. The new objective will be ambitious and will be established in the coming months. Greater energy efficiency will mean savings for consumers.

Revising debt reduction objectives

The Minister remarked that the objective of the Generations Fund is to substantially reduce the debt-to-GDP ratio by 2026. "Because of the accounting reform and the deficits run to combat last year's recession, we must set a new target," he said. "We had given ourselves until the 2011-2012 Budget to do so. We will not wait until then."

The Minister announced that his objective is to reduce the level of debt representing accumulated deficits as a percentage of GDP by half by 2026, from the current 35.4% to 17%. The debt target is expressed in terms of accumulated deficits precisely because the portion of the debt we must rapidly pay down is that representing accumulated deficits, i.e. "bad debt," the equivalent of the unpaid balance on a credit card.

New gross debt target

"The other portion of the debt, 'good debt', serves to finance our assets, that is, our hydroelectric dams, our roads, our schools and our hospitals. Like a mortgage, it is appropriate to amortize it over time. However, this debt has grown considerably in recent years because of the Québec Infrastructure Plan," Minister Bachand said.

He announced that a new target for gross debt has also been set. The gross debt currently stands at 53.2% of GDP and the new objective is to reduce it to 45% in 2026. "You will recall that we continued making payments to the Generations Fund despite the recession and budget deficits. We will pay \$892 million into the fund this year, bringing the balance up to \$3.6 billion."

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Source: Catherine Poulin
Press Officer
Office of the Minister of Finance
and Minister responsible for the Montréal region
418 643-5270
514 873-5363
www.finances.gouv.qc.ca