

FINANCIAL PROFILE TODAY 2010-2011

Tuesday, March 30, 2010

HIGHLIGHTS OF THE 2010-2011 BUDGET

ECONOMIC AND BUDGETARY OUTLOOK

The recovery is well underway in Québec. After dropping 1.4% in 2009, real GDP is expected to rise 2.3% in 2010 and 2.6% in 2011.

Québec has come out of the recession in better shape than its main trading partners, in particular thanks to the government's economic action plan.

In 2009, the decline in output and employment was less severe in Québec than in Ontario, Canada and the United States.

Forecast deficits now stand at:

- \$4.3 billion in 2009-2010 (1.4% of GDP);
- \$4.5 billion in 2010-2011 (1.4% of GDP);
- \$2.9 billion in 2011-2012 (0.9% of GDP);
- \$1.2 billion in 2012-2013 (0.4% of GDP);
- budget balanced in 2013-2014.

These forecasts are an improvement for 2009-2010 and 2010-2011 compared to the fall 2009 update.

RETURNING TO BUDGET BALANCE

The 2010-2011 Budget continues the process initiated in the last budget to return to balanced budgets by 2013-2014, as stipulated in the law. Without this plan, the deficit for 2013-2014 would be \$12.3 billion.

In the 2010-2011 Budget, 90% of the actions that need to be taken to return to budget balance by 2013-2014 are announced. The balance that needs to be eliminated by 2013-2014 is thus \$1.1 billion.

The plan calls for:

A priority effort by the government to control spending, including:

- a two-year freeze on the salaries of the premier, ministers and MNAs;
- a public service payroll freeze until 2013-2014;
- a gradual 10% reduction in administrative expenditures by 2013-2014;
- continuation of the policy of replacing only one out of every two employees who retire, and broadening this measure to administrative personnel of the health and education networks, including management;
- review and examination of government programs;
- merger or elimination of some thirty organizations.

Through an additional rationalization effort by government corporations and the intensification of the fight against tax evasion and tax avoidance, the government will assume more than 60% of the financial effort required to return to balanced budget.

Necessary measures to increase revenue, in particular:

- an additional one-percentage-point rise in the QST January 1, 2012;
- gradual implementation of a general health contribution effective July 1, 2010;
- implementation of the Policy for the funding of public services;
- a rise in the fuel tax of 1 cent per litre each year from 2010 to 2013;
- a temporary increase in the compensatory tax on financial institutions.

Financial framework of the 2010-2011 Budget incorporating the measures of the Plan to return to budget balance

(millions of dollars)

	PRELIMINARY DATA	FORECASTS		PROJECTIONS		
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Budgetary revenue	62 650	65 477	68 521	72 496	75 728	78 682
Program spending	- 60 769	- 62 561	- 63 907	- 65 282	- 66 686	- 69 282
Debt service	- 6 154	- 6 980	- 7 832	- 8 749	- 9 588	- 9 737
Total budgetary expenditure	- 66 923	- 69 541	- 71 739	- 74 031	- 76 274	- 79 019
Net results of consolidated entities	598	750	979	1 072	618	828
Contingency reserve	- 300	- 300				
Other measures to be identified			311	324	1 051	1 051
SURPLUS (DEFICIT)	- 3 975	- 3 614	- 1 928	- 139	1 123	1 542
Payments to the Generations Fund						
- Dedicated revenues	- 715	- 892	- 972	- 1 061	- 1 123	- 1 227
- Rise in the price of heritage pool electricity						- 315
Stabilization reserve	433					
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	- 4 257	- 4 506	- 2 900	- 1 200	0	0

Program spending, 2009-2010 to 2013-2014

(millions of dollars)

	PRELIMINARY	PROJECTIONS			
	2009-10	2010-11	2011-12	2012-13	2013-14
March 2009 Budget : program spending at 3.2%	- 60 769	- 62 741	- 64 732	- 66 802	- 68 931
% change	3.8	3.2	3.2	3.2	3.2
March 2010 Budget: Additional program spending effort			250	525	800
Subtotal	- 60 769	- 62 741	- 64 482	- 66 277	- 68 131
% change		3,2	2,8	2,8	2,8
- Health contribution		180	575	945	945
- Other contributions to be identified				50	500
Subtotal		180	575	995	1 445
Program spending forecast in the 2010-2011 Budget	- 60 769	- 62 561	- 63 907	- 65 282	- 66 686
% change		2.9	2.2	2.2	2.2

ADDITIONAL EFFORTS TO REDUCE THE DEBT

The government is reiterating its commitment to continue with its efforts to reduce the debt. Accordingly, it:

- is maintaining payments to the Generations Fund despite the deficit;
- is stepping up, as of 2014-2015, debt reduction efforts by paying the revenue from the gradual rise in the price of heritage pool electricity into the Generations Fund;
 - When fully implemented, in 2018, the increase of 1 ¢/kWh in the price of heritage pool electricity will represent additional revenues of \$1.6 billion annually.
- is revising the debt reduction objectives.
 - As a percentage of GDP, debt representing accumulated deficits is targeted at 17% in 2026, compared with 35.4% as at March 31, 2010.
 - As a percentage of GDP, the gross debt is targeted at 45% in 2026, compared with 53.2% as at March 31, 2010.
 - Those are maximum levels.

THE GOVERNMENT'S FINANCING PROGRAM

Borrowings in fiscal 2009-2010 should total \$15 475 million:

- \$9 742 million for the consolidated revenue fund;
- \$2 415 million for the Financing Fund;
- \$3 318 million for Financement-Québec.

In 2009-2010, \$12.6 billion was borrowed on the Canadian market:

- public issues, \$9.2 billion;
- private borrowings, \$2.1 billion;
- savings products, \$0.6 billion;
- immigrant investor program, \$0.7 billion.

In 2009-2010, 18.7% of the government's borrowings were carried out on foreign markets, in three currencies:

- two borrowings for a total of €1 575 million (CAN\$2 496 million) in April 2009 and March 2010;
- two borrowings for a total of ¥16 000 million (CAN\$197 million) in April 2009;
- one borrowing of 200 million Swiss francs (CAN\$206 million) in December 2009.

In 2009-2010, the government carried out \$3.9 billion in pre-financing.

The financing program is expected to amount to \$12 936 million in 2010-2011. It would have been \$16 791 million had pre-financing borrowings not been carried out in 2009-2010.

In 2011-2012, the financing program should amount to \$17 857 million.

Québec's economic outlook

(percentage change, unless otherwise indicated)

	2009	2010	2011
Real GDP	- 1.4	2.3	2.6
Real consumption	0.6	2.3	1.8
Real exports	- 11.4	4.0	4.5
Job creation (thousands)	- 37.5	38.7	41.6
Unemployment rate (%)	8.5	8.5	8.4
Consumer prices	0.6	2.0	2.9
Housing starts (thousands of units)	43.4	44.6	42.7
Canadian financial markets (%)			
Overnight target rate	0.4	0.5	1.4
Treasury bills - 3 months	0.4	0.6	1.7
Bonds - 10 years	3.3	3.8	4.5

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

The government's financing program

(millions of dollars)

	2008-09	2009-10 ^P	2010-11 ^P	2011-12 ^P
CONSOLIDATED REVENUE FUND				
Net financial requirements ^{1, 2}	117	4 443	5 133	4 050
Repayment of borrowings	4 549	6 205	3 658	6 307
Change in cash position	- 2 413	- 8 161	- 3 855	—
Retirement Plans Sinking Fund, other assets of plans and funds dedicated to employee future benefits - Deposits	2 678	112	—	—
Transactions under the credit policy ³	- 3 792	3 288	—	—
Pre-financing	8 161	3 855	—	—
TOTAL — Consolidated revenue fund	9 300	9 742	4 936	10 357
FINANCING FUND	1 439	2 415	4 500	4 000
FINANCEMENT-QUÉBEC	2 675	3 318	3 500	3 500
TOTAL	13 414	15 475	12 936	17 857

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

P: Preliminary results for 2009-2010 and forecasts for subsequent years.

1 Excluding consolidated entities.

2 Net financial requirements are adjusted to reflect RPSF and ASLF revenue not received.

3 As part of its credit policy that seeks to limit the financial risk regarding counterparties, the government made disbursements of \$3 288 million in 2009-2010 pursuant to changes in exchange rates. These disbursements have no effect on the debt. In 2008-2009, the government received \$3 792 million.

The Québec government's current credit ratings

AGENCY	RATING	OUTLOOK
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA-	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable

FINANCIAL PROFILE TODAY

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