

## **BUDGET 2013-2014 PRESS RELEASE No. 3**

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#### **A Balanced Budget in 2013-2014**

**Québec, November 20, 2012** – Today, Minister of Finance and the Economy Nicolas Marceau tabled a balanced budget for 2013-2014. “After four years of deficits, Québec will finally have a balanced budget,” he proudly declared.

“However, to achieve this objective, adjustments are necessary because of the substantial budgetary shortfall we inherited for 2013-2014 and 2014-2015. Letting things ride would be unworthy of a responsible government. Consequently, we are taking immediately the steps necessary to balance the budget in 2013-2014 and continue to do so in subsequent years,” the Minister said.

#### **Strict control of spending growth**

“In recent weeks, the government updated its financial framework and took steps to offset the \$1.6-billion shortfall for 2012-2013. We asked the departments and agencies to come up with solutions and implement the controls necessary to meet the spending targets established in March. In the same vein, this budget forecasts that program spending growth will be limited to 1.8% for 2013-2014 and 2.4 % for 2014-2015. However, we are ensuring funding for the government’s main missions. The health budget will continue to grow by 4.8% per year. As for the education budget, it will be increased by 1.8% and that of higher education, by 2.0% for 2013-2014,” the Minister announced.

He stressed that the government at large, including the agencies and special funds, is being called on to help balance the budget. “We are also calling for major efforts on the part of government corporations. The Société des alcools du Québec, Loto-Québec and Hydro-Québec will be asked to do their share. For example, Hydro-Québec will have to move on improving its efficiency. It will therefore reduce its operating costs in the short term by eliminating 2 000 positions through attrition. This improvement in the government corporation’s performance will not affect consumer services. The additional efforts by government corporations will total \$290 million in 2013-2014,” the Minister declared.

“As well, the Auditor General of Québec will now be able to conduct performance audits in government companies and their subsidiaries. He will thus be able to ensure that government corporations are more rigorous in managing the resources belonging to all Quebecers,” he added.

The Minister also announced steps to reduce tax expenditures. These steps consist in suspending two measures announced in the previous two budgets with respect to experienced workers, and in including all refundable tax credits for businesses in the calculation of taxable income. These tightening measures will increase government revenue by \$68 million in 2013-2014 and \$115 million in 2014-2015.

Lastly, he indicated that the stepping up of efforts to fight tax evasion will enable the recovery of an additional \$80 million in 2013-2014, bringing the objective to \$3 866 million.

### **Improved management of infrastructure spending**

The Minister announced that the level of capital investments as a whole will be capped at \$9.5 billion a year, on average, for the next five years. This decision will save \$200 million on depreciation and interest expenditures in 2014-2015 and even more thereafter.

### **An additional effort regarding revenue**

“We will ask banks and other financial institutions to continue and increase their contribution to the efforts to restore fiscal balance. The contribution of financial institutions, which was to end in 2014, will be increased and extended to March 31, 2019. This will generate revenue of \$80 million in 2013-2014 and \$211 million in 2014-2015,” the Minister noted.

As well, the specific tax on tobacco will be raised by 2¢ per cigarette. This increase will represent 50¢ per pack, or \$4 per carton. The specific tax on alcoholic beverages will also be raised. The increase will be 3¢ for a bottle of beer, 17¢ for a bottle of wine and 26¢ for a bottle of spirits. These two increases will bring in \$130 million and \$100 million per year, respectively, as of 2013-2014.

### **Federal transfers: ten-year setback**

“The government is hampered in its efforts to balance the finances of the Québec nation by the federal government’s unilateral decisions in the past few years. In fact, we are witnessing a ten-year setback, to the time when Québec as a whole was mobilized around the elimination of the fiscal imbalance. Decisions made in 2008 with respect to the equalization program and in 2011 with respect to the Canada Health Transfer have had and continue to have adverse consequences on Québec’s public finances,” the Minister declared.

He has asked the federal government to reverse its decision to impose caps on the equalization program, and to gradually raise its share of health funding to 25% within ten years. The Minister also deplored the federal government’s refusal to act on Québec’s long-standing claim to restore the Canada Social Transfer to its 1994-1995

level, at a minimum, taking inflation into account. He noted that the federal government's disengagement in this area represents a shortfall of \$800 million a year.

**A responsible government**

"One of the paths that the government must follow is that of managing our public finances with integrity and a keen sense of responsibility, to preserve our ability to take collective action. The government's good financial health creates a climate conducive to economic development. It gives businesses confidence, encourages their development and ensures Quebecers receive the quality public services to which they aspire. Everyone benefits from sound management of public finances—all of us as well as future generations," the Minister concluded.

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**Adjustments to the budgetary balance since Budget 2012-2013**

(millions of dollars)

	2012-2013	2013-2014	2014-2015
<b>Budgetary balance – Budget 2012-2013</b>	<b>-1 500</b>	—	—
<b>Budgetary shortfall</b>			
Adjustments stemming from the economic outlook	-195	-605	-287
Differences relative to the spending objectives in Budget 2012-2013	—	-829	-1 625
Difference to be offset – Budget 2012-2013	—	—	-875
<b>Total budgetary shortfall</b>	<b>-195</b>	<b>-1 434</b>	<b>-2 787</b>
<b>Spending efforts</b>			
Achievement of objectives in 2013-2014 and 2014-2015	—	829	1 625
Reduction in spending by other public bodies and the special funds in 2013-2014	—	100	—
Cap of \$9.5 billion on average for public capital investments – Savings on depreciation and interest	—	—	200
Savings on debt service <sup>(1)</sup>	—	25	40
Slowdown in the growth of spending by departments, from 3.0% to 2.4% in 2014-2015	—	—	170
<b>Subtotal</b>	<b>—</b>	<b>954</b>	<b>2 035</b>
<b>Efficiency measures</b>			
Additional efforts within government corporations	—	290	330
Additional efforts to fight tax evasion	—	80	90
Reduction in tax expenditures	—	68	115
<b>Subtotal</b>	<b>—</b>	<b>438</b>	<b>535</b>
<b>Increase in certain specific revenue sources</b>			
Specific tax on tobacco	43	130	130
Specific tax on alcoholic beverages	33	100	100
Additional contribution of financial institutions	19	80	211
<b>Subtotal</b>	<b>95</b>	<b>310</b>	<b>441</b>
Cost of budgetary measures in Budget 2013-2014	—	-40	-10
Cost of fiscal measures in Budget 2013-2014	—	-28	-44
Deposit in the Generations Fund of revenue from the increase in the specific tax on alcoholic beverages	—	—	-100
Contingency reserves	100	-200	-500
Difference to be offset	—	—	430
<b>BUDGETARY BALANCE IN BUDGET 2013-2014<sup>(2)</sup></b>	<b>-1 500</b>	—	—

(1) Savings on debt service resulting from the use of \$1 billion in 2013-2014 from the Generations Fund to repay maturing borrowings.

(2) For 2012-2013, the budgetary balance excludes the \$1.8-billion accounting impact of Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant. The ultimate impact will be established in Hydro-Québec's financial statements as at December 31, 2012.