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Economic and Financial Update

- **With tight spending control and an effective fight against tax evasion, the government carries out 65% of budgetary efforts**
- **Deficit reduction targets are maintained until fiscal balance is restored in 2013-2014**

Québec, October 25, 2011 – “The economic and financial update I am presenting today allows me to reaffirm that the forecasts in the March 2011 budget are being realized: we are achieving our deficit reduction targets and are staying the course to restore fiscal balance in 2013-2014. In general, the good performance of Québec’s economy confirms that, in recent years, we took the right steps for Québec. More than ever, the budgetary discipline we imposed must be maintained because of the ongoing international economic uncertainty,” the Minister of Finance, Minister of Revenue and Minister responsible for the Montréal region, Raymond Bachand, said today.

“We made the right decisions at the right time. The rapid implementation of a plan to support jobs and prepare for economic recovery has produced results. With 141 300 jobs created since July 2009, equivalent to 225% of the jobs lost, Québec was among the first to return to and substantially exceed the pre-recession level of employment. At 7.3% last September, the unemployment rate is now back to where it was before the recession,” the Minister noted.

Moreover, the update indicates that the international economic uncertainty of the last few months will result in more moderate economic growth in 2011 and 2012 in Québec. “Real GDP growth is expected to reach 1.6% for these two years rather than 2.0% and 2.2% as initially forecast. The economy continues to grow, albeit at a more moderate pace,” Minister Bachand pointed out.

He noted that the plan to restore fiscal balance set out a budgetary trajectory to follow while ensuring both the long-term funding of public services, in particular in health and education, and infrastructure renewal. In keeping with the plan, the steps taken by the government are gradually reducing the gap between revenue and expenditure, leading to a balanced budget by 2013-2014, as forecast.

The deficit reduced by \$1.1 billion in 2010-2011

“Our economy’s good performance in 2010 and early 2011 resulted in a significant improvement in our public finances, leading to a reduction in the 2010-2011 deficit of \$1.1 billion compared with what was forecast last March. That means \$1.1 billion less to be added to Québec’s debt,” the Minister observed.

The actual results for 2010-2011 show that the budget deficit is just over \$1 billion less than expected. The March 2011 budget had forecast a deficit of \$4.2 billion, whereas it actually stands at \$3.2 billion, i.e. 25% less than anticipated.

Achievement of the budgetary targets set in the last budget

For 2011-2012 and subsequent years, the government still expects to achieve the decreasing deficit targets set in March 2011 and is staying the course on balancing the budget in 2013-2014.

Overall, the negative adjustments to the financial framework, resulting from a poorer economic outlook than expected, are fully offset, first by additional revenues from mining duties, second by a downward adjustment to debt service and, third, by the impact of harmonization of the Québec sales tax (QST) with the goods and services tax (GST).

In the context of the slowing economy, and in view of these additional revenues, the government has decided to defer to 2014-2015 the identification of new measures to keep the budget balanced, which will allow it to better support the economy in the context of the current global slowdown. Anticipated deficits are therefore maintained at \$3.8 billion for 2011-2012 and \$1.5 billion for 2012-2013 as announced in the last budget. A balanced budget is still forecast for 2013-2014.

Significantly slower growth in spending

The actual results for 2010-2011 confirm that the government has taken appropriate measures to slow spending growth. Indeed, program spending growth, limited to only 3.1% in 2010-2011, is down substantially compared with the average of 5.6% from 2006-2007 to 2009-2010.

The government is firmly committed to keeping tight control of its spending. Accordingly, for 2011-2012, no overrun is contemplated compared to the objective of \$61 284 million in the March 2011 budget.

In addition, considering the government's consolidated expenditure, which includes program spending, spending by organizations and that of special funds, its growth has slowed significantly, averaging 3.0% between 2010-2011 and 2013-2014 compared with an average increase of 5.5% over the preceding four years.

Follow-up on the plan to restore fiscal balance

Thanks to the rigorous spending control maintained by the Chair of the Conseil du trésor, Michelle Courchesne, and the effectiveness of the measures to combat tax evasion it has put in place, the government has fulfilled its commitment regarding the efforts to be made, in 2010-2011, to restore fiscal balance. Budgetary efforts reached \$2.8 billion in 2010-2011 and have been shared by the government and taxpayers. The government carried out 65% of the effort, compared with 23% for individuals and 12% for businesses.

Federal compensation applied to achieving a balanced budget

On September 29, 2011, the Québec government and the federal government entered into an agreement on the harmonization of the QST with the GST. With this agreement, Québec will receive, over two years, financial compensation of \$2.2 billion from the federal government, i.e. \$733 million in 2012-2013 and \$1 467 million in 2013-2014.

The changes that Québec has agreed to make to the QST under the agreement will have no impact on the tax burden of Québec consumers. The compensation will be fully allocated to deficit reduction.

Budgetary prudence

As in most advanced economies, the global slowdown in the second quarter of 2011 has moderated real GDP growth in Québec. The uncertainty affecting the global economy, particularly in Europe and the United States, has forced the government to be cautious and to adjust its economic growth forecasts downward for the end of 2011 and for 2012.

Accordingly, as a measure of prudence, the financial framework, in addition to taking the impact of the expected slowdown into account, incorporates a contingency reserve of \$400 million in 2011-2012, \$200 million in 2012-2013 and \$100 million in 2013-2014. "The government is monitoring the economic situation closely and is ready to deal with any contingency," the Minister said.

A recognized strategy that is producing results

With the release of the *Update on Québec's Economic and Financial Situation*, the Minister of Finance reiterated his conviction that the steps the government has taken were both right and appropriate from the perspective of sustaining economic growth and maintaining the quality of public services.

"By fostering rapid economic recovery, we put in place the measures required to restore fiscal balance and reduce the debt while protecting public services. The economic uncertainty stemming from the international situation more than ever highlights the need to maintain budgetary discipline if we wish to ensure Québec's economic stability as well as maintain and even develop our public services. The government's budgetary discipline has been acknowledged by the five rating agencies, which have again confirmed their credit rating for Québec following the 2011-2012 Budget. They have recognized the credibility of the plan to restore fiscal balance and our government's determination to reduce the debt burden," the Minister concluded.

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