

PRESS RELEASE No. 1

Update on Québec's Economic and Financial Situation

The Québec government confirms the objective of returning to a balanced budget in 2015-2016

Québec, December 2, 2014 – Minister of Finance Carlos Leitão gave an update today on Québec's economic and financial situation. He confirmed that the government is on track to meet the targets set in the June 2014 budget, and that it remains focused on balancing the budget in 2015-2016.

"We are determined to return to a balanced budget in Québec as of next year, and we will do so through tight control of spending," the Minister of Finance said.

In June, the government determined that, if no measures were taken to rebalance the books, the deficit would reach over \$7 billion in 2015-2016. Expenditure reduction measures totalling \$3.6 billion were identified at that time. Today's update provides for additional expenditure savings of close to \$2.5 billion.

"Nearly 85% of the measures required to return to a balanced budget have been identified and all of the measures affecting corporate tax assistance are now known," Mr. Leitão added.

The 2014-2015 deficit target is maintained

The budgetary balance is unchanged further to the adjustments reported in the financial framework. Although the less favourable outlook for growth in the global economy led to a slight downward adjustment of own-source revenue, there has been a strong acceleration in own-source revenue growth. This adjustment is offset by the debt service reduction and by an increase in federal transfer payments. The level of program spending forecasted in the budget is unchanged.

"I confirm that we will reduce the deficit to \$2.35 billion for 2014-2015 and that we will achieve a balanced budget in 2015-2016, as forecasted in the June 2014 budget. These targets will be met while still making deposits in the Generations Fund, for a total of \$1.3 billion in 2014-2015 and \$1.6 billion in 2015-2016," Minister Leitão affirmed.

Revenue is up and spending is down

The acceleration in own-source revenue growth is confirmed by the monthly results since the beginning of the year. The rebound in the economy, underpinned by the government's economic recovery plan, will result in a 2.9% increase in revenue in 2014-2015 and a 4% increase in 2015-2016.

"For the first time in three years, revenue is rising faster than spending, reflecting a definite improvement in public finances," Mr. Leitão said.

In addition, spending growth excluding debt service has been reduced to below recent-year rates. In 2014-2015 and 2015-2016, this growth will be 2.4% and 0.8%, respectively. In 2013-2014, the increase in spending reached 4.7%.

"We pledged to reduce the weight of spending in the economy to a tolerable level for taxpayers, and we are taking the action necessary to do so. Through disciplined spending management, consolidated expenditure as a percentage of GDP will be reduced to 21.5% by 2019, which is close to the level seen prior to the 2009 recession," the Minister indicated.

The economy is gaining momentum

"In the wake of a difficult 2013, the acceleration of the economy, forecasted in Budget 2014-2015, is materializing. Exports are picking up pace and consumption is sustained. Accordingly, economic growth in Québec should reach 1.6% in 2014 and 1.9% in 2015, compared to only 1.0% growth in 2013," Mr. Leitão emphasized.

Economic recovery

The government is announcing initiatives along the lines of the budget measures in order to build on those already implemented to bolster economic recovery. These new initiatives will increase private investment, foster Québec's transition to a green economy and encourage a new generation of farmers. These measures will represent investments of \$195 million over three years. They are in addition to those announced in Budget 2014-2015, which stand at \$816 million, for a total of \$1 billion.

Thus, the update provides for:

- a reduction of the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors as of January 1, 2015, representing \$162 million over three years;
- an increase in the additional deduction for transportation costs of manufacturing SMEs in all regions of Québec as of January 1, 2015, representing \$12 million over three years;

- a \$30-million envelope for investment in SMEs, in partnership with businesses;
- initiatives to encourage the transfer of farming businesses, namely, an increase from \$800 000 to \$1 million in the capital gains exemption respecting the sale of a farming or fishing business, and the introduction of a new tax credit for interest payable on the transfer of a farming business under La Financière agricole du Québec’s seller-lender program;
- a temporary increase of the refundable tax credit for Québec film and television production.

“We were elected with a mandate to revitalize the economy and put public finances in order, to restore Québec’s freedom of choice and action and ensure intergenerational fairness. We are on track to successfully carry out that mandate,” the Minister of Finance concluded.

The Update on Québec’s Economic and Financial Situation is available now, at www.finances.gouv.qc.ca.

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