

2009-10 QUEBEC BUDGET DEFICIT UPDATE CLIMBS BY \$0.8 bln TO REACH \$4.7 bln

HIGHLIGHTS:

- Quebec deficit estimated to be \$750 million higher than Budget, reaching \$4.7 billion (1.6% of GDP) in fiscal 2009-10.
- Real GDP growth forecast for 2009 revised down from -1.2% to -1.5%, while nominal GDP growth was downgraded from -0.1% to -0.6%. Real and nominal GDP growth in 2010 gets slight downgrade to 1.7% and 3.8% respectively.
- Current in-year change in own source revenues (when compared to Budget) is -\$502 million. The government also added a \$300 million per year provision to protect against revenue shortfalls.
- \$800 million added to SME credit support program (“Renfort”), to total \$2 billion by the end of 2010. Servicing this program increases program expenses by \$150-170 million per year.
- Commitment to return to balanced budgets by fiscal 2013-14 was maintained.

Commentary:

In its Fall Update on Quebec’s economic and financial situation, Minister of Finance Raymond Bachand announced the current fiscal year’s deficit would be \$750 million higher than budgeted, reaching \$4.7 billion (1.6% of GDP). Most of the revision comes from \$500 million fewer own-source receipts (e.g. income and sales taxes), while the introduction of a \$300 million provision to protect against revenue shortfalls accounts for much of the remaining adjustment. The government also announced it is increasing its SME credit support program (called “Renfort”) by \$800 million to reach \$2 billion. Servicing this larger envelope will add \$150 million to current fiscal year expenses. The downward revision is on the back of a downward revision (of 0.3 percentage points) in estimated real economic growth for this year, to -1.5%. We will look to Budget 2010 next March for further specifics on this road back to balanced budgets.