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Quebec Liberal Party to Form a Minority Government (Update1)

By Theophilos Argitis and Frederic Tomesco

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March 26 (Bloomberg) -- Quebec Premier Jean Charest's Liberal Party is poised to lose its majority in the French-speaking province's legislature tonight and will need support from opposition parties to pass laws.

The Liberals are leading in 48 of 125 ridings, with 99 percent of polls reporting, according to Elections Quebec. The right-of-center Action Democratique du Quebec leads in 41 districts, with the separatist Parti Quebecois ahead in 36.

The result will force the Liberals to seek out support for legislation from ADQ Leader Mario Dumont, a 36 year-old former Liberal who wants to rein in government spending and make the province more business-friendly. It also marks a setback for the separatist Parti Quebecois, reflecting a decline in voter appetite for another vote on seceding from the rest of Canada.

"A referendum certainly seems far from happening," said Harold Scheer, who helps manage the equivalent of \$3.7 billion in fixed-income assets for Baker, Gilmore & Associates in Montreal. Quebec may also enjoy stronger economic growth, "with the ADQ playing more of a role in shaping government policies," he said.

The difference between the yield on Quebec's benchmark 10-year bond and a similar bond from Ontario widened to a 10-week high of 9.53 basis points March 23, before narrowing today to 9.18 basis points. A basis point is 0.01 percentage point. The Quebec government pays more to borrow than Ontario and other provinces because of its higher debt levels and slower growth.

The Canadian dollar advanced to 86.23 U.S. cents at 11:44 p.m. in Toronto, from 86.09 cents on March 23.

Helping Harper

Today's election result may help Canadian Prime Minister Stephen Harper, who boosted funding for Quebec in last week's federal budget as part of efforts to dim separatist support. Harper, whose own minority government faces elections as early as this year and needs to increase its count of 10 Quebec seats to win a majority, raised direct transfers to Quebec by C\$2.3 billion (\$2 billion) for the coming year.

Harper can take credit for "taking the wind out of the separatists' sails," Nikita Nanos, a pollster with SES Research in Ottawa, said in an interview before the vote.

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Popular support for the Parti Quebecois, which has waged a four-decade struggle to win the province's independence, fell below 30 percent for the first time since 1970.

While Radio-Canada earlier tonight projected Charest, 48, lost his seat, he was leading the Parti Quebecois candidate in his Sherbrooke riding by more than 1,200 votes with 189 of 212 polls reporting, according to Elections Quebec.

The Liberals held 72 of the 125 seats in the Quebec City legislature when the election was called last month, compared with 45 for the Parti Quebecois and five for Dumont's ADQ.

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