

FINANCIAL PROFILE TODAY 2008-2009

Thursday, March 13, 2008

HIGHLIGHTS OF THE 2008-2009 BUDGET

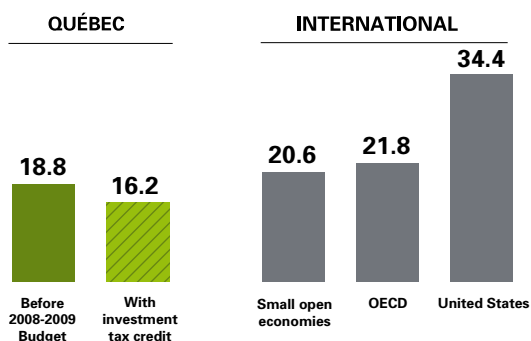
SOUND MANAGEMENT OF PUBLIC FINANCES

- Budgetary balance maintained in 2008-2009 and 2009-2010, in accordance with the *Balanced Budget Act*.
- Spending growth limited to 4.2% for 2008-2009 and to 3% for 2009-2010. Priority is given to the government's main missions:
 - health: 5.5%;
 - education: 4.6%;
 - families and seniors: 5.5%.

REWARDING INVESTMENT

- Several initiatives are designed to stimulate private investment, such as:
 - the immediate elimination of the tax on capital for manufacturing companies;
 - the new investment tax credit of at least 5% for the purchase of manufacturing and processing equipment;
 - the rate will be raised to 20%, 30% or 40%, on the basis of a region's remoteness;
 - the extension of the accelerated capital cost allowance for manufacturing and processing equipment;
 - the new tax credit for the development of e-business.
- The fiscal environment has never been more favourable to investment and productivity improvement.
- The investment tax rate is lower in Québec than in the United States and the OECD countries.

COMPARISON OF MARGINAL EFFECTIVE TAX RATES (METR) ON INVESTMENT – 2012 (percent)



SUMMARY OF CONSOLIDATED BUDGETARY TRANSACTIONS (millions of dollars)

	2007-2008 ^P	2008-2009 ^P
BUDGETARY REVENUE	62 920	62 980
BUDGETARY EXPENDITURE		
Program spending	- 54 635	- 56 948
Debt service	- 7 003	- 6 907
Total budgetary expenditure	- 61 638	- 63 855
NET RESULTS OF CONSOLIDATED ENTITIES	- 162	447
Contingency reserve	-	- 200
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	1 120	- 628
Deposit of dedicated revenues in the Generations Fund	- 403	- 742
BUDGETARY BALANCE BEFORE USE OF BUDGETARY RESERVE	717	- 1 370
Deposit in the Generations Fund from the budgetary reserve	- 200	-
Budgetary reserve	- 517	1 370
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	0	0

P: Preliminary results for 2007-2008 and forecasts for 2008-2009.

ECONOMIC OUTLOOK FOR QUÉBEC

(annual percentage change, except where otherwise indicated)

	2007	2008	2009
Real gross domestic product	2.4	1.5	2.0
Real consumption	3.6	3.1	2.2
Housing starts (thousands)	48.6	44.6	38.5
Real exports	- 3.0	- 0.6	3.3
Job creation (thousands)	86.3	45.0	34.2
Unemployment rate (%)	7.2	7.0	6.9
Consumer prices	1.6	1.4	1.8

CANADIAN FINANCIAL MARKETS

3-month Treasury bills (rate in %)	4.2	3.5	4.2
10-year bonds (rate in %)	4.3	4.1	4.6
Canadian dollar (in U.S. cents)	93.0	99.0	95.5

Sources: Statistics Canada, Institut de la statistique du Québec and ministère des Finances du Québec.

REDUCING THE DEBT BURDEN

- Increase, from 50% to 75%, in Hydro-Québec's net profits paid as dividends to the government.
- In 2007-2008, \$603 million was deposited in the Generations Fund to pay down the debt.
- As at March 31, 2010, the Generations Fund balance will be \$2.7 billion.



FINANCING PROGRAMS

CONSOLIDATED REVENUE FUND AND FINANCING FUND

- Borrowings of the Consolidated Revenue Fund and Financing Fund totalled \$6.8 billion in 2007-2008.
 - In 2007-2008, the government realised pre-financing of \$2 billion. Over the past 10 years, the government has realised an average of slightly over \$2.5 billion in pre-financing.
- In 2007-2008, all borrowings were on the Canadian market, where borrowing conditions were very favourable compared with international markets:
 - Over the past 10 years, one quarter of borrowings, on average, have been contracted in foreign currency.
 - In 2007-2008, the 10-year benchmark issue reached \$4 billion on the Canadian market. That is the Québec government's largest 10-year benchmark issue.
- The government made a borrowing with one of the longest maturities in Canada:
 - \$500 million maturing in 2076.
- Consolidated Revenue Fund and Financing Fund borrowings will be \$8.6 billion in 2008-2009. Without pre-financing, they would have totalled \$10.6 billion.
- In 2009-2010, the financing program will total \$11.4 billion.

FINANCEMENT-QUÉBEC

- Financement-Québec is a government corporation that makes borrowings in its name on financial markets to meet the needs of institutions in the health and education networks regarding capital asset financing.
- The Québec government guarantees the borrowings of Financement-Québec.
- Financement-Québec's borrowings totalled \$2 billion in 2007-2008.
- In 2008-2009 and 2009-2010, Financement-Québec's financing program will be \$2.5 billion.

BASEL II

- Under the standards stemming from the Basel II Accord, foreign regulators can grant a risk weighting factor of 0% to Québec securities.
 - This means that financial institutions do not have to maintain capital reserves against Québec securities that they hold.
- Today, Germany, Belgium, France, Italy, Luxembourg and the Netherlands attribute a 0% risk weighting factor to Québec securities. Québec's financing activities are therefore facilitated in these countries.

CONSOLIDATED REVENUE FUND AND FINANCING FUND AND FINANCEMENT-QUÉBEC

(millions of dollars)

	2007-2008 ^P	2008-2009 ^P	2009-2010 ^P
CONSOLIDATED REVENUE FUND			
Net financial requirements (surplus) ¹	- 1 200	- 1 600	- 1 100
Repayment of borrowings	4 057	4 316	5 319
Change in cash position	- 6 069	- 1 987	-
Retirement Plans Sinking Fund and Employee future benefits funds	4 894	5 883	4 677
Transactions under the credit policy ²	1 172	-	-
Pre-financing	1 987	-	-
TOTAL — Consolidated Revenue Fund	4 841	6 612	8 896
FINANCING FUND	1 920	2 000	2 500
SUB-TOTAL — Consolidated Revenue Fund and Financing Fund			
	6 761	8 612	11 396
FINANCEMENT-QUÉBEC	2 009	2 500	2 500
TOTAL	8 770	11 112	13 896

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

1 Excluding consolidated organizations.

2 Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government made disbursements totalling \$1 172 million in 2007-2008 following exchange rate movements. These disbursements, which were financed by new borrowings, are similar to repayments of debt and thus have no impact on the level of the government's debt.

THE QUÉBEC GOVERNMENT'S CURRENT CREDIT RATINGS

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Positive
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA-	Positive
Japan Credit Rating Agency (JCR)	AA+	Stable



FINANCIAL PROFILE TODAY

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