

FINANCIAL PROFILE TODAY 2009-2010

Thursday, March 19, 2009

Highlights of the 2009-2010 Budget

ECONOMIC AND BUDGETARY OUTLOOK

The financial crisis has grown to the point of drawing the global economy into recession, prompting a major revision of economic growth forecasts.

- Québec has been drawn into a recession in 2009. A 1.2% decline in economic activity is now anticipated.
- In 2010, growth will return, with GDP gaining 1.9%.

Accordingly, after taking the most recent adjustments to economic growth into account, the financial framework indicates that:

- the budget will be balanced in 2008-2009;
- Québec will post budget deficits of \$3.9 billion and \$3.8 billion in 2009-2010 and 2010-2011 respectively.

PLAN FOR RESTORING BALANCED BUDGET

The government is announcing the implementation of a plan to restore balanced budget aimed at eliminating the deficit by 2013-2014.

Four initiatives are being put forward to gradually eliminate the deficit:

- annual growth in program spending will be held to 3.2% as of 2010-2011;
- intensification of efforts to curb tax evasion and tax avoidance;
- indexing of all non-indexed fees as of January 1, 2011, with the exception of rates for childcare services;
- increase in the rate of the Québec sales tax from 7.5% to 8.5% as of January 1, 2011.

SUPPORTING THE ECONOMY FIRST

The government's strategy:

- first, continue efforts to support the economy in order to weather the recession and prepare for economic recovery;
- restore fiscal balance once recovery is well under way.

In total, for 2009 and 2010:

- the new budget measures, combined with all the initiatives announced in recent months, bring the additional cash resources injected into the economy to \$15 billion, equal to 4.9% of GDP;
- 60 000 jobs retained through the action taken by the government.

Economic outlook for Québec

(percentage change, except where otherwise indicated)

	2008	2009	2010
Real gross domestic product	0.8	- 1.2	1.9
Real consumption	3.8	1.2	2.2
Real international exports	- 3.4	- 8.3	2.3
Housing starts (thousands)	47.9	38.8	37.3
Consumer prices	2.1	0.4	2.0
Job creation (thousands)	30.0	- 62.9	29.5
Unemployment rate (%)	7.2	8.9	9.1
Canadian financial markets			
Canadian dollar (in cents U.S.)	93.3	82.4	91.6
Government of Canada 10-year bonds (%)	3.6	2.9	3.7
3-month Treasury bills (%)	2.4	0.6	1.2

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

Financial framework of the 2009-2010 Budget, including the plan to restore fiscal balance

(millions of dollars)

	FORECASTS		PROJECTIONS		
	2009-10	2010-11	2011-12	2012-13	2013-14
Budgetary revenue	62 212	64 017	66 189	68 979	71 565
Budgetary expenditure	- 66 093	- 68 525	- 71 492	- 74 716	- 77 354
Net results of consolidated entities	355	563	688	748	873
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	- 3 526	- 3 945	- 4 615	- 4 989	- 4 916
Deposit of dedicated revenues in the Generations Fund	- 715	- 880	- 957	- 1 038	- 1 126
BUDGETARY BALANCE BEFORE USE OF BUDGETARY RESERVE	- 4 241	- 4 825	- 5 572	- 6 027	- 6 042
Use of the budgetary reserve	295				
Impact of the plan to restore fiscal balance		1 065	2 933	4 759	6 130
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	- 3 946	- 3 760	- 2 639	- 1 268	88

FINANCING PROGRAMS

CONSOLIDATED REVENUE FUND AND FINANCING FUND

For fiscal year 2008-2009, borrowings of the Consolidated Revenue Fund and the Financing Fund amounted to \$10.3 billion.

In 2008-2009, a total of \$6.0 billion was borrowed on the Canadian market:

- public issues, \$3.0 billion;
- private borrowings, \$2.0 billion;
- savings products, \$0.5 billion;
- Immigrant Investor Program, \$0.5 billion.

In 2008-2009, 41.1% of borrowings were carried out on international markets. A total of 10 borrowings were carried out in various currencies:

- a borrowing of 1.25 billion euros;
- a borrowing of 1 billion US dollars;
- five borrowings totalling 1.05 billion Swiss francs;
- one borrowing of 5 billion yen;
- two borrowings totalling 712 million Hong-Kong dollars.

In 2008-2009, the government realised pre-financing of \$6.0 billion.

Borrowings of the Consolidated Revenue Fund and the Financing Fund will amount to \$7.0 billion in 2009-2010 and \$12.6 billion in 2010-2011.

The government's financing program

(millions of dollars)

	2008-2009 ^P	2009-2010 ^P	2010-2011 ^P
CONSOLIDATED REVENUE FUND			
Net financial requirements (surplus) ^{1,2}	- 57	5 017	5 040
Repayment of borrowings	4 571	5 245	3 813
Change in cash position	- 2 413	- 5 984	-
Retirement Plans Sinking Fund and funds dedicated to employee future benefits - Deposits	2 700	-	-
Transactions under the credit policy ³	- 1 558	-	-
Pre-financing	5 984	-	-
TOTAL — Consolidated Revenue Fund	9 227	4 278	8 853
FINANCING FUND	1 039	2 750	3 750
FINANCEMENT-QUÉBEC	2 675	2 750	2 750
TOTAL	12 941	9 778	15 353

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

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

1 Excluding consolidated entities.

2 Net financial requirements are adjusted to take into account the non-receipt of RPSF income and of funds dedicated to employee future benefits.

3 Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government received \$1 558 million in 2008-2009 following exchange rate movements. These receipts reduce financial requirements that have to be met through new borrowings.

The Québec government's 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

FINANCEMENT-QUÉBEC

Financement-Québec is a government corporation that borrows to meet the needs of institutions in the health and education networks to fund their capital spending.

The Québec government guarantees the borrowings of Financement-Québec.

Financement-Québec borrowed \$2.7 billion in 2008-2009.

Financement-Québec's financing program will total \$2.75 billion in 2009-2010 and 2010-2011.

INTERNATIONAL DIVERSIFICATION

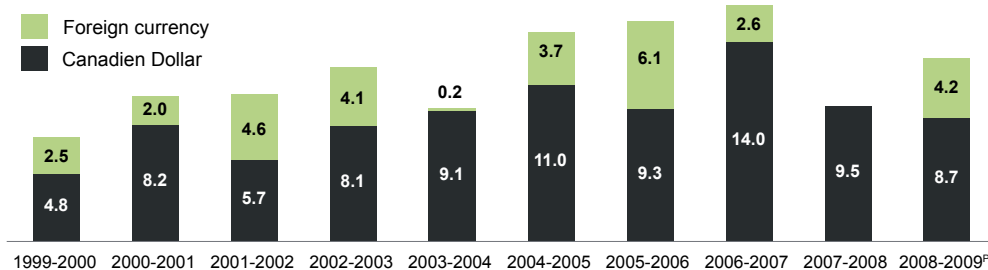
Under the standards flowing from the Basel II Agreement, foreign regulatory authorities can assign a 0% risk-weighting coefficient to Québec securities, thus allowing financial institutions to hold those securities without affecting their capital requirements.

To date, 15 countries assign a 0% risk-weighting coefficient to Québec securities.

Over the last 10 years, on average, one quarter of borrowings were made in foreign currencies.

History of borrowings by currency¹

(billions)



P: Preliminary results.

1 Borrowings of the Consolidated Revenue Fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

FINANCIAL PROFILE TODAY

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