

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Tuesday, November 20, 2012

HIGHLIGHTS OF THE 2013-2014 BUDGET

ECONOMIC AND BUDGETARY OUTLOOK

The economy is growing more slowly than anticipated.

- For 2012: forecast real GDP growth is 0.9%.
- For 2013: forecast real GDP growth is 1.5%.

For 2012-2013, the government is maintaining the budget deficit objective of \$1.5 billion set last March.

- This amount excludes the \$1.8-billion accounting impact arising from Hydro-Québec's extraordinary loss for the closure of the Gentilly-2 nuclear generating station.

Fiscal balance will be achieved in 2013-2014 and will be maintained thereafter.

Program spending growth will average 1.8% from 2012-2013 to 2013-2014, i.e. a level below the annual average of 5.6% from 2005-2006 to 2009-2010. By way of comparison, program spending grew by 3.0% in 2010-2011 and 2.5% in 2011-2012.

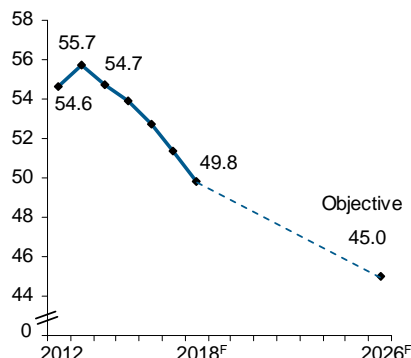
TWO MEASURES TO FOSTER PRIVATE INVESTMENT

A new 10-year tax holiday for large investment projects, the tax holiday for investments, the THI, will be implemented.

In addition, the tax credit for investments is extended until 2017.

GROSS DEBT

(as at March 31, as a percentage of GDP)

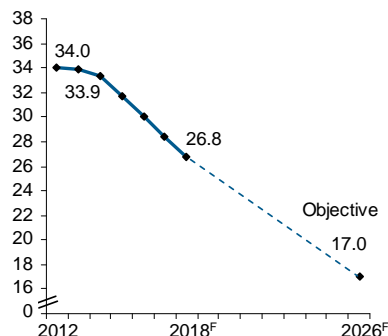


F: Forecasts for 2013 to 2018 and projections for subsequent years.

Note: The gross debt excludes borrowings made in advance and includes the amounts accumulated in the Generations Fund.

DEBT REPRESENTING ACCUMULATED DEFICITS

(as at March 31, as a percentage of GDP)



F: Forecasts for 2013 to 2018 and projections for subsequent years.

QUÉBEC'S ECONOMIC OUTLOOK

(percentage change)

| | 2012 | 2013 | 2014 |
|---------------------------------------|------|------|------|
| Gross domestic product | 0.9 | 1.5 | 2.0 |
| Exports | 0.9 | 2.8 | 3.3 |
| Housing starts (thousands of units) | 46.5 | 41.6 | 40.1 |
| Job creation (thousands) | 24.8 | 41.6 | 38.4 |
| Unemployment rate (%) | 7.8 | 7.6 | 7.5 |
| Canadian financial markets (%) | | | |
| Overnight target rate | 1.0 | 1.0 | 1.4 |
| Canada Treasury bills – 3 months | 1.0 | 1.0 | 1.4 |
| Canada bonds – 10 years | 1.9 | 2.4 | 3.2 |

QUÉBEC GOVERNMENT FINANCIAL FRAMEWORK – BUDGET 2013-2014

(millions of dollars)

| | 2012-2013 | 2013-2014 | 2014-2015 | 2015-2016 |
|---|----------------|----------------|----------------|----------------|
| Budgetary revenue⁽¹⁾ | 68 897 | 72 360 | 74 472 | 76 832 |
| Budgetary expenditure⁽¹⁾ | | | | |
| Program spending | -62 642 | -63 791 | -65 350 | -67 434 |
| Debt service | -7 917 | -8 601 | -8 735 | -8 952 |
| Total budgetary expenditure | -70 559 | -72 392 | -74 085 | -76 386 |
| Consolidated entities | 1 241 | 1 471 | 1 069 | 1 508 |
| Contingency reserve | -200 | -400 | -500 | -500 |
| Difference to be offset | — | — | 430 | 430 |
| SURPLUS (DEFICIT) | -2 426 | 1 039 | 1 386 | 1 884 |
| Deposit of dedicated revenues in the Generations Fund | -879 | -1 039 | -1 386 | -1 884 |
| Exclusion – Extraordinary loss following the closure of Gentilly-2 ⁽²⁾ | 1 805 | — | — | — |
| BUDGETARY BALANCE⁽³⁾ | -1 500 | 0 | 0 | 0 |

(1) Corresponds to the revenue and expenditure of the general fund.

(2) This consists of the accounting impact of Hydro-Québec's extraordinary loss arising from the closure of the Gentilly-2 nuclear generating station.

(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

DEBT REDUCTION

The debt-reduction objectives for 2025-2026 are maintained:

- 45% of GDP for the gross debt;
- 17% of GDP for the debt representing accumulated deficits.

To achieve these objectives, the government has decided to take a balanced approach, depositing varied revenues in the Generations Fund and reducing public infrastructure investments.

In Budget 2013-2014, the government is announcing that it will deposit in the Generations Fund:

- the revenues arising from indexing the price of heritage pool electricity as of 2014: \$95 million in 2014-2015, \$190 million in 2015-2016, \$290 million in 2016-2017 and \$395 million in 2017-2018;
- all mining royalties, i.e. \$325 million per year, as of 2015-2016;
- revenues of \$215 million per year, as of 2017-2018, arising from the increase in Hydro-Québec's net earnings resulting from the decision not to refurbish the Gentilly-2 nuclear generating station;
- an amount of \$100 million per year, as of 2014-2015, stemming from the tax increase on alcoholic beverages.

In addition, planned capital investments will be reduced by \$1.5 billion annually as of 2013-2014, also contributing to achieving the debt-reduction objectives.

In 2013-2014, the government will use \$1 billion from the Generations Fund to repay maturing borrowings. The balance of the Generations Fund should reach \$13.5 billion as at March 31, 2018.

THE QUÉBEC GOVERNMENT'S FINANCING PROGRAM

The government's borrowing program for 2012-2013 stands at \$17.3 billion and is 54.0% complete.

Borrowings completed as at November 13, 2012 amount to \$9.3 billion. Up to now, all of the Québec government's borrowings have been carried out on the Canadian market, including public issues of \$8.0 billion.

The government's financing program for 2013-2014 is expected to amount to \$15.0 billion.

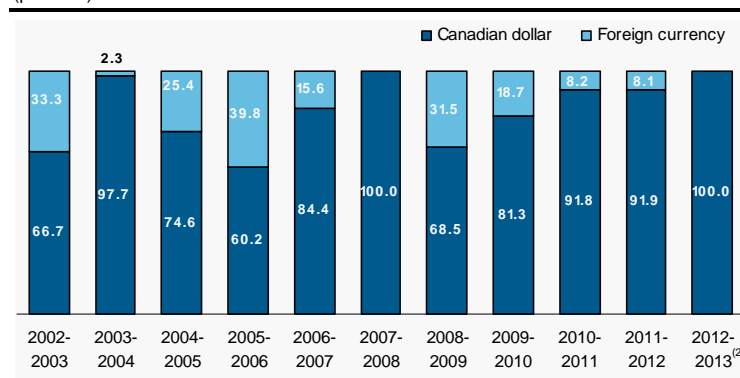
These programs include additional contributions to the sinking fund for the government's borrowings of \$3.0 billion in 2012-2013 and 2013-2014, for the purpose of increasing the government's prudential cash resources by \$6.0 billion. These cash resources may be used in the event of significant turmoil on financial markets.

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

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

BORROWINGS BY CURRENCY⁽¹⁾

(per cent)



- (1) Borrowings of the government's general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.
 (2) Borrowings completed as at November 13, 2012.

THE GOVERNMENT'S FINANCING PROGRAM

(millions of dollars)

| | 2012-2013 ^F | | | 2013-2014 ^F | 2014-2015 ^F |
|---|------------------------|----------------------------|-------------------|------------------------|------------------------|
| | November 2012 budget | Carried out ⁽¹⁾ | To be carried out | | |
| GENERAL FUND⁽²⁾ | | | | | |
| Net financial requirements ^{(3),(4)} | 4 545 | | | -700 | 393 |
| Repayments of borrowings | 4 623 | | | 4 487 | 7 572 |
| Use of the Generations Fund to repay maturing borrowings | — | | | -1 000 | — |
| Change in cash position | -4 436 | | | — | — |
| Deposits in the Retirement Plans Sinking Fund | — ⁽⁵⁾ | | | — ⁽⁵⁾ | — ⁽⁵⁾ |
| Transactions under the credit policy ⁽⁶⁾ | 471 | | | — | — |
| Additional contributions to the sinking fund for borrowings | 3 000 | | | 3 000 | — |
| Subtotal | 8 203 | | | 5 787 | 7 965 |
| FINANCING FUND | 5 100 | | | 3 900 | 3 500 |
| Including: repayments of borrowings | 1 254 | | | 1 247 | 1 130 |
| Subtotal – General fund and Financing Fund | 13 303 | 7 797 | 5 506 | 9 687 | 11 465 |
| FINANCEMENT-QUÉBEC | 4 000 | 1 542 | 2 458 | 5 350 | 5 800 |
| Including: repayments of borrowings | 1 866 | | | 3 722 | 3 511 |
| TOTAL | 17 303 | 9 339 | 7 964 | 15 037 | 17 265 |
| Including: repayments of borrowings | 7 743 | | | 9 456 | 12 213 |

F: Forecasts.

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

(1) Borrowings contracted as at November 13, 2012.

(2) The general fund corresponds to what used to be called the Consolidated Revenue Fund.

(3) These amounts exclude the net financial requirements of the consolidated entities, which are financed through Financing Fund and Financement-Québec financing programs.

(4) Net financial requirements are adjusted to take into account the non-receipt of RPSF revenues and of funds dedicated to employee future benefits.

(5) Deposits in the RPSF are optional.

(6) Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government disbursed \$471 million in 2012-2013 because of the change in foreign exchange rates. These disbursements do not affect the debt.

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This document is available on the following Website.

www.finances.gouv.qc.ca

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