

FINANCIAL PROFILE TODAY

UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

FALL 2007

Tuesday, December 11, 2007

Results for 2006-2007

- ▶ The final results for 2006-2007 show that the Québec government's budgetary surplus reached \$109 million. This amount includes the impact of the reform of government accounting.
- ▶ Budgetary revenue has been adjusted upward mainly because of higher personal income tax revenue.
- ▶ Budgetary expenditure has also been adjusted upward. This adjustment reflects:
 - ▶ an increase in program spending of \$120 million;
 - ▶ a reduction of \$42 million to debt service.

Forecast for 2007-2008

- ▶ In accordance with the *Balanced Budget Act*, a zero deficit will be maintained in both 2007-2008 and 2008-2009.
- ▶ The strength of domestic demand prompts an upward adjustment to budgetary revenue of \$588 million in 2007-2008 and of \$690 million in 2008-2009.
- ▶ This additional budgetary revenue will help fund:
 - ▶ the costs associated with the reform of government accounting;
 - ▶ the impact of new actuarial valuations of the retirement plans;
 - ▶ a rise in the growth of program spending from 3.0% to 3.5% in 2008-2009.

Economic outlook

- ▶ According to the revised forecasts, economic growth in Québec will amount to 2.0% in 2007 and reach 2.2% in 2008.
- ▶ Québec's economy is experiencing good growth despite a challenging international situation that is hampering exports.
- ▶ To assist companies that have been hit hardest by the rise in the value of the dollar, the government has recently introduced a \$620 million action plan to support the manufacturing industry in Québec.
- ▶ The action plan presents concrete measures to help companies by supporting investments to improve their productivity.

SUMMARY OF ADJUSTED BUDGETARY TRANSACTIONS

(Millions of dollars)

	2006-2007	2007-2008 ^P	2008-2009 ^P
Budgetary revenue	60 433	61 715	62 070
Budgetary expenditure			
Program spending	-51 889	-54 104	-55 991
Debt service	-6 925	-6 989	-7 158
Total	-58 814	-61 093	-63 149
Net results of consolidated organizations	201	41	129
Revenue dedicated to the Generations Fund	84	453	740
Impact of the accounting reform	89	-663	-150
Budgetary balance before payments to the Generations Fund use of the budgetary reserve	1 993	453	-360
Budgetary reserve ⁽¹⁾	-1 300	200	1 100
Additional payments to the Generations Fund	-500	-200	-
Payments of revenue dedicated to the Generations Fund	-84	-453	-740
Budgetary balance - Fall 2007	109	0	0

P: Projection.

⁽¹⁾ A negative amount indicates an allocation to the reserve and a positive amount, a use of the reserve.

Reform of government accounting

- ▶ At the time of the last budget, a task force was formed to propose a reform of accounting policies. It consisted of representatives from the ministère des Finances and the Auditor General of Québec.
- ▶ The task force has filed its report with the government.
- ▶ The government is announcing that it will immediately move ahead with an accounting reform that implements all the recommendations of the task force, in particular the consolidation of the health and education networks in the government's financial statements.
- ▶ For 2007-2008, the cost of the reform is \$663 million. It will be funded by higher revenue.
- ▶ The reform makes the final adjustments needed for the government's accounting practices to comply fully with generally accepted accounting principles for the public sector.

Financing program

Consolidated Revenue Fund and Financing Fund

- ▶ The borrowing program for the Consolidated Revenue Fund is adjusted upward by \$2.1 billion, chiefly because of higher repayments of borrowings and disbursements relating to the credit policy.
- ▶ The upward adjustment to repayments of borrowings results in particular from redemptions of savings products that were higher than forecast. However, saving products issues are revised upwards.
- ▶ Under its credit policy regarding counterparties, the government made disbursements for a total of \$1.1 billion following exchange rates movements. These disbursements, funded with new borrowings, are similar to a debt repayment and have no impact on the size of the government's debt.
- ▶ The borrowing program of the Consolidated Revenue Fund and the Financing Fund for 2007-2008 now stands at \$7.2 billion.
- ▶ Completed borrowings up to December 11, 2007, for the Consolidated Revenue Fund and the Financing Fund amount to \$6.6 billion.
- ▶ All the borrowings completed to date have been made on the Canadian market.
- ▶ As was the case last year, borrowings with very long maturities were made to take advantage of the strong demand from investors for securities of this type and the low level of interest rates. Borrowings totalling \$500 million, maturing in 2076, have been made so far this year.

Financement-Québec

- ▶ Financement-Québec is a government corporation that borrows on financial markets to meet the needs of institutions of the health and social services and the education networks to fund their capital investments. The borrowings of Financement-Québec are guaranteed by the Québec government.
- ▶ Financement-Québec's borrowing program amounts to \$2.0 billion in 2007-2008.
- ▶ Up to December 11, 2007, completed borrowings amount to \$1.7 billion.

FINANCING PROGRAM FOR 2007-2008 CONSOLIDATED REVENUE FUND AND FINANCING FUND

(Millions of dollars)

	May 2007 Budget	Revised	Completed ⁽¹⁾
Consolidated Revenue Fund			
Net financial requirements (surplus) ⁽²⁾	-500	-500	
Repayment of borrowings	5 110	6 013	
Change in cash position	-6 069	-6 069	
Retirement Plans Sinking Fund	4 876	4 876	
Pre-financing	—	—	
Credit policy	—	1 148	
Total Consolidated Revenue Fund	3 417	5 468	
Financing Fund⁽³⁾	1 750	1 750	
Total	5 167	7 218	6 593

Note: A positive number indicates a financial requirement; a negative number, a source of financing.

(1) Borrowings completed up to December 11, 2007.

(2) Excluding consolidated organizations.

(3) The Financing Fund makes loans to certain consolidated organizations and government corporations

FINANCING PROGRAM FINANCEMENT-QUÉBEC

(Millions of dollars)

	May 2007 Budget	Revised	Completed ⁽¹⁾
	2 000	2 000	1 680

(1) Borrowings completed up to December 11, 2007.