Legal deposit – Bibliothèque et Archives nationales du Québec © Gouvernement du Québec – ISBN 978-2-550-68027-7 (Print), ISBN 978-2-550-68028-4 (PDF)

2013

ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC

in brief

June 2013

ECONOMY

Economic Outlook

THE ECONOMY CONTINUED TO GROW IN 2012, FOR THE THIRD YEAR IN A ROW, DESPITE THE FRAGILE INTERNATIONAL ECONOMIC SITUATION.

QUÉBEC'S ECONOMY CONTINUES TO GROW

Québec has a dynamic and resilient economy that emerged from the last recession in good shape. Real GDP posted a gain of 1.0% in 2012 after rising by 1.9% in 2011.

According to the forecasts of the Ministère des Finances et de l'Économie, real GDP growth should gradually accelerate to 1.3% in 2013 and 1.8% in 2014.

- Domestic demand will continue to sustain economic growth in Québec. It will be based both on rising household consumption, supported by job creation, and an increase in business investment.
- Firmer growth in the United States and gradual improvement in the world economy will stimulate growth in Québec's exports.

ECONOMIC INDICATORS

(percentage change, unless otherwise indicated)

QUÉBEC	2012	2013	2014
Real gross domestic product	1.0	1.3	1.8
Gross domestic product	3.4	3.6	3.9
Real consumption	1.1	1.8	2.1
Housing starts (thousands)	47.4	41.4	40.1
Real business non-residential investments	7.6	2.0	3.7
Real total exports	1.7	2.8	3.0
Unemployment rate (per cent)	7.8	7.5	7.4
Job creation (thousands)	30.8	44.5	36.5
Consumer price index	2.1	1.6	1.9
CANADA	**2012**	**2013**	**2014**
Treasury Bills – 3 months (%)	1.0	1.0	1.4
Bonds – 10 years (%)	1.9	2.3	3.2
Canadian dollar (in US cents)	100.1	98.8	99.6

SOURCES: INSTITUT DE LA STATISTIQUE DU QUÉBEC, STATISTICS CANADA AND MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC.

GOOD PERFORMANCE IN EMPLOYMENT

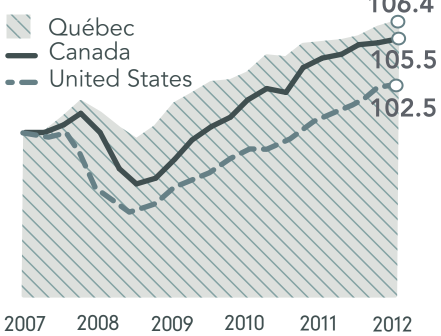
Québec's labour market experienced positive growth in 2012.

- For the year as a whole, 30 800 jobs were created in Québec and the unemployment rate held at 7.8%.

Continued economic growth should result in 44 500 jobs being created in 2013 and 36 500 in 2014. The labour market's good performance should enable the unemployment rate to fall to 7.5% in 2013 and 7.4% in 2014.

REAL GDP – QUÉBEC AND ITS MAIN PARTNERS

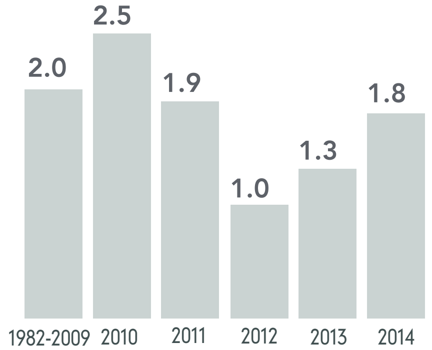
(index, 4th quarter of 2007 = 100)



SOURCES: STATISTICS CANADA AND MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC.

REAL GDP – QUÉBEC

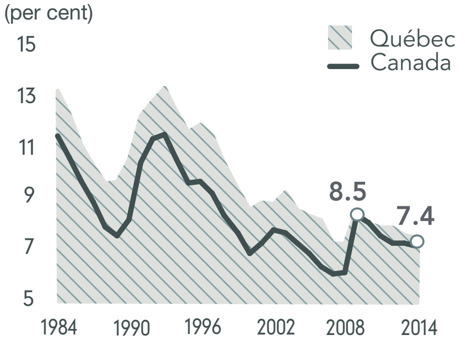
(percentage change)



SOURCES: INSTITUT DE LA STATISTIQUE DU QUÉBEC, STATISTICS CANADA AND MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC.

UNEMPLOYMENT RATE IN QUÉBEC

(per cent)



SOURCES: STATISTICS CANADA AND MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC.

Disciplined management of public finances

STAY THE COURSE TOWARDS FISCAL BALANCE AND DEBT REDUCTION

The government is staying the course on returning to fiscal balance and reducing the debt, while fostering long-term economic development. Budgetary objectives are being met over the time period planned to restore fiscal balance.

- For 2012-2013, the budget deficit objective of $1.5 billion is maintained.
- A return to fiscal balance is forecast as of 2013-2014.

SUMMARY OF ADJUSTED BUDGETARY TRANSACTIONS – MARCH 2013
(millions of dollars)

	2012-2013	2013-2014	2014-2015
Budgetary revenue	68 652	72 109	74 133
% change	*4.8*	*5.0*	*2.8*
Budgetary expenditure	–70 464	–72 341	–73 946
% change	*2.3*	*2.7*	*2.2*
Consolidated entities	1 298	1 485	1 051
Contingency reserves	–50	–200	–300
Shortfall to be offset	—	—	430
Exceptional loss – Closure of Gentilly-2	–1 876	—	—
SURPLUS (DEFICIT)	–2 440	1 053	1 368
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	–936	–1 053	–1 368
Exclusion – Exceptional loss	1 876	—	—
BUDGETARY BALANCE(1)	–1 500	—	—
En % du PIB	–0.4	—	—

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

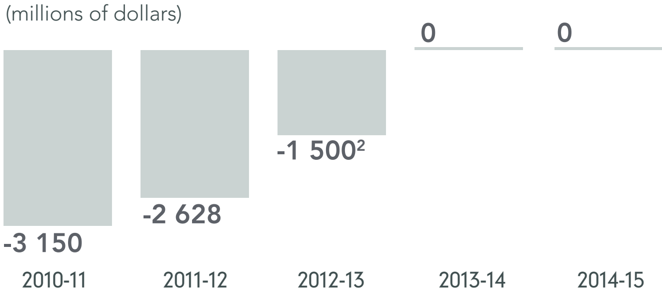
RIGOROUS SPENDING CONTROL

Overall, annual growth in consolidated expenditure excluding debt service will average 2.7% from 2012-2013 to 2014-2015, a decrease compared to the 5.7% growth observed from 2006-2007 to 2009-2010 and the growth rates in 2010-2011 and 2011-2012.

More specifically, consolidated expenditure excluding debt service is expected to increase by:

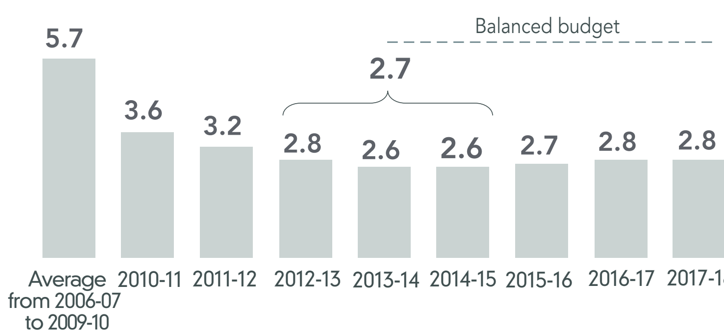
- 2.8% in 2012-2013;
- 2.6% in 2013-2014;
- 2.6% in 2014-2015.

BUDGETARY BALANCE FROM 2010-2011 TO 2014-2015[1]
(millions of dollars)



1 Budgetary balance within the meaning of the Balanced Budget Act.
2 For 2012 2013, the budgetary balance excludes the accounting impact arising from Hydro Québec's exceptional loss for the closure of the Gentilly-2 nuclear power plant. The impact amounts to $1 876 million, i.e. $71 million more than the $1 805 million estimated at the time of Budget 2013-2014.

GROWTH IN CONSOLIDATED EXPENDITURE EXCLUDING DEBT SERVICE
(per cent)



The government's debt

DEBT REDUCTION: A PRIORITY FOR THE GOVERNMENT

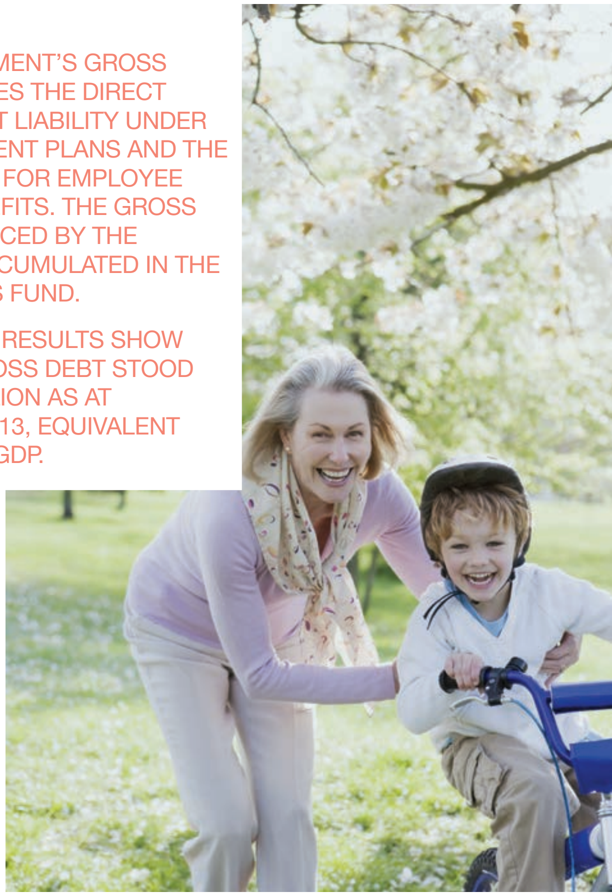
The government's debt reduction objectives are written into the *Act to reduce the debt and establish the Generations Fund*.

- As at March 31, 2013, the gross debt stood at 54.2% of GDP. The government's objective is to reduce this to 45% as at March 31, 2026.
- As at March 31, 2013, the debt representing accumulated deficits amounted to 32.9% of GDP. The government's objective is to reduce this to 17% as at March 31, 2026.

DEBT

THE GOVERNMENT'S GROSS DEBT INCLUDES THE DIRECT DEBT, THE NET LIABILITY UNDER THE RETIREMENT PLANS AND THE NET LIABILITY FOR EMPLOYEE FUTURE BENEFITS. THE GROSS DEBT IS REDUCED BY THE AMOUNTS ACCUMULATED IN THE GENERATIONS FUND.

PRELIMINARY RESULTS SHOW THAT THE GROSS DEBT STOOD AT $193.6 BILLION AS AT MARCH 31, 2013, EQUIVALENT TO 54.2% OF GDP.



THE GOVERNMENT'S GROSS DEBT AS AT MARCH 31, 2013P

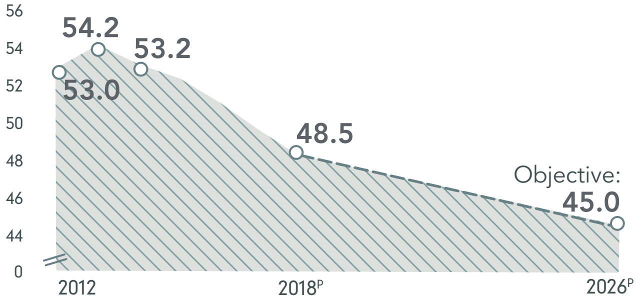
(billions of dollars)

Consolidated direct debt	170.6
Net retirement plans and employee future benefits liability	28.2
Less: Amount accumulated in the Generations Fund	-5.2
GROSS DEBT	193.6

P: Preliminary results.

GROSS DEBT

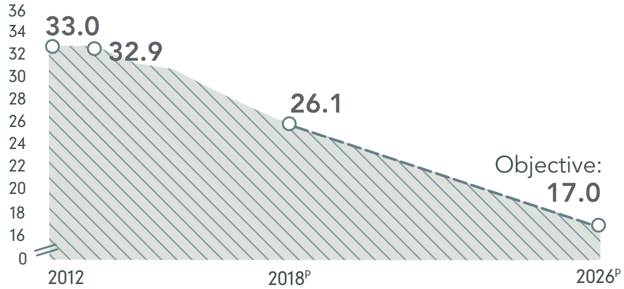
(as at March 31, as a percentage of GDP)



P : Preliminary data for 2013, forecasts for 2014 to 2018 and projections for subsequent years.
Note: The gross debt excludes borrowings made in advance and takes the amounts accumulated in the Generations Fund into account.

DEBT REPRESENTING ACCUMULATED DEFICITS

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



P: Preliminary data for 2013, forecasts for 2014 to 2018 and projections for subsequent years.

FINANCING

THE GOVERNMENT'S FINANCING PROGRAM

The government's financing program aims primarily to meet new capital investment financing requirements, to repay maturing borrowings and to contribute to sinking funds.

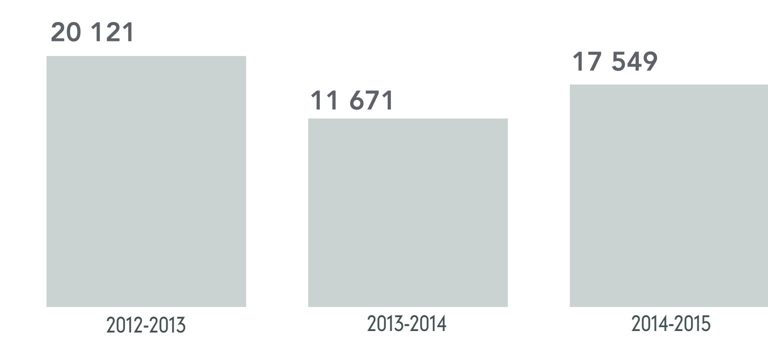
The financing program for 2012-2013 amounted to $20 121 million. It is expected to be $11 671 million in 2013-2014 and $17 549 million in 2014-2015.

FINANCING PROGRAM
(millions of dollars)

	2012-2013[P]	2013-2014[P]	2014-2015[P]
GENERAL FUND			
Net financial requirements[(1),(2)]	4 920	-392	400
Repayments of borrowings	4 665	4 569	7 649
Use of the Generations Fund to repay maturing borrowings	—	-1 000	—
Change in cash position[(3)]	-4 436	-2 646	—
Deposits in the Retirement Plans Sinking Fund or retirement plans[(4)]	1 149	—	—
Transactions under the credit policy[(5)]	-347	—	—
Additional contributions to the Sinking Fund for borrowings	3 860	2 140	—
Pre-financing	2 646	—	—
TOTAL – General fund	12 457	2 671	8 049
FINANCING FUND	4 078	8 000	8 500
Subtotal – General fund and Financing Fund	16 535	10 671	16 549
FINANCEMENT-QUÉBEC	3 586	1 000	1 000
TOTAL	20 121	11 671	17 549
Including: repayments of borrowings[(6)]	7 785	9 538	12 290

P: Preliminary results for 2012-2013 and forecasts for subsequent years.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of the consolidated entities, which are financed through Financing Fund and Financement-Québec financing program.
(2) Net financial requirements are adjusted to take into account the non-receipt of Retirement Plans Sinking Fund (RPSF) revenues and of funds dedicated to employee future benefits.
(3) Corresponds to pre-financing made in the preceding year.
(4) Deposits to the RPSF are optional.
(5) Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government received $347 million in 2012-2013 because of the change in foreign exchange rates. These receipts reduce financial requirements to be satisfied with new borrowings.
(6) Includes repayments of borrowings by the general fund, the Financing Fund and Financement-Québec.

FINANCING PROGRAM[P]
(millions of dollars)



P: Preliminary results for 2012-2013 and forecasts for subsequent years.

COMMENTS FROM CREDIT-RATING AGENCIES

MOODY'S – APRIL 11, 2013

"The ratings […] reflect the province's inherent credit strengths, including a large and diverse economy that supports its sizeable own-source resources and considerable policy flexibility over budgetary outcomes through an unfettered access to a broad range of taxes as well as the ability to adjust its expenditure base when required."

" '[…] the government's commitment to ease back on debt accumulation through planned reductions in cash requirements and contribution to a debt reserve fund are of key importance to the credit outlook,' added Mr. Yake [Assistant Vice-President - Analyst with Moody's]."

STANDARD & POOR'S – MAY 7, 2013

"In our view, the Province of Quebec has good prospects to achieve a balanced budget by fiscal 2014 and has demonstrated its commitment to reducing debt in the medium-to-long term."

CREDIT RATINGS

AGENCY	RATING	OUTLOOK	DATE OF CONFIRMATION
Moody's	Aa2	Stable	April 2013
Standard & Poor's	A+	Stable	May 2013
Dominion Bond Rating Service (DBRS)	A (high)	Stable	May 2013
Fitch Ratings	AA-	Stable	May 2013
Japan Credit Rating Agency	AA+	Stable	July 2012

BENCHMARK ISSUES IN CANADA
(millions of dollars)

	COUPON (%)	ISSUE DATE	MATURITY DATE	AMOUNT OUTSTANDING
5 years	4.50	2008	2018	4 000
10 years	3.00	2012	2023	4 500
30 years	3.50	2013	2045	1 500