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THE QUÉBEC GOVERNMENT'S DEBT

Finances Québec

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INTRODUCTION

In recent years, the subject of the government's debt has become more prominent in discussions on public finances. People are concerned by the size of the debt and its growth.

Various governments in Canada use a number of debt concepts to measure indebtedness. The main concepts are debt representing accumulated deficits, gross debt, net debt and the debt of the public sector as a whole. Each concept has its own rationale.

This document explains the various concepts of debt in Québec as well as those used by the federal and provincial governments in Canada.

Moreover, the government's objective when it created the Generations Fund in June 2006 was to reduce the total debt to 25% of GDP by 2025-2026.

Since then, the concept of gross debt was created to include organizations whose results are henceforth consolidated line-by-line, further to the 2007 accounting reform. The concept of debt used for the purposes of the legislation respecting debt reduction has not been changed. In addition, the economic slowdown has resulted in the ratio of total debt to GDP moving further from the objective.

In this context, it is worthwhile reflecting on the concept of debt to use for the purposes of the legislation respecting debt reduction and on the targets that should be set in that regard.

1. DEBT CONCEPTS USED BY THE QUÉBEC GOVERNMENT

Several concepts of debt can be used to measure a government's indebtedness.

1.1 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the government's liabilities and its assets. It represents the government's "bad debt", i.e. the debt that does not correspond to an asset or the debt incurred when an economic slowdown prompts the government to post a deficit. It is often said that this is the debt incurred to "pay for the groceries". By way of analogy with the "net equity" of an individual or a business, the debt representing accumulated deficits represents the government's "negative net equity".

As at March 31, 2009, the Québec government's debt representing accumulated deficits stood at $98.5 billion, i.e. 32.4% of GDP.

TABLE 1

Debt representing accumulated deficits as at March 31, 2009
(millions of dollars)

Liabilities	182 758
Less: Assets	– 84 299
DEBT REPRESENTING ACCUMULATED DEFICITS[1]	**98 459**
As a % of GDP	***32.4***

1 After taking the stabilization reserve into account.

This concept is also used as a measure of indebtedness by the federal government and the governments of Ontario and Alberta in their budget papers.

Another way to describe the debt representing accumulated deficits that makes the connection with the gross debt, is as follows: subtract from the gross debt the value of the government's financial assets (e.g.: investments in a government corporation), net of other liabilities (e.g.: accounts payable) as well as the value of non-financial assets (e.g.: fixed assets).

TABLE 2

Debt representing accumulated deficits as at March 31, 2009
(millions of dollars)

Gross debt	151 385
Less: Financial assets, net of other liabilities	– 22 159
Less: Non-financial assets	– 30 767
DEBT REPRESENTING ACCUMULATED DEFICITS[1]	**98 459**
As a % of GDP	***32.4***

1 After taking the stabilization reserve into account.

Over the coming years, the debt representing accumulated deficits is expected to increase by $8.5 billion, reaching $106.9 billion as at March 31, 2014. It will then amount to 30.0% of GDP. This increase is attributable to the deficits of $13.2 billion that will be posted from 2009-2010 to 2013-2014, partially offset by the increase of $4.7 billion in the Generations Fund. The debt representing accumulated deficits will stop rising once the budget is balanced and will then decline year after year at the rate of increase of the Generations Fund.

TABLE 3

Growth factors of the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budget deficits (surplus)	Generations Fund	Total change	Debt, end of year	As a % of GDP
2009-2010[P]	98 459	4 695	– 715	3 980	102 439	32.4
2010-2011[P]	102 439	4 675	– 881	3 794	106 233	33.9
2011-2012[P]	106 233	2 639	– 958	1 681	107 914	32.9
2012-2013[P]	107 914	1 268	– 1 039	229	108 143	31.6
2013-2014[P]	108 143	– 88	– 1 128	– 1 216	106 927	30.0

P: Projections based on data from the fall 2009 Update on Québec's Economic and Financial Situation.

The Québec Government's Financial Assets and Liabilities

Financial assets consist chiefly of the value of the government's investments in its government corporations, accounts receivable and long-term investments.

Financial liabilities consist mainly of accounts payable, deferred revenue and federal government transfers to be repaid.

Financial assets, net of other liabilities, represent the difference between financial assets and other financial liabilities, i.e. liabilities other than the gross debt (consolidated direct debt and net retirement plans and employee future benefits liabilities).

As at March 31, 2009, financial assets, net of other liabilities, amounted to $22.2 billion.

Net financial assets, net of other liabilities, as at March 31, 2009
(millions of dollars)

Financial assets		
Participations in government enterprises[1]	25 867	
Accounts receivable	12 440	
Long-term investments	5 063	
Other	49	
Subtotal		**43 419**
Financial liabilities other than the debt		
Accounts payable	– 14 122	
Deferred income	– 3 032	
Transfers from the federal government to be repaid	– 1 673	
Other	– 2 000	
Subtotal		**– 20 827**
Stabilization reserve		**– 433**
TOTAL FINANCIAL ASSETS, NET OF OTHER LIABILITIES		**22 159**

1 Represents mainly the government's participation in Hydro-Québec, which essentially corresponds to Hydro-Québec's earnings not paid to the government as dividends, and the participation of the latter in the Société générale de financement du Québec.

The Québec Government's Non-Financial Assets

Non-financial assets consist of the government's net fixed assets, the net investment in the health and social services and the education networks as well as inventories and pre-paid expenses. As at March 31, 2009, non-financial assets totalled $30.8 billion.

The government's net fixed assets correspond chiefly to the book value of roads, buildings, information systems development as well as machinery and equipment. At the time they are acquired, these fixed assets are carried to the government's balance sheet. Subsequently, they are gradually charged to expenditure based on their useful life. This expenditure is called "depreciation". As at March 31, 2009, net fixed assets stood at $21.5 billion.

The net investment in the networks corresponds mainly to loans made to health and social services and education institutions to fund their capital investments. As at March 31, 2009, the net investment in the networks stood at $9.0 billion.

Inventories and prepaid expenses totalled $238 million as at March 31, 2009.

Non-financial assets as at March 31, 2009
(millions of dollars)

Net fixed assets[1]		
Complex networks[2]	12 241	
Buildings	5 824	
Information systems development	1 289	
Material and equipment	1 187	
Land	769	
Improvements	180	
Subtotal		**21 490**
Net investment in the health and social services and the education networks		
Health and social services network	4 580	
Education network	4 459	
Subtotal		**9 039**
Inventories and prepaid expenses		**238**
TOTAL NON-FINANCIAL ASSETS		**30 767**

1 Corresponds to the stock of fixed assets less accumulated depreciation.
2 Includes mostly roads.

Debt Representing Accumulated Deficits for the Purposes of the Public Accounts

The budgetary balance shown in the Public Accounts reflects the government's revenues and expenditures incurred during a fiscal year.

According to the *Act to establish a budgetary surplus reserve fund*, the Minister of Finance may allocate all or part of the excess of revenue over expenditure to a reserve. This reserve can be applied to keep the budget balanced. In September 2009, this statute was repealed by the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform*. In addition, the latter created a stabilization reserve, to which the amounts allocated to the budgetary reserve after April 1, 2006, are deemed to have been allocated.

The budgetary balance in the Public Accounts does not reflect the amounts allocated to the stabilization reserve or their utilization. Consequently, the debt representing accumulated deficits in the Public Accounts is different from that shown in the budget papers because of the stabilization reserve.

The balance of the stabilization reserve was $433 million as at March 31, 2009. It is going to be used to reduce the 2009-2010 deficit.

After taking the stabilization reserve into account, the debt representing accumulated deficits stood at $98.5 billion as at March 31, 2009, i.e. $433 million more than the $98.0 billion shown in the Public Accounts.

Debt representing accumulated deficits as at March 31, 2009
(millions of dollars)

DEBT REPRESENTING ACCUMULATED DEFICITS ACCORDING TO THE PUBLIC ACCOUNTS	**98 026**
As a % of GDP	***32.3***
Plus: Balance of the stabilization reserve	433
DEBT REPRESENTING ACCUMULATED DEFICITS AFTER TAKING THE STABILIZATION RESERVE INTO ACCOUNT	**98 459**
As a % of GDP	***32.4***

1.2 Gross debt

The gross debt corresponds to the sum of the debt contracted on financial markets and the net liability for the retirement plans and employee future benefits of public and para-public sector employees, from which the balance of the Generations Fund is subtracted.

This debt concept was created at the time of the December 2007 accounting reform.

The gross debt includes the government's debt and that of all entities whose results are consolidated line by line with those of the government[1]. The gross debt includes the debt of organizations that make loans to entities of the health and social services and the education networks, namely Financement-Québec and the Corporation d'hébergement du Québec.

As at March 31, 2009, the gross debt amounted to $151.4 billion, equivalent to 49.9% of GDP.

TABLE 4

Gross debt as at March 31, 2009
(millions of dollars)

Direct debt of the Consolidated Revenue Fund[1]	87 043
Debt of consolidated entities	37 586
Consolidated direct debt[2]	124 629
Plus: Net retirement plans liability	28 649
Plus: Net employee future benefits liability	59
Less: Generations Fund	– 1 952
GROSS DEBT	**151 385**
As a % of GDP	***49.9***

1 Excluding pre-financing.
2 The consolidated direct debt represents the debt that has been contracted on financial markets.

1 In the December 2007 accounting reform, the financial data of institutions of the health and social services and the education networks were included using the modified equity value accounting method in the government financial statements. Under this method, the debt of network establishments contracted in their own name is not included in the government's gross debt. It constitutes a separate component of Québec's public sector debt.

The following table shows how the government's gross debt has changed since March 31, 1998. The data for years prior to the 2007 accounting reform have been restated to make them comparable with those following the reform, i.e. for 2007 and subsequent years. This is the first time such data are available.

TABLE 5

Gross debt of the Québec governement[1] as at March 31

	$ million	As a % of GDP
1998	110 900	58.9
1999	114 719	58.5
2000	116 009	55.0
2001	119 731	53.2
2002	123 065	53.1
2003	128 234	53.1
2004	132 302	52.8
2005	135 879	51.7
2006	138 707	51.1
2007	143 424	50.8
2008	148 151	49.8
2009	151 385	49.9
2010P	161 621	53.5
2011P	173 139	55.2
2012P	180 950	55.2
2013P	186 629	54.5
2014P	190 642	53.4

Note: Gross debt figures prior to March 31, 2007 have been restated to reflect the impacts of the reform of government accounting in December 2007. The purpose of this restatement was to obtain comparable debt levels over a long period. Moreover, once line-by-line recording of the results of institutions of the health and social services and the education networks is complete, gross debt data will be restated.

P: Projections based on data from the fall 2009 Update on Québec's Economic and Financial Situation.

1 Excluding pre-financing.

❑ What causes the debt to rise?

The main factors that cause the debt to rise are:

— The budget deficit.

— Investments made by the government in its enterprises are another factor causing the debt to rise. Such investments can be made by means of an advance, a direct capital injection or by allowing a government corporation to keep a part of its earnings to fund its own investments.

  For example, Hydro-Québec pays part of its net earnings to the government as dividends and keeps part to fund its investments, in particular hydro-electricity dams. The portion of earnings the government allows Hydro-Québec to keep is in fact a capital injection by the government in Hydro-Québec that creates a financial requirement for the government and therefore causes the gross debt to rise.

In addition, sometimes the government makes capital injections in government corporations, for example the Société générale de financement du Québec. Such capital injections cause the government's financial requirements, and therefore its debt, to rise.

- Moreover, the net investment in the health and social services and the education networks, including loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions to fund their capital investments, cause the government's debt to rise.
- The government also makes investments in fixed assets (e.g.: roads), that require borrowings and cause the debt to rise. At the time they are made, these investments are carried to the government's balance sheet. Subsequently, they are gradually charged to expenditure based on their useful life.
- The change in certain other government asset and liability items, for example accounts payable and accounts receivable, can also cause the debt to rise.
- Lastly, payments to the Generations Fund cause the debt to decrease.

❑ Increase in the gross debt

The following table shows in detail the factors contributing to the increase in the debt since March 31, 1998.

TABLE 6

Growth factors of the Québec government's gross debt
(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)[1]	Investments, loans and advances	Net investment in the networks[2]	Net capital expenditures[3]	Other factors[4]	Generations Fund	Total change	Debt, end of year[5]	As a % of GDP
1998-1999	110 900	– 126	1 312	761	396	1 476		3 819	114 719	58.5
1999-2000	114 719	– 7	1 989	122	200	– 1 014		1 290	116 009	55.0
2000-2001	116 009	– 427	1 701	841	578	1 029		3 722	119 731	53.2
2001-2002	119 731	– 22	1 248	934	1 199	– 25		3 334	123 065	53.1
2002-2003	123 065	728	1 921	631	1 706	183		5 169	128 234	53.1
2003-2004	128 234	358	1 367	560	1 186	597		4 068	132 302	52.8
2004-2005	132 302	664	1 303	1 486	1 006	– 882		3 577	135 879	51.7
2005-2006	135 879	– 37	1 488	1 013	1 179	– 815		2 828	138 707	51.1
2006-2007	138 707	– 109	2 157	1 002	1 177	1 074	– 584	4 717	143 424	50.8
2007-2008	143 424	—	2 658	487	1 457	774	– 649	4 727	148 151	49.8
2008-2009	148 151	—	1 086	622	2 297	– 52	– 719	3 234	151 385	49.9
2009-2010P	151 385	4 695	1 195	904	3 731	426	– 715	10 236	161 621	53.5
2010-2011P	161 621	4 675	1 912	2 291	3 763	– 242	– 881	11 518	173 139	55.2
2011-2012P	173 139	2 639	945	1 723	3 688	– 226	– 958	7 811	180 950	55.2
2012-2013P	180 950	1 268	1 165	1 655	2 645	– 15	– 1 039	5 679	186 629	54.5
2013-2014P	186 629	– 88	948	1 700	2 609	– 28	– 1 128	4 013	190 642	53.4

Note: Gross debt figures prior to 2006-2007 have been restated to reflect the impacts of the government's accounting reform in December 2007. A positive number indicates an increase in the debt; a negative number, a decrease.
P: Projections based on data from the fall 2009 Update on Québec's Economic and Financial Situation.
1 Prior to 2006-2007, the budgetary balance could not be restated to reflect the impact of the December 2007 government accounting reform because information on a comparable basis is not available.
2 Includes mainly loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions of the health and social services and the education networks. As of 2006-2007, the net investment in the networks also includes the change in the accumulated deficits of network institutions.
3 Investments in fixed assets made during the year less the annual depreciation expense. Includes investments made in the course of public-private partnership agreements.
4 Includes in particular the change in "other accounts", such as accounts receivable and accounts payable, as well as the change in the value of the debt in foreign currencies.
5 Excluding pre-financing.

Overall, between March 31, 1998 and March 31, 2009, the Québec government's gross debt rose by $40.5 billion from $110.9 billion to$151.4 billion.

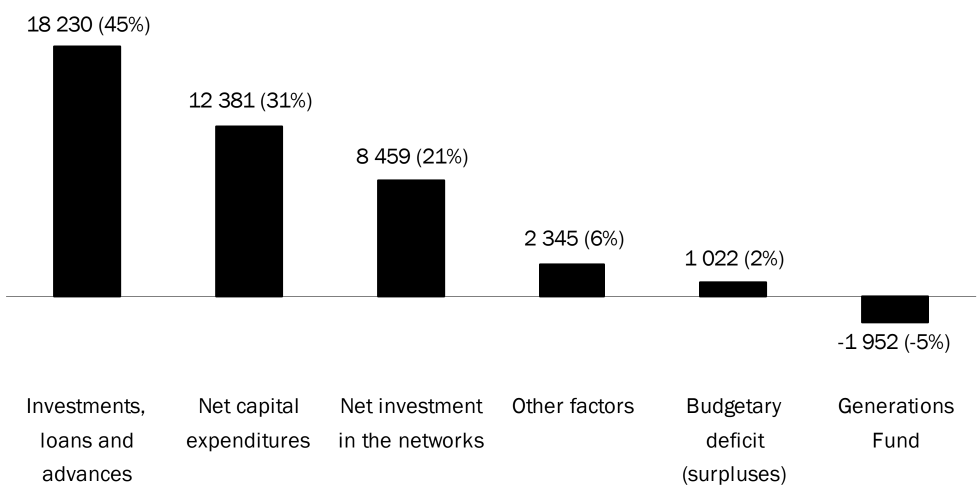
Investments, loans and advances of $18.2 billion, including $10.0 billion representing Hydro-Québec earnings reinvested in the corporation, the government's investments of $12.4 billion in its fixed assets as well as the net investment in the networks of $8.5 billion so they can fund their capital investments account for the essential of the increase in the gross debt between 1998 and 2009.

Budget deficits caused the gross debt to rise $1.0 billion over this period, while "other factors" contributed $2.3 billion to the increase.

Lastly, deposits to the Generations Fund caused the gross debt to decrease by almost $2.0 billion.

CHART 1

Growth factors of the gross debt from 1998 to 2009

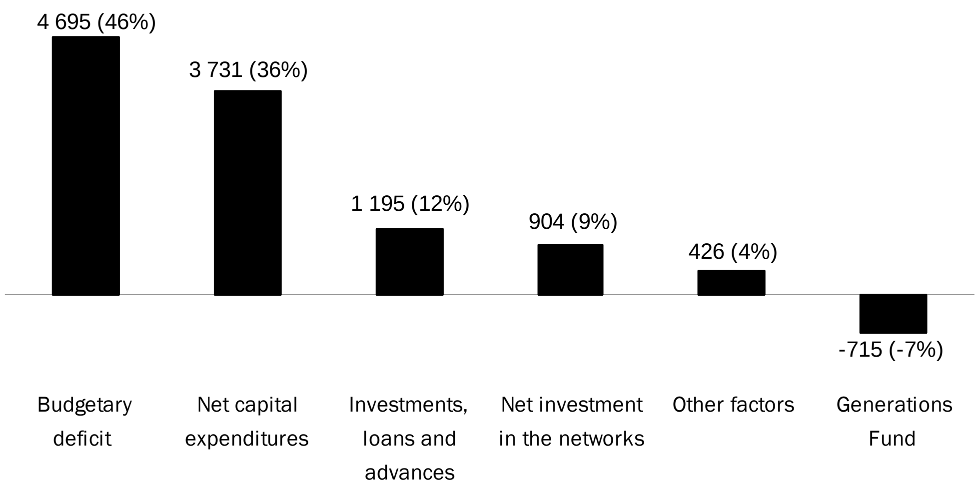


❑ Increase in the gross debt in 2009-2010

In 2009-2010 (i.e. between March 31, 2009 and March 31, 2010), the gross debt should rise by $10 236 million. This increase is attributable mainly to the forecast deficit of $4.7 billion and investments by the government in its fixed assets (e.g.: roads) ($3.7 billion).

CHART 2

Growth factors of the gross debt in 2009-2010



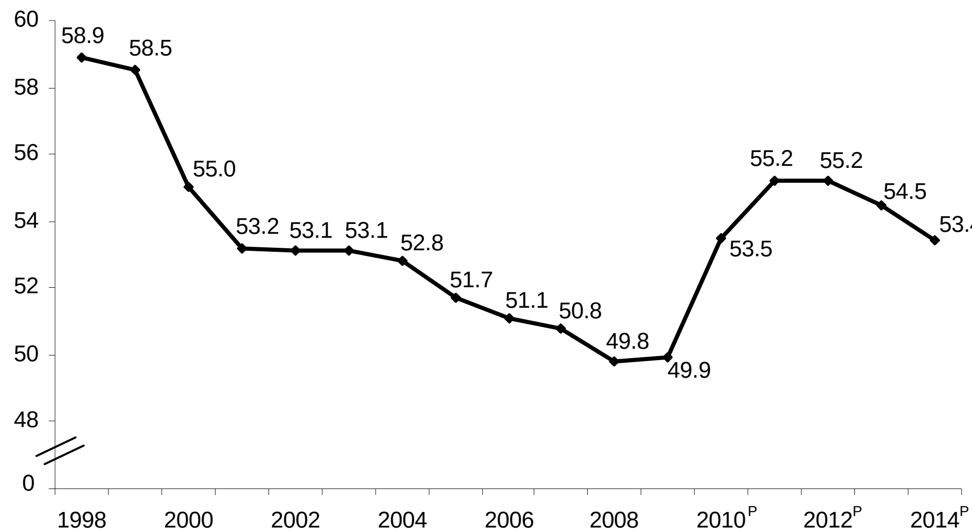
❑ Debt burden

One way to measure the extent of the government's indebtedness is to compare its debt to the size of the economy, i.e. gross domestic product (GDP). The debt/GDP ratio is then calculated. GDP represents the total value of goods and services produced in an economy during a given period. It is the source of the revenue the government collects to fund its activities, including payment of debt service. The comparison of the government's debt to GDP is similar, for example, to the case of a person that wants to borrow to buy a house. The amount of his debt (mortgage, car loan, etc.) is compared to his income to assess his level of indebtedness.

Since March 31, 1998, the Québec government's gross debt/GDP ratio has fallen significantly. While gross debt was equivalent to 58.9% of GDP as at March 31, 1998, this percentage stood at 49.9% as at March 31, 2009. The ratio is expected to rise to 55.2% as at March 31, 2011, in particular because of the forecast deficits and the economic situation. The debt/GDP ratio should then decline to 53.4% as at March 31, 2014.

CHART 3

Gross debt[1] as at March 31
(as a percentage of GDP)



P: Projections based on data from the fall 2009 Update on Québec's Economic and Financial Situation.
1 Excluding pre-financing.

Components of the Gross Debt

☐ The consolidated direct debt

The consolidated direct debt corresponds to the debt that has been contracted on financial markets. It consists of the debt issued for the purposes of the Consolidated Revenue Fund and those of the consolidated entities.

Consolidated entities are entities whose results (revenue, expenditure, assets and liabilities) are consolidated line by line with those of the government. The main consolidated entities are the Road Network Preservation and Improvement Fund, Financement-Québec, the Corporation d'hébergement du Québec, Immobilière SHQ, the Société québécoise d'assainissement des eaux, the Société immobilière du Québec, Investissement-Québec, the Agence métropolitaine de transport, the Financière agricole du Québec and the Société du Palais des congrès de Montréal. As at March 31, 2009, the debt of these entities accounted for more than 90% of all the debt of entities consolidated line by line.

☐ Net liability for the retirement plans

The net liability for the retirement plans is calculated by subtracting the balance of the Retirement Plans Sinking Fund (RPSF) and other assets of the plans from the gross retirement plans liability.

The gross liability for the retirement plans represents the present value of the retirement benefits that the government will pay to public and para-public sector employees, taking into account the conditions of their plans and their years of service. This gross liability stood at $65.5 billion as at March 31, 2009.

The government created the RPSF in 1993. It is an asset that will be used to pay the retirement benefits of public and para-public sector employees. As at March 31, 2009, the book value of the RPSF stood at $36.0 billion. The other assets of the plans amounted to $829 million.

The net liability for the retirement plans was $28.6 billion as at March 31, 2009.

Net liability for the retirement plans as at March 31, 2009
(millions of dollars)

Gross liability for the retirement plans:	
Government and Public Employees Retirement Plan (RREGOP)	35 631
Pension Plan of Management Personnel (PPMP)	7 924
Other plans	21 948
Subtotal	**65 503**
Less: Retirement Plans Sinking Fund	– 36 025
Other assets of the plans	– 829
NET LIABILITY FOR THE RETIREMENT PLANS	**28 649**

Components of the Gross Debt (continued)

☐ Net employee future benefits liability

The government records under its debt the value of its commitments regarding future benefits programs for its employees, namely, accumulated sick leave, which is payable notably when an employee retires, and pensions paid to the survivors of a government employee. These programs give rise to long-term obligations whose costs are covered in full by the government.

Since the December 2007 accounting reform, an actuarial valuation is done of future employee benefits and, like the liability for the retirement plans, these benefits are included in the government's gross debt. Previously, future employee benefits were entered in the government's accounts payable and the Survivor's Pension Plan Fund was entered under long-term investments.

In addition, as part of the December 2007 accounting reform, the government undertook to create the Accumulated Sick Leave Fund. This fund was created in October 2008. The sums accumulated in this new fund are subtracted from the liability for future employee benefits.

The balance of the net employee future benefits liability stood at $59 million as at March 31, 2009.

Net employee future benefits liability as at March 31, 2009
(millions of dollars)

Accumulated sick leave	717
Survivor's pension plan	397
Accumulated Sick Leave Fund	– 616
Survivor's Pension Plan Fund	– 439
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**59**

Components of the Gross Debt (continued)

☐ The Generations Fund

In 2006, the government implemented a debt reduction strategy with the creation of the Generations Fund. The amounts paid into the Fund will be used solely to debt repayment.

The sources of revenue dedicated exclusively to debt repayment are:

- water-power royalties paid by Hydro-Québec and private hydro-electricity producers;
- royalties on harnessed water;
- asset sales;
- gifts, bequests and other contributions received by the Minister of Finance;
- unclaimed property managed by the Minister of Revenue;
- investment income on the amounts that constitute the Fund.

Moreover, the Generations Fund legislation allows the government to order the direct payment into the Fund of amounts it collects or receives and which the National Assembly is entitled to allocate.

As at March 31, 2009, the book value of the Generations Fund stood at $1 952 million.

Generations Fund
(millions of dollars)

BOOK VALUE AS AT MARCH 31, 2008	**1 233**
Dedicated revenue in 2008-2009	
Water-power royalties	
Hydro-Québec	548
Private producers	88
	636
Unclaimed property	1
Investment income	– 50
Payment from the stabilization reserve[1]	132
Total	**719**
BOOK VALUE AS AT MARCH 31, 2009	**1 952**

1 Amount of $132 million further to the sale of assets by the Société immobilière du Québec, paid into the Generations Fund from the stabilization reserve.

1.3 Net debt

In addition to the gross debt and the debt representing accumulated deficits, other debt concepts are used. The net debt is a concept that can be described as "intermediate", i.e. it is situated between the gross debt and the debt representing accumulated deficits.

The net debt is equal to the government's liabilities less its financial assets. It represents the debt that has been used to finance capital investments as well as the "bad debt" that has been used to fund current spending. The net debt is obtained by subtracting the government's financial assets, net of other liabilities, from the gross debt.

As at March 31, 2009, the net debt stood at $129.2 billion, equivalent to 42.6% of GDP.

TABLE 7

The Québec government's net debt as at March 31, 2009
(millions of dollars)

GROSS DEBT[1]	**151 385**
Less: Financial assets, net of other liabilities	– 22 159
NET DEBT[2]	**129 226**
As a % of GDP	***42.6***

1 Excluding pre-financing.
2 After taking the stabilization reserve into account.

The difference between the net debt and the debt representing accumulated deficits is that the net debt includes both the debt used to finance capital investments and the "bad debt" used to fund current spending, while the debt representing accumulated deficits reflects only the "bad debt".

1.4 Total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund*

When the *Act to reduce the debt and establish the Generations Fund* was passed in June 2006, the concept of total debt was used for the purposes of the Act. This was the debt of entities that, at the time, were included in the government's reporting entity, i.e. entities whose revenues, expenditures and other operations were included in the results shown in the Public Accounts.

With the December 2007 accounting reform, the government reporting entity was broadened to include the entities of the health and social services and the education networks.

The concept of gross debt was then created to reflect the changes made to the reporting entity.

Since the objectives of the *Act to reduce the debt and establish the Generations Fund* were determined on the basis of the size of the total debt, it was decided, at the time of the accounting reform, not to change the concept of debt used for the purposes of the Act. That is why the objectives of the Act continue to be monitored on the basis of the total debt.

As at March 31, 2009, the government's total debt amounted to $130.3 billion, i.e. 42.9% of GDP. Under the *Act to reduce the debt and establish the Generations Fund*, the total debt must reach 38.0% of GDP by March 31, 2013, 32.0% of GDP by March 31, 2020 and 25.0% of GDP by March 31, 2026.

TABLE 8

The Québec government's total debt and gross debt as at March 31, 2009

(millions of dollars)

TOTAL DEBT FOR THE PURPOSES OF THE *ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND*[1]	**130 324**
As a % of GDP	***42.9***
Plus: Debt of Financement-Québec	14 356
Debt of the Corporation d'hébergement du Québec and other entities	2 371
Debt of the Société québécoise d'assainissement des eaux	2 356
Debt of Immobilière SHQ	1 919
Net employee future benefits liability	59
GROSS DEBT[1]	**151 385**
As a % of GDP	***49.9***

1 Excluding pre-financing.

Because of the expected deficits in future fiscal years, the total debt burden as a percentage of GDP should rise temporarily despite the continued deposits to the Generations Fund.

For this reason, from now until the tabling of the 2011-2012 Budget, i.e. once economic recovery is well under way, the government will review the targets set in the *Act to reduce the debt and establish the Generations Fund*. Furthermore, since the total debt represents the debt of only a part of the entities whose results are consolidated with those of the government, there is reason to consider the concept of debt to be used for the purposes of setting debt targets.

1.5 Debt of Québec's public sector as a whole

We have seen previously that the gross debt represents the debt level of the government and all governmental organizations that are part of the government reporting entity in accordance with generally accepted accounting principles (GAAP). That means that the debt of commercial government enterprises, such as Hydro-Québec or the Société générale de financement du Québec, is not included in the gross debt. That is also the case of municipalities, which are independent organizations whose results are not consolidated with those of the government.

That is why an indicator representing the indebtedness of the entire public sector has been developed. The debt of the public sector represents the total of the debts of all organizations in Québec's public sector.

As at March 31, 2009, the long-term debt of Québec's public sector stood at $208.1 billion, equivalent to 68.5% of GDP. Essentially, the difference between the government's gross debt and the public sector debt ($151.4 billion versus $208.1 billion) is the debt of Hydro-Québec and the municipalities.

TABLE 9

Public sector debt as at March 31, 2009
(millions of dollars)

Government's gross debt[1]	151 385
Hydro-Québec	36 668
Municipalities[2]	18 639
Health and social services and education networks[3]	931
Other government enterprises[4]	434
TOTAL	**208 057**
As a % of GDP	***68.5***

1 Excluding pre-financing.
2 Corresponds to the long-term debt contracted by municipalities in their own name. A portion of this debt is subsidized by the government ($2 846 million as at March 31, 2009).
3 Corresponds to the long-term debt contracted by network institutions in their own name and whose debt service is subsidized by the government through transfers for the payment of interest and principal on the borrowings.
4 Excluding the debt of these enterprises guaranteed by a third party or by assets, such as inventories and accounts receivable.

Information Supplied to Regulatory Authorities and Data on Québec's Debt

To borrow on foreign financial markets, the Québec government must comply with the requirements of the regulatory authorities of those markets. Accordingly, Québec files a variety of information with the Securities and Exchange Commission (SEC) in the United States, the Financial Services Authority (FSA) in the United Kingdom, the Australia Stock Exchange and Japan's regulatory authority.

Every year, Québec files Form 18-K, an information document, with the SEC. This document contains all the information required under the *Securities Act of 1933*. Annual filing of Form 18-K avoids having to file a prospectus for each borrowing, which would cause additional cost and delay. The information contained in Form 18-K must reflect the borrower's financial position as fairly as possible. This requirement provides investors with all the relevant information for them to make informed investment decisions.

Concerning the debt, the SEC legislation requests inclusion of the "funded debt", i.e. the debt maturing in more than one year and contracted on financial markets, as well as the "floating debt", i.e. the short-term debt continuously renewed for the purposes of funding operations. Québec also provides information concerning the liability regarding the retirement plans of the public and para-public sectors.

The information relating to the public sector long-term debt in Form 18-K is requested by the SEC and shown in four categories. The difference between debt figure of $181.5 billion as at March 31, 2009 in Form 18-K and that of $208.1 billion shown in Table 8 on the preceding page is attributable mainly to the short-term debt and the liability regarding the retirement plans. The liability regarding the retirement plans and the short-term debt are shown elsewhere in Form 18-K.

Public sector long-term debt as at March 31, 2009[P] for the purposes of Form 18-K
(millions of dollars)

Government Funded Debt	
Borrowings – Government	124 837
Borrowings – to finance government enterprises	224
Government Guaranteed Debt[1]	36 668
Municipal Sector Debt	18 639
Other institutions[2]	1 088
LONG-TERM DEBT OF THE PUBLIC SECTOR	**181 456**

P: Preliminary results.
Note: Data of the annual Form 18-K submitted to the SEC in June 2009.
1 Represents mainly the debt of Hydro-Québec.
2 Borrowings contracted by institutions in their own name (education institutions, health and social services institutions and other government enterprises).

Québec provides other regulatory authorities around the world with the same information supplied to the SEC.

2. DEBT COMPARISONS WITH OTHER GOVERNMENTS IN CANADA

It is worthwhile comparing the concepts of debt used by the Québec government with those used by other governments in Canada.

An analysis of the budget papers of the federal and provincial governments shows that the concepts of debt used to assess the financial position vary widely from province to province. Three governments use the concept of debt representing accumulated deficits as a measure of indebtedness in their budget papers. They are the **federal government** and the governments of Ontario and Alberta. British Columbia and Saskatchewan use the concept of direct debt. Ontario, Alberta, New Brunswick, Newfoundland and Labrador, Manitoba and Nova Scotia use the concept of net debt. The recent budget papers of Prince Edward Island make no mention of its debt.

Governments That Use the Concept of Debt Representing Accumulated Deficits

Federal government

"The federal debt-to-GDP ratio (accumulated deficit) stood at 29.8 per cent in 2007–08, down significantly from its peak of 68.4 per cent in 1995–96. The debt ratio is expected to fall to 28.6 per cent in 2008–09, before increasing to 31.6 per cent in 2009–10 and 32.1 per cent in 2010–11. The debt burden is projected to be below its 2008–09 level in 2013–14." (Canada's Economic Action Plan, Budget 2009, p. 218)

"Since 2005–2006, the Government has reduced the federal debt by $37 billion." (Canada's Economic Action Plan, Budget 2009, p. 282)

Ontario

"Second, our government will reduce the size of the deficit in each year subsequent to this. In 2009–10, we will ensure that Ontario's relative deficit and debt are in line with most provinces and our own historical performance. The 2009–10 deficit-to-GDP ratio, deficit-to-revenue ratio and debt-to-GDP ratio are all below those of the United States now and Ontario in the 1990s." (2009 Budget Speech, p. 3)

"Consistent with the Province's fiscal performance and with slower-than-anticipated gross domestic product (GDP) growth this year, the Province's accumulated deficit-to-GDP ratio is forecast at 18.4 per cent in 2008–09, down from 25.2 per cent in 2003–04." (2009 Ontario Budget , p. 50)

Alberta

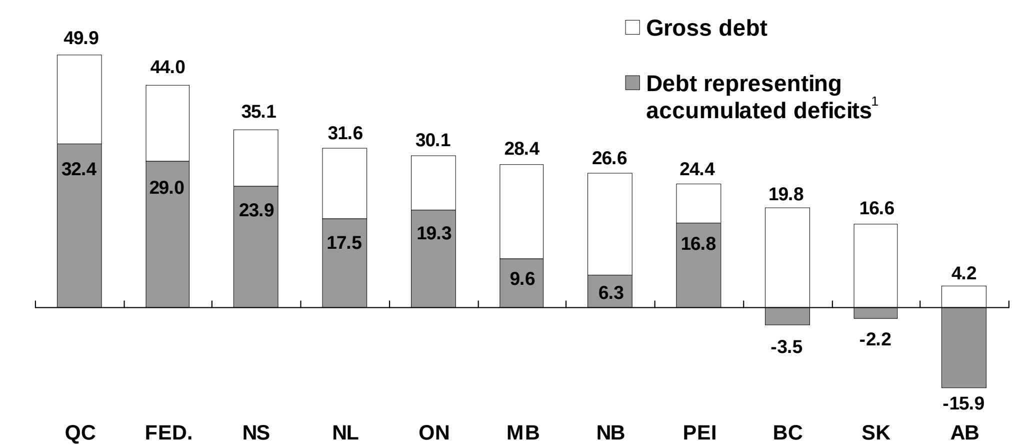
"Alberta is strong because we have been saving money. We have paid off an accumulated debt of nearly $23 billion." (Budget Speech 2009, p. 2)

"The deficits of 1980s and early 1990s that produced the accumulated debt were eliminated in 1994-95. The accumulated debt was paid down by 2004-05." (Fiscal Plan 2009-12, Fiscal Overview, p. 21).

On the basis of the concept of debt representing accumulated deficits, the Québec government, with a debt ratio of 32.4% of GDP as at March 31, 2009, is the most heavily indebted province.

CHART 4

Gross debt and debt representing accumulated deficits as at March 31, 2009
(as a percentage of GDP)



1 A negative sign means that the government is in an accumulated surplus position.
Sources: Ministère des Finances du Québec, governments' public accounts and Statistics Canada.

The following table shows, for the federal government and all the provinces, debt figures according to the three concepts described earlier. The figures in boxes refer to the concept used by the government concerned in its budget papers to measure its indebtedness. Some governments use more than one concept.

TABLE 10

Debt as at March 31, 2009 according to various concepts

(millions of dollars)

	QC	Fed.	ON	BC	AB	NB	NL	MB	SK	NS	PEI
Consolidated direct debt	**124 629**	**514 020**	**176 825**	**37 562**	**2 064**	**6 755**	**6 595**	**12 446**	**4 796**	**10 225**	**1 092**
Net retirement plans liability	28 649	139 909	– 4 819	3	10 081	– 210	1 704	2 003	5 475	1 358	34
Net employee future benefits liability	59	50 311	5 223	1 908	241	718	1 630	0	418	430	23
Generations Fund	– 1 952	0	0	0	0	0	0	0	0	0	0
Gross debt[1]	151 385	**704 240**	**177 229**	**39 473**	**12 386**	**7 263**	**9 929**	**14 449**	**10 689**	**12 013**	**1 149**
As a % of GDP	*49.9*	*44.0*	*30.1*	*19.8*	*4.2*	*26.6*	*31.6*	*28.4*	*16.6*	*35.1*	*24.4*
Less:											
Financial assets[2]	– 22 159	– 179 027	– 23 904	– 14 933	– 42 812	125	– 1 961	– 2 951	– 7 165	311	260
Net debt[3]	**129 226[4]**	**525 213**	**153 325**	**24 540**	**– 30 426**	**7 388**	**7 968**	**11 498**	**3 524**	**12 324**	**1 409**
As a % of GDP	*42.6*	*32.8*	*26.1*	*12.3*	*– 10.4*	*27.1*	*25.3*	*22.6*	*5.5*	*36.0*	*29.9*
Less:											
Non-financial assets	– 30 767	–61 503	– 40 087	– 31 459	– 15 848	– 5 679	– 2 466	– 6 594	– 4 921	– 4 157	– 616
Debt representing accumulated deficits[3]	**98 459[4]**	**463 710**	**113 238**	**– 6 919**	**– 46 274**	**1 709**	**5 502**	**4 904**	**– 1 397**	**8 167**	**793**
As a % of GDP	*32.4*	*29.0*	*19.3*	*– 3.5*	*– 15.9*	*6.3*	*17.5*	*9.6*	*– 2.2*	*23.9*	*16.8*

Note: The boxes show the debt concept used in the government's budget papers.

1 The gross debt is not shown in most government public accounts. However, the public accounts do show the components of gross debt, i.e. the consolidated direct debt, the net liability regarding the retirement plans and the net liability for employee future benefits. It is therefore possible to deduce the amount of the gross debt.

2 Financial assets, net of other liabilities.

3 A negative sign means that the government is in a net asset or accumulated surplus position.

4 After taking the stabilization reserve into account.

Sources: Ministère des Finances du Québec, governments' public accounts and Statistics Canada.

3. INTERNATIONAL DEBT COMPARISONS

The Organization for Economic Co-operation and Development (OECD) produces statistics enabling comparisons among its 30 member countries.

It can be informative to compare Québec's debt with that of OECD countries. To do so, a number of adjustments must be made to Québec's data for consistency with the methodology developed by the OECD.

Under this methodology, a country's "public debt" corresponds to its total liabilities excluding commitments on account of retirement plans. In Québec's case, total liabilities include the gross debt, excluding commitments on account of retirement plans, as well as "other liability items" such as accounts payable.

In addition, the debt must include that of all public sector bodies (i.e. government, municipalities, etc.). In Québec's case, a portion of the federal government's debt must also be included. There are many methods for calculating the share of the federal debt attributable to Québec. Here the allocation has been made on the basis of population.

Applying the OECD's methodology, Québec's "public debt" as at March 31, 2009, amounted to $285.6 billion, the equivalent of 94.0% of GDP. This figure will be used to make comparisons with the OECD figures as at December 31, 2008.

TABLE 11

Québec's debt as at March 31, 2009 – OECD methodology

	Millions of dollars	% of GDP
Gross Debt[1]	**151 385**	**49.9**
Less: Net retirement plans liability	– 28 649	– 9.4
Sub-total[2]	122 736	40.5
Plus:		
Other government liabilities[3]	20 393	6.7
Debt of municipalities	18 639	6.1
Debt of networks issued in their own name	931	0.3
Subtotal	162 699	53.6
Share of the federal government's debt[4]	122 876	40.4
Québec's public debt (OECD methodology)	**285 575**	**94.0**
Gross domestic product (GDP)	303 671	

1 Excluding pre-financing.

2 This amount corresponds to the direct debt ($124 629 million) plus the net liability on account of employee future benefits ($59 million) less the balance of the Generations Fund ($1 952 million).

3 The Québec government's other liabilities as at March 31, 2009, (in millions of dollars) are:

Accounts and expenses payable	14 122
Deferred revenue	3 032
Other liabilities	2 137
Transfers from the federal government to be repaid	1 673
Deferred gain (loss) on foreign exchange	– 571
Total other liabilities	**20 393**

4 The share of the federal government's debt attributed to Québec is calculated as follows:

Federal government's debt to be allocated to Québec (according to the OECD)		528 076
Québec's population	7 751	
Canada's population	33 311	
Québec's %		23.3 %
Share of the federal government's debt allocated to Québec		**122 876**

Sources: Ministère des Finances du Québec and Statistics Canada.

With a ratio of 94.0%, Québec ranks 5th compared to OECD countries after Japan, Italy, Greece and Iceland. Québec's debt is higher than that of Canada, the United States and the average of OECD countries (78.4%).

TABLE 12

Public debt according to the OECD's methodology

(as a percentage of GDP)

Rank	Country	2008
1	Japan	172.1
2	Italy	114.4
3	Greece	102.6
4	Iceland	96.3
5	**Québec[1]**	**94.0**
6	Belgium	93.5
7	**Total OECD**	**78.4**
8	Hungary	77.0
9	France	75.7
10	Portugal	75.2
11	**Euro zone**	**73.2**
12	United States	70.0
13	**Canada**	**69.7**
14	Germany	68.8
15	Austria	66.2
16	Netherlands	65.8
17	United Kingdom	56.8
18	Norway	56.0
19	Poland	54.0
20	Ireland	48.5
21	Sweden	47.1
22	Spain	47.0
23	Switzerland	44.0
24	Finland	40.7
25	Czech Republic	40.7
26	Denmark	39.8
27	Slovakia	30.8
28	Korea	26.8
29	New Zealand	25.3
30	Luxembourg	16.3
31	Australia	14.3
32	Estonia	8.2

1 Gross debt as at March 31, 2009 from which is excluded the net retirement plans liability and to which is added the government's other liabilities (e.g.: accounts payable), the debt of the health and social services and the education networks contracted in their own name, the debt of the municipalities and Québec's share of the federal government's debt – according to % of population.

Sources: OECD for countries' debt – figures as at December 31, 2008;
Ministère des Finances du Québec for Québec's debt.

CONCLUSION

This document presented and defined the concepts relating to a government's indebtedness.

Two fundamental concepts for measuring the Québec government's indebtedness emerge: the gross debt and the debt representing accumulated deficits.

The gross debt corresponds to the debt that has been contracted on financial markets and the net commitments of the government regarding the retirement plans and employee future benefits, from which the balance of the Generations Fund is subtracted. As at March 31, 2009, the Québec government's gross debt amounted to $151.4 billion, equivalent to 49.9% of GDP.

The debt representing accumulated deficits represents the difference between the government's liabilities and all its assets, both financial and non-financial. As at March 31, 2009, the Québec government's debt representing accumulated deficits stood at $98.5 billion, equivalent to 32.4% of GDP.

APPENDIX 1: GLOSSARY

Consolidated direct debt

The consolidated direct debt corresponds to the debt that has been contracted on financial markets. It consists of the direct debt contracted for the Consolidated Revenue Fund needs and the debt of consolidated entities.

Total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund*

The total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund* includes the consolidated direct debt and the net liability for the retirement plans, from which the balance of the Generations Fund is subtracted.

For the purposes of monitoring the targets in the *Act to reduce the debt and establish the Generations Fund*, the concept of total debt corresponds to the reporting entity that was in force at the time the Generations Fund was created.

Gross debt

The gross debt corresponds to the total of the consolidated direct debt, the net liability for the retirement plans and the net employee future benefits liability. The balance of the Generations Fund is subtracted from this amount.

Net debt

The concept of net debt represents the debt that was used to fund non-financial assets (fixed assets, net investment in networks and inventories and prepaid expenses) and the accumulated deficits. It is obtained by subtracting all the government's financial assets from its liabilities.

Debt representing accumulated deficits

The debt representing accumulated deficits represents the difference between the government's liabilities and its assets (financial and non-financial). It is considered "bad debt", i.e. debt that does not correspond to any asset.

Debt of the public sector

The debt of the public sector corresponds to the total of all the debts of organizations in Québec's public sector.

Borrowings made in advance (pre-financing)

Borrowings made by the Consolidated Revenue Fund during a fiscal year that will be used to meet the financial requirements of the next fiscal year.

Retirement Plans Sinking Fund (RPSF)

The Retirement Plans Sinking Fund is an asset constituted by the government to pay the benefits of public and para-public sector employees. This asset is subtracted from the gross liability for the retirement plans to give the net liability for the retirement plans.

Gross liability for the retirement plans

The gross liability for the retirement plans represents the present value of the retirement benefits the government will pay to public and para-public sector employees, taking into account the conditions of their plans and their years of service.

Net liability for the retirement plans

The net liability for the retirement plans is calculated by subtracting the balance of the Retirement Plans Sinking Fund and other assets of the plans from the gross liability for the retirement plans.

Net employee future benefits liability

The net employee future benefits liability represents the present value of obligations regarding sick leave and the survivor’s pension plan, reduced by the balance of the Accumulated Sick Leave Fund and the Survivor's Pension Plan Fund.

APPENDIX 2: HISTORICAL DATA

TABLE 13

Debt of Québec government

	Consolidated direct debt[1]		Retirement plans: Retirement plans liability[2]	Retirement plans: Less: Retirement Plans Sinking Fund	Retirement plans: Net retirement plans liability		Employee future benefits: Employee future benefits liability	Employee future benefits: Less: Funds dedicated to employee future benefits	Employee future benefits: Net employee future benefits liability	Less: Generations Fund	Debt[1]	
	$M	As a % of GDP	$M	$M	$M	As a % of GDP	$M	$M	$M		$M	As a % of GDP
Before government accounting reforms											**Total debt – Figures not restated to reflect the impacts of the accounting reforms in 1997-1998 and 2006-2007**	
1970-1971	2 478	10.9									2 478	10.9
1971-1972	2 920	11.9									2 920	11.9
1972-1973	3 309	12.0									3 309	12.0
1973-1974	3 679	11.8									3 679	11.8
1974-1975	4 030	11.0			67	0.2					4 097	11.2
1975-1976	4 955	12.0			179	0.4					5 134	12.4
1976-1977	6 035	12.5			354	0.7					6 389	13.2
1977-1978	7 111	13.4			620	1.2					7 731	14.6
1978-1979	8 325	14.1			915	1.6					9 240	15.7
1979-1980	9 472	14.4			1 598	2.4					11 070	16.8
1980-1981	12 247	16.8			2 420	3.3					14 667	20.1
1981-1982	14 184	17.6			3 428	4.3					17 612	21.9
1982-1983	16 485	19.3			4 489	5.3					20 974	24.6
1983-1984	18 880	20.6			5 545	6.0					24 425	26.6
1984-1985	21 216	21.2			6 729	6.7					27 945	27.9
1985-1986	23 633	22.0			7 998	7.4					31 631	29.4
1986-1987	25 606	21.9			9 353	8.0					34 959	29.9
1987-1988	26 819	20.9			10 883	8.5					37 702	29.4
1988-1989	27 091	19.2			12 597	8.9					39 688	28.1
1989-1990	27 699	18.7			14 320	9.6					42 019	28.3
1990-1991	29 637	19.3			16 227	10.6					45 864	29.9
1991-1992	33 106	21.3			18 143	11.7					51 249	33.0
1992-1993	39 231	24.8			19 668	12.4					58 899	37.2
1993-1994	45 160	27.8	21 337	– 854	20 483	12.6					65 643	40.4
1994-1995	52 468	30.8	22 846	– 849	21 997	12.9					74 465	43.7
1995-1996	52 886	29.8	24 547	– 923	23 624	13.3					76 510	43.1
1996-1997	52 625	29.2	26 475	– 1 014	25 461	14.1					78 086	43.3
Figures restated to reflect the impacts of the accounting reforms in 2006-2007											**Gross debt**	
1997-1998	69 995	37.1	41 617	– 1 179	40 438	21.5	759	– 292	467		110 900	58.9
1998-1999	73 803	37.6	42 637	– 2 209	40 428	20.6	805	– 317	488		114 719	58.5
1999-2000	76 166	36.1	44 377	– 5 040	39 337	18.7	867	– 361	506		116 009	55.0
2000-2001	80 108	35.6	46 170	– 7 059	39 111	17.4	894	– 382	512		119 731	53.2
2001-2002	84 451	36.5	48 259	– 10 199	38 060	16.4	938	– 384	554		123 065	53.1
2002-2003	89 083	36.9	50 266	– 11 840	38 426	15.9	1 083	– 358	725		128 234	53.1
2003-2004	93 325	37.2	52 485	– 14 204	38 281	15.3	1 034	– 338	696		132 302	52.8
2004-2005	98 842	37.6	54 619	– 18 333	36 286	13.8	1 086	– 335	751		135 879	51.7
2005-2006	103 339	38.1	57 193	– 22 563	34 630	12.8	1 095	– 357	738		138 707	51.1
2006-2007	110 412	39.1	59 721	– 26 877	32 844	11.6	1 176	– 424	752	– 584	143 424	50.8
2007-2008	118 032	39.7	62 368	– 31 749	30 619	10.3	1 166	– 433	733	– 1 233	148 151	49.8
2008-2009	124 629	41.0	64 674	– 36 025	28 649	9.4	1 114	– 1 055	59	– 1 952	151 385	49.9

1 Excluding deferred foreign exchange gains or losses and pre-financing.
2 Gross retirement plans liability minus assets related to retirement plans, other than the Retirement Plans Sinking Fund.

TABLE 14

Debt representing accumulated deficits of Québec government

	Debt representing accumulated deficits for the purposes of the Public Accounts[1,2]		Plus : balance of the stabilization reserve	Debt representing accumulated deficits after taking into account the stabilization reserve	
	$M	As a % of the GDP	$M	$M	As a % of the GDP
Before government accounting reforms				**The figures from 1970-1971 to 1996-1997 are not comparable with those from 1997-1998 to 2008-2009**	
1970-1971	2 290	10.1		2 290	10.1
1971-1972	2 645	10.8		2 645	10.8
1972-1973	2 992	10.9		2 992	10.9
1973-1974	3 651	11.7		3 651	11.7
1974-1975	4 093	11.2		4 093	11.2
1975-1976	5 044	12.2		5 044	12.2
1976-1977	6 353	13.2		6 353	13.2
1977-1978	7 058	13.3		7 058	13.3
1978-1979	8 460	14.4		8 460	14.4
1979-1980	10 836	16.5		10 836	16.5
1980-1981	14 326	19.6		14 326	19.6
1981-1982	12 569	15.6		12 569	15.6
1982-1983	15 038	17.6		15 038	17.6
1983-1984	17 298	18.8		17 298	18.8
1984-1985	21 455	21.4		21 455	21.4
1985-1986	25 735	24.0		25 735	24.0
1986-1987	28 716	24.5		28 716	24.5
1987-1988	31 115	24.2		31 115	24.2
1988-1989	32 819	23.3		32 819	23.3
1989-1990	34 583	23.3		34 583	23.3
1990-1991	37 558	24.5		37 558	24.5
1991-1992	41 885	27.0		41 885	27.0
1992-1993	46 914	29.6		46 914	29.6
1993-1994	51 837	32.0		51 837	32.0
1994-1995	57 677	33.8		57 677	33.8
1995-1996	61 624	34.8		61 624	34.8
1996-1997	64 833	35.9		64 833	35.9
After government accounting reform of 1997-1998				**The figures from 1997-1998 to 2005-2006 are not comparable with those from 1970-1971 to 1996-1997 and those from 2006-2007 to 2008-2009.**	
1997-1998	82 581	43.8		82 581	43.8
1998-1999	82 577	42.1		82 577	42.1
1999-2000	82 469	39.1		82 469	39.1
2000-2001	81 042	36.0	950	81 992	36.5
2001-2002	84 538	36.5		84 538	36.5
2002-2003	85 885	35.6		85 885	35.6
2003-2004	86 290	34.4		86 290	34.4
2004-2005	87 224	33.2		87 224	33.2
2005-2006	91 699 [3]	33.8		91 699	33.8
After government accounting reform of 2006-2007				**The figures from 2006-2007 to 2008-2009 are not comparable with earlier figures.**	
2006-2007	96 124	34.1	1 300	97 424	34.5
2007-2008	94 824	31.9	2 301	97 125	32.7
2008-2009	98 026	32.3	433	98 459	32.4

1 Before taking into account amounts deposited in the stabilization reserve.
2 Including various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.
3 The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.