Montreal Economic Institute
Ideas for a More Prosperous Nation

ViewPoint

on the debt of the Quebec government

by David Descôteaux | April 2010

After recording a current deficit of $4.5 billion in 2009-2010, the Quebec government has just announced a series of measures intended to restore public finances. At the heart of its concerns is the government's growing debt. Some people feel it has reached an alarming level, whereas others are minimizing the scope of the Quebec debt. Who is right?

For most people, evaluating government debt is not easy, in particular because of the many ways it is defined[1]: gross debt, net debt, debt based on accumulated deficits, public sector debt, and so on. To get a better idea, we present here the main ways of calculating the Quebec government's debt[2] and provide objective data that can help identify potential dangers.[3]

GROSS DEBT

Gross debt is the sum of the direct consolidated debt of the government and of certain public entities (examples include Investissement Québec, the Agence métropolitaine de transport and the Société du Palais des congrès de Montréal) and of net liabilities covering retirement plans and future benefits for government employees. Subtracted from this amount is the balance of the Generations Fund. As of March 31, 2010, gross debt stood at $160.1 billion, equal to 53.2% of the province's annual GDP.

NET DEBT

To get net debt, we take gross debt and subtract the government's net financial assets.[4] These[5] were $17.3 billion as of March 31, 2010. The Quebec government's net debt thus came to $142.8 billion as of the same date, or 47.5% of GDP.

DEBT REPRESENTING ACCUMULATED DEFICITS

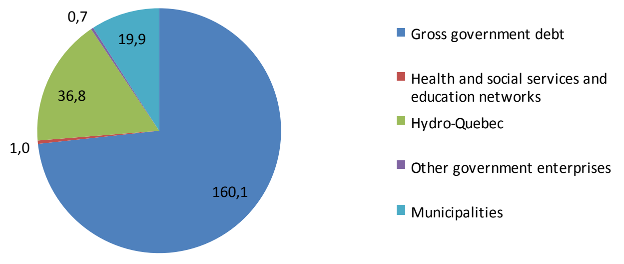
As the term indicates, debt representing accumulated deficits is equal to adding the budget deficits the government has recorded over the years. As with net debt, we then subtract net financial assets but also non-financial assets. The total gives what observers call "bad debt" used to finance current spending or "groceries." As of March 31, 2010, debt representing accumulated deficits stood at $106.6 billion, or almost half of the public sector debt.

LONG-TERM PUBLIC SECTOR DEBT

When analyzing a government's indebtedness, it is necessary to go beyond what it manages directly.[6] This is why, in the *2010-2011 Budget Plan*, a table shows us the long-term debt of the public sector. This is gross debt, to which is added the debt of the health and education networks, municipalities and other entities under the government's ultimate responsibility.

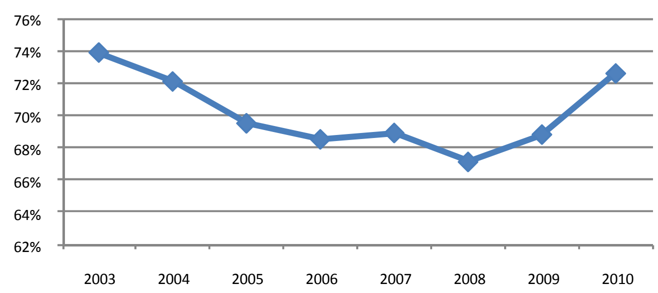
The gross long-term debt of the public sector, $218.5 billion, amounted to 72.6% of GDP as of March 31, 2010. This proportion has fallen in

Components of the long-term public sector debt as of March 31 2010 (in billions of dollars)



Source: Quebec Department of Finance, *2010-2011 Budget Plan*

Long-term public sector debt as of March 31 2010 (as % of GDP)



Source: Quebec Department of Finance, *2010-2011 Budget Plan* and previous years

1. See: Auditor general of Québec, *Report to the National Assembly for 2009-2010 - Chapter 3: Portrait of Québec's indebtedness*, February 2010.
2. Most data come from the *2010-2011 Budget Plan* from the Quebec Department of Finance.
3. Note that indebtedness, as long as it remains reasonable, is not a bad thing in itself. What matters is to distinguish between productive investments (such as in infrastructure) from current spending (so-called "groceries") financed by debt.
4. Assets are of two types: financial and fixed. However, among fixed assets, many—such as roads, hospitals or historical monuments—are assets for which no market exists to establish their value.
5. Financial assets consist mainly of the value of government investments in government-owned corporations, accounts receivable, and long-term investments.
6. Jean-Pierre Aubry, *Bien mesurer l'endettement du Québec*, ASDEQ, 2007.

the last few years—it stood at 76% in 2001-2002. But the trend has been heading up again since 2007-2008.

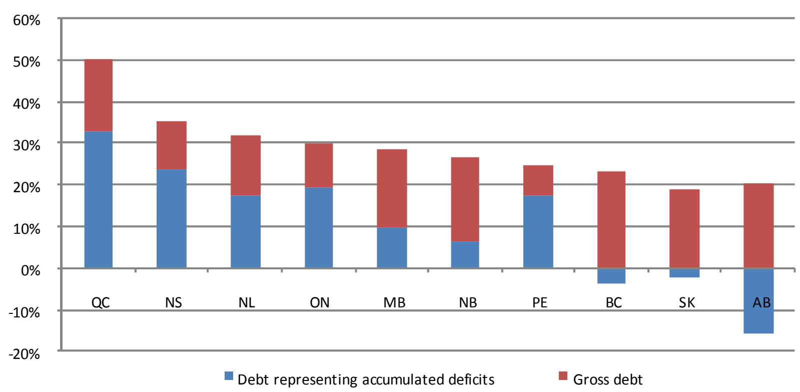
Should government assets be included?

The only "liquid" assets of the government, those that could be sold quickly to pay off debt, are net financial assets. These assets came to $17.3 billion as of March 31, 2010. It is hard to assess the market value of government-owned fixed assets and infrastructure (roads, bridges, schools, national parks, etc.) since there are no relevant markets. Moreover, it is highly unlikely that the government would sell schools or bridges at some point to pay off the debt. This is why neither the government nor the auditor general takes these assets into account in attempting to paint a realistic picture of the total debt that Quebecers will eventually have to repay. These assets are certainly part of Quebecers' financial heritage, but they do not reduce the overall bill—or the growing interest—that Quebecers will have to pay.

INTERPROVINCIAL COMPARISONS

To judge Quebec's situation, however, it does not suffice to compare us to ourselves. It may be useful to compare the government indebtedness of Quebecers to that of their fellow citizens in the other provinces. The table here compares Quebec to the other provinces based on two debt measurements (gross debt and based on accumulated deficits). It can be seen that Quebec's debt is the highest regardless of which measurement is used.

Interprovincial debt comparisons as of March 31 2009 (as % of GDP)



Source: Quebec Department of Finance, *2010-2011 Budget Plan*

INTERNATIONAL COMPARISONS

Comparing Quebec's debt with that of the OECD countries is also useful. Applying OECD methodology, the Department of Finance calculates that Quebec's public debt as of March 31, 2009, came to $285.6 billion, or 94% of GDP.[7] This amount includes Quebec's share of the federal debt (estimated at $123 billion) and excludes certain liabilities, such as commitments to pension plans. This debt places Quebec fifth among the most highly indebted OECD countries, after Japan, Italy, Greece and Iceland.

THE QUEBEC GOVERNMENT'S OTHER COMMITMENTS

A great risk is hidden in another form of government indebtedness: its commitments to pay benefits under a vast array of social programs. Examples include payments under the Quebec Pension Plan, motor vehicle insurance (SAAQ), parental insurance (RQAP) or even subsidized places in childcare centres. Although social programs do not represent debt as such, since the government can always modify their nature, maintaining them is likely to require Quebec to raise employees' and employers' contributions or to reduce benefits.

Also, certain cyclical factors could, in coming years, quickly worsen the province's debt problem. Among other factors, we can mention aging of the population (more pronounced in Quebec than elsewhere in Canada) which will put added pressure on our health care system, the fact that economic recovery is still quite weak, and the likelihood of higher interest rates in the near future, which will have the effect of raising the cost of debt service.

7. Quebec Department of Finance, *The Québec Government's Debt*, February 2010, p. 27. http://www.finances.gouv.qc.ca/documents/Autres/en/AUTEN_DebtFeb10_gouvQC.pdf.

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