Montreal Economic Institute
Ideas for a More Prosperous Nation

Viewpoint on the debt of the Quebec government

by David Descôteaux, Economist at the MEI | May 2009

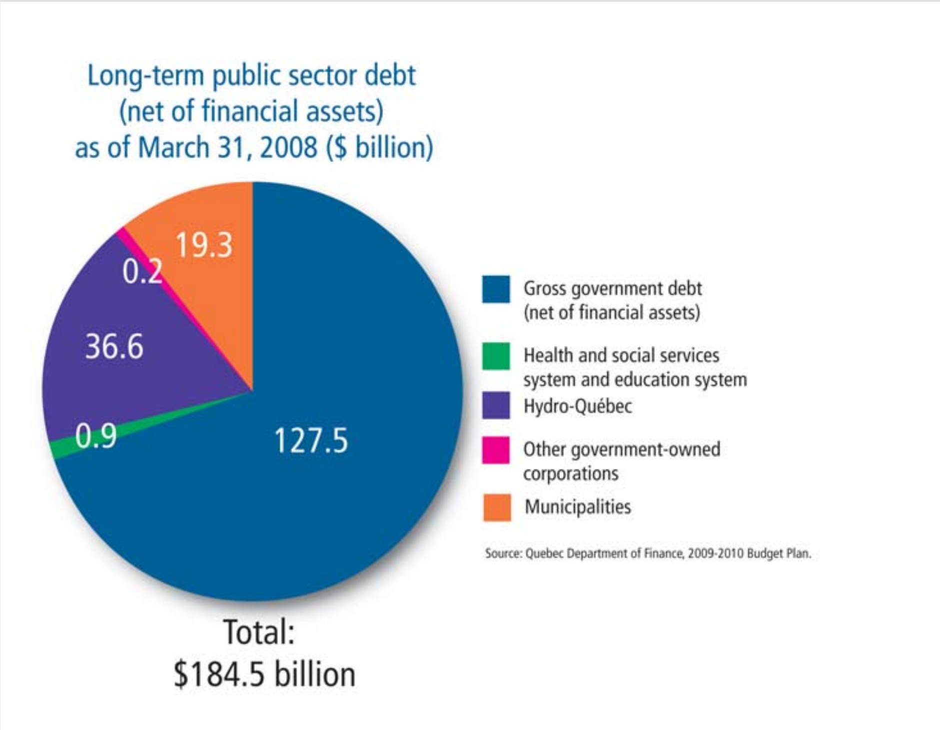
The economy is slowing down. Government revenues are falling, with less tax being collected, and spending is on the rise because of higher program costs. Can the Quebec government's finances hold up without unduly raising the debt? To get an answer, we need to find out where the government's debt stands.[1] For mere mortals, this is no easy task. Direct debt, total debt, gross debt, net debt, public sector debt… To figure it all out, we looked into the Quebec government's debt,[2] not to pass judgment on its size but to come up with objective data that can help identify potential dangers.

Gross debt

This is total debt, to which are added government bodies (such as Financement Québec, the Corporation d'hébergement du Québec or the Société québécoise d'assainissement des eaux) and the net liabilities of government employees' retirement plans. The balance of the Generations Fund is subtracted from this amount.

As of March 31, 2009, the gross debt stood at **$151.4 billion**, or 49.9% of the province's annual GDP. The government has pledged to reduce this ratio to 38% of GDP by March 31, 2013, and to 25% by 2026.

To get a more accurate idea of the government's financial situation, its financial assets also have to be considered.[3] The government's net financial assets[4] as of March 31, 2008, stood at $23.9 billion. Its gross debt (net of financial assets) thus came to **$127.5 billion** as of March 31, 2009.



Long-term public sector debt

In analyzing a government's debt, it is important to go beyond what it manages directly.[5] This is why, in the *2009-2010 Budget Plan*, a table shows us the long-term public sector debt. This is the government's gross debt, to which is added the debt of the health care and education systems, municipalities and other bodies for which the government is ultimately responsible.

The long-term public sector debt of **$184.5 billion** amounted to **68.6%** of GDP on March 31, 2009. This ratio has tended to fall over the last few years – it was 76% in 2001-2002. But it has been trending upwards since 2007-2008.

To judge Quebec's performance, however, we need to look beyond internal comparisons. It may useful to see how it compares with the government debt incurred by fellow citizens in other provinces.

1. It should be noted that debt is not a bad thing in itself. It is important to distinguish between productive investments (such as infrastructure) and so-called "grocery" or current spending financed by debt.
2. Most of the data come from the Quebec Department of Finance's *2009-2010 Budget Plan.*
3. There are two types of assets: financial assets and real property. However, those in the second category – such as highways, hospitals or historical monuments – are assets for which there is no market to establish their value. That is why real property assets are excluded from this calculation.
4. Financial assets consist mainly of the value of government investments in its public corporations, debit accounts (accounts receivable) and long-term investments.
5. Jean-Pierre Aubry, *Bien mesurer l'endettement du gouvernement du Québec*, ASDEQ, May 2007.

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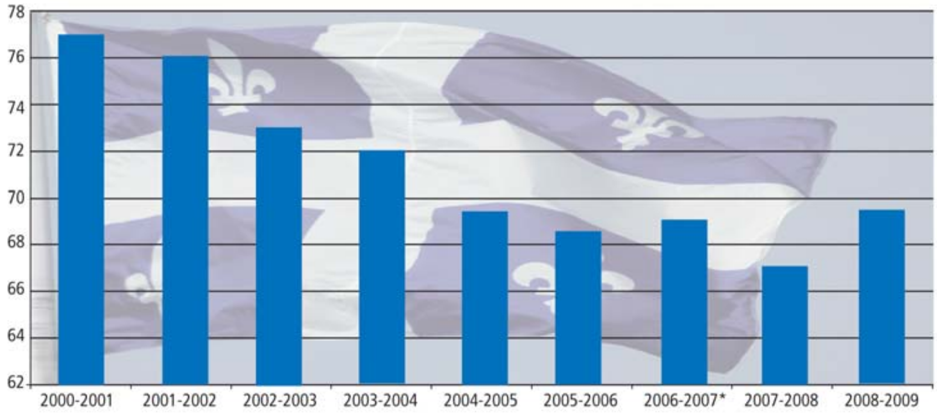
Interprovincial comparison

Each provincial government uses a different reporting entity in calculating its "official" debt. For this reason, we have to use the measure of debt used by Statistics Canada (Financial Management System, or FMS). This measure, although not perfect, allows for a certain degree of comparison between provinces.

The Quebec government's other commitments

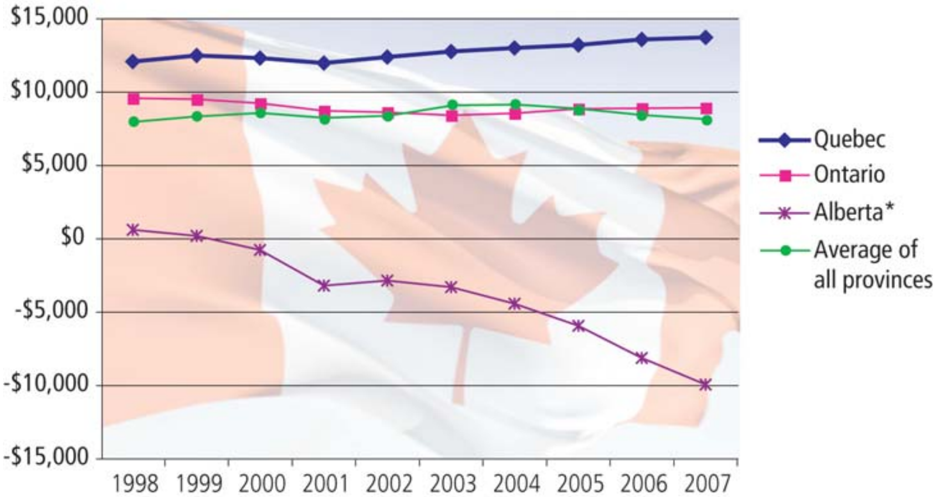
The government's debt appears for the moment to be under control. But risk lurks behind another form of government debt: its commitments to cover payments under a host of social programs such as the Quebec pension plan (RRQ), the Quebec automobile insurance corporation (SAAQ), the parental insurance plan (RQAP) or the subsidized childcare program. Most of the funds for these programs are managed by the Caisse de dépôt et placement du Québec. As we know, the Caisse suffered a 25% overall loss in 2008, amounting to $39.8 billion. This was the worst performance in its 43 years of existence. Although social programs do not in themselves represent a debt (the government can always alter their nature), Quebec will likely have to raise employee and employer contributions or reduce payments for these programs to be maintained.

Long-term Quebec public sector debt (as % of GDP)



* Starting from 2006-2007, data reflect the 2008 accounting reform.
Source: Quebec Department of Finance, 2006-2007 and 2009-2010 Budget Plan.

Net debt per inhabitant, selected Canadian provinces (1998-2007)



* Negative amounts indicate that the province no longer has a debt and is accumulating surpluses.
Source: Statistics Canada Financial Management System, Tables 385-0014 and 051-0005.

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