VIEWPOINT

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The debt of the Quebec government

by Youri Chassin | March 2012

Every year since 2009, the MEI has published a *Viewpoint on the debt of the Quebec government* to coincide with the tabling of the provincial budget. Continuing the tradition, this *Viewpoint* explains why the public sector debt increases by more than the deficit.

The Quebec government's 2012-2013 Budget states that the public sector debt has reached 248.7 billion dollars.[1] This represents an increase of 13.7 billion dollars over last year. This amount is significantly higher than the official budget deficit of 3.3 billion dollars.

Although the National Assembly adopted the *Balanced Budget Act* in 1996 in order to ensure the famous "zero deficit," Quebec's public sector debt has continued to grow. This observation holds not only for years in which the government registered a deficit, like this year, but also for years in which the budget was officially balanced, namely from 1998-1999 to 2008-2009.

To understand this seeming paradox, one must clearly grasp what is meant by public sector debt. The public sector debt is a measure of indebtedness that takes into account the government's gross debt as well as the debts of Hydro-Québec, of municipalities, of universities and of other government entities. Figure 1 illustrates these various sources of debt. This exhaustive measure encompasses all the long-term financial obligations for which the government is ultimately responsible.

The growth of public sector debt

The public sector debt increases whenever a public entity borrows. Of the 13.7 billion dollar increase in the size of the public sector debt, the government's gross debt nonetheless represents the largest share of the debt increase (75%), followed by Hydro-Québec's debt (18%) and the debts of the municipalities (7%).[2]

The government's gross debt itself is not accounted for by budget deficits. On the contrary, the 3.3 billion dollar deficit for 2011-2012 explains just 32% of its growth. In fact, it is infrastructure investments (roads, buildings, etc.) that represent the main growth factor of this gross debt. By themselves, infrastructure investments account for 56% of the increase of

Figure 1
Where does Quebec's public sector debt come from? (March 31, 2012)

Source: Quebec Department of Finance, *2012-2013 Budget Plan*, March 2012, p. D. 19. The term "others" represents an adjustment due to the components considered in the gross debt and corresponds to the difference between financial assets and retirement plan liabilities.

1. Quebec Department of Finance, *2012-2013 Budget Plan*, March 2012, p. D.19.
2. *Id.*, p. D.19 and author's calculations.

the gross debt, which is more than the budget deficit. Finally, other factors are added to the equation, like loans granted by Financement-Québec and by the Corporation d'hébergement du Québec, payments made by the government to Hydro-Québec or to the Société générale de financement, or variation in accounts payable and receivable.

To properly understand what increases the government's gross debt, one must realize that fixed assets and other components of government indebtedness are not entered in the government's budget, but only on its balance sheet. The deficit is calculated by taking into account only *budget* revenues and expenses. Whatever is not included in the budget therefore does not influence the *budget* deficit. In this way, the government can achieve a "zero deficit" without having achieved "zero indebtedness," as can be seen in Figure 2.

Zero indebtedness

The planned return to a balanced budget in 2013-2014 therefore does not mean that Quebec's public sector debt will stop increasing. Off-budget expenses, like infrastructure investments or loans and advances, will continue.[3]

By taking into account all expenses and all revenues, budgetary and off-budget, the shortfall that the government would have had to make up for in 2011-2012 in order to stop going further into debt comes to 13.7 billion dollars. This amount represents the equivalent of a 20% reduction in budget expenses or a 21% increase in revenue for the fiscal year that just ended, which is considerable.

Clearly, Quebec is not yet on the verge of reaching zero indebtedness. Not only does the debt keep rising year after year, but it will continue to grow even after the government has achieved budgetary balance.

Figure 2
Evolution of Quebec's public sector debt

Source: Quebec Department of Finance (Budget Plans from 1995-1996 to 2012-2013). Note: accounting reforms have been implemented by the Quebec government in 1997-1998, 2006-2007, and 2009-2010. Data from these different periods must be interpreted with caution, but the general increasing trend of the debt has always continued.

3. Planned infrastructure investments amounted to 9.6 billion dollars for 2011-2012 and 9.1 billion dollars for 2012-2013. See: Quebec Department of Finance, *Update on Quebec's Economic and Financial Situation*, Fall 2011, p. 109.

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