

QUESTIONS & ANSWERS ABOUT THE QUEBEC DEBT CLOCK

1- Why use public sector debt?

When analyzing a government's indebtedness, it is necessary to go beyond what it manages directly and include the health and education networks, municipalities and other entities under the government's ultimate responsibility, since the government guarantees their debt. Public sector debt is, as explained by the Auditor General, a more complete portrait of the debt that will be repaid directly or indirectly by the Quebec government.

2- Why not take government assets into account?

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 \$12.9 billion as of March 31, 2012. 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 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. The Quebec government *could* sell crown corporations such as Hydro-Québec (as proposed by Claude Garcia in a [Research Paper](#) published by the MEI) to restore its finances. However, the same people that insist on including government assets in its debt generally reject that option.

3- How much does debt service cost the government every year?

In 2012-2013, \$8.2 billion, the third largest budget category after health care and education.

4- Should we worry about the government's debt?

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 spaces 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, there is the 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.

5- How is the growth of the public sector debt estimated for the coming year?

The Quebec Department of Finance does not provide an estimate of the growth of the public sector debt for the coming year. It does, however, provide an estimate of the increase in the government's gross debt in its budget each year, which is the largest component of the public sector debt (the gross debt accounts for 74% of the public sector debt as of March 31, 2012).

Here is the method used by the MEI to estimate the increase in the public sector debt as of 2012:

- For the "government's gross debt" component, the MEI simply takes the Quebec Department of Finance's predictions;
- For "Hydro-Québec's debt," "municipalities' debt" and "universities' debt," the estimates come from their average annual growth rates over the past three years;
- For the "other government enterprises' debt" component, we presume that it will remain stable because of its high volatility.

**Components of the public sector debt
(millions of dollars)**

	March 31, 2011	March 31, 2012	Variation
-Government's gross debt	173,436	183,780	+6.0%
-Hydro-Québec's debt	37,723	40,160	+6.5%
-Municipalities' debt	20,424	21,364	+4.6%
-Universities' debt (other than the Université du Québec and its constituent universities)	1,979	1,888	-4.6%
-Other government enterprises' debt	1,363	1,429	+4.8%
Total (Public sector debt):	234,710	248,621	+5.9%

Source: Quebec Department of Finance, *Budget Plan 2012-2013*, p. D.19.