

### 5.3 Debt

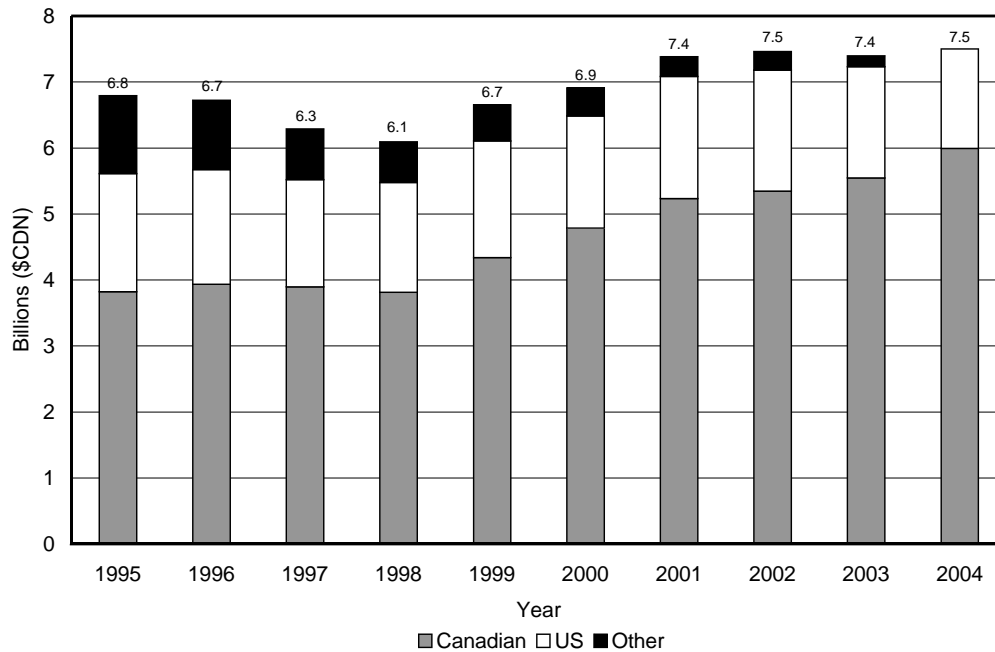
As at 31 March 2004, borrowings were reported in the Consolidated Statement of Financial Position at \$6.78 billion, which represents total borrowings of \$7.50 billion less sinking fund assets of \$724 million. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total debt of the Province, net of sinking fund assets for various debentures, is comprised of \$5.88 billion in debt reflected in the Consolidated Revenue Fund, \$299 million in Newfoundland and Labrador Municipal Financing Corporation debt, \$213 million in the Student Loan Corporation of Newfoundland and Labrador, \$192 million in health care organizations, \$57 million in Newfoundland and Labrador Housing Corporation debt, \$13.6 million in school boards, and other miscellaneous debt of \$124.2 million.

The borrowings of \$6.78 billion do not include the borrowings of Newfoundland and Labrador Hydro. This accounting policy is in accordance with the recommendations of the Canadian Institute of Chartered Accountants which requires that the net equity position of a government business enterprise such as Newfoundland and Labrador Hydro be recorded in the Consolidated Summary Financial Statements of the Province. In the audited financial statements of Newfoundland and Labrador Hydro for the year ended 31 December 2003, the Corporation reported debt of \$1.8 billion (\$1.7 billion - 31 December 2002).

Figure 8 shows the total borrowings owing as at 31 March for each year from 1995 to 2004 as disclosed in the Consolidated Statement of Financial Position. The Figure provides a breakdown of Canadian and foreign currency debt.

Figure 8

**Consolidated Summary Financial Statements**  
**Borrowings**  
**As at 31 March**  
**(\$ Billions)**



As Figure 8 shows, there were only Canadian and US denominated borrowings as at 31 March 2004. The Canadian denominated borrowings totalled \$5.99 billion and accounted for 79.9% of total borrowings.

**The Province’s Borrowing Program**

The Department of Finance is responsible for arranging and directing the annual borrowing requirements of the Consolidated Revenue Fund. The Provincial Budget determines how much capital market borrowing is required for a fiscal year. The Department monitors the capital markets and provides advice on when and where to borrow.

For the 2003-04 fiscal year the Province borrowed \$300.0 million compared to the estimated total borrowing requirements of \$504.4 million. In addition, Student Loan Corporation of Newfoundland and Labrador, Newfoundland and Labrador Education Investment Corporation, Newfoundland and Labrador Heritage Corporation, and other entities included in the Consolidated Summary Financial Statements borrowed \$289.7 million during the year, for total borrowings of \$589.7 million.

## Selected Financial Information and Other Matters

Figure 9 provides information reconciling how Government's estimated borrowings differed from its actual borrowings for 2003-04.

**Figure 9**

**Consolidated Summary Financial Statements  
Borrowing Requirements  
Year Ended 31 March 2004  
(\$ Millions)**

	<b>Estimate</b>	<b>Actual</b>
Consolidated Revenue Fund		
Current Account	101.6	(8.0)
Capital Account	111.1	142.7
Cash Deficit	212.7	134.7
Debt Redemptions	127.5	118.0
Foreign Exchange Losses	-	54.2
Sinking Fund Contributions	41.3	37.6
Retirement of Pension Liabilities	163.5	163.5
Wind up of Voluntary Sinking Funds	(40.6)	(40.6)
Decrease in Temporary Investments	-	(176.7)
Treasury Bill Borrowings Net of Repayments	-	(0.8)
Writeback of Revenue and Expenditures	-	10.3
Other	-	(0.2)
	504.4	300.0
Government Crown Agencies	73.9	289.7
<b>Total</b>	<b>578.3</b>	<b>589.7</b>

As Figure 9 indicates, one of the most significant reasons why Government did not have to borrow the estimated amount is that it used its temporary investments of \$176.7 million to fund operations. On the other hand, Crown agencies borrowed significantly more than the estimated amount primarily as a result of the Student Loan Corporation of Newfoundland and Labrador borrowing \$213 million to fund the acquisition of the student loan portfolio.

## Selected Financial Information and Other Matters

Many of the debentures held by the Province have sinking fund requirements. As well, the Province voluntarily maintains sinking funds for Canada Pension Plan and other debentures. Sinking funds are a pool of cash and investments accumulated during the life of the debentures to repay the debt at maturity. Figure 10 is a summary of sinking funds at 31 March 2004 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

**Figure 10**

**Consolidated Summary Financial Statements  
Borrowings and Sinking Funds  
As at 31 March 2004  
(\$ 000's)**

	<b>Debt Outstanding</b>	<b>Sinking Fund Balance</b>	<b>Balance net of Sinking Fund</b>
Total Debt with Statutory Sinking Funds	3,332,995	639,984	2,693,011
Total Debt with Voluntary Sinking Funds	772,746	83,557	689,189
Total Debt Without Sinking Funds	3,394,960	-	3,394,960
<b>Total</b>	<b>7,500,701</b>	<b>723,541</b>	<b>6,777,160</b>

As Figure 10 shows, Government has approximately \$84 million in voluntary sinking funds at 31 March 2004.

Figure 11 shows borrowings net of sinking funds for each of the past ten years.

**Figure 11**

**Consolidated Summary Financial Statements  
Borrowings and Sinking Funds  
As at 31 March  
(\$ Millions)**

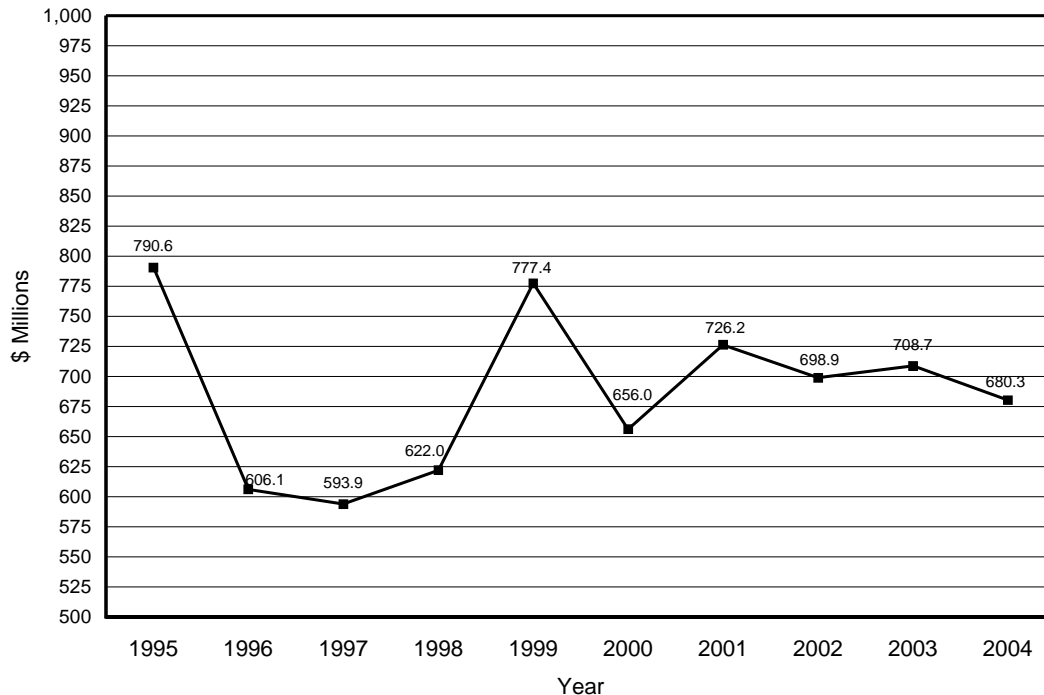
	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Borrowings	6,795	6,725	6,291	6,093	6,654	6,909	7,384	7,464	7,398	7,501
Sinking Funds	1,002	945	985	1,042	1,097	1,210	1,284	1,007	819	724
<b>Net Debt</b>	<b>5,793</b>	<b>5,780</b>	<b>5,306</b>	<b>5,051</b>	<b>5,557</b>	<b>5,699</b>	<b>6,100</b>	<b>6,457</b>	<b>6,579</b>	<b>6,777</b>

## Selected Financial Information and Other Matters

The Province's debt expense for 2003-04 as recorded in the Consolidated Summary Financial Statements is \$1.1 billion, which consists of \$330.9 million of interest expense on the unfunded pension liability, \$60.9 million of interest expense on the net liability for group health and life insurance retirement benefits, and \$680.3 million which relates to the cost of servicing the Province's debt. The cost of servicing the Province's debt each year from 1995 through to 2004 is outlined in Figure 12.

**Figure 12**

**Consolidated Summary Financial Statements  
Debt Servicing Costs (Excluding Interest Expense  
on the Liabilities relating to Retirement Benefits)  
Years Ended 31 March  
(\$ Millions)**



The Province's credit rating will affect the debt servicing costs over time because the interest that the Province will have to pay on its borrowing will decrease as the credit rating improves and conversely the interest costs will increase as the credit rating declines.

The Province's credit ratings as established by the three most recognizable rating agencies are outlined in figures 13, 14 and 15.

Figure 13

Province of Newfoundland and Labrador  
Credit Ratings Established by  
Dominion Bond Rating Service

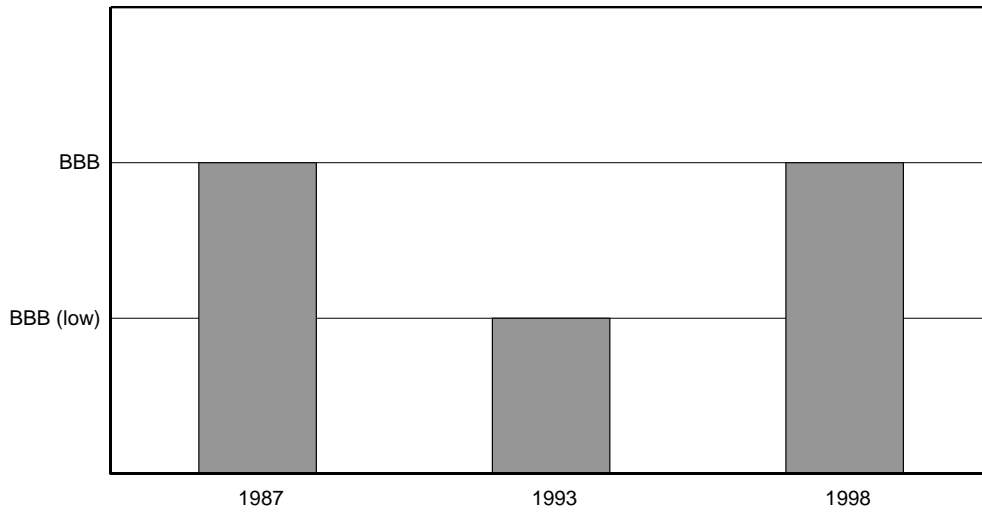


Figure 14

Province of Newfoundland and Labrador  
Credit Ratings Established by  
Moody's Investors Service

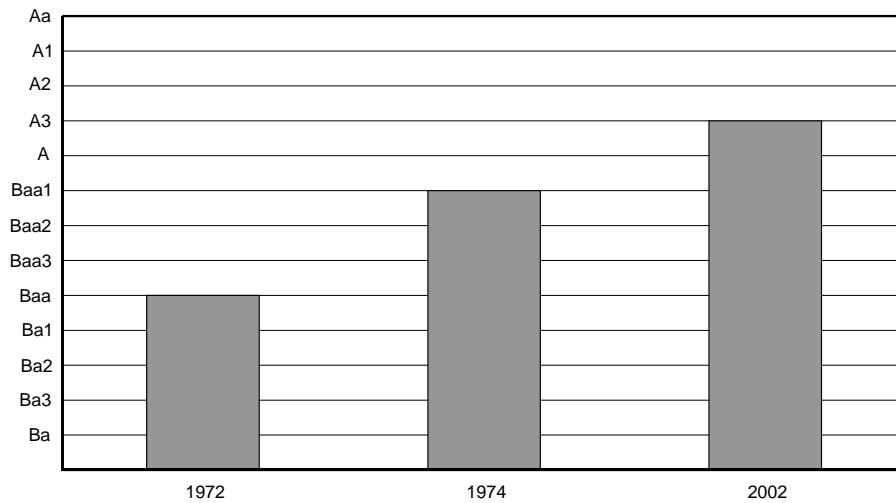
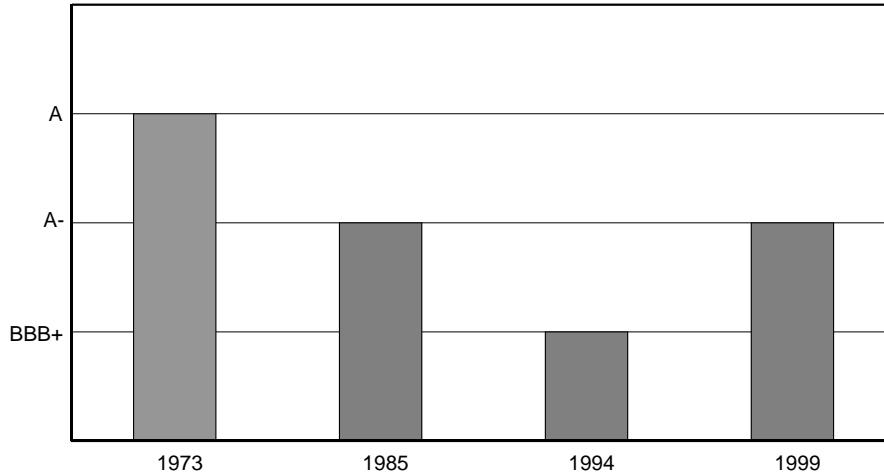


Figure 15

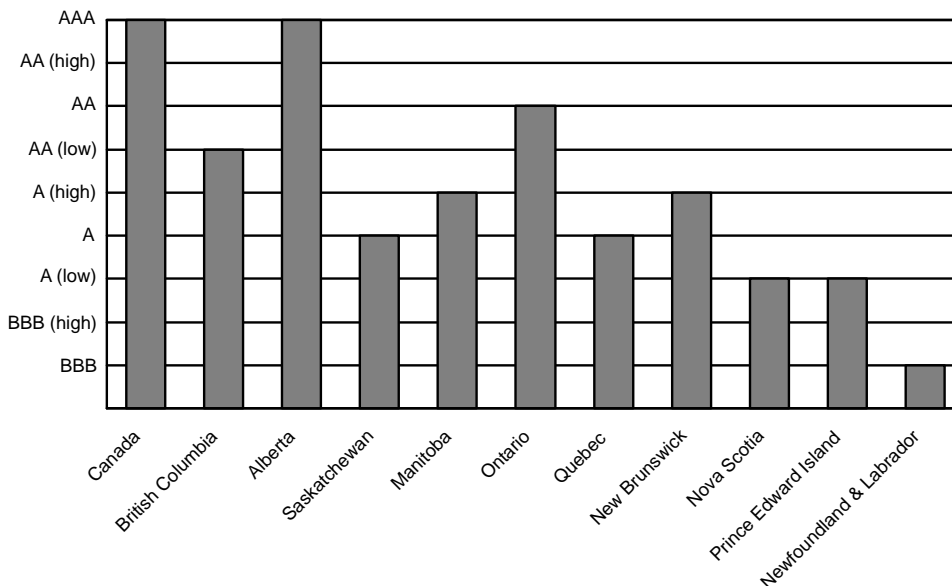
**Province of Newfoundland and Labrador  
Credit Ratings Established by  
Standard & Poor's**



This information shows that the Province's credit rating has not changed substantially in recent years. Furthermore, figures 16, 17 and 18 outline current comparative information on the credit ratings of all provinces and indicate that the Province has the lowest credit rating of any province in Canada.

Figure 16

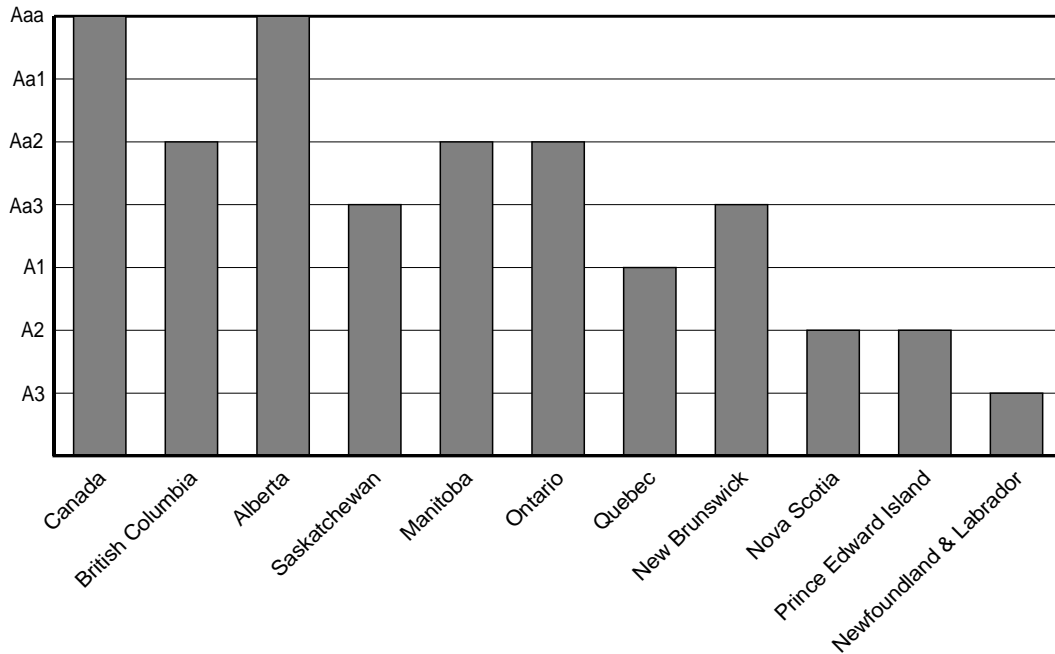
**Credit Ratings Established for Canadian Provinces by  
Dominion Bond Rating Service**



## Selected Financial Information and Other Matters

**Figure 17**

### Credit Ratings Established for Canadian Provinces by Moody's Investors Service



**Figure 18**

### Credit Ratings Established for Canadian Provinces by Standard & Poor's

