

### 5.3 Debt

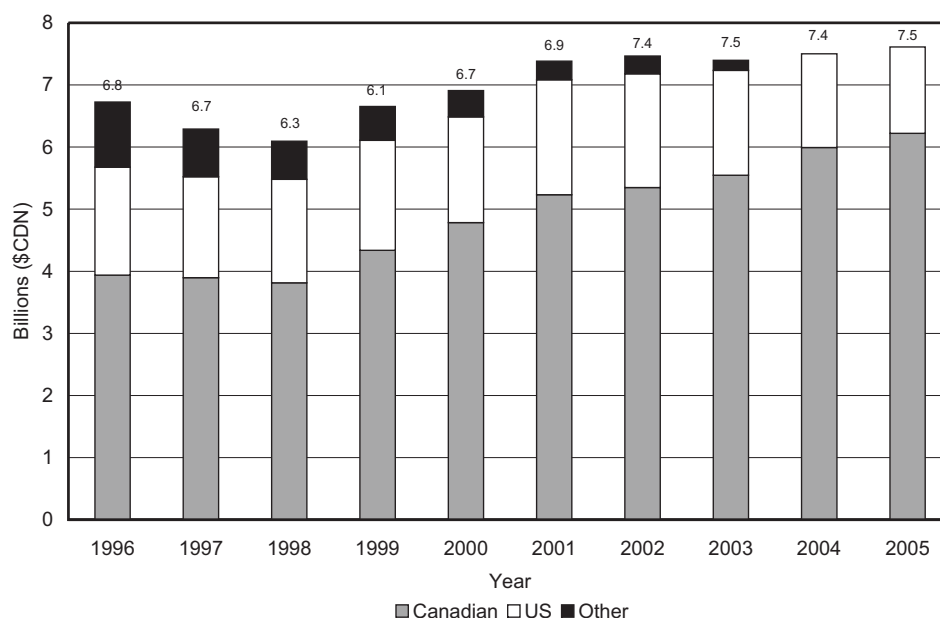
As at 31 March 2005, borrowings were reported in the Consolidated Statement of Financial Position at \$6.8 billion, which represents total borrowings of \$7.5 billion less sinking fund assets of \$775 million. Total borrowings consist of general debentures, amounts borrowed from the Government of Canada and its agencies, as well as other notes and loans payable by the Province. The total borrowings of the Province, net of sinking fund assets for various debentures, is comprised of \$6.1 billion in debt reflected in the Consolidated Revenue Fund, \$275 million in Newfoundland and Labrador Municipal Financing Corporation debt, \$198 million in health care organizations, \$47 million in Newfoundland and Labrador Housing Corporation debt, and other miscellaneous debt of \$231 million.

The borrowings of \$6.8 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 2004, the Corporation reported debt of \$1.6 billion (\$1.7 billion - 31 December 2003).

Figure 8 shows the total borrowings owing as at 31 March for each year from 1996 to 2005 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 2005. The Canadian denominated borrowings totalled \$6.2 billion and accounted for 82% 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 2004-05 fiscal year the Province borrowed \$600.0 million compared to the estimated total borrowing requirements of \$729.1 million. In addition, other entities included in the Consolidated Summary Financial Statements borrowed \$30.0 million as compared to the estimated borrowing requirement of \$37.0 million.

Figure 9 provides information reconciling how Government’s estimated borrowings differed from its actual borrowings for 2004-05.

## Comments on Selected Financial Information and Other Matters

**Figure 9**

**Consolidated Summary Financial Statements  
Borrowing Requirements  
Year Ended 31 March 2005  
(\$ Millions)**

	<b>Estimate</b>	<b>Actual</b>
Consolidated Revenue Fund		
Current Account	209.0	(143.6)
Capital Account	115.6	227.0
Cash Deficit	324.6	83.4
Debt Redemptions	198.9	198.9
Sinking Fund Contributions	42.1	41.4
Retirement of Pension Liabilities	163.5	156.0
Equalization Loan	-	(378.4)
Increase (decrease) in Temporary Investments	-	460.1
Decrease in Bank Overdraft	-	43.4
Other	-	(4.8)
	<u>729.1</u>	<u>600.0</u>
Government Crown Agencies	37.0	30.0
<b>Total</b>	<b>\$ 766.1</b>	<b>\$ 630.0</b>

Many of the debentures held by the Province have sinking fund requirements. 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 2005 along with the related debenture debt outstanding and the net amount left after reducing the debt by the amount of the sinking funds.

## Comments on Selected Financial Information and Other Matters

**Figure 10**

**Consolidated Summary Financial Statements  
Borrowings and Sinking Funds  
As at 31 March 2005  
(\$ 000's)**

	<b>Debt Outstanding</b>	<b>Sinking Fund Balance</b>	<b>Balance net of Sinking Fund</b>
Total Debt with Statutory Sinking Funds	3,216,040	693,736	2,522,304
Total Debt with Voluntary Sinking Funds	1,053,971	81,411	972,560
Total Debt Without Sinking Funds	3,342,592	-	3,342,592
<b>Total</b>	<b>7,612,603</b>	<b>775,147</b>	<b>6,837,456</b>

As Figure 10 shows, Government had approximately \$81.4 million in voluntary sinking funds at 31 March 2005.

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)**

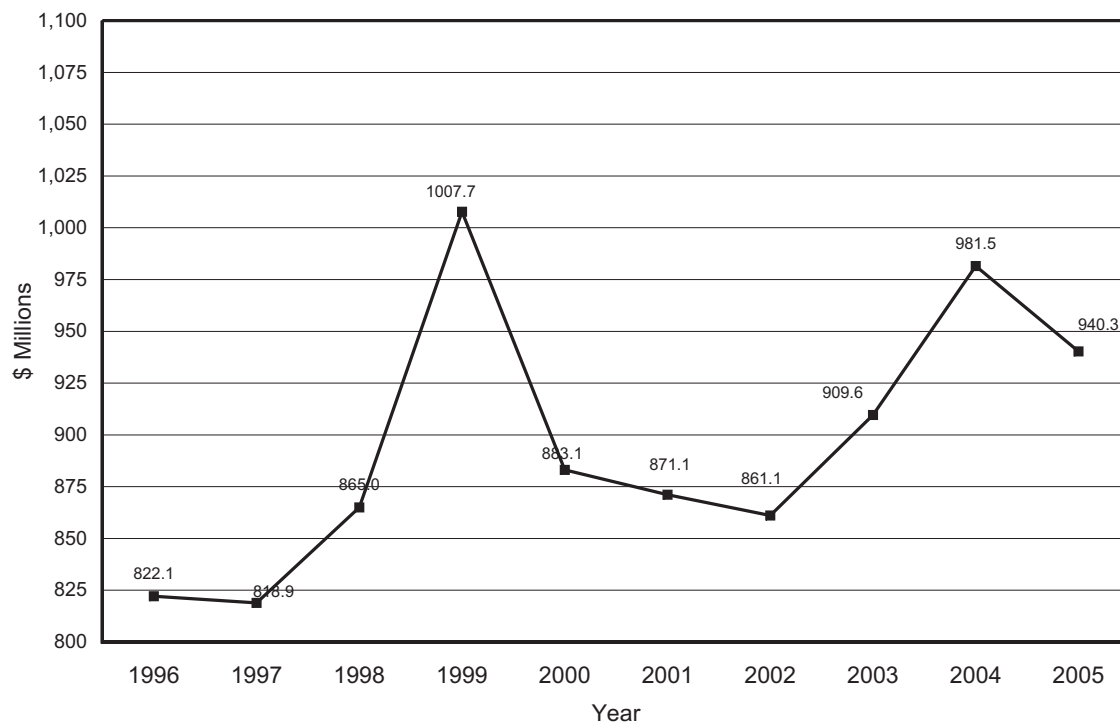
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Borrowings	6,725	6,291	6,093	6,654	6,909	7,384	7,464	7,398	7,501	7,612
Sinking Funds	945	985	1,042	1,097	1,210	1,284	1,007	819	724	775
<b>Net Debt</b>	<b>5,780</b>	<b>5,306</b>	<b>5,051</b>	<b>5,557</b>	<b>5,699</b>	<b>6,100</b>	<b>6,457</b>	<b>6,579</b>	<b>6,777</b>	<b>6,837</b>

## Comments on Selected Financial Information and Other Matters

The Province's debt expense for 2004-05 as recorded in the Consolidated Summary Financial Statements is \$940.3 million, which consists of \$320.6 million of interest expense on the unfunded pension liability, \$66.9 million of interest expense on the net liability for group health and life insurance retirement benefits, and \$552.8 million which relates to the cost of servicing the Province's borrowings. The cost of servicing the Province's debt each year from 1996 through to 2005 is outlined in Figure 12.

**Figure 12**

### Consolidated Summary Financial Statements Debt Expenses 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

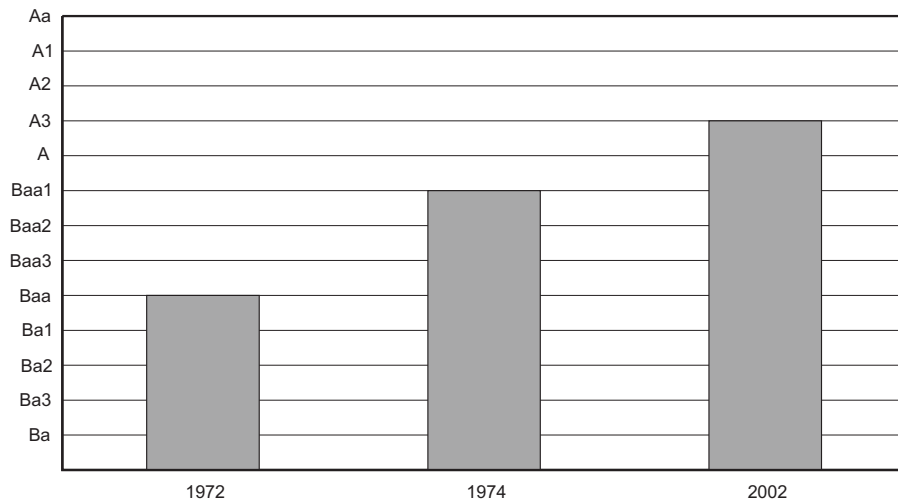
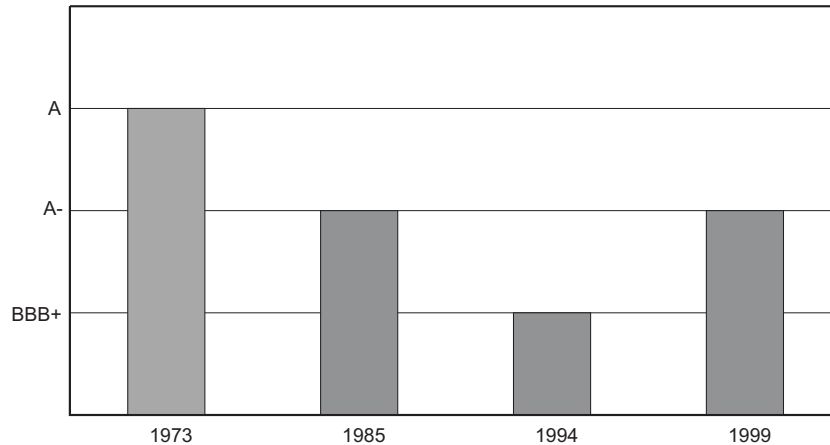


Figure 15

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



This information shows that the only change in the Province's credit rating in recent years relates to an increase from a BBB to a BBB (high) by the Dominion Bond Rating Service. 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**

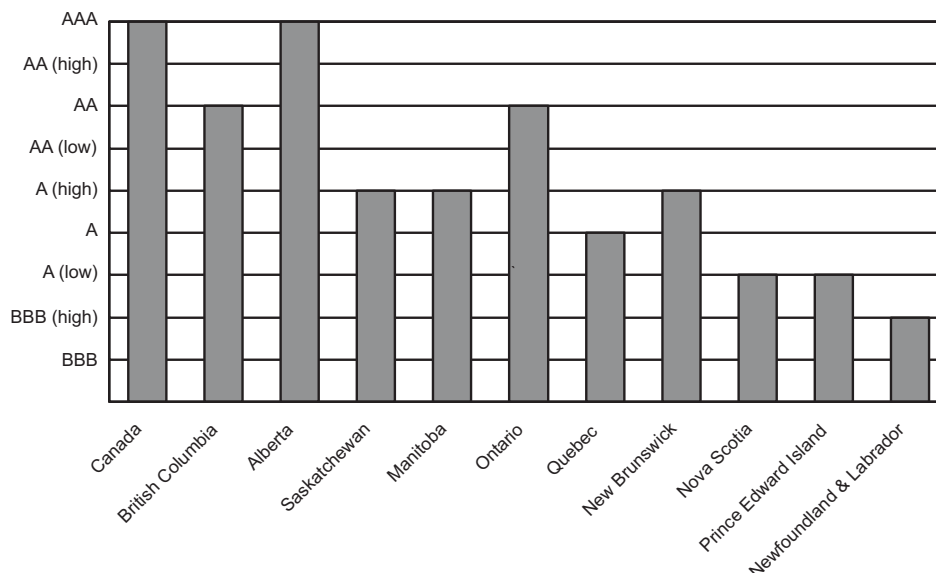


Figure 17

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

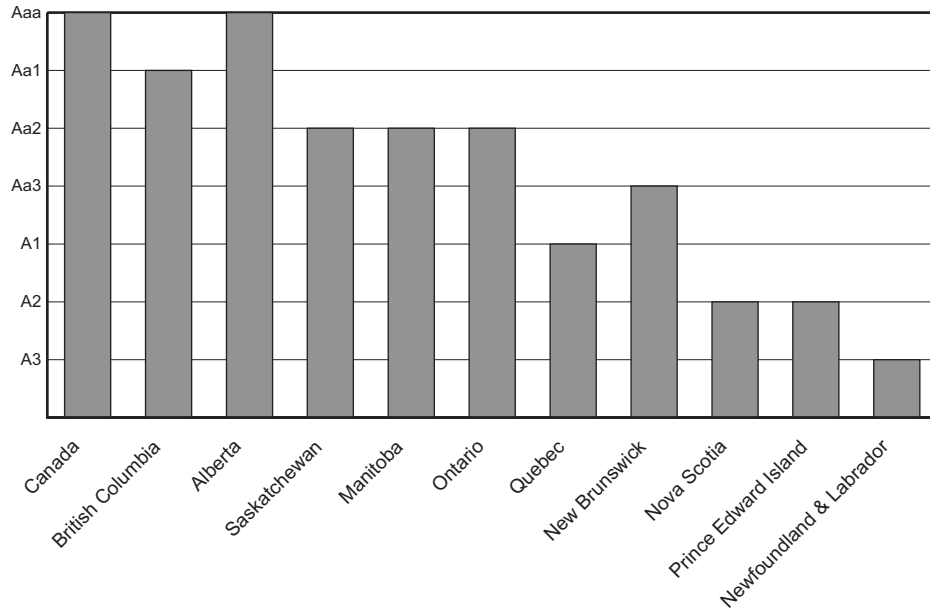


Figure 18

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

