

Canadian net issuance & debt dynamics

By Warren Lovely

Not to be confused with audited financial statements or official budgetary projections, StatCan's quarterly economic accounts allow us to gauge government financial performance vs. other key sectors.

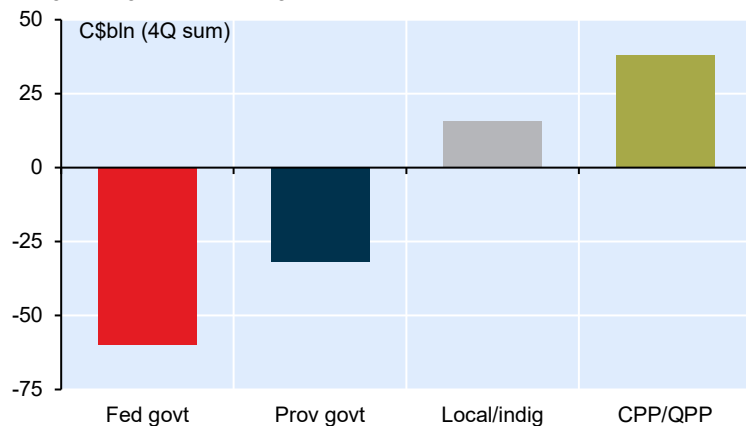
In the latest four-quarter period (ending 2024:Q3), Canada's general government sector collectively ran an annualized budget shortfall of \$37 billion. Strip out ongoing net positive contributions from social security funds (i.e., CPP/QPP) and the aggregate shortfall for Canadian governments totaled \$75 billion over that four-quarter period, equivalent to 2.5% of GDP. That may be a mere fraction of the red ink spilled during the peak of the pandemic but nonetheless implied non-trivial cash requirements.

StatCan also furnishes us with quarterly debt statistics, highlighting how key sectors are funding. The latest tranche of these data dropped Friday. While somewhat lost in the long shadow of the jobs report, there's some interesting colour here (despite the reporting lag).

Consistent with well-telegraphed borrowing needs, there's been no shortage of net public sector bond issuance of late. In the domestic (i.e., CAD) market, the federal and provincial levels of government issued an

Chart 1: Budget balances by general government sector

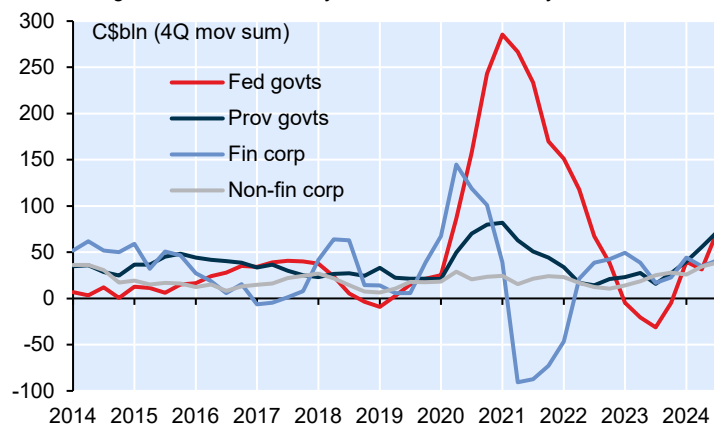
Cdn general government budget balance: 4Q sum as at 2024:Q3



Source: NBC, StatCan | Note: As per latest quarterly national economic accounts

Chart 3: Net borrowing picked up through 2024:Q3

Cdn net long-term debt issuance by select sector: CAD only



Source: NBC, StatCan

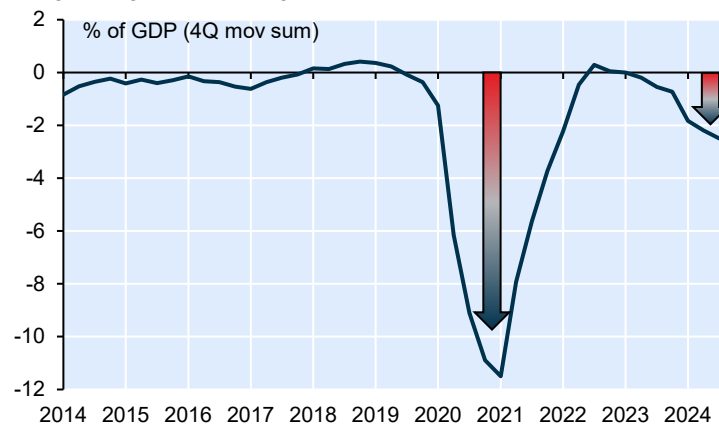
equivalent amount of net new long-term debt in the latest four-quarter period (\$72 billion). Of course, earlier outsized borrowing by Ottawa has fundamentally (permanently?) boosted the stock of GoC bonds.

The feds mostly do their business domestically. Provinces, however, can/do steer net supply to international markets, particularly when funding needs are elevated. That's a sensible strategy. Note that Canadian banks and non-financial corporates have generally relied on international markets to an even greater extent than provinces.

Adding all currencies, net provincial bond issuance wasn't far removed from a record level as of 2024:Q3. But don't despair; the issuance impulse has receded in the past couple months—a trend we see extending into calendar 2025. Moreover, meeting this year's sizeable provincial funding requirement did not force an abandonment of a longer-term funding strategy. That speaks to a relatively deep well of investor demand for longer-dated, high-quality and liquid provincial paper. Years of prudent debt management have limited the amount of provincial refi risk vs. most (if not all) major sectors, which is another theme that clearly emerges from these quarterly debt data.

Chart 2: Less red ink than peak but cash still needed

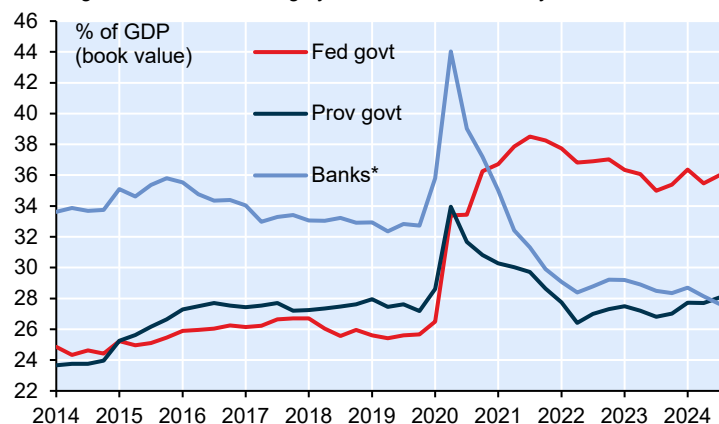
Cdn general government budget balance, excl. CPP/QPP



Source: NBC, StatCan | Note: Sum of federal, provincial, local & indigenous general gov'ts

Chart 4: Ottawa carries heavier debt load these days

Cdn long-term debt outstanding by select sector: CAD only

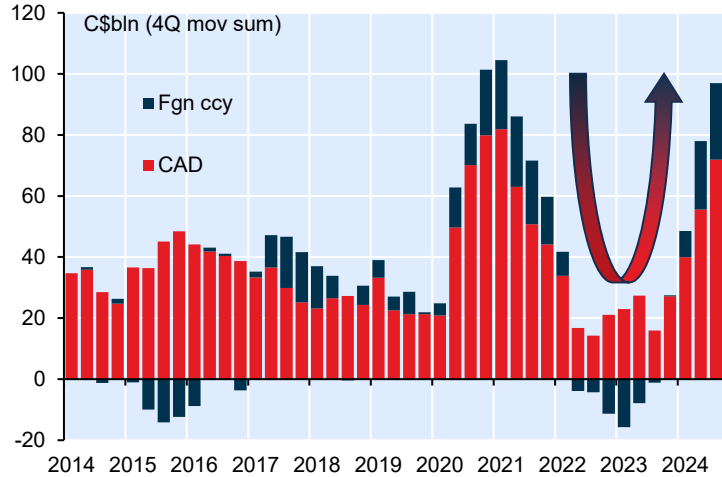


Source: NBC, StatCan | Note: Banks refers to domestic deposit-taking institutions (excl. BoC)



Chart 5: Provi funding includes use of foreign markets...

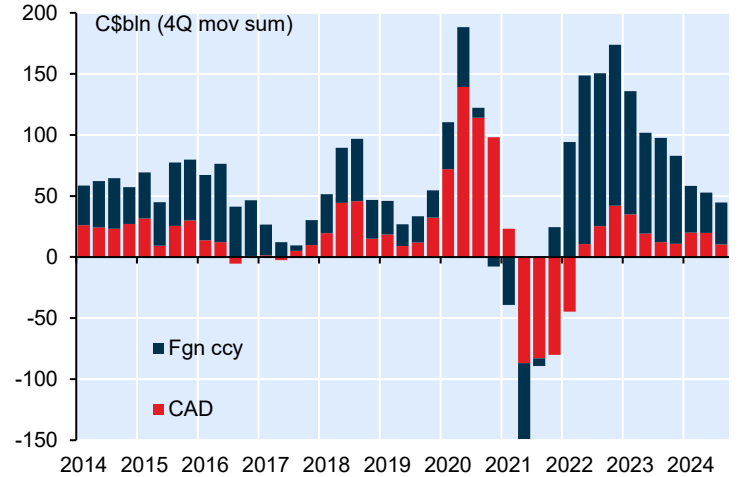
Net long-term debt issuance by provincial governments: CAD vs. foreign



Source: NBC, StatCan

Chart 6: ... though Cdn financials lean heavier on fgn markets

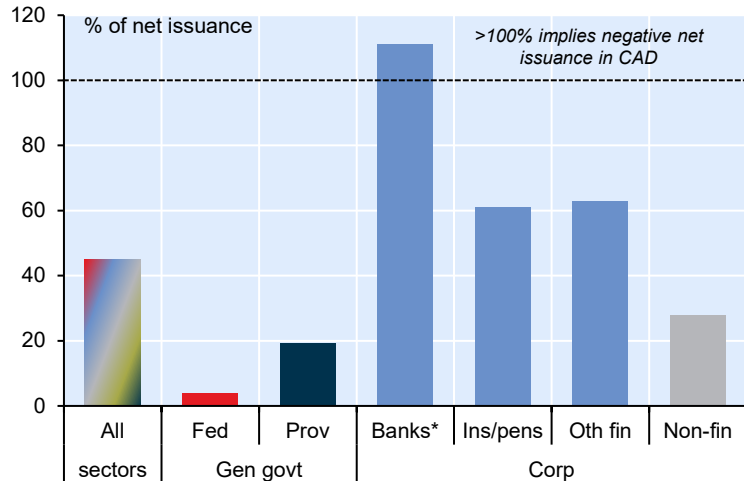
Net long-term debt issuance by Cdn banks*: CAD vs. foreign



Source: NBC, StatCan | Note: Banks refers to domestic deposit-taking institutions (excl. BoC)

Chart 7: Relative use of international markets in context...

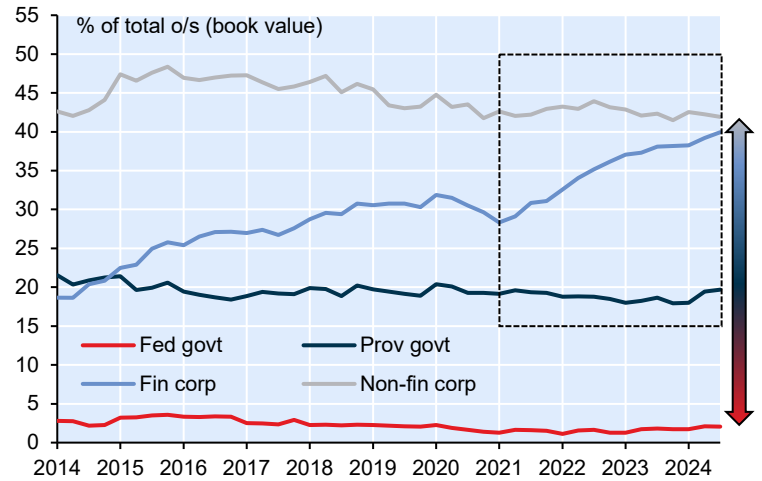
Share of Cdn net long-term debt issuance in foreign markets by sector: Since 2021



Source: NBC, StatCan | Note: Based on cumulative net issuance from 2021:Q1 to 2024:Q3; banks refers to domestic deposit-taking institutions (excl. BoC)

Chart 8: ... with relatively more Cdn financial debt in fgn ccy

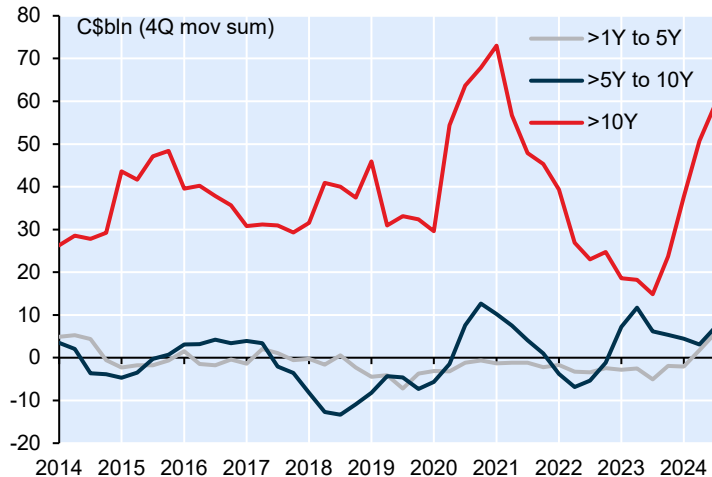
Foreign currency share of Cdn long-term debt outstanding by sector



Source: NBC, StatCan

Chart 9: Provinces (still) able to get plenty of term...

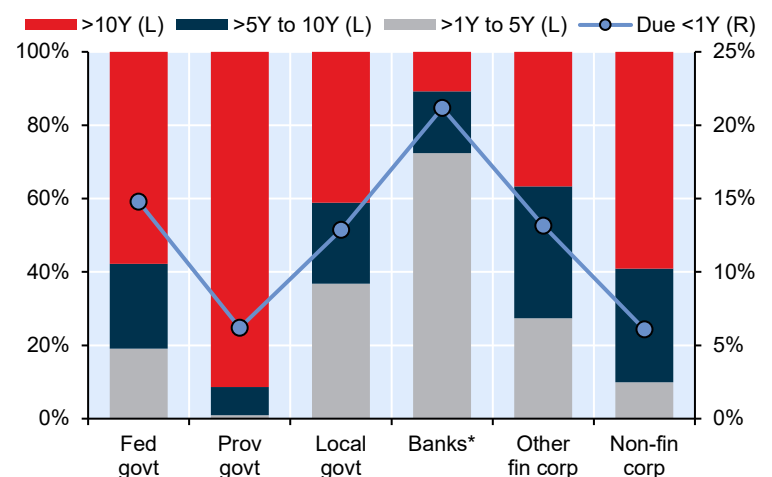
Term of net long-term debt issuance by provincial governments: CAD only



Source: NBC, StatCan

Chart 10: ... which keeps provincial refi risk well contained

Composition of Cdn long-term debt outstanding by sector: CAD only as at 2024:Q3



Source: NBC, StatCan | Note: Book value; based on original term of issue; share due <1Y excl. short-term debt; banks refers to domestic deposit-taking institutions (excl. BoC)



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