Canada’s Debt Management Strategy
Lessons from the Past Year

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Outline

- Stylized facts about the Canadian economy
- Context
- Canada’s response to the oil price shock
- Debt management strategy
- Some lessons learned
Stylized Facts of the Canadian Economy

- Resilient and broadly diversified economy
- Fiscal and monetary flexibility
- Sound financial system
- Regular issuer in global capital markets
- Strong fiscal position – lowest net debt-to-GDP ratio in G7
- AAA credit rating with a stable outlook from all major rating agencies
- Canadian dollar a (minor) reserve currency – strong international demand for Government debt

* IMF: October 2015 Fiscal Monitor

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Commodity prices have fallen and are expected to remain low.
The oil price shock slowed the Canadian economy

Quarterly change in GDP (in %)

Energy sector as a percentage of GDP (in %)

Quarterly % change in GDP (chained 2007 dollars)

Energy Sector (%) of GDP

Bank of Canada – Statistic Canada
Market Reaction – weaker CAD and lower yields
Canada’s Response to the Oil Price Shock

- Additional monetary policy easing
- Combination of historic low interest rate environment, Canada’s strong fiscal position, and a low debt burden made fiscal stimulus an effective complement to monetary policy
- Increasing debt issuance to support fiscal stimulus
- Canada commits to reducing the federal debt-GDP ratio to a lower level over a five-year period, ending in 2020-21
- The increase in debt issuance has also helped support well-functioning market by increasing benchmark sizes in a decreasing liquidity environment
Canada’s Response to the Oil Price Shock
Canada’s Strong Fiscal Position in the Wake of the Oil Price Shock

Budgetary Balance and Financial Requirement (in $ billions)

Source: Department of Finance Canada

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Canada’s Response to the Oil Price Shock
A Commitment to Lower Debt-to-GDP Ratio by 2020-21

Federal Debt-to-GDP Ratio (in %)*

*The federal debt is the difference between the Government’s total liabilities and its total assets and does not account for provincial/territorial and local government sectors.

Source: Department of Finance Canada
Debt Management Strategy

Objective of Canada Debt Management Strategy

Raising stable low cost funding to meet the financial needs of the Government

Debt management should strike a balance between lowering issuing cost and maintaining a well-functioning market to ensure that the Government has continuous access to the funding market

Maintaining well-functioning markets

Core principles of Canada debt management strategy

- Regularity
- Transparency
- Prudence
Canada – 2016-17 Debt Management Strategy

- Increasing bond issuance to fund fiscal stimulus
- Additional issuance was primarily allocated to short-term bonds, including 2-year and 5-year sectors
- Reintroducing the 3-year sector
- T-bill stock largely remains the same
- 10-year and 30-year sectors have only seen a modest increase in issuance
- 50-year sector remains a tactical decision that is subject to favourable market conditions
Debt Management Strategy
Composition of Government of Canada Market Debt by Original Terms of Issuance

**Government of Canada:**
Percent of Total Market Debt Outstanding*
August 31, 2016

- T-bill: 22.6%
- 2-year: 13.7%
- 3-year: 4.1%
- 5-year: 17.9%
- 10-year: 19.8%
- 30-year: 13.3%
- Real Return Bonds: 8.1%
- 50-year: 0.5%

*Total market debt outstanding as of 31 August 2016: $665 billion

Source: Bank of Canada

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Lessons Learned

- Benefits of a strong policy regime – credible monetary policy, fiscal space and floating exchange rate
- Strong fiscal position prior to the crisis provided fiscal space to help address impact
- Coordinated policy response – monetary policy and fiscal stimulus
- Flexible borrowing program can be scaled up when necessary to support fiscal stimulus
- Strong financial system helps policy transmission
Questions?