



Department of Finance Canada
Ministère des Finances Canada

Debt Management Strategy

2015–16

Canada

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Overview

The *Debt Management Strategy* sets out the Government of Canada's objectives, strategy and plans for the management of its domestic and foreign debt, other financial liabilities and related assets. Borrowing activities support the ongoing refinancing of government debt coming to maturity and the financial operations of the Government. This includes investing in financial assets needed to establish a prudent liquidity position and borrowing on behalf of certain Crown corporations.

The *Financial Administration Act* requires that the Government table in Parliament, prior to the start of the fiscal year, a report on the anticipated borrowing to be undertaken in the year ahead, including the purposes for which the money will be borrowed.

The *Debt Management Strategy for 2015–16* is based on the fiscal and financial projections associated with the *Update of Economic and Fiscal Projections* released on November 12, 2014. The infrastructure package announced in November 2014 is also included in the baseline.

The *Debt Management Strategy for 2015–16* will be updated as part of the upcoming federal budget.



Debt Management Strategy for 2015–16

Objectives

The fundamental objective of debt management is to raise stable and low-cost funding to meet the financial needs of the Government of Canada. An associated objective is to maintain a well-functioning market in Government of Canada securities, which helps to keep debt costs low and stable.

Raising Stable Low-Cost Funding

Achieving stable low-cost funding involves striking a balance between the cost and the risk associated with the debt structure.

Over the medium term, debt management decisions will be taken with a view to keeping debt costs low and maintaining risks at prudent levels, while reserving sufficient flexibility to adapt to changing circumstances.

Maintaining a Well-Functioning Government Securities Market

Having access to a well-functioning government securities market ensures that funding can be raised efficiently to meet the Government's needs regardless of economic conditions. To support a liquid and well-functioning Government of Canada securities market, the Government strives to maintain transparent, regular and diversified borrowing programs.

2015–16 Federal Debt Program

In 2015–16, the Government of Canada will continue to use a variety of instruments to fund its operations:

- Nominal bonds and Real Return Bonds;
- Treasury bills; and
- Retail debt products.

Foreign currency borrowing will continue to be undertaken in order to fund Canada's foreign exchange reserves.

The plans for the federal debt program included in this document are based on the financial source/requirement projection associated with the fiscal forecast in the November 2014 *Update of Economic and Fiscal Projections*. The infrastructure package announced in November 2014 is also included in the baseline. The *Debt Management Strategy for 2015–16* will be updated as part of the upcoming federal budget.

For 2015–16, the Government has obtained an aggregate borrowing limit from the Governor in Council of \$270 billion, unchanged from the borrowing limit granted for 2014–15. Actual borrowing for the year may differ from the projected level due to the uncertainty associated with economic and fiscal projections, the timing of cash transactions and other factors, such as changes in foreign reserve needs and borrowing by Crown corporations. The borrowing limit therefore includes a margin for prudence, enabling debt management operations to respond to changing circumstances without the need for frequent resubmissions to the Governor in Council.

Actual borrowings and uses of funds compared with those forecast will be reported in the 2015–16 *Debt Management Report*, and detailed information on outcomes will be provided in the 2016 *Public Accounts of Canada*. Both documents will be tabled in Parliament in the fall of 2016.



Bond Program

Annual gross bond issuance has ranged between \$88 billion and \$100 billion since 2010–11. For 2015–16, gross bond issuance is expected to be between \$85 billion and \$90 billion.

Focusing Issuance on Core Sectors

Issuance in the 3-year sector was re-introduced in 2009 in light of significantly higher financial requirements associated with the Extraordinary Financing Framework and the stimulus phase of Canada's Economic Action Plan.

While auctions for 3-year bonds perform well, the 3-year sector is not a core component of the Government's debt mix (i.e., 2-, 5-, 10- and 30-year nominal bonds). In this regard, market participants have expressed a preference for the cessation of issuance in the 3-year sector in favour of increased issuance in other sectors, specifically 2- and 5-year bonds.

Consistent with the feedback received, there will be no issuance in the 3-year sector in 2015–16. The forgone issuance will be gradually reallocated to the 2- and 5-year sectors. Ceasing issuance in the 3-year sector will allow for the building of larger benchmark sizes in the core 2- and 5-year sectors, which will increase liquidity and support the well-functioning of these important sectors.

Continued Low Long-Term Interest Rates

In 2014, the Government of Canada issued 50-year bonds for the first time, taking advantage of historically low interest rates to lock in low-cost funding. In total, the Government issued \$3.5 billion in 50-year bonds over the course of 2014. Given the strong demand for long-term bonds and with long-term yields remaining well below their historical average, the Government may issue additional ultra-long bonds in 2015–16. Any decision to reopen the ultra-long bond would be subject to favourable market conditions and would be communicated by the Government to market participants during the course of the fiscal year.

Maturity Dates and Benchmark Bond Target Range Sizes

Ceasing issuance in the 3-year sector will not change the number and pattern of maturity dates but will allow for the building of larger bond benchmarks. The benchmark bond target range size will be \$10 billion to \$14 billion for the 2-, 5- and 10-year sectors, and it will be \$10 billion to \$16 billion for the 30-year and Real Return Bond sectors.¹ Note that issuance for the 2-year August 1, 2017 and February 1, 2018 bonds may be lower in 2015–16 due to their fungibility with old outstanding 3-year bonds.

The dates of each auction will continue to be announced through the *Quarterly Bond Schedule* that is published on the Bank of Canada website prior to the start of each quarter (http://www.bankofcanada.ca/stats/cars/f/bd_auction_schedule.html).

¹ This includes an estimate for inflation adjustment.



Bond Buyback Programs

Both weekly cash management bond buyback operations and buyback operations on a switch basis in the 30-year sector will continue to be used in 2015–16. No regular buyback operations on a cash basis are planned for 2015–16.²

Treasury Bill Program

Bi-weekly issuance of 3-, 6- and 12-month maturities will be continued in 2015–16. The stock of treasury bills is expected to remain above \$120 billion throughout the year.

Cash management bills (i.e., short-dated treasury bills) help manage government cash requirements in an efficient manner. These instruments will also continue to be used in 2015–16.

Retail Debt

Around 2.5 million Canadians hold Canada Savings Bonds (CSBs) or Canada Premium Bonds (CPBs). CSBs are offered exclusively through the Payroll Savings Program while CPBs are available for sale through financial institutions and dealers. Investors repeatedly cite the safety and security of CSBs and CPBs as key attributes, with payroll deduction providing a convenient, simple and free automatic savings option.

Further information on the retail debt program is available on the Canada Savings Bonds website (<http://www.csb.gc.ca>).

Foreign Currency Funding

The purpose of the Exchange Fund Account (EFA) is to aid in the control and protection of the external value of the Canadian dollar. Assets held in the EFA are managed to provide foreign currency liquidity, support market confidence, and promote orderly conditions for the Canadian dollar in the foreign exchange markets, if required. Liquid foreign exchange reserves are maintained at a level at or above 3 per cent of nominal gross domestic product, consistent with the Government's prudential liquidity plan.

The Government plans to fund the purchase of foreign currency assets through multiple sources. These include a short-term US-dollar paper program (Canada bills), medium-term notes, international bond issues (global bonds), purchases and sales of Canadian dollars in foreign exchange markets, and cross-currency swaps involving the exchange of domestic liabilities for foreign-currency-denominated liabilities. Foreign currency funding requirements for 2015–16 are estimated to be around US\$9 billion, but may vary as a result of movements in foreign interest and exchange rates.

² Bond buyback operations on a cash basis and on a switch basis involve the purchase of bonds with a remaining term to maturity of 12 months to 25 years. Bond buyback operations on a cash basis involve the exchange of a bond for cash. Bond buyback operations on a switch basis involve the exchange of one bond for another, on a duration-neutral basis (e.g., an off-the-run bond for the building benchmark bond).



The *Debt Management Strategy for 2015–16* assumes that all foreign liabilities maturing during the year will be refinanced. The mix of funding sources used to finance the reserves in 2015–16 will depend on a number of considerations, including relative cost, market conditions, and the objective of maintaining a prudent foreign-currency-denominated debt maturity structure.

Further information on foreign currency funding and the foreign reserve assets is available in the *Report on the Management of Canada's Official International Reserves* (<http://www.fin.gc.ca/purl/efa-eng.asp>) and in *The Fiscal Monitor* (<http://www.fin.gc.ca/pub/fm-rf-index-eng.asp>).

Information on Government of Canada Domestic Debt Securities

Information regarding outstanding Government of Canada domestic marketable debt securities is available on the Bank of Canada website at <http://www.bankofcanada.ca/markets/government-securities-auctions/goc-t-bills-and-bonds-outstanding/>. The legal terms and conditions for Canada's domestic marketable debt securities are posted on the Department of Finance website at <http://www.fin.gc.ca/invest/dds-tmi-eng.asp>.