



Balancing the national cheque book (with a view to QT implications)

By Warren Lovely

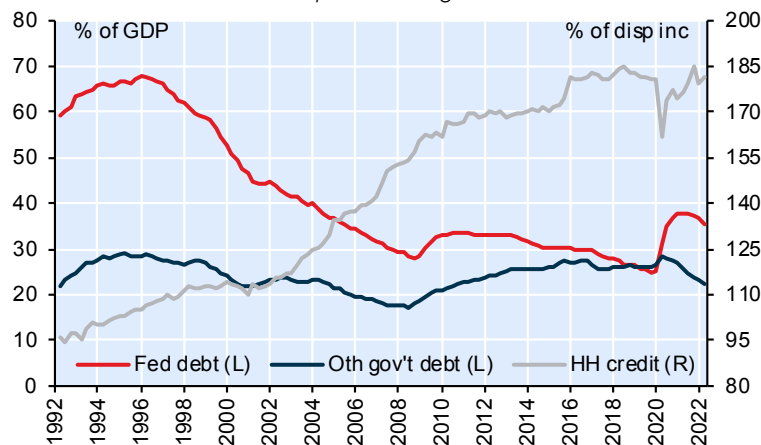
StatCan's national bank sheet and financial flow accounts: a quarterly opportunity to true-up the nation's assets and liabilities; to reflect on which sectors are accessing capital markets; and to quantify where all of Canada's debt is being held. As always, much of the coverage of the latest balance sheet data was household-centric. After all, sordid tales of excessive consumer debt, declining net wealth and painful interest bites are all-too-relatable. But to limit one's vision to the household sector alone, is to be deprived a broader vista. What else did we see from our vantage point? Plenty, with the evolution of government balance sheets and related credit market activity particularly notable.

Look past lofty household debt ratios and you'll find material fiscal consolidation in Canada's government sector. Notwithstanding noise about governments pouring fuel on an inflation fire, the reality is that the majority of above-plan government revenue has so far been steered not to spending, but to the bottom line/debt reduction. That's allowed governments to back away from credit markets. The feds, for instance, secured barely C\$10 billion of net new financing in the second quarter, a mere fraction of what was lifted in 2021:Q2 (and a miniscule tally vs. the extraordinary liquidity scooped up at the peak of the pandemic) (Chart 2). As it stands, Ottawa's recent net financing efforts don't look much different than pre-COVID days (even if larger maturities prop up gross supply). Meantime, the provinces collectively *paid down* market debt in each of the past two quarters. We haven't seen that since before the Global Financial Crisis, if you remember those days (Chart 3).

So give Canadian governments (some) credit for making fiscal hay while the sun shined. A dramatic reduction in government borrowing has made the initial stages of a first-ever BoC Quantitative Tightening exercise less-than-disruptive. To be clear, the road ahead may not be as easy. Restrictive policy rates narrow scope for a soft landing, while politicians are under pressure to address affordability pressures. (Cue a fresh inflation relief package from Mr. Trudeau.) This may result in some marginal net new borrowing ahead. But having cleaned things up fiscally speaking, governments have gone some way towards reducing the risk of significant QT-related indigestion (in the form of loftier term premia) as the Bank continues to passively shed its considerable bond holdings. Note: QT has seen the BoC's ownership share of GoC bonds edge lower (Charts 4-5). A detailed breakdown of debt ownership by issuer category and investor type is presented in the Table on page 2.

Chart 1: Governments consolidate, households not so much

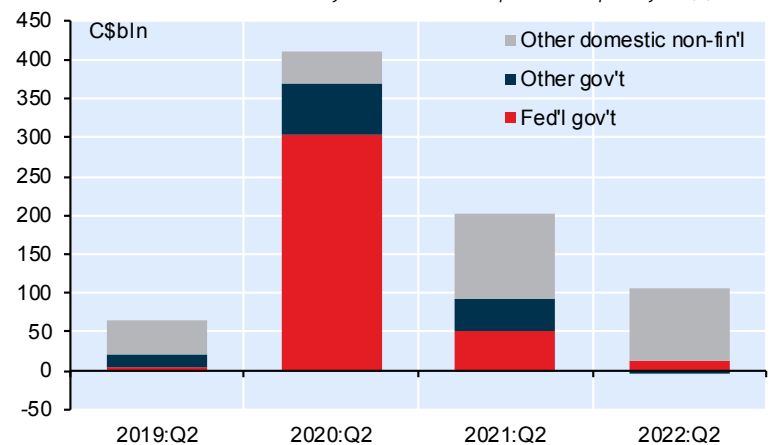
Canada debt to income concepts: General government vs. households



Source: NBF, StatCan (NBS)

Chart 2: Governments haven't needed credit markets of late

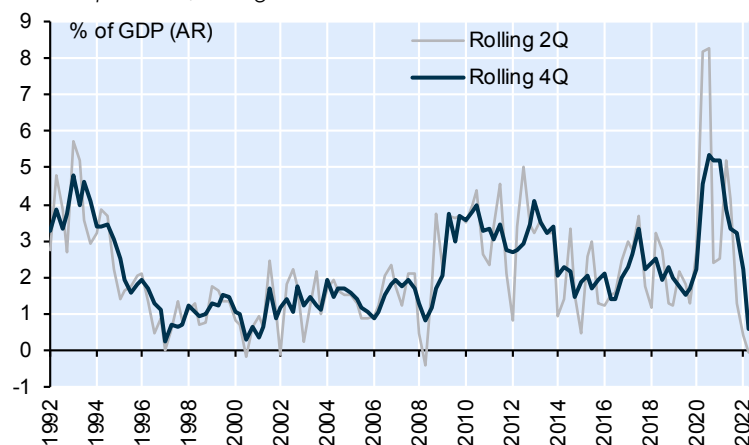
Canada net demand for credit by sector: Latest quarter vs. prior year(s)



Source: NBF, StatCan (NBS)

Chart 3: Provincial repair clearly reflected in debt markets

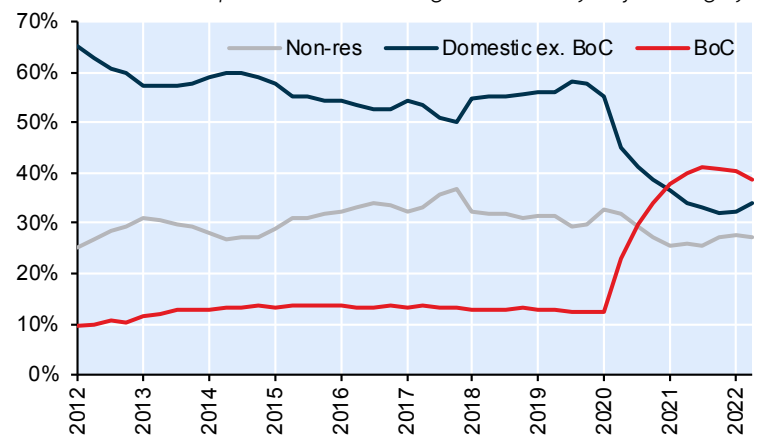
Canada provincial/local government net demand for credit



Source: NBF, StatCan (NBS)

Chart 4: Reduced supply coincides with BoC QT programme

Evolution of ownership share of outstanding GoC bonds by major category



Source: NBF, StatCan (NBS) | Note: Based on market value of quarterly o/s bonds

Table 1: Who holds the nearly C\$5 trillion of outstanding Canadian debt securities? It's very much sector specific

Market value & share of total holdings: Canadian debt securities by type of paper & holdings by detailed NBS sector (2022:Q2)

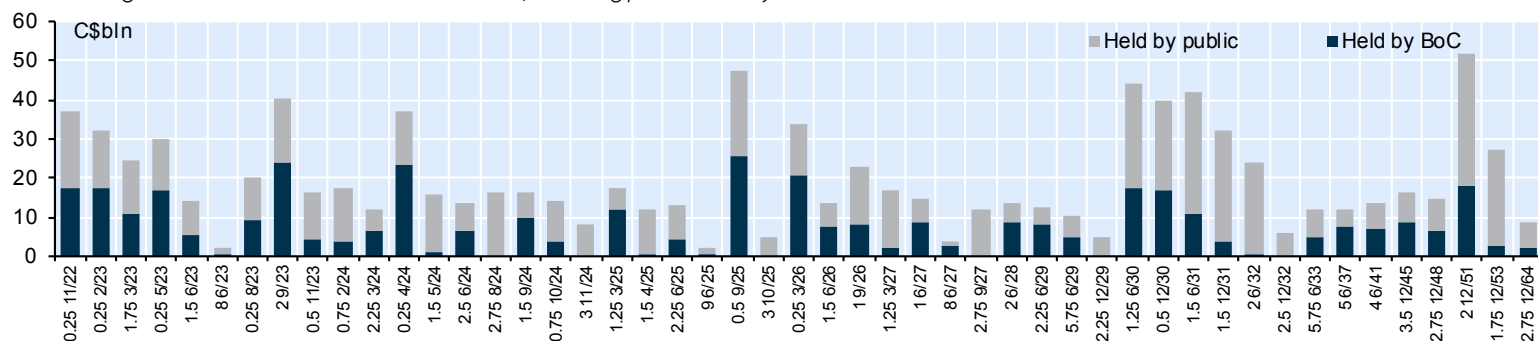
Holdings (C\$bln, market value)	Cdn debt securities	Canadian short-term paper			Canadian bonds				
		All Cdn ST paper	Gov't of Canada	Other sectors	All Cdn bonds	Gov't of Canada	Provincial gov'ts	Local gov'ts	Other sectors*
Total all sectors	4,849.6	613.3	181.5	431.8	4,236.3	1,014.5	882.4	75.9	2,263.5
Domestically held (incl. monetary authority)	3,038.6	407.9	135.8	272.1	2,630.7	737.4	657.3	66.6	1,169.4
Households & non-profit institutions	101.1	8.4	1.1	7.3	92.7	18.3	19.0	16.6	38.8
Corporations	2,578.5	299.7	114.0	185.7	2,278.8	673.6	540.9	31.8	1,032.4
Non-financial corporations	92.2	54.7	13.3	41.4	37.5	3.4	3.5	0.0	30.7
Financial corporations	2,486.3	245.0	100.7	144.3	2,241.2	670.2	537.5	31.8	1,001.8
Bank of Canada	414.7	0.0	0.0	0.0	414.7	393.1	12.4	0.0	9.3
Chartered banks & quasi-banks	477.2	80.0	31.0	49.1	397.2	64.1	124.0	7.1	202.0
Insurance & pension funds	852.5	89.3	38.3	51.0	763.2	142.0	296.6	21.7	302.9
Total other private financial institutions	475.2	67.1	26.2	40.9	408.1	55.6	99.5	2.9	250.2
Financial gov't business enterprises	266.6	8.6	5.3	3.3	258.0	15.5	5.0	0.1	237.3
General governments	359.0	99.9	20.7	79.2	259.1	45.5	97.3	18.2	98.1
Federal general government	9.5	0.5	0.1	0.4	9.0	7.7	0.4	0.0	0.9
Other levels of general government	252.6	78.0	20.6	57.4	174.5	24.5	60.9	17.3	71.9
Provincial & territorial governments	216.1	67.9	20.2	47.7	148.2	22.4	52.5	13.3	60.1
Local governments	36.4	10.1	0.4	9.7	26.3	2.1	8.4	4.0	11.8
Social security funds	96.9	21.3	0.0	21.3	75.6	13.4	36.0	0.9	25.4
Non-residents	1,811.0	205.4	45.6	159.8	1,605.6	277.1	225.2	9.3	1,094.1

Distribution of holdings by security type (%)	Cdn debt securities	Canadian short-term paper			Canadian bonds				
		All Cdn ST paper	Gov't of Canada	Other sectors	All Cdn bonds	Gov't of Canada	Provincial gov'ts	Local gov'ts	Other sectors*
Total all sectors	100%	100%	100%	100%	100%	100%	100%	100%	100%
Domestically held (incl. monetary authority)	63%	67%	75%	63%	62%	73%	74%	88%	52%
Households & non-profit institutions	2%	1%	1%	2%	2%	2%	2%	22%	2%
Corporations	53%	49%	63%	43%	54%	66%	61%	42%	46%
Non-financial corporations	2%	9%	7%	10%	1%	0%	0%	0%	1%
Financial corporations	51%	40%	56%	33%	53%	66%	61%	42%	44%
Bank of Canada	8.6%	0.0%	0.0%	0.0%	9.8%	38.7%	1.4%	0.0%	0.4%
Chartered banks & quasi-banks	10%	13%	17%	11%	9%	6%	14%	9%	9%
Insurance & pension funds	18%	15%	21%	12%	18%	14%	34%	29%	13%
Total other private financial institutions	10%	11%	14%	9%	10%	5%	11%	4%	11%
Financial gov't business enterprises	5%	1%	3%	1%	6%	2%	1%	0%	10%
General governments	7%	16%	11%	18%	6%	4%	11%	24%	4%
Federal general government	0%	0%	0%	0%	0%	1%	0%	0%	0%
Other levels of general government	5%	13%	11%	13%	4%	2%	7%	23%	3%
Provincial & territorial governments	4%	11%	11%	11%	3%	2%	6%	17%	3%
Local governments	1%	2%	0%	2%	1%	0%	1%	5%	1%
Social security funds	2%	3%	0%	5%	2%	1%	4%	1%	1%
Non-residents	37%	33%	25%	37%	38%	27%	26%	12%	48%

Source: NBF, Source: NBF, StatCan | Note: Canadian debt securities includes issues denominated in CAD as well as securities denominated in foreign currencies; other Canadian bond sectors includes corporates, CMB, GBEs, other public sector, etc.

Chart 5: A snapshot of current BoC holdings of GoC bonds

Outstanding Government of Canada nominal bonds, including portion held by Bank of Canada



Source: NBF, BoC | Note: As at 12-Sep-2022; excludes RRBs



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