

What a difference two years make (for government borrowing)

By Taylor Schleich & Warren Lovely

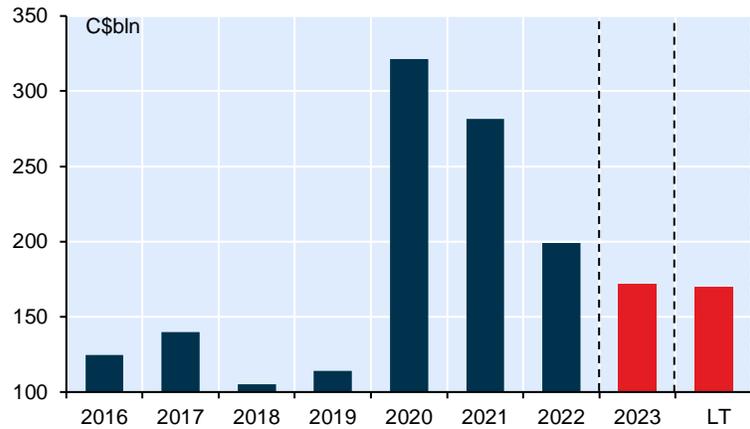
It's been roughly three years since COVID entered onto the scene, upending the world as we knew it. While life has returned to normal in many ways, in other ways there are still some lingering effects. That's very much the case when it comes to government finances too.

The federal government, who took on the lion's share of fiscal/COVID spending during the pandemic, is still wearing some scars when it comes to its borrowing program. The ~\$200 billion in gross bond issuance in 2022 is ~75% higher than it was before COVID struck. Nonetheless, when you consider the high watermark—GoC issuance clocked in at \$321 billion in 2020—there's been a fast and impressive consolidation. Moreover, gross issuance is increasingly reflecting maturity refinancing rather than new spending, so *net* issuance is now much closer to 'normal' than one might expect. As the government eyes a return to a balanced budget in future years, net issuance is set to fall further (though growing risks of recession could derail that). Gross issuance will decline from here too as we look for new bond supply below \$180 billion in 2023 (see our detailed [In Focus](#) report from late 2022). However, the aforementioned impact of maturing bonds means the steady state for gross issuance isn't far off (roughly \$170 billion for the foreseeable future). The other key consideration is the BoC's QT impact, which will see bonds that had been held by the Bank effectively put onto the street. As discussed in a recent [Market View](#), this hasn't been a problem for market participants so far.

When it comes to provinces, the uninitiated might not suspect a global pandemic had occurred by looking solely at 2022 gross issuance. The ~\$81 billion (all currencies) raised was slightly *below* average issuance from 2017-19. As we tend to say, not all provinces are created equal. Some (see: Alberta) benefited disproportionately from spiking commodity prices, leaving little borrowing to do. In places like BC and Quebec, issuance was above the pre-COVID run rate but fiscal fundamentals in these locales were on a solid footing pre-COVID and remain so now. Broadly speaking, the surge in revenues and the resulting faster- and stronger-than-expected fiscal recovery leaves us optimistic that Canadian public sector credit is well positioned to weather what could be a challenging 2023, particularly in the first half of the year as global monetary policy tightens further, economic growth grinds to a halt and risk sentiment perhaps comes under renewed pressure.

Chart 1: Gross issuance still well above 'normal' levels...

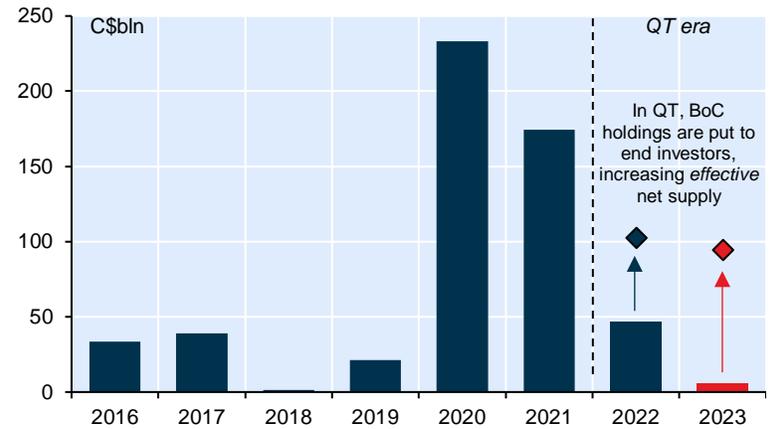
Gross GoC bond issuance by calendar year, incl. 2023 and long-term forecast



Source: NBF, BoC | Note: LT represents fiscal year avg. estimate for 2024-25 to 2027-28. Greens excluded.

Chart 2: ...but net supply has moderated more (ignoring QT)

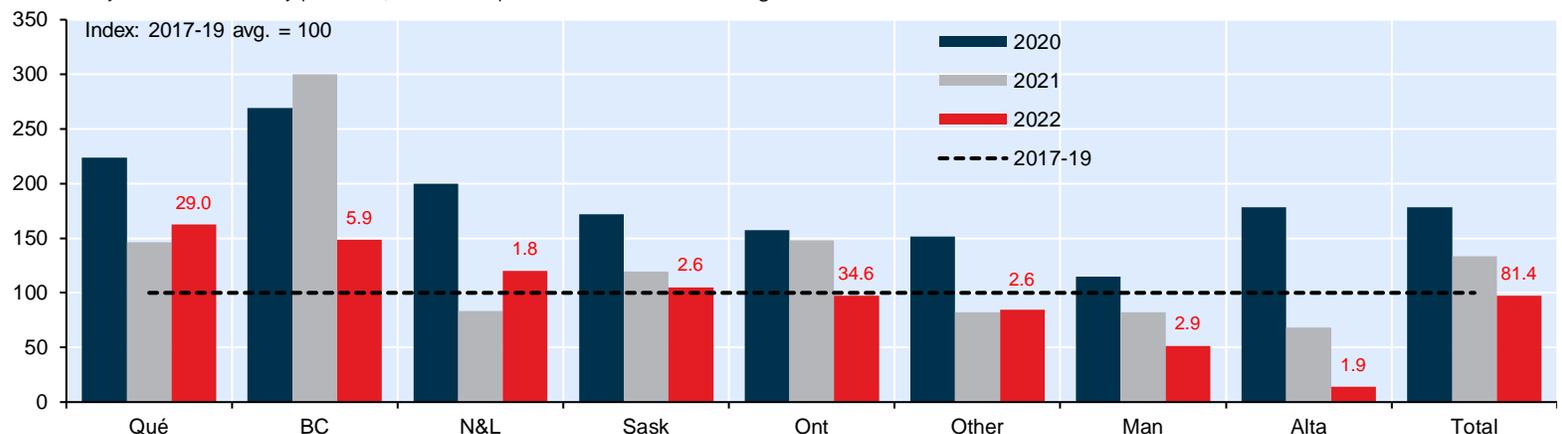
Change in outstanding GoC bonds by year (including QT impact for 2022-23)



Source: NBF, BoC | Note: Difference in bar and dot for 2022-23 = (-) chg. in BoC holdings

Chart 3: Overall provincial issuance returned to the pre-COVID average in 2022

All currency bond issuance by province, relative to pre-COVID (2017-19) average



Source: NBF, Bloomberg | Note: Above (below) dotted line means issuance is more (less) than 2017-19 average. Labels represent 2022 gross issuance in C\$ bln. Provincial figures include issuance by guaranteed entities. International issuance converted to C\$-equivalent amounts at prevailing exchange rates

Table: Tracking domestic bond supply

NBF Domestic Bond Tracker: Monthly & YTD breakdown of domestic (CAD) bond issuance by sector, issuer, tenor & deal type

NBF Domestic Bond Tracker									
C\$billion	Monthly issuance			Prior yr	Calendar year-to-date		Calendar year sum		
	Dec-22	Nov-22	Oct-22	Dec-21	2022	2021	2021	2020	2019
Government of Canada	7.5	15.0	20.5	9.9	199.0	281.4	281.4	321.2	114.0
2Y	3.5	3.5	8.0	3.5	66.5	82.0	82.0	117.0	48.0
3Y	-	2.5	2.5	-	22.0	35.0	35.0	49.3	16.4
5Y	-	3.5	4.0	-	31.5	48.0	48.0	73.9	30.6
10Y	4.0	4.0	4.0	4.0	60.0	79.0	79.0	56.9	12.6
30Y Nominal	-	1.5	2.0	2.0	17.0	33.0	33.0	23.0	4.2
30Y RRB	-	-	-	0.4	1.0	1.4	1.4	1.1	2.2
Extra-long	-	-	-	-	1.0	3.0	3.0	-	-
Weighted avg term (yrs)	6.3	7.8	7.0	12.0	7.7	8.7	8.7	6.4	5.4
Canada Housing Trust	5.0	4.8	-	5.0	40.0	40.0	40.0	53.0	40.0
5Y Fixed	5.0	-	-	5.0	20.5	20.3	20.3	32.0	21.5
5Y FRN	-	1.3	-	-	4.8	4.3	4.3	6.0	9.8
10Y Fixed	-	3.5	-	-	14.8	15.5	15.5	15.0	8.8
Provincial governments	4.4	11.1	4.1	4.2	69.1	81.8	81.8	108.3	57.8
Ontario	3.1	3.8	1.8	2.1	29.0	36.0	36.0	40.7	25.3
Québec	1.0	4.1	2.1	1.6	24.6	20.9	20.9	24.2	14.4
British Columbia	-	1.0	-	0.5	5.8	6.3	6.3	10.3	2.9
<i>Most populous (Ont, Qué, BC)</i>	<i>4.1</i>	<i>8.9</i>	<i>3.9</i>	<i>4.2</i>	<i>59.4</i>	<i>63.2</i>	<i>63.2</i>	<i>75.2</i>	<i>42.6</i>
Alberta	-	0.5	-	-	1.9	8.8	8.8	15.4	5.7
Saskatchewan	-	-	-	-	1.2	3.0	3.0	4.3	1.9
Newfoundland & Lab.	0.3	0.3	-	-	1.8	1.3	1.3	3.0	1.6
<i>Oil-levered (Alta, Sask, N&L)</i>	<i>0.3</i>	<i>0.8</i>	<i>-</i>	<i>-</i>	<i>4.9</i>	<i>13.0</i>	<i>13.0</i>	<i>22.6</i>	<i>9.2</i>
Manitoba	-	0.8	-	-	2.3	3.1	3.1	5.8	2.9
Maritimes (NB, NS, PEI)	-	0.6	0.2	-	2.6	2.5	2.5	4.7	3.2
Public	3.7	11.1	3.9	3.5	67.9	80.4	80.4	102.9	55.7
Private / MTN / Auctions	0.8	-	0.2	0.8	1.2	1.3	1.3	5.4	2.0
Fixed	4.4	11.1	4.1	4.2	69.1	81.7	81.7	107.5	57.1
Floating	-	-	-	-	0.1	0.0	0.0	0.8	0.6
1-5Y	0.8	1.9	0.8	0.8	4.9	3.3	3.3	23.5	7.0
6-10Y	1.6	4.7	1.8	1.4	32.9	41.3	41.3	49.8	24.9
>10Y (i.e. longs)	2.1	4.6	1.5	2.1	31.3	37.2	37.2	35.1	25.9
Weighted avg term (yrs)	19.0	18.3	17.0	20.1	19.4	19.5	19.5	16.4	19.3
International issuance	-	0.0	-	0.3	12.2	29.6	29.6	40.9	27.8
Prov'l total (incl non-C\$)	4.4	11.1	4.1	4.5	81.4	111.4	111.4	149.2	85.5
Municipal governments	0.3	0.6	0.1	0.2	4.7	5.9	5.9	5.4	5.3

Source: NBF, BoC, provincial governments, Bloomberg | Notes: Figures represent gross bond supply; issuance totals based on par amount; deals recorded as per issue date; unless otherwise noted, figures refer to C\$-denominated issues only; provincial figures include issuance by guaranteed entities; provincial international issuance presented for reference purposes, converted to C\$-equivalent amounts at prevailing exchange rates; municipal government issuance refers to publicly syndicated deals only



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