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Orderly absorption of plentiful government debt

By Warren Lovely

Beyond the traditional (and understandable) focus on household indebtedness, Canada's quarterly National Balance Sheet Accounts (NBSA) provide an opportunity to assess financial health across the broader economy. There's some important information here, even if the data in question are a tiny bit stale (in this case offering a balance sheet snapshot as at September 30, 2025).

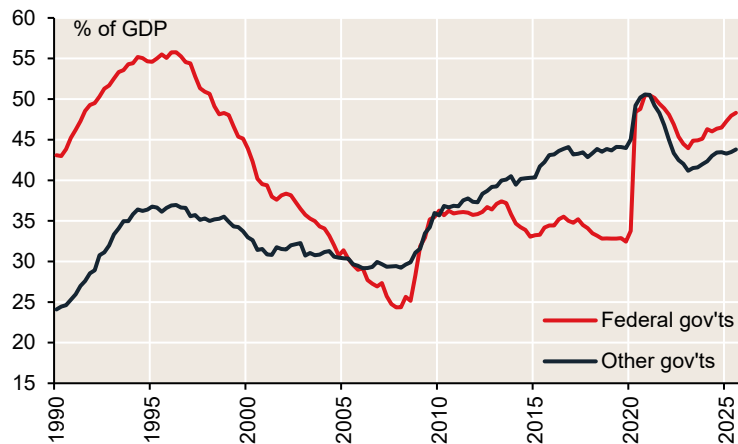
With Canada's government sector: (i) forced to drive much economic activity (given private sector anxieties/detachment); (ii) accounting for much of the new debt being originated and (iii) having long relied on non-

resident investors to absorb a non-trivial share of government debt issuance; we use this *Market View* to highlight some related findings.

What you'll see is reasonably orderly absorption of rather plentiful government debt. Non-resident investors – which collectively cooled on Canadian government debt in the first half of the year – dipped their toes back into the GoC debt pool during Q3. That was welcome, since any sales to foreign investors arithmetically reduces the amount domestic investors are required to take down/hold. There's no shortage of government debt to do round – now and into the future – so keeping all investor types attached/engaged would seem wise... or is it necessary?

Chart 1: Canadian governments continue to take on debt...

Canadian government credit market debt-to-GDP ratio: Quarterly

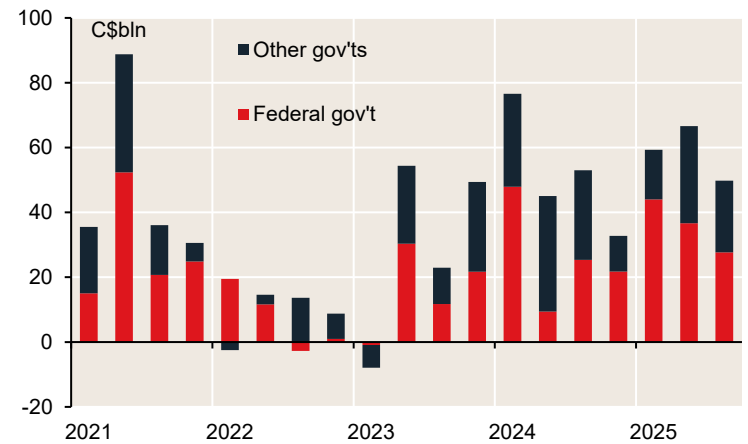


Source: NBC, StatCan | Note: Based on financial indicators of general gen't sector (NBSA)

Canadian governments are doing some heavy lifting these days, directly supporting a still-vulnerable economy and essentially taking up slack left by cautious private sector participants. This has resulted in non-trivial budget deficits and material borrowing needs. Collectively, Canadian governments (federal, provincial, local) borrowed roughly \$50 billion in Q3. While that pace of net borrowing was a touch slower than in the first half, it means Canadian governments are still creating debt at a relatively brisk clip: equivalent to more than 6% of GDP on an annualized basis.

Chart 2: ... even if net borrowing pace eased a touch in Q3

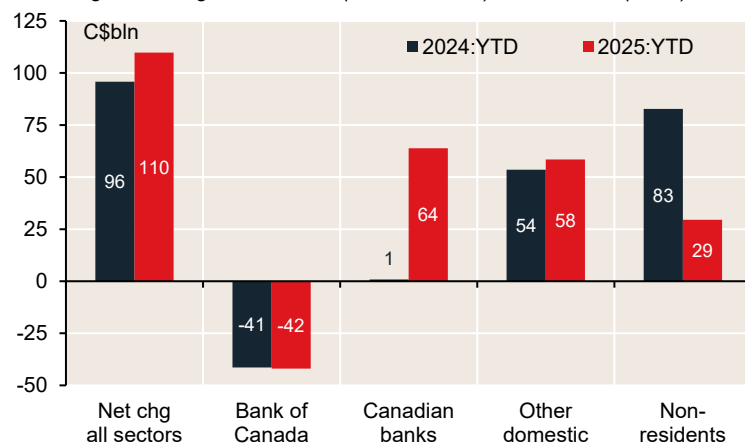
Funds raised (net) by Canadian governments: Quarterly



Source: NBC, StatCan | Note: Based on financial market summary (NBSA)

Chart 3: GoC debt absorption pattern shifted in 2025

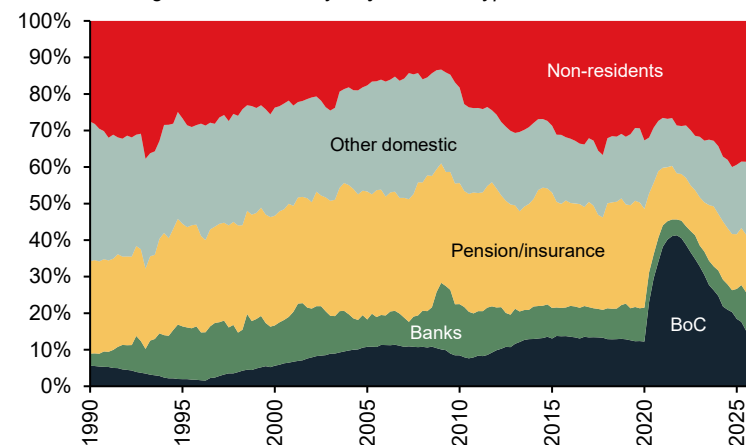
Net change in holdings of GoC debt (T-bills + bonds): Year-to-date (to Q3)



Source: NBC, StatCan | Note: Net change in market value holdings during first 3Qs of year

Chart 4: Who's taken up room (in GoC bonds) vacated by BoC?

Share of holdings of GoC bonds by major investor type



Source: NBC, StatCan | Note: Based on market value of GoC bond holdings to 2025:Q3

The federal government in Ottawa continues to account for a larger share of net new borrowing/debt accumulation, with ongoing passive reductions in BoC bond holdings leaving more GoC product to distribute amongst end investors. Last year (in 2024), non-residents hoovered up GoC debt at an unprecedented pace, taking down a vast majority of net new issues. Foreign investors cooled on Canada in the first half of 2025, forcing domestic investors (namely banks) to clean things up. But non-residents were (thankfully) back in Q3. Through the first three quarters of 2025, non-residents increased their holdings of GoC debt (bills + bonds) by nearly \$30 billion, absorbing ~25% of net new supply. More than any other sector, Canadian banks have boosted their holdings of GoC debt this year; the \$64 billion YTD increase in GoC T-bills and bonds represented nearly 60% of the increase in outstanding federal debt. See Tables on page 2 for more details on debt holdings.

**Table 1: Detailed look at absolute and relative holdings of ~C\$6.1 trillion in Canadian debt securities (all sectors)**

Market value & share of total holdings: Canadian debt securities by type of paper & holdings by detailed NBS sector (as of 2025:Q3)

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	6,082.7	740.0	308.4	431.6	5,342.7	1,185.1	1,074.6	67.9	3,015.0
Domestically held (incl. monetary authority)	3,656.3	546.4	206.3	340.1	3,109.9	728.1	797.3	58.5	1,525.9
Households & non-profit institutions	130.3	9.3	1.4	7.8	121.0	23.7	26.0	16.9	54.5
Corporations	3,033.3	429.1	179.4	249.7	2,604.2	630.3	655.1	35.7	1,283.1
Non-financial corporations	130.4	86.5	30.3	56.2	43.9	9.2	4.8	0.0	29.9
Financial corporations	2,902.9	342.6	149.1	193.5	2,560.3	621.1	650.3	35.7	1,253.2
Bank of Canada	192.0	0.0	0.0	0.0	192.0	180.7	6.5	0.0	4.8
Chartered banks & quasi-banks	627.8	82.2	40.5	41.6	545.6	124.6	167.8	6.5	246.7
Insurance & pension funds	981.5	67.0	33.0	34.0	914.5	186.7	359.3	24.4	344.2
Total other private financial institutions	775.9	182.5	68.7	113.7	593.4	114.7	112.1	4.7	362.0
Financial gov't business enterprises	325.7	11.0	6.9	4.1	314.7	14.4	4.7	0.1	295.5
General governments	492.7	108.0	25.4	82.6	384.7	74.1	116.2	6.0	188.4
Federal general government	63.9	0.2	0.0	0.2	63.7	11.7	0.2	0.0	51.8
Other levels of general government	276.0	86.8	25.4	61.3	189.3	31.5	66.6	5.1	86.1
Provincial & territorial governments	218.2	73.8	25.3	48.6	144.4	24.2	53.8	0.2	66.2
Local governments	57.8	12.9	0.1	12.8	44.9	7.4	12.9	4.9	19.8
Social security funds	152.8	21.1	0.0	21.1	131.7	30.8	49.4	0.9	50.6
Non-residents	2,426.4	193.6	102.1	91.5	2,232.8	457.0	277.3	9.4	1,489.1

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)	60%	74%	67%	79%	58%	61%	74%	86%	51%
Households & non-profit institutions	2%	1%	0%	2%	2%	2%	2%	25%	2%
Corporations	50%	58%	58%	58%	49%	53%	61%	53%	43%
Non-financial corporations	2%	12%	10%	13%	1%	1%	0%	0%	1%
Financial corporations	48%	46%	48%	45%	48%	52%	61%	53%	42%
Bank of Canada	3%	0%	0%	0%	4%	15%	1%	0%	0%
Chartered banks & quasi-banks	10%	11%	13%	10%	10%	11%	16%	10%	8%
Insurance & pension funds	16%	9%	11%	8%	17%	16%	33%	36%	11%
Total other private financial institutions	13%	25%	22%	26%	11%	10%	10%	7%	12%
Financial gov't business enterprises	5%	1%	2%	1%	6%	1%	0%	0%	10%
General governments	8%	15%	8%	19%	7%	6%	11%	9%	6%
Federal general government	1%	0%	0%	0%	1%	1%	0%	0%	2%
Other levels of general government	5%	12%	8%	14%	4%	3%	6%	7%	3%
Provincial & territorial governments	4%	10%	8%	11%	3%	2%	5%	0%	2%
Local governments	1%	2%	0%	3%	1%	1%	1%	7%	1%
Social security funds	3%	3%	0%	5%	2%	3%	5%	1%	2%
Non-residents	40%	26%	33%	21%	42%	39%	26%	14%	49%

Note: Tables 2-3 below relate to GoC debt only.

Tables 2-3: Closer look at GoC debt holdings... latest quarterly level and year-to-date change by key investor groups

Market value & share of Government of Canada T-bill & bond holdings by select NBS sector (as of 2025:Q3)

GoC debt holdings (market value)		All sectors	BoC	Domestic ex. BoC	Households & non-fin'l corps	Banks	Insurance companies	Trusteed pensions	Other private FIs	Financial GBEs	Federal gov't	Other levels of gov't	Social security funds	Non-residents
GoC T-bills	GoC T-bills													
	Current: Level (C\$bln)	308.4	0.0	206.3	31.7	40.5	22.1	10.8	68.7	6.9	0.0	25.4	0.0	102.1
	Share (% of total)	100.0%	0.0%	66.9%	10.3%	13.1%	7.2%	3.5%	22.3%	2.2%	0.0%	8.2%	0.0%	33.1%
	YTD (3Q) Level chg (C\$bln)	22.9	0.0	11.0	0.1	5.1	-1.8	3.6	7.0	-0.8	0.0	-2.0	0.0	11.9
	Share chg (%-pts)	0.0%	0.0%	-1.5%	-0.8%	0.7%	-1.2%	1.0%	0.6%	-0.5%	0.0%	-1.4%	0.0%	1.5%
GoC bonds	GoC bonds													
	Current: Level (C\$bln)	1,185.1	180.7	547.4	32.9	124.6	55.5	131.1	114.7	14.4	11.7	31.5	30.8	457.0
	Share (% of total)	100.0%	15.3%	46.2%	2.8%	10.5%	4.7%	11.1%	9.7%	1.2%	1.0%	2.7%	2.6%	38.6%
	YTD (3Q) Level chg (C\$bln)	86.9	-42.0	111.2	0.3	58.7	1.6	15.9	28.6	0.2	1.2	-2.0	6.7	17.6
	Share chg (%-pts)	0.0%	-5.0%	6.5%	-0.2%	4.5%	-0.2%	0.6%	1.8%	-0.1%	0.0%	-0.4%	0.4%	-1.4%

Source: NBC, 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.; for Tables 2-3, the YTD (3Q) changes in holdings and ownership share refer to 2025:Q3 relative to 2024:Q4



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