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## Canada's debt dynamics highlight omnipresent government sector

By Warren Lovely

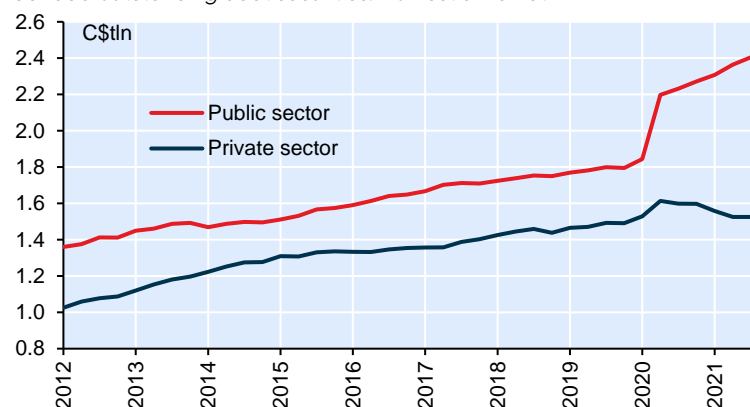
Ahead of Friday's National Balance Sheet Accounts release, StatCan served up its quarterly debt statistics summary. We value these debt details since monthly Bank of Canada data on bonds outstanding by sector/issuer/currency were discontinued some time back. The industrious can compile detailed debt distribution summaries from alternative data providers; we do just that via our *Canadian Government Fact Sheet* sets, the latest update dropping last week. But the StatCan series enjoy methodological consistency with other national accounts data, allow for quick cross-sector comparisons, and permit valuable time-series analysis (as quarterly tallies extend back to 2012).

The fresh debt data reinforce a long-standing narrative. That is, Canadian governments remain omnipresent in this recovery. Consider: In the broadest sense possible, C\$5.1 trillion of Canadian debt securities were outstanding at the end of Q3, a bit more than three-quarters denominated in CAD. All told, you can trace 53% of total outstanding debt to the public sector, the remaining 47% linked to the private sector. But don't let this near-even split fool you. The par value of Canada's private sector debt stock is still below pre-COVID levels, whereas public sector debt has expanded by over half a trillion dollars since early 2020. So whether you're looking at the latest quarter, the past year or since the virus set down, Canada's governments—the feds in particular—have been financing growth in a big way. This story isn't over. Despite attaining full employment, the minority federal government and some provincial administrations appear eager to steer fresh stimulus towards the economy. That risks a further overheating, arguing for the removal of extreme monetary policy accommodation... and soon.

On the topic of monetary policy normalization, today's data likewise highlight relative exposure to rate hikes. Notwithstanding Ottawa's recent fondness for longer-dated issuance, it takes time to transform a debt stock. Give the provinces credit for having been far ahead of the game when it comes to locking-in for longer, the aggregate provincial debt stock of an older/longer vintage and rolling slower. Provinces, in other words, have done a nice job protecting themselves from near-term rate-reset risk. There's nothing particularly shocking in any of this, but if you make a living in debt capital markets it pays to parse the data when and where it arrives. Think of this as a warm-up act for the National Balance Sheet Accounts, with the not-so-minor detail of a BoC rate decision landing in between. The National Balance Sheet Accounts will provide a breakdown of who holds all this government debt. We'll be monitoring ownership trends and investor attitudes closely now that the Bank of Canada is no longer growing its balance sheet and could (read should) start to work down its mountain of GoC bonds in the New Year.

### Chart 1: More of Canada's debt stock linked to public sector

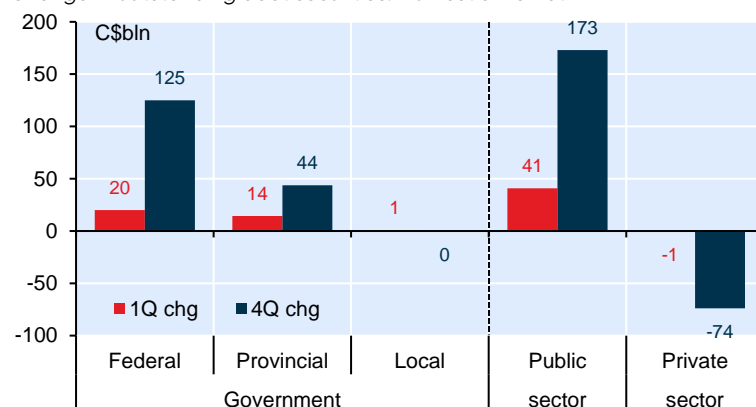
Canada outstanding debt securities: Domestic market



Source: NBF, StatCan | Note: Par value, CAD securities only

### Chart 2: Public sector debt up, private sector not so much

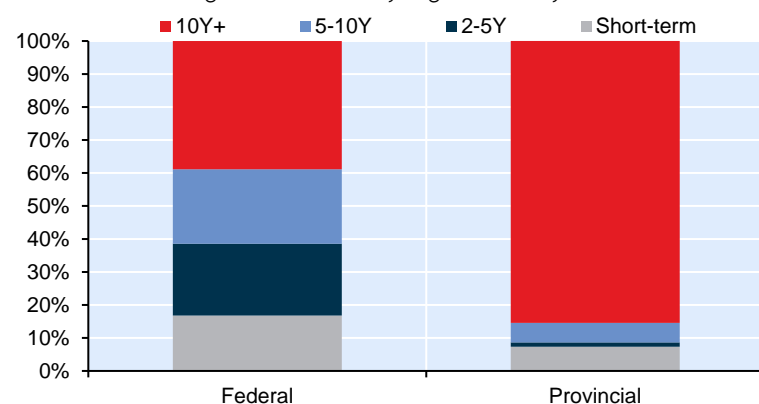
Change in outstanding debt securities: Domestic market



Source: NBF, StatCan | Note: Par value as at 2021:Q3, CAD securities only

### Chart 3: Provinces give themselves long rate-reset fuse...

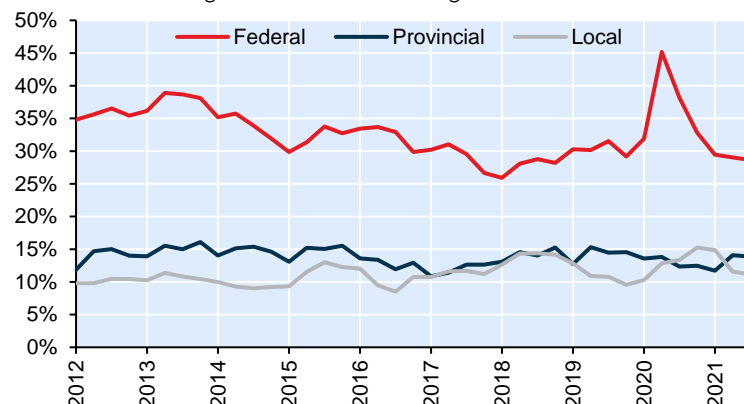
Share of outstanding debt securities by original maturity: Domestic market



Source: NBF, StatCan | Note: Par value as at 2021:Q3, CAD securities only

### Chart 4: ... with much smaller share of debt due to reset

Share of outstanding debt securities maturing in 1Y or less



Source: NBF, StatCan | Note: Par value, all currencies



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