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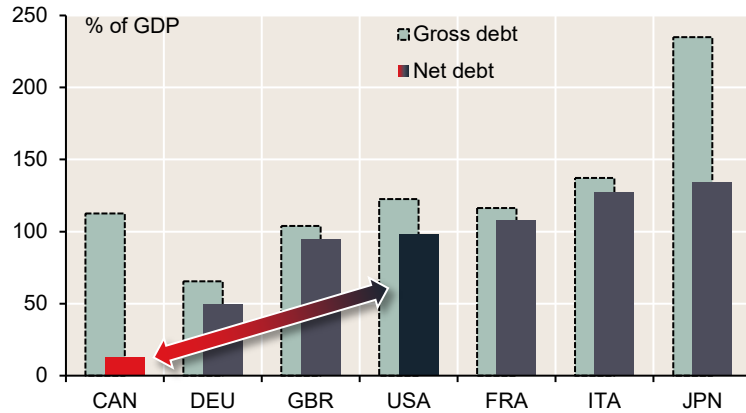
## Believe it or not: Government finance edition

By Warren Lovely & Taylor Schleich

Let's start with a seemingly simple question: Which country's government sector borrows more in relative terms: the United States or Canada? Easy right; it's got to be the U.S.!? After all, America has been a budgetary basket case for ages while Canada has routinely been held up as a model of fiscally rectitude (Chart 1). Well, hang on a beat.

### Chart 1: Canadian government debt... what's the problem?

General government debt burden: 2025



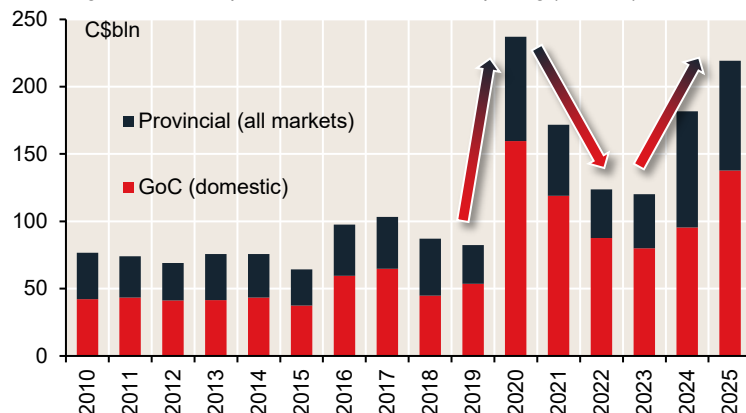
Source: NBC, IMF (Apr-25 WEO)

Believe it or not, Canadian governments (federal and provincial) are currently tapping debt capital markets just as aggressively as that oh-so-fiscally reprehensible Uncle Sam. Sure, there's some nuance here, as we touch on below, but consider the facts... or stack the securities as it were.

Five months into Canada's 2025-26 fiscal year (i.e., April-August), the Government of Canada has already auctioned C\$138 billion of new bonds, jumping 44% above the corresponding year-earlier period. Simultaneously, the provinces tapped debt capital markets to the tune of C\$81½ billion, which was off a bit year-over-year but double what would have previously been considered 'normal'. Together, we're talking ~C\$220 billion in federal-provincial bond supply in just five months (Chart 2), a monthly tempo equivalent to 1.4% of national GDP. As for the U.S., gross Treasury bond supply approached US\$2 trillion over that same five-month period. That's nothing to sneeze at surely but, at 1.3% of GDP/month, was a somewhat more restrained pace than Canada.

### Chart 2: Cdn government bond supply ramps back up

Canada gross federal & provincial bond issuance: Apr-Aug (5M sum)



Source: NBC, BBG | Note: For provinces, international issues converted at prevailing FX rate

Cue the caveats... First, the above-noted tallies relate to *gross* bond supply, inclusive of non-trivial refinancing. Surely *net* bond supply paints Canada's general government sector in a more enviable light? Not really.

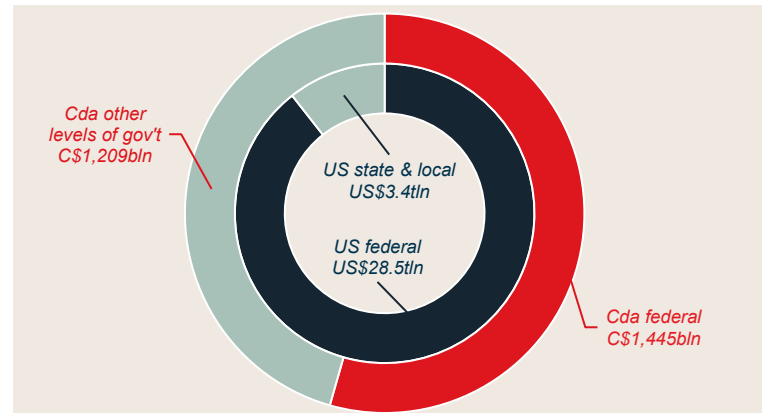
Official federal-provincial funding plans for fiscal 2025-26—which for the feds remain preliminary in nature and in some provinces may be biased higher—imply over C\$190 billion in net bond issuance after controlling for maturities. That's a net supply pace equivalent to 6.1% of GDP on a fiscal year basis (despite some having loaded up on pre-financing in the prior fiscal year). As it stands, we put the equivalent increase in the U.S. Treasury bond stock at a matching 6.1% of GDP. Net or gross, Canada is right there with the U.S., though this isn't a race one aspires to lead.

Now hang on you say: 'You're adding federal *and* provincial issuance together for Canada, yet comparing that to the U.S. Treasury alone, without factoring in America's state and local governments.' That's right. There are (good) reasons why this is the most appropriate approach.

Canada's is a relatively decentralized model of government, leaving plenty of debt sloshing around at the provincial level—virtually all of it sold to institutional accounts. Government debt is more centralized in America, where Washington is undeniably the focal point (Chart 3).

### Chart 3: Canada's more decentralized government model...

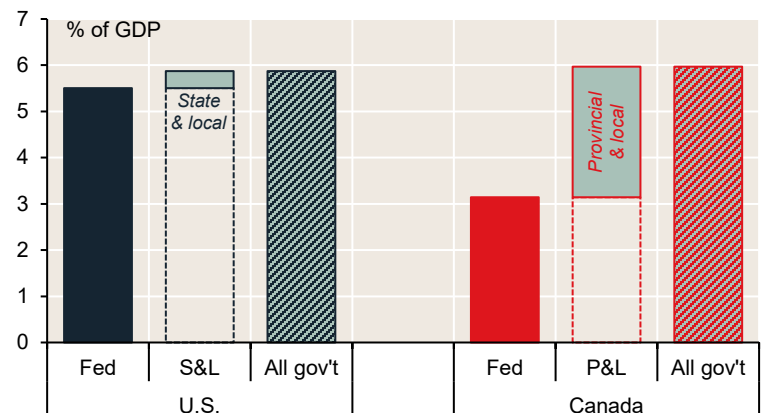
Outstanding debt securities by country & level of government: 2025:Q1



Source: NBC, StatCan, FRB | Note: Based on latest available national balance sheet accounts

### Chart 4: ... makes it important to gov'ts

Net issuance of debt securities by country & level of government: Latest 4Q



Source: NBC, StatCan, FRB | Note: 4Q sum to 2025:Q1; scaled to nominal GDP

Moreover, the comparatively limited stock of state and local securities is often peddled to/held by a more retail-intensive audience. More to the point, adding U.S. state and local governments would not have changed the issuance narrative based on the latest available data (Chart 4).

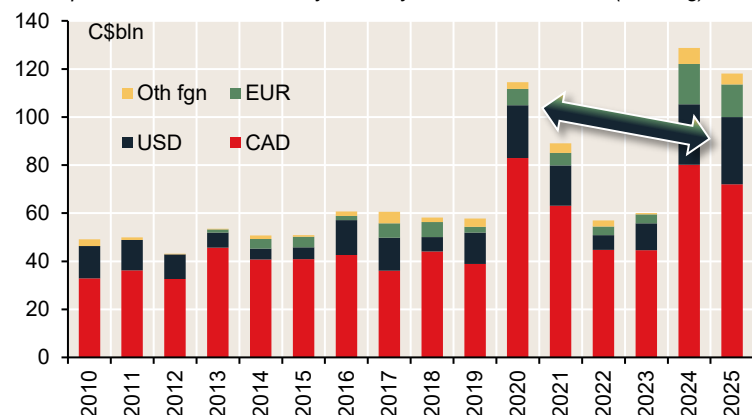
Moving on then... We would note (concede?) that in the U.S., the Administration's more recent utilization of T-bills as a net funding source technically lessens the amount of Treasury notes/bonds being created at the margin. Canada's federal government (and some provinces) plan to add to short-term outstandings too, albeit at a more compressed rate.

Also noteworthy, Ottawa's earlier decision to partially consolidate the explicitly guaranteed Canada Mortgage Bond program adds to GoC bond supply. Of the C\$138 billion in gross Canada supply brought forth from April through August, a bit more than C\$10 billion essentially financed the government's purchases of CMBs. (The annualized purchase pace is near to C\$30 billion.) But in boosting the annual CMB creation limit, Ottawa was signaling a willingness to extend its credit (one way or another) in pursuit of marginal housing supply. As it stands, that involves making more Canadas and fewer CMBs available to end investors. More Government of Canada risk was going to be on offer regardless.

Let's also acknowledge that a portion of provincial issuance contributing to Canada's lofty government bond totals gets steered to international markets. Time and again, foreign investors have been called on to help digest elevated provincial funding needs. Non-residents have regularly heeded these calls, with diverted supply an ongoing relief to the domestic market and an entirely defensible borrowing strategy to us (Chart 5).

## Chart 5: International markets as funding shock absorber?

Gross provincial bond issuance by currency: Calendar YTD basis (Jan-Aug)



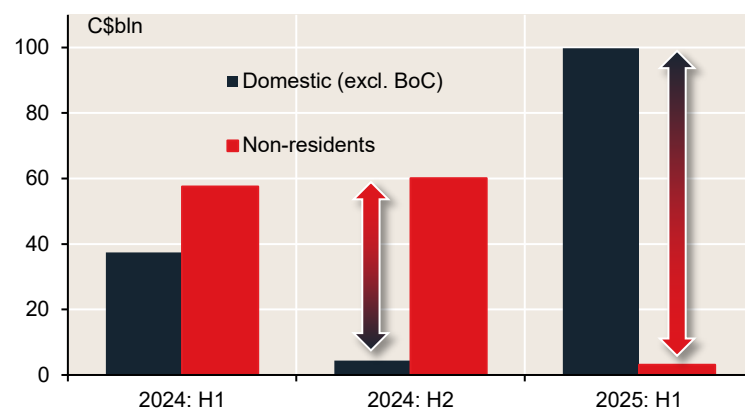
Source: NBC, BBG | Note: International issues converted at prevailing FX rate

Meantime, tight provincial bond G-spreads suggest investors are reasonably comfortable with sectoral risks, even as some recent updates reveal a bit of budgetary slippage vs. prior plans. Credit the provinces for a commitment to fiscal transparency, including spring budgets, frequent (often quarterly) updates and timely annual public accounts. For bond investors, this can take some guesswork out of risk assessments.

On the topic of end investor absorption, it may be that the narrative is shifting where it arguably matters most: at the sovereign level. Following a wave of unprecedented foreign buying in calendar 2024, non-residents appeared to cool on the GoC in the first half of this year. With foreign investors hitting the 'pause' button, it's been left to domestic investors to pick up the slack (Chart 6). Refer to a related [Market View](#) note [here](#). Let's hope this foreign buyer's strike proves short lived. Quite simply, foreign investor attitudes towards Canadian debt bear close scrutiny given: (i) non-residents still hold nearly 40% of the sovereign's bond stock (Chart 7); and (ii) the federal government's ambitious plans and implied funding needs (including accelerated defence spending).

## Chart 6: Domestics forced to clean up GoC market in 2025

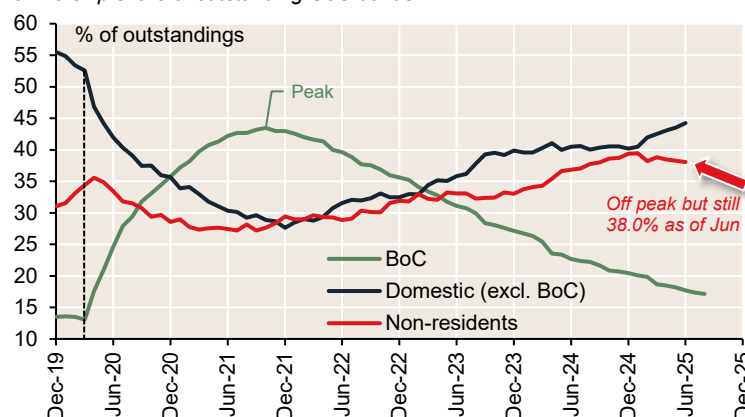
Net absorption of effective GoC debt issuance (T-bills & bonds): Half-year basis



Source: NBC, StatCan, BoC | Note: Controls for net reduction in BoC holdings

## Chart 7: Feds still have major exposure to foreign investors

Ownership share of outstanding GoC bonds



Source: NBC, StatCan, BoC | Note: Domestic/non-resident to Jun-25; BoC to Aug-25

We'd normally look to a budget to convert grand pledges into budgetary dollars and cents. But a delayed federal budget has left taxpayers, analysts and investors flying blind (to a degree and at least for a time). Much will presumably be learned when Ottawa's budget finally arrives this fall. Notwithstanding a promised re-vamp of the budgetary accounting framework—consistent with the PM's freshly announced yet seemingly paradoxical 'austerity and investment' catchphrase—abundant GoC supply and a rising debt burden seems where Ottawa is headed in the medium term. To be sure, there's no little amount of budgetary uncertainty south of the border too, where passage of the President's 'One Big Beautiful Bill' will add to Washington's already sizeable deficit in the near term. There's much fiscal discovery to come on both sides of the border then.

In sum, Canada may claim more budgetary 'headroom' than certain peers. But let's give the fiscal chest-thumping a rest and/or at least acknowledge that a material part of Canada's notional debt edge owes to an actuarially sound and increasingly well-endowed social security sector. For their part, Canadian governments are already borrowing at a relatively rapid clip. On balance, this is credit negative with certain pledges still to be fully accounted for. Complicating the picture, extra government debt is accumulating at a time when borrowing rates are being fundamentally re-assessed (yields mostly higher, curves mainly steeper). There should be no room for fiscal complacency, in Canada or elsewhere. Rather, financial transparency, budgetary believability and policy effectiveness will be paramount, now and into the future. Believe it.



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