Debt Management Strategy Consultations

Overview

On April 19, 2021, the Government of Canada published the *Debt Management Strategy 2021-22* that sets out the government's borrowing plans in the unique situation posed by the COVID-19 crisis. The Department of Finance and the Bank of Canada are seeking the views of government securities distributors, institutional investors, and other interested parties on issues related to how the Government of Canada securities market is performing and views for the design and operations of the Government of Canada's domestic debt program for 2022–23. Regular consultations with market participants are an integral and valued part of the debt management process, and all market participants are encouraged to provide input.

Context

The fundamental objectives of the debt management strategy remain to raise stable and low-cost funding to meet the financial needs of the Government of Canada and to maintain a well-functioning market for Government of Canada securities. Achieving stable, low-cost funding involves striking a balance between the cost and risk associated with the debt structure as funding needs change and market conditions vary. Having access to a well-functioning government securities market ensures that funds can be raised efficiently over time to meet the Government's needs. Moreover, to support a liquid and well-functioning market for Government of Canada securities, the Government strives to promote transparency and consistency.

Additionally, the COVID-19 pandemic significantly shifted the government's issuance in 2020-21. With little notice, the Government had to raise considerable funds in the market and has done so successfully with the support of its dealers and investors. In 2020-21, the government implemented its largest bond program with issuance of $374 billion, including significant increases across all the maturities, with a focus on long-term sectors.

In the *Debt Management Strategy 2021-22* the government announced a reduced borrowing program for 2021-22, relative to 2020-21, and maintained the objective to maximize the financing of COVID-19-related debt through long-term issuance. Reflecting this, the total size of planned long-term bond issuance (maturity of 10 years or more) is $121 billion, representing 42% of 2021-22 planned bond issuance and greater than the 2020-21 level ($107 billion). The 2021-22 debt strategy included a re-opening of the ultra-long bond, which took place on May 18, 2021 and on September 23, 2021, and a commitment to continue issuance in this sector in the coming years. The strategy also announced that the government will closely monitor financial markets and may issue more long-term debt this year if market conditions are favourable. Furthermore, the *Debt Management Strategy 2021-22* announced that the government planned to issue its first ever green bond in 2021-22 and that it would consult on the potential issuance of social bonds as part of this year's consultations.

Feedback received through these consultations will help federal debt managers continue the implementation of the 2021-22 debt strategy and help design the 2022–23 debt strategy – a debt strategy which seeks to strike a prudent balance between cost and risk, strives to maintain a liquid, well-functioning Government of Canada securities market, and reviews opportunities to borrow at longer maturities to fund COVID-19 related debt.

Exceptionally, due to the circumstances brought by the COVID-19 pandemic, the Debt Management Strategy Consultations will be held through virtual meetings beginning in October.

Declining Issuance Post-COVID-19

The COVID-19 pandemic required significant monetary and fiscal stimulus to support Canadians through these challenging times. As such, the government issued record amounts of debt over a short period of time, reaching uncharted territories of issuance in 2020-21. With projected financial requirements expected to decline, the government will need to manage a smaller borrowing program over the coming years.

1. What changes have you seen in the types of investors that are interested in Government of Canada securities and what changes in investor behaviour, preferences and requirements have you noticed? Has there been an impact on market functioning (e.g., liquidity)? Could you describe the trends that you have seen in the client base for domestic debt over the past few years? How have changes in the debt issuance program or other structural or activity changes in fixed income markets, such as larger benchmark sizes or a more active futures market, driven these client-related changes?
2. Has the Bank of Canada's Government Bond Purchase Program (GBPP) had an impact on auction demand? If yes, in which sectors has the impact been most apparent?
3. In which sectors should issuance be adjusted lower in the event that future financial requirements come in lower than expected? What would be the minimum issuance amount in the case of treasury bills and minimum benchmark size in the case of bonds, that would maintain a well-functioning market in each sector, and why?
4. What is the market capacity to absorb additional issuance in treasury bills or in bond sectors (e.g., number of auctions per quarter, maximum size of auctions, bond benchmarks, etc.) should debt requirements increase unexpectedly again in the future?
5. What adjustments to the debt program could be effective to augment market capacity and broaden the investor base for Canada's domestic bonds? How could the government best attract interest from international investors to invest in Canada's domestic debt?

Long-Term Bonds

The *Debt Management Strategy for 2021-22* continued the historic level of issuance in long-term bonds (Table 1) that began in 2020-21. In addition, the increase in the 10- and 30-year sectors were proportionally higher than the other sectors. The strategy also indicated that the government will continue to review opportunities to borrow at longer maturities while taking into consideration the requirements of other market participants.

Table 1

Gross Bond Issuances by Maturity
$ Billions, end of fiscal year

	2020-21 Previous Year		2021-22 Planned	
	Issuance	**Share of Bond Issuance**	**Issuance**	**Share of Bond Issuance**
Short (2, 3, 5-year sectors)	267	71%	160	56%
Long (10-year+)	107	29%	121	42%
Green bonds	-	-	5[1]	2%
Gross Bond Issuance	**374**	**100%**	**286**	**100%**

Note: Numbers may not add due to rounding.
[1]Target issuance, subject to market conditions.

6. What is the market capacity to absorb additional issuance in 10-year, 30-year, and ultra-long sectors (e.g., size and number of auctions per quarter)? If lower funding requirements lead to material declines in gross bond issuance requirement, which sectors could absorb the largest declines? If long sector issuance was maintained at current levels, which sectors in the short end of the curve could absorb the reduction in gross issuance, and by how much?

7. How have financial markets responded to the re-introduction of the ultra-long bond issuance?

Bond Operational Considerations

The *Debt Management Strategy for 2021-22* plans for $286 billion in gross issuance of domestic marketable bonds. After considering scheduled maturities and planned debt repurchases, a forecasted $1,062 billion stock of Government of Canada bonds outstanding is expected by the end of this fiscal year.

With the 3-year sector being promoted to its own cycle last year, the additional maturity point to the 10-year tenor, as well as the re-introduction of the ultra-long sector, market participants' views on the debt management’s operational strategy will help determine which options may be preferable in the future.

8. Please characterize the functioning of the primary and secondary markets for Government of Canada bonds this year and relative to last year (e.g., auction and target benchmark sizes, liquidity, trading, investor behavior, etc.)? What could the government do better to promote liquidity in primary and secondary markets for Government of Canada bonds?

9. Recently, the issue of higher inflation expectations has been vocalized by a subset of stakeholders. Have you noticed any impact on market conditions, demand (by current or new clients), pricing, or liquidity on Real Return Bonds? If no impact was noticed, why do you think that is?

10. Issuances in the ultra-long sector are currently conducted under a modified auction format. What are your views on issuing in this sector under a regular auction format with normal bidding requirements?

Treasury Bills

To support the $226 billion year-end treasury bill target, the Government plans to continue its bi-weekly issuance of 3-, 6-, and 12-month maturities with auction sizes projected to be in the $10 billion to $32 billion range. Cash management bills will continue to be used to help manage the Government's cash in an efficient manner.

11. Please describe how the primary and secondary markets for Government of Canada treasury bills have been functioning this year (e.g., liquidity, trading, and investor behavior). How has the market responded to the return to bi-weekly auctions? What could the government do better to promote liquidity in primary and secondary markets for Government of Canada treasury bills?
12. In your view, what would be the minimum and maximum treasury bill stock that would maintain a well-functioning market?
13. Treasury bill settlement dates are typically two days after the auction (T+2). What would the impact be if treasury bills were to settle the day after the auction (T+1)? Would you be supportive of such a change?

Environmental, Social and Governance (ESG) Securities

Budget 2021 announced that the government will publish a green bond framework in the coming months in advance of issuing its inaugural federal green bond in 2021-22, with an issuance target of $5 billion, subject to market conditions. Budget 2021 also announced that the government would explore the potential for social bonds to complement the government's existing debt program as part of this year's consultations.

14. In your view, what demand is there in financial markets for a Government of Canada social bond?
15. In a declining borrowing environment with increased long term issuance, including the re-introduction of the ultra-long bond and the upcoming introduction of green bonds, is there capacity in financial markets to add a new sector without affecting minimum benchmark sizes in existing sectors?
16. If Canada were to issue a social bond, how would it impact the market for this type of security in Canada? What sort of client demand would there be for such a bond (e.g., what type of clients, what is their capacity to absorb this issuance, etc.)? What impact would a Government of Canada social bond have on other issuers (e.g., corporations, provinces)?

Miscellaneous

17. Please provide any comments on the development of the 5-year Government of Canada Bond futures market. How has it affected primary and secondary markets for 5-year bonds?