Department of Finance Canada
Ministère des Finances Canada

# Debt Management Report

2012–2013

Canada

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# Foreword

## by the Minister of Finance

Resolve to act in the midst of an uncertain global economy, alongside a firm commitment to adhere to sound fiscal and financial sector fundamentals, are hallmarks of Canada's economic story.

The world has taken note: both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) expect Canada to be among the strongest growing economies in the Group of Seven (G-7) over this year and next. We are among only a handful of countries in the very top tier of sovereign credit. For the sixth year in a row, the World Economic Forum has found Canada's banks to be the world's soundest. And in June 2013, the IMF's Currency Composition of Official Foreign Exchange Reserves began reporting on central bank holdings denominated in Canadian dollars, reflecting the growing importance of Canadian-dollar holdings in the world economy.

Accordingly, Government of Canada–issued debt in 2012–13 enjoyed strong demand in both primary and secondary markets. The success of Canada's debt management strategy lies in its flexibility in the face of change. In 2012, for example, the Government announced it would reallocate $10 billion of issuance from short-term bonds into 10- and 30-year nominal bonds over a two-year period, which will contribute to a reduction in refinancing risk at a low cost.

Thanks to this kind of maneuverability, the Government was able to fast-track the implementation of the prudential liquidity plan, well in advance of the original target date of March 2014. The plan ensures overall liquidity levels cover at least one month of net projected cash flows, including coupon payments and debt refinancing needs, which bolsters investor confidence in Canadian government debt.

Independent review of our work is fundamental to our ongoing success. In 2013, we welcomed a third-party evaluation of the Crown Borrowing Program (CBP), which facilitates the funding of three major Canadian Crown corporation borrowers: Canada Mortgage and Housing Corporation, the Business Development Bank of Canada and Farm Credit Canada. The report concludes that the CBP continues to be relevant as a liquid funding mechanism for Crown corporations and well-aligned with the efficiency goals of the Government of Canada.

Resiliency shall not cede ground to complacency, and we remain committed to the goal of a liquid, well-functioning government securities market. Our record remains as strong as our resolve, and in that spirit, I invite you to explore the details of the Government's approach to debt management in this year's *Debt Management Report*.

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance
Ottawa, December 2013

# Purpose
## of This Publication

This edition of the *Debt Management Report* provides a detailed account of the Government of Canada's borrowing and debt management activities for fiscal year April 1, 2012 to March 31, 2013.

As required under Part IV (Public Debt) of the *Financial Administration Act*, this publication ensures transparency and accountability regarding these activities. It reports on actual borrowing and uses of funds compared to those forecast in the 2012–13 *Debt Management Strategy*, published in March 2012 as Annex 3 of Budget 2012 (www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf). It also discusses the environment in which the debt was managed, the composition of the debt and changes in the debt during the year, strategic policy initiatives and performance outcomes.

Additional information about the federal debt can be found in the *Public Accounts of Canada*. Information on the management of Canada's foreign reserves is provided in the *Report on the Management of Canada's Official International Reserves*. The *Debt Management Strategy*, the *Debt Management Report* and the *Report on the Management of Canada's Official International Reserves* are tabled annually in Parliament and are available on the Department of Finance website.

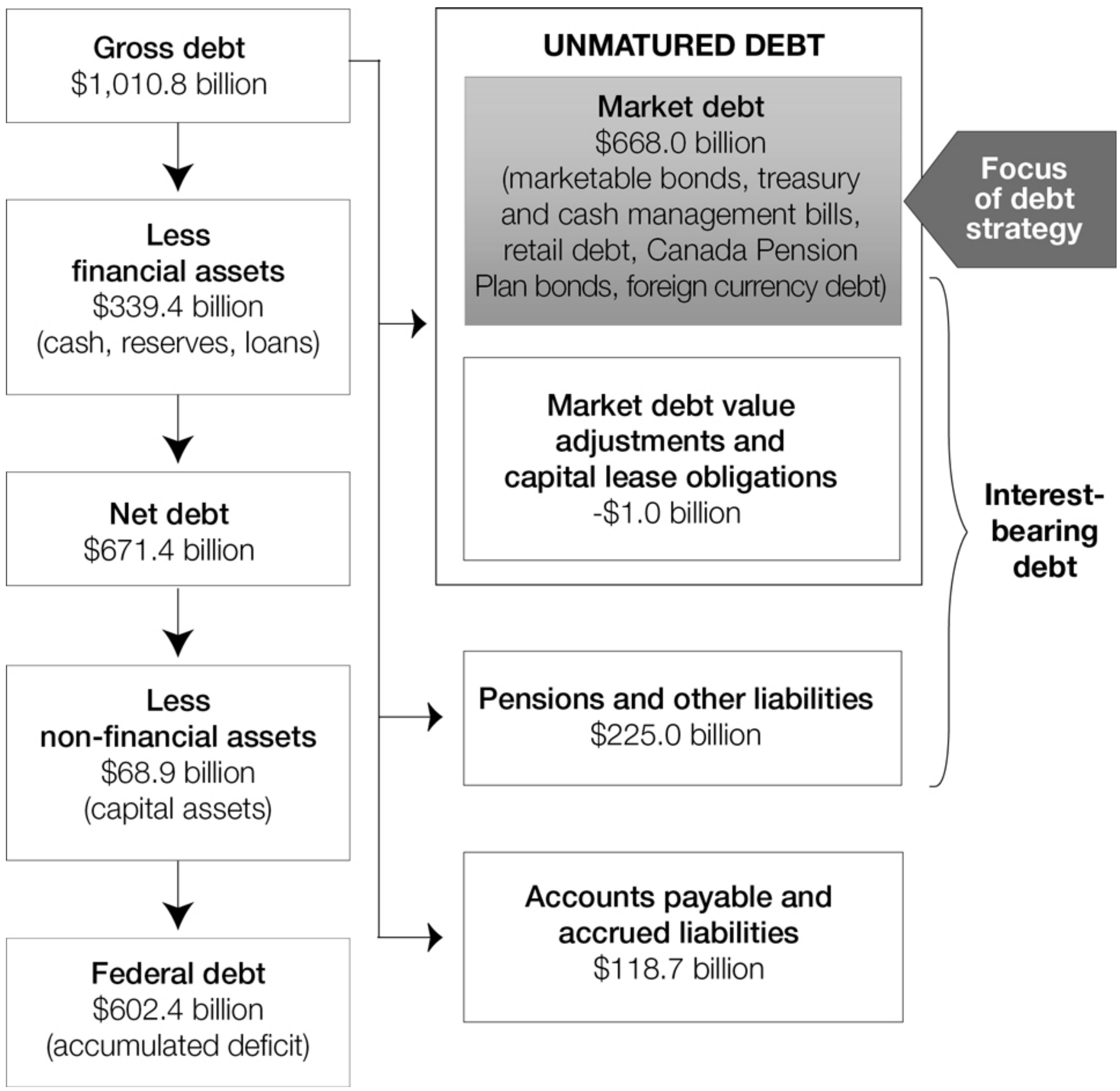
# Introduction

## Federal Debt Management

This publication focuses on two major activities: (i) the management of federal market debt (the portion of the debt that is borrowed in financial markets); and (ii) the investment of cash balances in liquid assets until needed for operations.

With total liabilities of $1,010.8 billion, financial assets of $339.4 billion and non-financial assets of $68.9 billion, the federal debt (accumulated deficit) stood at $602.4 billion as at March 31, 2013, while the Government of Canada's market debt totalled $668.0 billion (see Chart 1).

Chart 1
**Composition of the Federal Debt, as at March 31, 2013**




Note: Numbers may not add due to rounding.

There are two types of market debt: domestic debt, which is denominated in Canadian dollars, and foreign currency debt. Funding in Canadian dollars is done through both wholesale and retail channels. Domestic wholesale funding is conducted through the issuance of marketable securities, which consist of nominal bonds, Real Return Bonds and treasury bills, including cash management bills. These securities are sold via auction. Retail funding is raised through sales of Canada Savings Bonds and Canada Premium Bonds to Canadian residents. Cross-currency swaps of domestic obligations and issuance of foreign currency debt are used to fund foreign reserve assets held in the Exchange Fund Account. A report on the management of Canada's official international reserves is available on the Department of Finance website (www.fin.gc.ca/purl/efa-eng.asp).

A detailed description of Government of Canada market debt instruments is available on the Department of Finance website (www.fin.gc.ca/invest/instru-eng.asp).

External assessments of the frameworks and processes used in the management of market debt, cash and reserves as well as the treasury activities of other entities under the authority of the Minister of Finance can be found on the Department of Finance website (www.fin.gc.ca/access/fininst-eng.asp). See Annex 1 for a list of treasury evaluations performed since 1992.

## Highlights of 2012–13

### Sources and Uses of Borrowings

The total amount of cash raised through borrowing activities in 2012–13 was $283 billion. Over the same period, refinancing needs totalled $246 billion. The financial requirement was $30 billion and the change in other unmatured debt transactions was -$4 billion, leading to a net increase in cash holdings of $10 billion.

The stock of market debt increased by $37.0 billion in 2012–13, bringing the total stock to $668.0 billion. The change in the stock was mainly comprised of a $20.9-billion increase in domestic marketable bonds, a $17.5-billion increase in treasury and cash management bills, a $0.1-billion increase in foreign currency debt, and a $1.4-billion decrease in retail debt outstanding.

### Mid-Year Adjustments to the 2012–13 Debt Strategy

In the 2012–13 *Debt Management Strategy*, the Government announced a temporary increase in 10-year bond issuance through an additional 10-year bond auction in the first quarter of 2012–13 and the discontinuation of regular bond buyback operations on a cash basis for the 10-year sector.

In September 2012, the Minister of Finance announced that a further $10 billion of issuance would be temporarily reallocated into 10- and 30-year nominal bonds (split 75/25 per cent) over a two-year period. Details were provided in a market notice accompanying the *Quarterly Bond Schedule* for the third quarter.[1]

These adjustments are advantageous and prudent because they contribute to a reduction in refinancing risk at a low cost, consistent with the key objectives of the Government's medium-term debt strategy.

[1] See the Bank of Canada website (www.bankofcanada.ca/2012/09/notices/quarterly-bond-schedule-2012-13/).

### Funding Flexibility/Contingency Planning

The increase in prudential liquidity announced in the 2011–12 *Debt Management Strategy* was nearly completed as of March 31, 2013. The prudential liquidity plan entails a new $20-billion deposit at the Bank of Canada, a $5-billion increase in deposits with financial institutions and a $10-billion increase in foreign reserves. The prudential liquidity plan ensures overall liquidity levels cover at least one month of net projected cash flows, including coupon payments and debt refinancing needs.

### Strong Demand for Government of Canada Securities

In 2012–13, demand for Government of Canada securities continued to be strong in the primary and secondary markets as a result of an ongoing flight to high quality assets globally and Canada's sound fiscal, economic and financial sector fundamentals. Accordingly, treasury bill and bond auctions remained well-covered and well-bid. While the Bank of Canada's target for the overnight rate remained anchored at 1 per cent during the year, Canadian bond yields generally declined across all maturity sectors.

Demand from non-resident investors remained strong in the primary and secondary markets in 2012–13, with non-residents holding about 30 per cent of Government of Canada market debt securities as at March 31, 2013, up from around 25 per cent the previous year. This compares to an average of 21 per cent for the past five years, and an average of 15 per cent for the five years preceding the global financial crisis.

### Crown Borrowing Program Evaluation

An external evaluation of the Government of Canada's Crown Borrowing Program (CBP) was performed as part of the ongoing Treasury Evaluation Program. The final summary report, released in May 2013, is available on the Department of Finance website (www.fin.gc.ca/treas/evaluations/cbp-pese-eng.asp). The evaluation found that the objectives of the CBP were consistent with the Government's priorities and were aligned with the Government's roles and responsibilities. It also found that the CBP achieved its objectives efficiently, but that opportunities exist for operational improvements.

## Government of Canada Credit Rating Profile

The Government of Canada continued to receive the highest possible ratings, with a stable outlook, on both short- and long-term debt from the five rating agencies that evaluate Canada's debt (see Table 1).

Rating agencies indicated that Canada's extremely effective, stable and predictable policymaking and political institutions, the resilience of the economy, better-than-average fiscal and external indicators, and the strength of monetary and fiscal flexibility supported the country's ongoing triple-A credit rating. The rating agencies indicated that Canada's debt position would remain favourable.

Table 1
**Government of Canada Credit Ratings**

| Rating Agency | Term | Domestic Currency | Foreign Currency | Outlook | Last Rating Action |
|---|---|---|---|---|---|
| Moody's Investors Service | Long-term | Aaa | Aaa | Stable | May 2002 |
| | Short-term | P-1 | P-1 | | |
| Standard & Poor's | Long-term | AAA | AAA | Stable | July 2002 |
| | Short-term | A–1+ | A–1+ | | |
| Fitch Ratings | Long-term | AAA | AAA | Stable | August 2004 |
| | Short-term | F1+ | F1+ | | |
| Dominion Bond Rating Service | Long-term | AAA | AAA | Stable | n/a |
| | Short-term | R-1 (High) | R-1 (High) | | |
| Japan Credit Rating Agency | Long-term | AAA | AAA | Stable | n/a |

# Part I

## 2012–13 Debt Management Context

### Budgetary Outcomes

The key reference point for debt management is the financial source/requirement, which represents net cash needs for the year. This measure differs from the budgetary balance (i.e., the surplus or deficit) by the amount of non-budgetary transactions, which can be significant. Non-budgetary transactions include changes in federal employee pension accounts; changes in non-financial assets; loans, investments and advances; changes in other financial assets and liabilities; and foreign exchange activities (see Table 3).

With a budgetary deficit of $18.9 billion and a cash requirement of $11.5 billion from non-budgetary transactions, there was a financial requirement of $30.5 billion in 2012–13. This compares to a financial requirement of $32.4 billion in 2011–12. The financial requirement was approximately $7 billion larger than projected in the 2012–13 *Debt Management Strategy*, largely due to higher-than-projected non-budgetary transactions.

Market debt increased by $37.0 billion to $668.0 billion, mainly comprised of an increase in the stock of domestic marketable bonds and treasury bills. Table 2 presents the change in the composition of federal debt in 2012–13. For additional information on the financial position of the Government, see the 2012–13 *Annual Financial Report of the Government of Canada* (www.fin.gc.ca/purl/afr-eng.asp).

To view Budget 2012, including the 2012–13 *Debt Management Strategy*, which was published as Annex 3 of Budget 2012, visit the Department of Finance website (www.budget.gc.ca/2012/).

Table 2

**Change in the Composition of Federal Debt, 2012–13**

$ billions

| | March 31, 2013 | March 31, 2012 | Change |
|---|---|---|---|
| **Payable in Canadian currency** | | | |
| Marketable bonds | 469.0 | 448.1 | 20.9 |
| Treasury and cash management bills | 180.7 | 163.2 | 17.5 |
| Retail debt | 7.5 | 8.9 | -1.4 |
| Canada Pension Plan bonds | 0 | 0 | 0 |
| **Total payable in Canadian currency** | 657.2 | 620.3 | 36.9 |
| **Payable in foreign currencies** | 10.8 | 10.7 | 0.1 |
| **Total market debt** | **668.0** | **631.0** | **37.0** |
| Market debt value adjustment, capital lease obligations and other unmatured debt | -1.0 | -4.7 | 3.7 |
| **Total unmatured debt** | **667.0** | **626.4** | **40.6** |
| Pension and other accounts | 225.0 | 217.8 | 7.3 |
| **Total interest-bearing debt** | **892.0** | **844.1** | **47.9** |
| Accounts payable, accruals and allowances | 118.7 | 125.0 | -6.3 |
| **Gross debt** | **1,010.8** | **969.1** | **41.7** |
| Total financial assets | -339.4 | -317.6 | -21.8 |
| Total non-financial assets | -68.9 | -68.0 | -1.0 |
| **Federal debt (accumulated deficit)** | **602.4** | **583.6** | **18.9** |

Note: Numbers may not add due to rounding.

## Sources and Uses of Borrowing

Authority to borrow in financial markets is provided by Part IV of the *Financial Administration Act*, which authorizes the Minister of Finance to issue securities and undertake related activities, including entering into financial contracts and derivatives transactions. On the recommendation of the Minister of Finance, the Governor in Council approved an aggregate borrowing limit of $315 billion for 2012–13.[2]

Anticipated borrowing and planned uses of funds are set out in the *Debt Management Strategy*, while actual borrowing and uses of funds compared to those forecast are reported in Table 3 of this publication.

Total actual borrowings in 2012–13 were $283 billion, $32 billion below the authorized borrowing authority limit, but $15 billion higher than the plan set out in the 2012–13 *Debt Management Strategy*. The higher level of actual over planned borrowing was mainly due to a larger-than-expected financial requirement as well as a higher-than-anticipated amount of bonds purchased through the cash management bond buyback program.[3]

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2 Approved Orders in Council (OIC) are available on the Privy Council Office website (www.pco-bcp.gc.ca/oic-ddc.asp?lang=eng&page=secretariats). The reference number for the 2012–13 OIC is 2012-0359.

3 For more information, see the section “Cash Management Bond Buyback Program” in Part III.

In 2012–13, loans to the Business Development Bank of Canada, Canada Mortgage and Housing Corporation and Farm Credit Canada under the Crown Borrowing Program were $2 billion lower than the planned $4 billion. Since the inception of the program in 2007–08, the consolidated borrowings of these Crown corporations have grown to account for $41 billion of federal market debt.[4]

Table 3
## Planned/Actual Sources and Uses of Borrowings, 2012–13
$ billions

| | Planned[1] | Actual | Difference |
|---|---|---|---|
| **Sources of borrowings** | | | |
| Payable in Canadian currency | | | |
| Treasury bills | 159 | 181 | 22 |
| Bonds | 99 | 93 | -6 |
| Retail debt | 2 | 2 | 0 |
| Total payable in Canadian currency | 260 | 275 | 15 |
| Payable in foreign currencies | 8 | 8 | 0 |
| Total cash raised through borrowing activities | 268 | 283 | 15 |
| **Uses of borrowings**[2] | | | |
| Refinancing needs | | | |
| Payable in Canadian currency | | | |
| Treasury bills | 163 | 163 | 0 |
| Bonds | 67 | 72 | 5 |
| Of which: | | | |
| Regular bond buybacks | 2 | 2 | 0 |
| Cash management bond buybacks | 18 | 31 | 13 |
| Retail debt | 2 | 3 | 1 |
| Canada Pension Plan bonds | 0 | 0 | 0 |
| Total payable in Canadian currency | 232 | 238 | 6 |
| Payable in foreign currencies | 3 | 8 | 5 |
| Total refinancing needs | 235 | 246 | 11 |
| Financial source/requirement | | | |
| Budgetary balance | 21 | 19 | -2 |
| Non-budgetary transactions | | | |
| Pension and other accounts | -6 | -7 | -1 |
| Non-financial assets | 1 | 1 | 0 |
| Loans, investments and advances | 2 | 3 | 1 |
| Of which: | | | |
| Loans to Crown corporations | 4 | 2 | -2 |
| Other transactions[3] | 5 | 14 | 9 |
| Total non-budgetary transactions | 2 | 12 | 10 |
| **Total financial source/requirement** | **23** | **30** | **7** |

4 Activity under the Crown Borrowing Program does not affect the federal debt (accumulated deficit), since increased federal borrowing is matched by assets in the form of loans to the Crown corporations.

Table 3
**Planned/Actual Sources and Uses of Borrowings, 2012–13**
$ billions

| | Planned[1] | Actual | Difference |
|---|---|---|---|
| Total uses of borrowings | 258 | 276 | 18 |
| Change in other unmatured debt transactions[4] | 0 | -4 | -4 |
| Net increase or decrease (-) in cash | 10 | 10 | 0 |

Note: Numbers may not add due to rounding.

1 Planned numbers are from Budget 2012 and the 2012–13 *Debt Management Strategy*.

2 A negative sign denotes a financial source.

3 Primarily includes the conversion of accrual adjustments into cash, such as tax and other account receivables; provincial and territorial tax collection agreements; and tax payables and other liabilities.

4 Includes cross-currency swap revaluation, unamortized discounts on debt issues, obligations related to capital leases and other unmatured debt.

# Part II

## Report on Objectives and Principles

## Objectives and Principles

The fundamental objective of debt management is to raise stable and low-cost funding to meet the needs of the Government of Canada. An associated objective is to maintain a well-functioning market in Government of Canada securities, which helps to keep debt costs low and stable and is generally to the benefit of a wide array of domestic market participants.

In support of these objectives, the design and implementation of the domestic debt program is guided by the key principles of transparency, regularity and liquidity, which support a well-functioning government securities market. Towards this end, the Government publishes strategies and plans and consults regularly with market participants to ensure the integrity and attractiveness of the market for dealers and investors. The principle of prudence also guides all debt management activities. The structure of the debt is managed conservatively in a cost-risk framework, preserving access to diversified sources of funding and supporting a broad investor base.

## Raising Stable, Low-Cost Funding

In general, achieving stable, low-cost funding involves striking a balance between debt costs and various risks in the debt structure. This selected balance between cost and risk, or preferred debt structure, is mostly achieved through the deliberate allocation of issuance between various debt instruments.

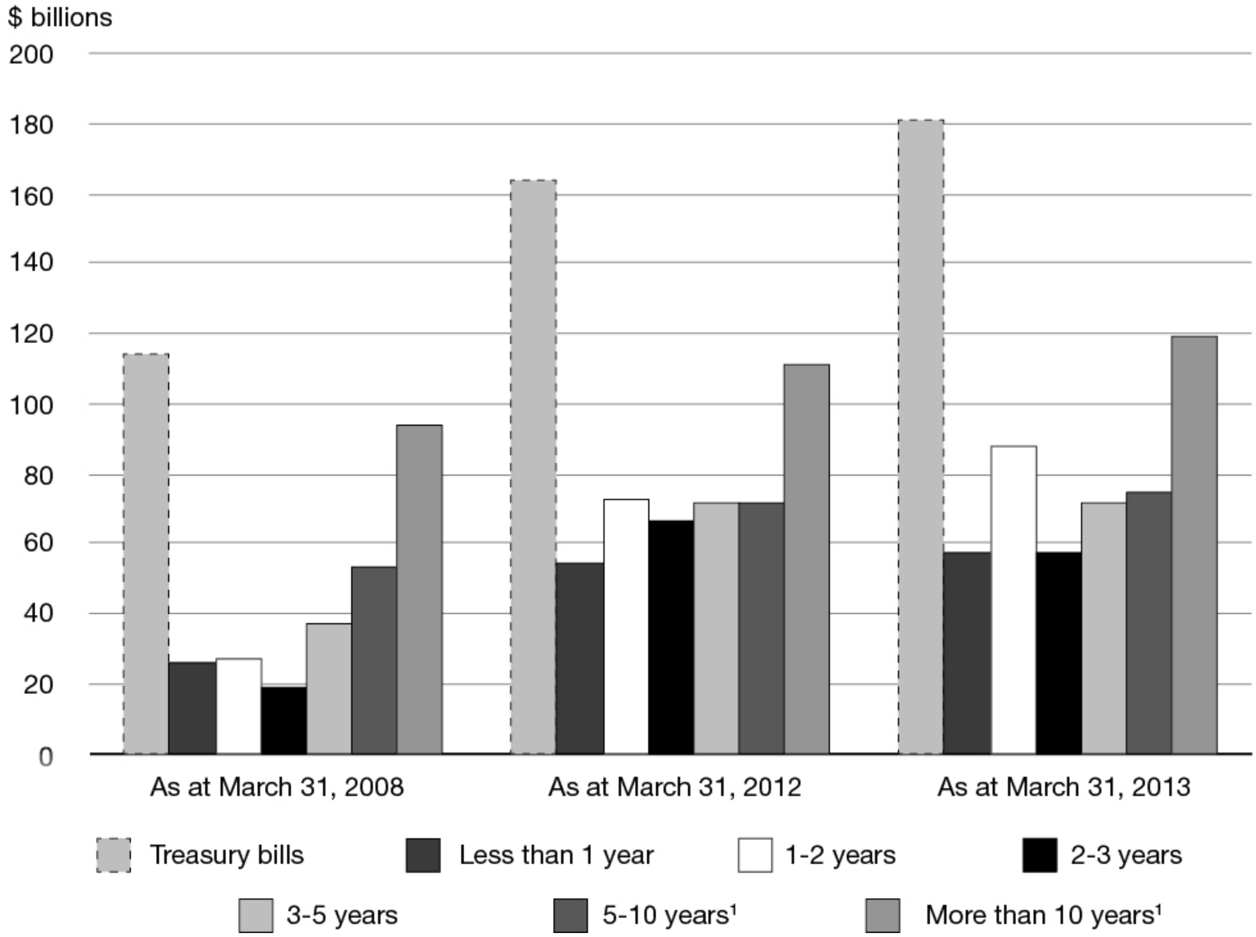
### Composition of Market Debt

The composition of market debt is a reflection of past and present debt issuance choices. The effects of changes in the issuance patterns of short-term instruments are visible relatively quickly, while the full effect of issuance changes in longer-term maturities can take decades to be fully appreciated. A well-distributed maturity profile ensures a controlled exposure to changes in interest rates over time and provides liquidity across different maturity sectors.

The onset of the global financial crisis in late 2008 and the resulting need for the Government to rapidly fund liquidity and stimulus packages led to an increase in treasury bill issuance in 2008–09. The increase in bonds with remaining terms to maturity of 10 years or more reflects the temporary increase in longer-term issuance announced in Budget 2012 (see Chart 2).

Chart 2

**Composition of Market Debt by Remaining Term to Maturity**




[1] Includes Consumer Price Index adjustment.

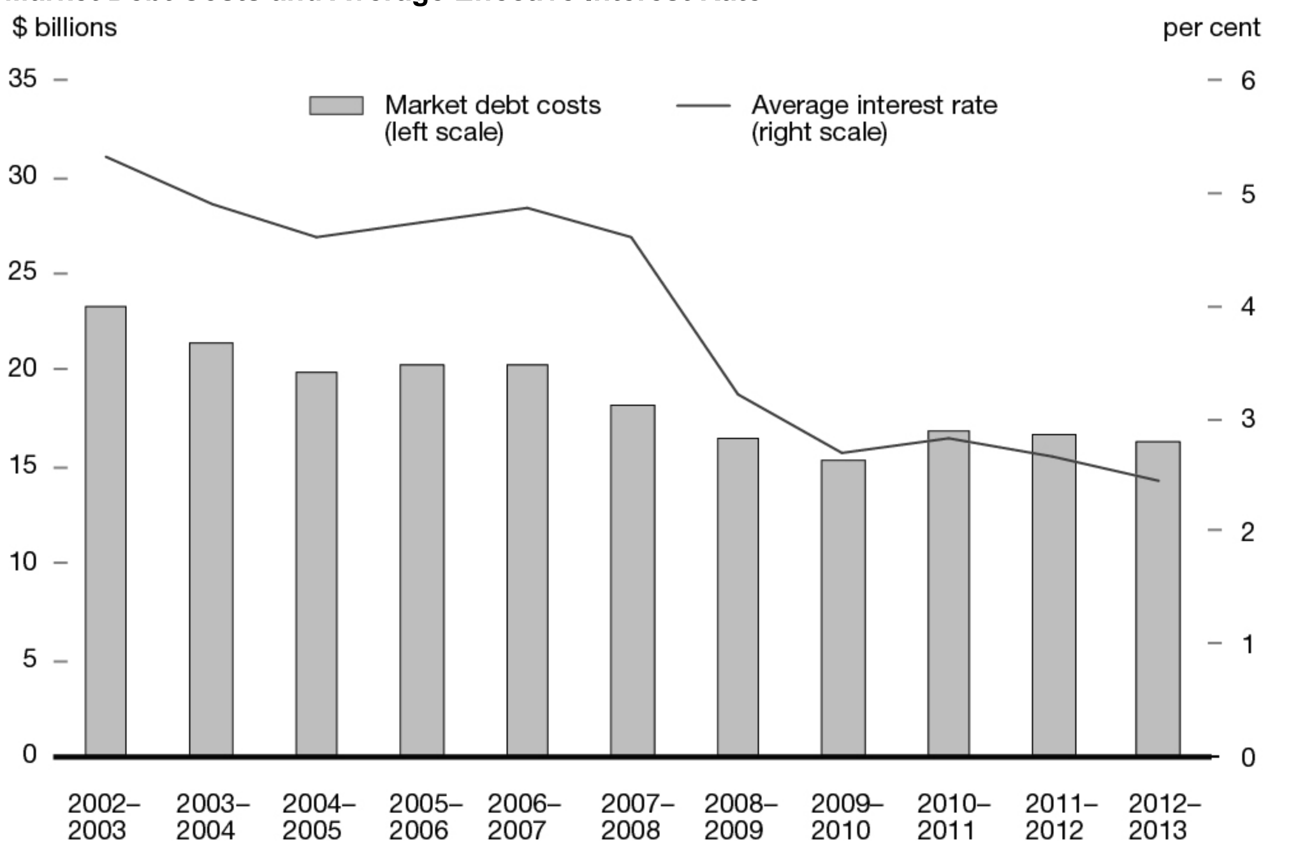
Sources: *Public Accounts of Canada* and Bank of Canada.

## Cost of Market Debt

Market debt costs are the largest component of public debt charges (public debt charges also include interest expenses on non-market liabilities).[5] The cost of market debt decreased slightly from $16.7 billion in 2011–12 to $16.4 billion in 2012–13, reflecting a lower weighted average rate of interest on market debt (see Chart 3).

The weighted average rate of interest on market debt was 2.45 per cent in 2012–13, down from 2.65 per cent in 2011–12. The decline largely reflects the decrease in the average interest rate on marketable bonds.

Chart 3
**Market Debt Costs and Average Effective Interest Rate**




Source: *Public Accounts of Canada*.

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[5] Non-market liabilities include pensions, other employee and veteran future benefits and other liabilities.

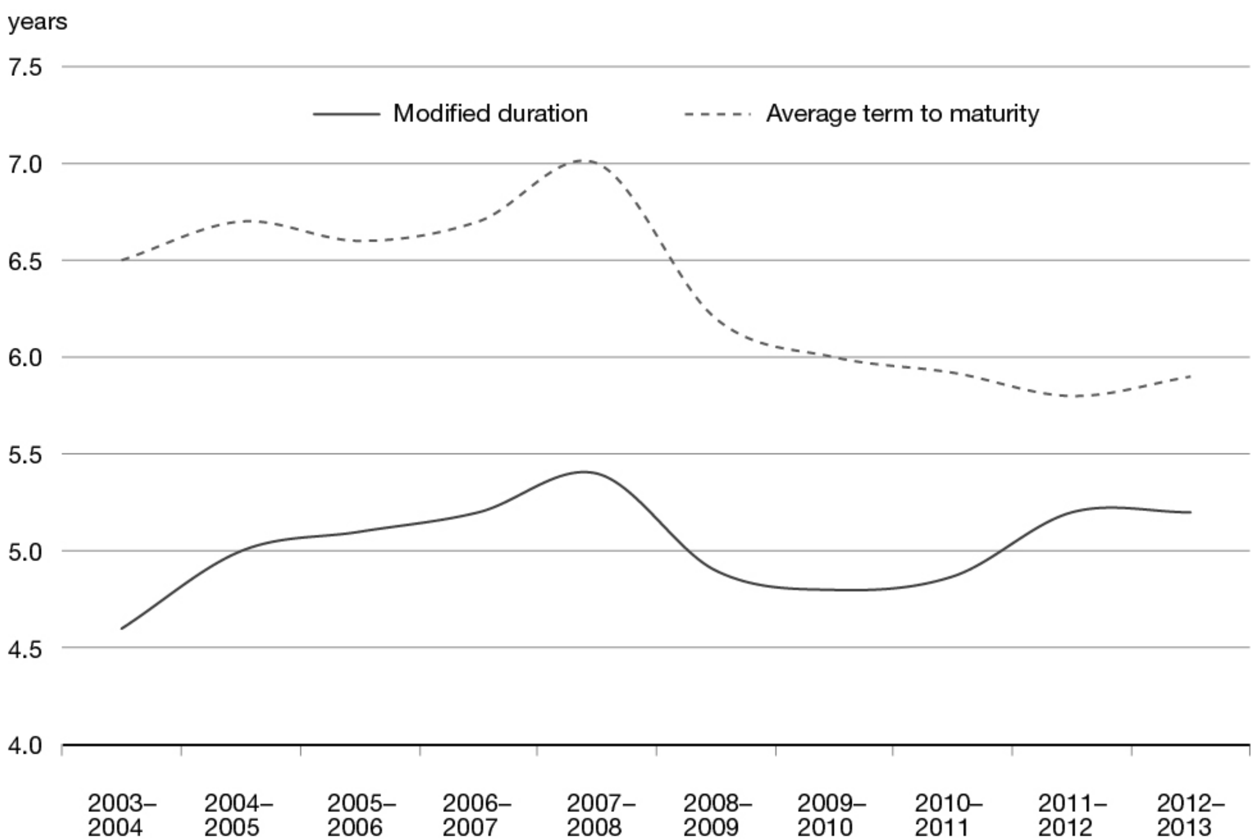
## Characteristics of the Market Debt Structure

Market debt is composed of short-, medium- and long-term debt instruments. As the yield curve is normally upward sloping, there is generally a trade-off between cost and risk in the selection of a funding mix between shorter-, medium- and longer-term borrowings. While borrowing costs for longer-term instruments tend to be higher and remain fixed for a longer period, there is a reduced risk of having to refinance at higher interest rates. In contrast, borrowing costs tend to be lower on average for shorter-term instruments but are fixed for shorter periods, therefore increasing the risk of having to refinance the debt at higher interest rates.

The average term to maturity (ATM) of market debt declined from 2007–08 to 2011–12, primarily due to a large increase in the stock of treasury bills and 2-, 3- and 5-year bonds relative to longer-term bond issuance. In 2012–13, the ATM increased slightly from 5.8 years to 5.9 years, reflecting the plan to gradually lengthen the term of the portfolio. From 2011–12 to 2012–13, modified duration remained stable at 5.2 years (see Chart 4).[6]

Chart 4

**Modified Duration and Average Term to Maturity of Government of Canada Market Debt**



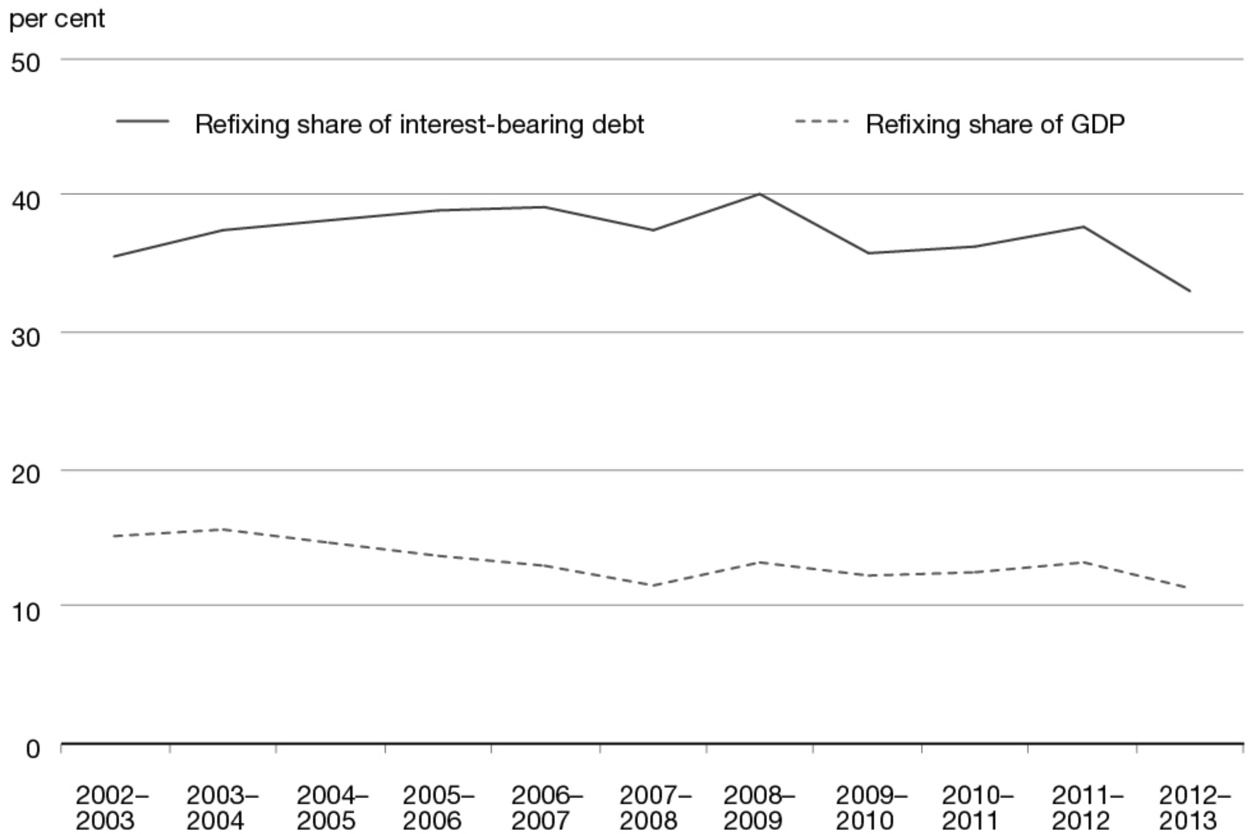

Source: Bank of Canada.

6 Modified duration measures the price sensitivity of a security or portfolio of fixed-income securities to changes in yields. Multiplying the modified duration of a security by the change in its yield gives the estimated percentage change in price of the security. The average term to maturity is calculated by multiplying the remaining maturity on each instrument by its weight in the portfolio.

The refixing share of interest-bearing debt measures the proportion of all interest-bearing debt that matures or needs to be repriced within one year.[7] In 2012–13, the refixing share of interest-bearing debt decreased by 4.6 percentage points to 33 per cent as a result of the debt strategy plan for 2012–13, which involved a temporary reallocation of short-term bond issuance towards long-term bonds (see Chart 5).

The refixing share of gross domestic product (GDP) measures the amount of interest-bearing debt that matures or needs to be repriced within one year relative to nominal GDP for that year. The refixing share of GDP had been steadily declining for many years as a result of a lower debt-to-GDP ratio. However, the need for increased issuance during the financial crisis reversed this trend. In 2012–13, the refixing share of GDP was 11.3 per cent, down 1.9 percentage points from 2011–12.

Chart 5
**Refixing Share of Interest-Bearing Debt and Gross Domestic Product**




Source: Bank of Canada.

[7] The refixing share is simply a reformulation of the fixed-rate share reported in the past. The fixed-rate share has been replaced by the refixing share to facilitate comparison and be consistent with the metrics used by other sovereigns.

### Prudential Liquidity Management

The Government holds liquid financial assets in the form of domestic cash deposits and foreign exchange reserves to promote investor confidence and safeguard its ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed. This also supports investor confidence in Canadian government debt. In Budget 2011, the Government announced its intention to increase its liquidity position. Under the new liquidity plan, the Government's overall liquidity levels will cover at least one month of net projected cash flows, including coupon payments and debt refinancing needs.

The prudential liquidity plan entails a new $20-billion deposit at the Bank of Canada, a $5-billion increase in deposits with financial institutions and a $10-billion increase in foreign reserves. As of March 31, 2013, the increase in foreign reserves and deposits at financial institutions was fully in place, with only $5 billion remaining to be funded for the deposit at the Bank of Canada.

Information on cash balances and foreign exchange assets is available through *The Fiscal Monitor* (www.fin.gc.ca/pub/fm-rf-index-eng.asp) and in the *Public Accounts of Canada*, Volume 1, Section 7 (www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/index-eng.html). Information on the management of Canada's reserves held in the Exchange Fund Account is available in the *Report on the Management of Canada's Official International Reserves* (www.fin.gc.ca/purl/efa-eng.asp).

## Maintaining a Well-Functioning Government Securities Market

A well-functioning wholesale market in Government of Canada securities is important as it benefits the Government as a borrower as well as a wide range of market participants. For the Government as a debt issuer, a well-functioning market attracts investors and contributes to keeping funding costs low and stable over time, and provides flexibility to meet changing financial requirements. For market participants, a liquid and transparent secondary market in government debt provides risk-free assets for investment portfolios, a pricing benchmark for other debt issues and derivatives, and a primary tool for hedging interest rate risk. In 2012–13, the following actions promoted a well-functioning Government of Canada securities market.

**Providing regular and transparent issuance:** The Government of Canada conducts treasury bill auctions on a bi-weekly basis, announces the bond auction schedule prior to the start of each quarter and provides details for each operation in a call-for-tender in the week leading up to the auction.[8] In 2012–13, there were regular auctions for 2-, 3-, 5-, 10- and 30-year nominal bonds, as well as for 30-year Real Return Bonds. Regular and pre-announced issuance provided certainty for dealers and investors, allowing them to plan their investment activities, and supported participation and competitive bidding at auctions. Bond issuance schedules were communicated through the Bank of Canada website on a timely basis.

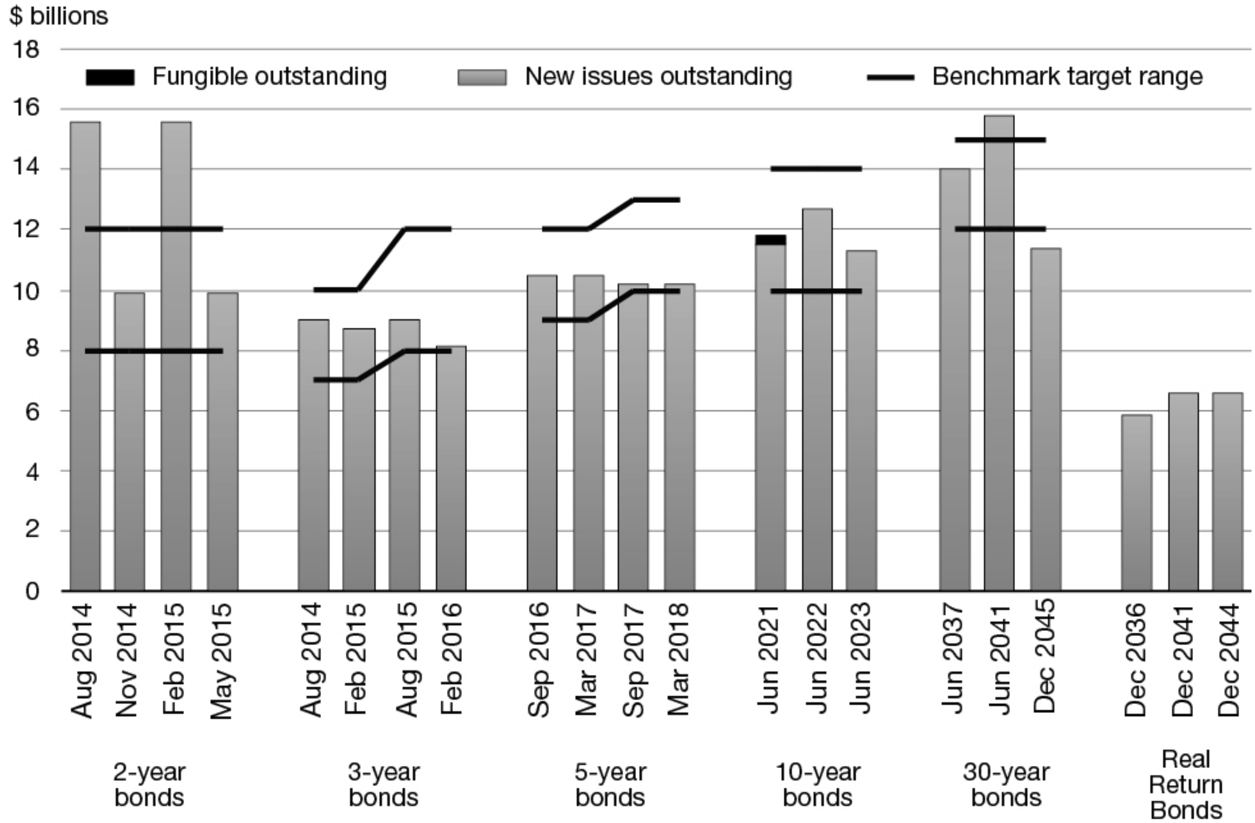
8 See the Bank of Canada website (www.bankofcanada.ca/stats/cars/f/bd_auction_schedule.html).

**Concentrating on key benchmarks:** Consistent with the medium-term debt strategy and market participant recommendations, benchmark target range sizes remained the same in 2012–13 compared to the previous year:

- 2-year sector: $8 billion to $12 billion.
- 3-year sector: $8 billion to $12 billion.
- 5-year sector: $10 billion to $13 billion.
- 10-year sector: $10 billion to $14 billion.
- 30-year nominal sector: $12 billion to $15 billion.

As in recent years, all benchmark bonds in 2012–13 continued to reach or exceed minimum benchmark size targets (see Chart 6).[9] [10]

Chart 6
**Size of Gross Bond Benchmarks**




Source: Bank of Canada.

[9] December 1, 2045 bonds continued to be reopened a number of times after the end of 2012–13 and have or will reach targeted ranges.

[10] Non-fungible securities do not share the same maturity dates with outstanding bond issues. The benchmark size for bonds that are fungible with existing bonds is deemed attained once the total amount of outstanding bonds for that maturity exceeds the minimum benchmark size.

**Using the regular bond buyback program:** Bond buyback operations on a cash basis and on a switch basis involve the purchase of bonds with a remaining term to maturity of 12 months to 25 years. Bond buyback operations on a cash basis involve the exchange of a bond for cash. Bond buyback operations on a switch basis, on the other hand, involve the substitution of one bond for another (e.g., an off-the-run bond for the building benchmark bond).[11]

During 2012–13, regular bond buybacks of short- to medium-term bonds were used to facilitate the transition to new maturity dates in those sectors and to smooth the maturity profile of the debt stock. Regular bond buybacks of long-term bonds were also used to promote liquidity in off-the-run bonds. In total, regular bond buyback operations amounted to $1.5 billion in 2012–13, $4.4 billion lower than in 2011–12 (see Chart 18 later in this document).

**Consulting with market participants:** Formal consultations with market participants are held at least once a year in order to obtain their views on the design of the borrowing program and on the liquidity and efficiency of the Government of Canada securities market. In 2012–13, debt management strategy consultations were held with 32 organizations in Victoria, Vancouver, Toronto and Montréal and were focused on obtaining feedback regarding the effectiveness of the Government's debt distribution framework.

The main purpose was to ensure that auction and intermediation processes continue to promote the debt strategy objectives of stable, low-cost funding and a well-functioning market for government securities. Additionally, market participants' views were sought regarding trends affecting the Government of Canada securities market, the effectiveness of communications with market participants and the changing profile of participants at auctions.

In general, market participants reported that the Government of Canada securities market remains liquid and functions well across all maturity sectors. Participants in this year's consultations remarked on the large and growing foreign appetite for Government of Canada domestic securities. There was also much discussion of the potential impacts of upcoming regulatory changes and the Insured Mortgage Purchase Program asset maturities. Participants' comments on ultra-long issuance were guarded.[12]

**Supporting broad participation in Government of Canada operations:** As the Government's fiscal agent, the Bank of Canada distributes Government of Canada marketable bills and bonds through auction to government securities distributors (GSDs) and customers. GSDs that maintain a certain threshold of activity in the primary and secondary market for Government of Canada securities may become primary dealers, which form the core group of distributors for Government of Canada securities.

To maintain a well-functioning securities distribution system, government securities auctions are monitored to ensure that GSDs abide by the terms and conditions.[13]

11 The amount of new bonds issued through buybacks on a switch basis does not necessarily equal the amount of old bonds bought back through those operations because the exchange is not based on par value, but rather is on a duration-neutral equivalent basis.

12 More details on the subjects of discussion and views expressed during the consultations can be found on the Bank of Canada website (www.bankofcanada.ca/publications-research/market-notices/).

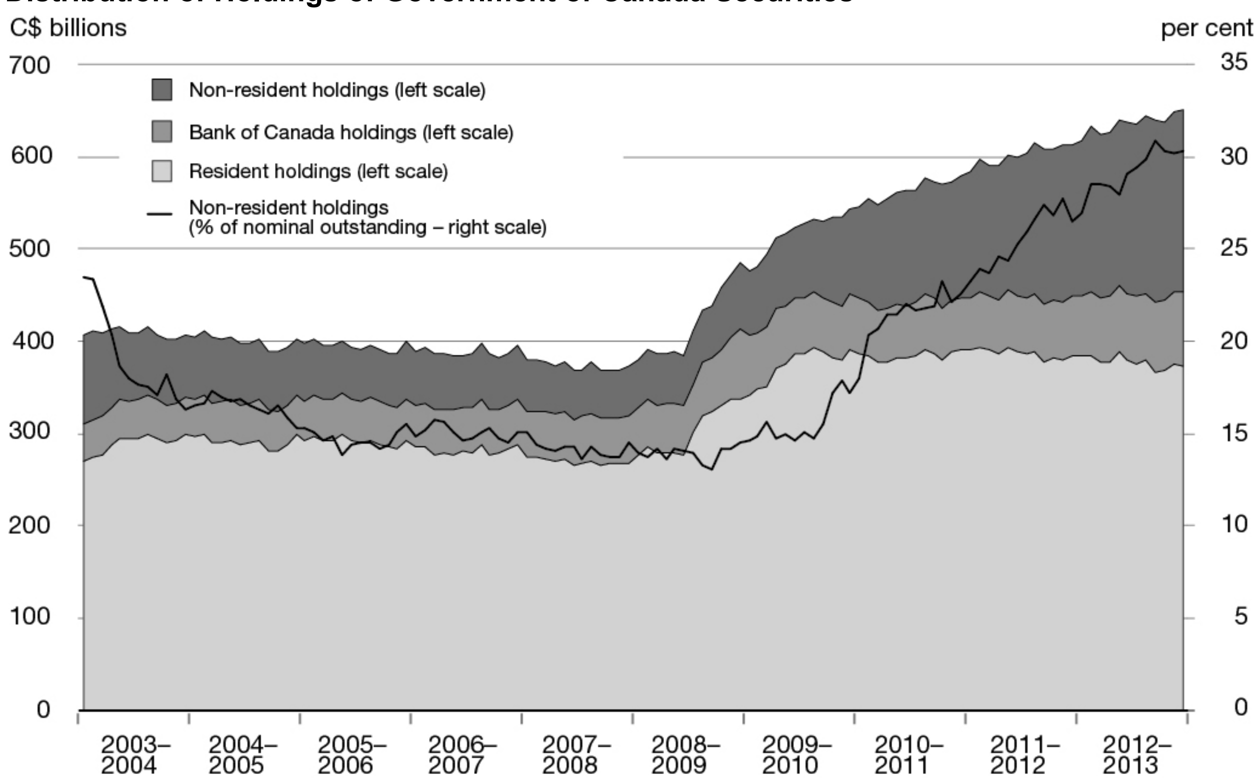
13 See the Bank of Canada website (www.bankofcanada.ca/markets/government-securities-auctions/).

Quick turnaround times enhance the efficiency of the auction and buyback process and encourage participation by reducing market risk for participants. In 2012–13, the turnaround time for treasury bill and bond auctions averaged 1 minute 40 seconds. Buyback operations averaged 1 minute 48 seconds, which was less than in 2011–12.[14]

**Ensuring a broad investor base in Government of Canada securities:** A diversified investor base supports an active secondary market for Government of Canada securities, thereby helping to keep funding costs low and stable. Diversification of the investor base is pursued by maintaining a domestic debt program that is attractive to a wide range of investors.

As at March 31, 2013, domestic investors held about 70 per cent of Government of Canada securities (see Chart 7). Thus, the majority of the national debt is money that the Government of Canada owes to Canadians. Among domestic investors, insurance companies and pension funds held the largest share of Government of Canada securities (23 per cent), followed by chartered banks and quasi-banks (14 per cent) and other private financial institutions (12 per cent). Taken together, these three categories accounted for about half of outstanding Government of Canada securities.

Chart 7
**Distribution of Holdings of Government of Canada Securities**

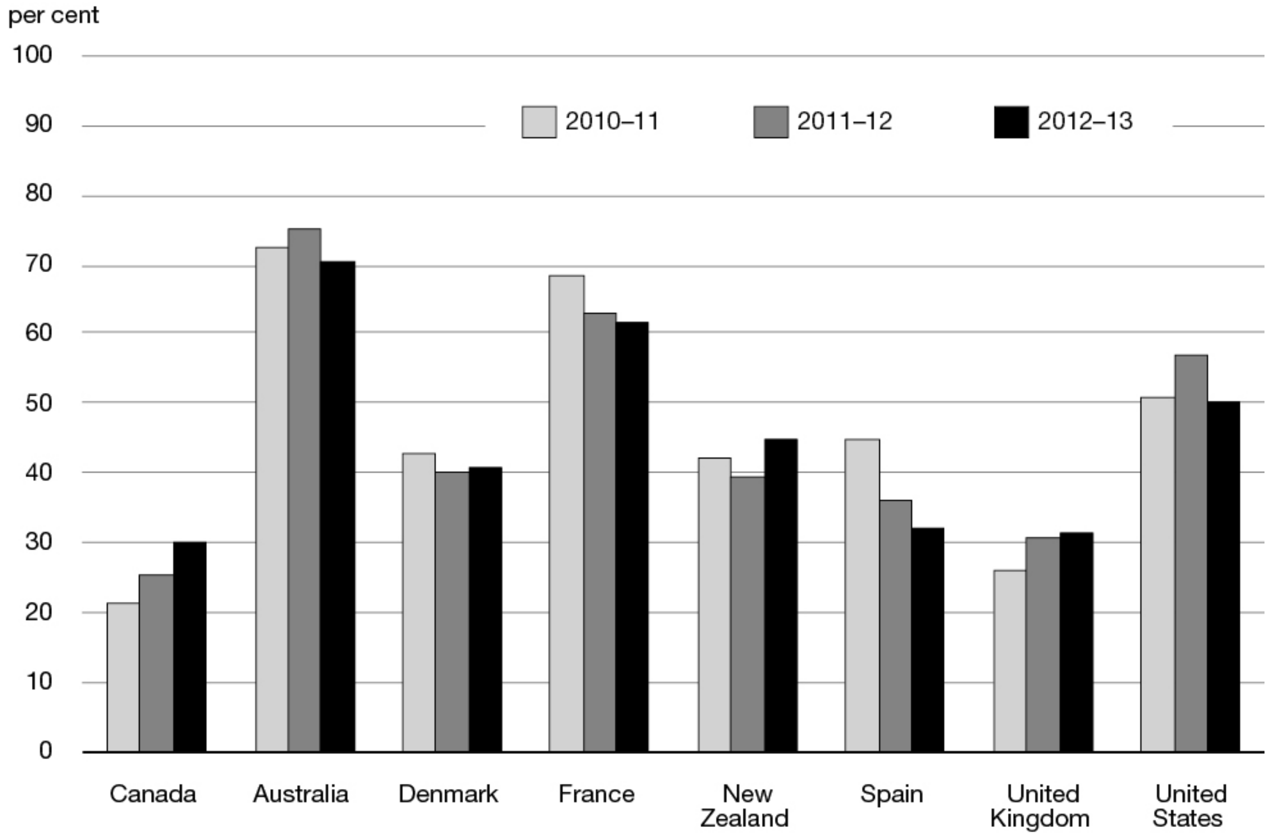



Source: Statistics Canada.

14 The turnaround time is the time taken between the submission of a bid and the return of the complete output to the auction participant. The Bank of Canada targets an average turnaround time of less than 3 minutes for auctions and less than 5 minutes for buyback operations. Maximum turnaround times are 5 minutes for auctions and 10 minutes for buyback operations.

About 30 per cent of Government of Canada marketable securities were held by non-resident investors, up about 5 percentage points from 2011–12, owing partly to the growing investment in Canadian-dollar assets by sovereign reserve managers attracted by Canada's stable AAA status. At 30 per cent, the level of non-resident holdings of Government of Canada debt remains low compared to other sovereigns (see Chart 8).

Chart 8
**International Comparison of Non-Resident Holdings of Central Government Debt**



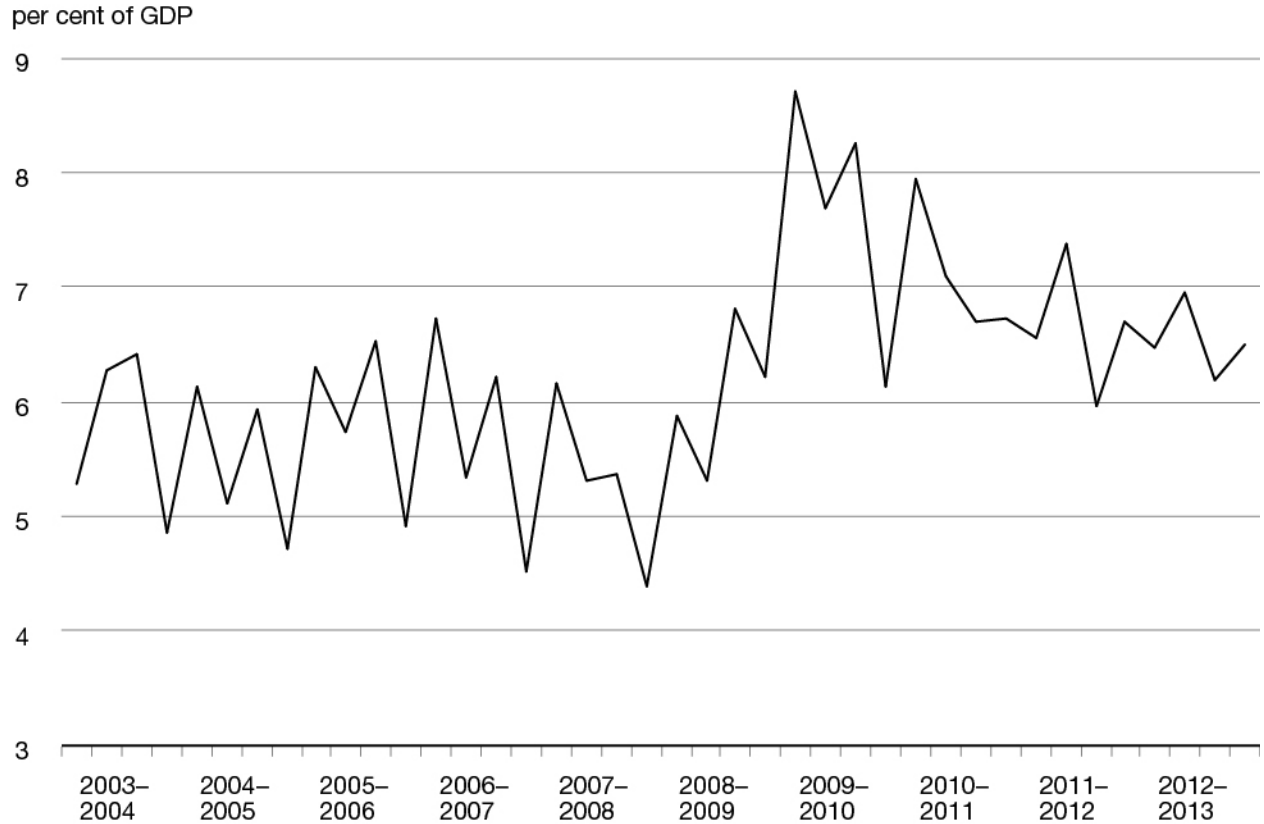

Source: Organisation for Economic Co-operation and Development, OECD Statistics, Central Government Debt Outstanding.

**Maintaining debt rollover within acceptable parameters:** Prudent management of debt refinancing needs promotes investor confidence and strives to minimize the impact of market volatility or disruptions on the funding program.

Since 2002–03, the amount of debt that matures in a given quarter has represented on average 6.1 per cent of GDP (see Chart 9). While this ratio rose to just over 8.7 per cent during the financial crisis due to increased debt issuance, it has since declined back to 6.5 per cent.

Chart 9

**Quarterly Maturities of Domestic Market Debt**




Source: Bank of Canada.

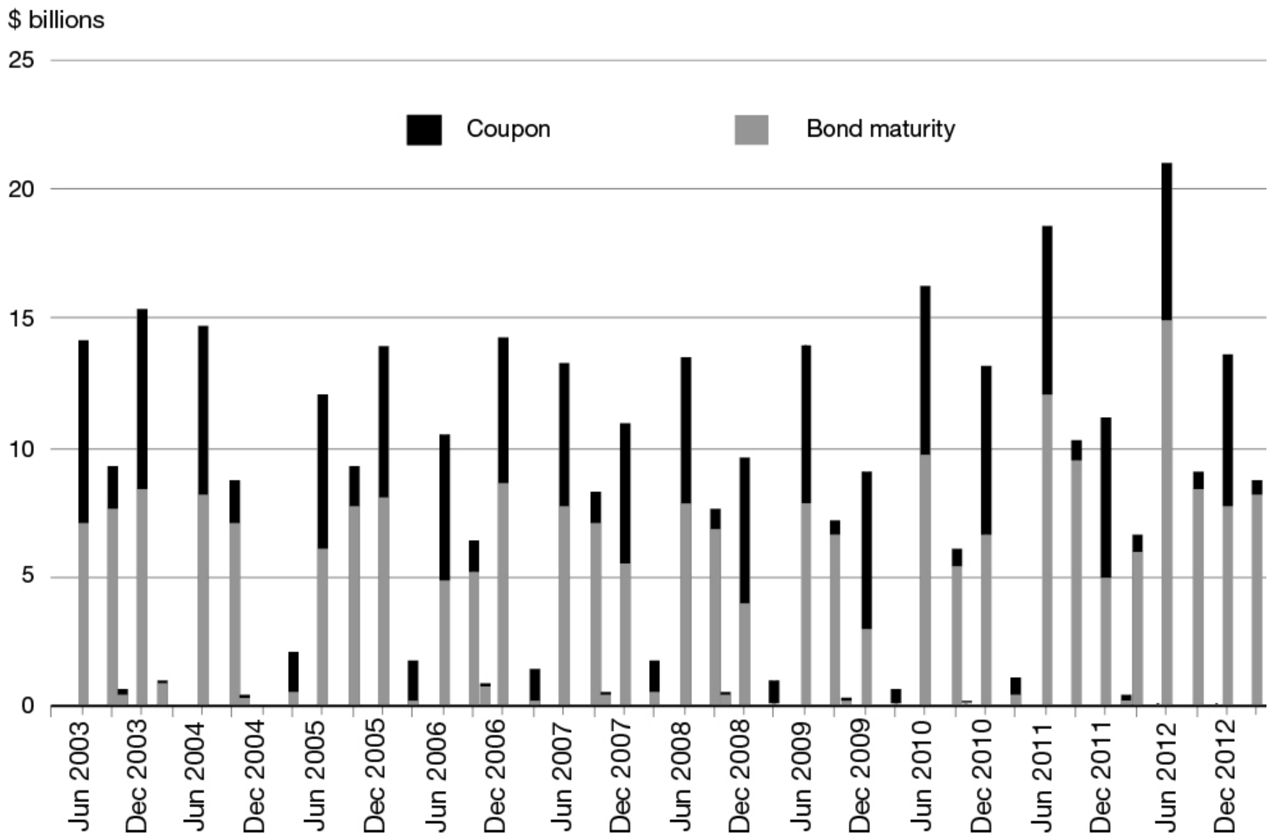
As a result of higher debt issuance since the financial crisis, the magnitude of single-day cash flow maturities has increased. At $21 billion, the June 1, 2012 maturity and coupon payment was the largest on record (see Chart 10).

The four additional maturity dates—February 1, May 1, August 1 and November 1—introduced in 2011–12 allow the debt program to absorb potential increases in funding requirements and help smooth the cash flow profile of upcoming maturities over the medium term. The benchmark maturity date profile is as follows:

- 2-year sector: February-May-August-November dates.
- 3-year sector: February-August dates.
- 5-year sector: March-September dates.
- 10-year sector: June.
- 30-year sector: December, alternating years with Real Return Bond maturities.

Chart 10

**Single-Day Bond Maturities Plus Coupon Payments, Net of Buyback Operations**




Source: Bank of Canada.

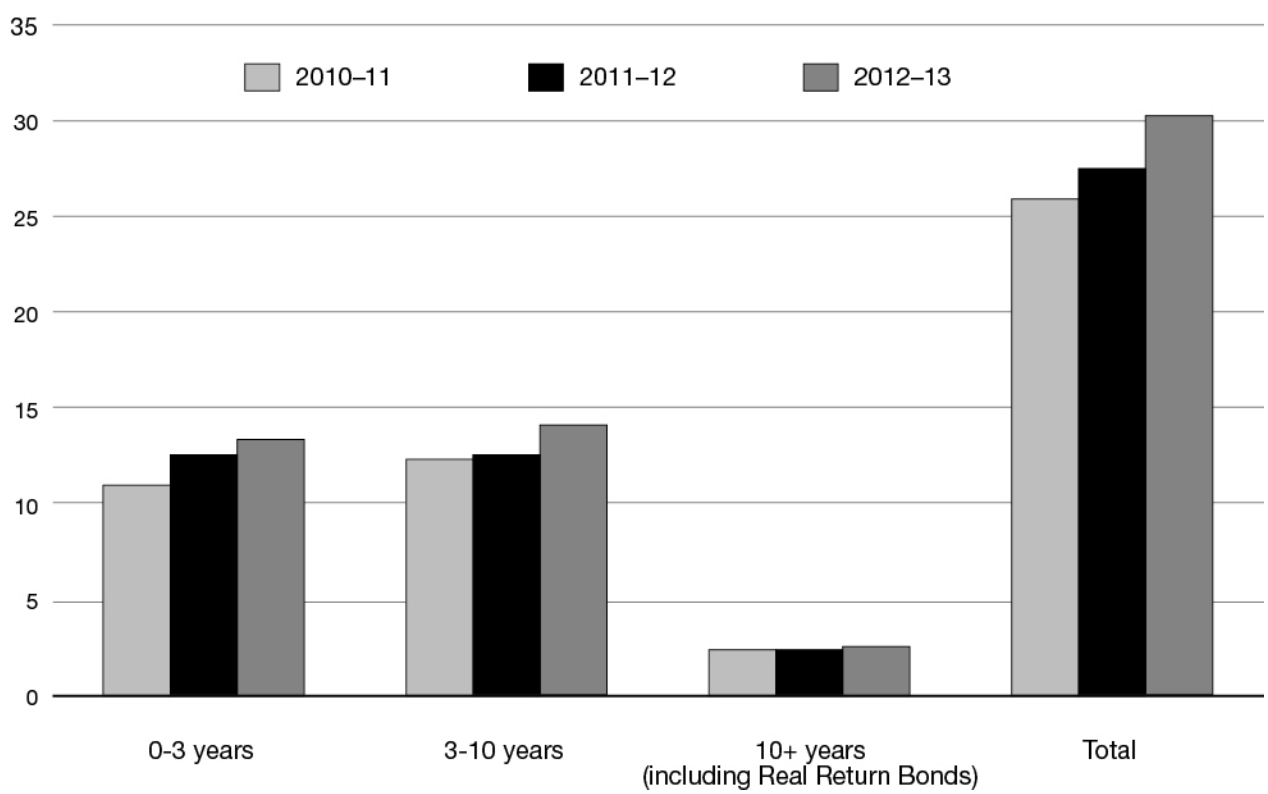
**Monitoring secondary market trading in Government of Canada securities:** The two conventional measures of liquidity and efficiency in the secondary market for Government of Canada securities are trading volume and turnover ratio.

Trading volume represents the amount of securities traded during a specific period (e.g., daily). Large trading volumes typically allow participants to buy or sell in the marketplace without a substantial impact on the price of the securities and generally imply lower bid-offer spreads.

Turnover ratio, which is the ratio of securities traded relative to the amount of securities outstanding, measures market depth and efficiency. High turnover implies that a large amount of securities changes hands over a given period of time, a hallmark of a liquid and efficient securities market.

The average daily trading volume in the secondary market for Government of Canada bonds during 2012–13 was $30.1 billion, an increase of $2.5 billion from 2011–12. Since 2010–11, average daily bond trading volumes have increased by approximately 16 per cent (see Chart 11).

Chart 11
**Government of Canada Bond Average Daily Trading Volumes**
$ billions

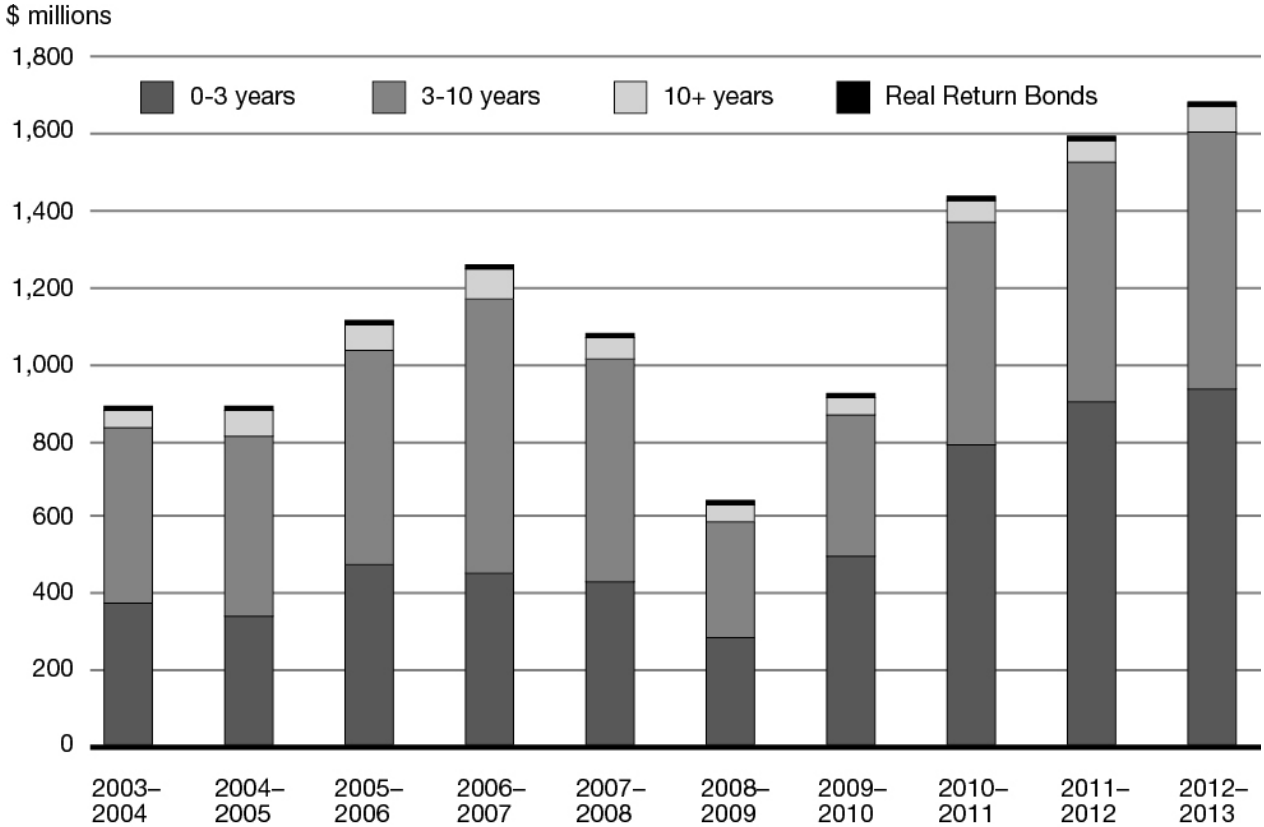



Source: Bank of Canada.

Non-resident trading volume for Government of Canada bonds totalled almost $1.7 billion in 2012–13. Since 2008–09, secondary market trading volume by non-residents has increased by 167 per cent, primarily in outstanding bonds with 0 to 3 years left until maturity (see Chart 12).

Chart 12

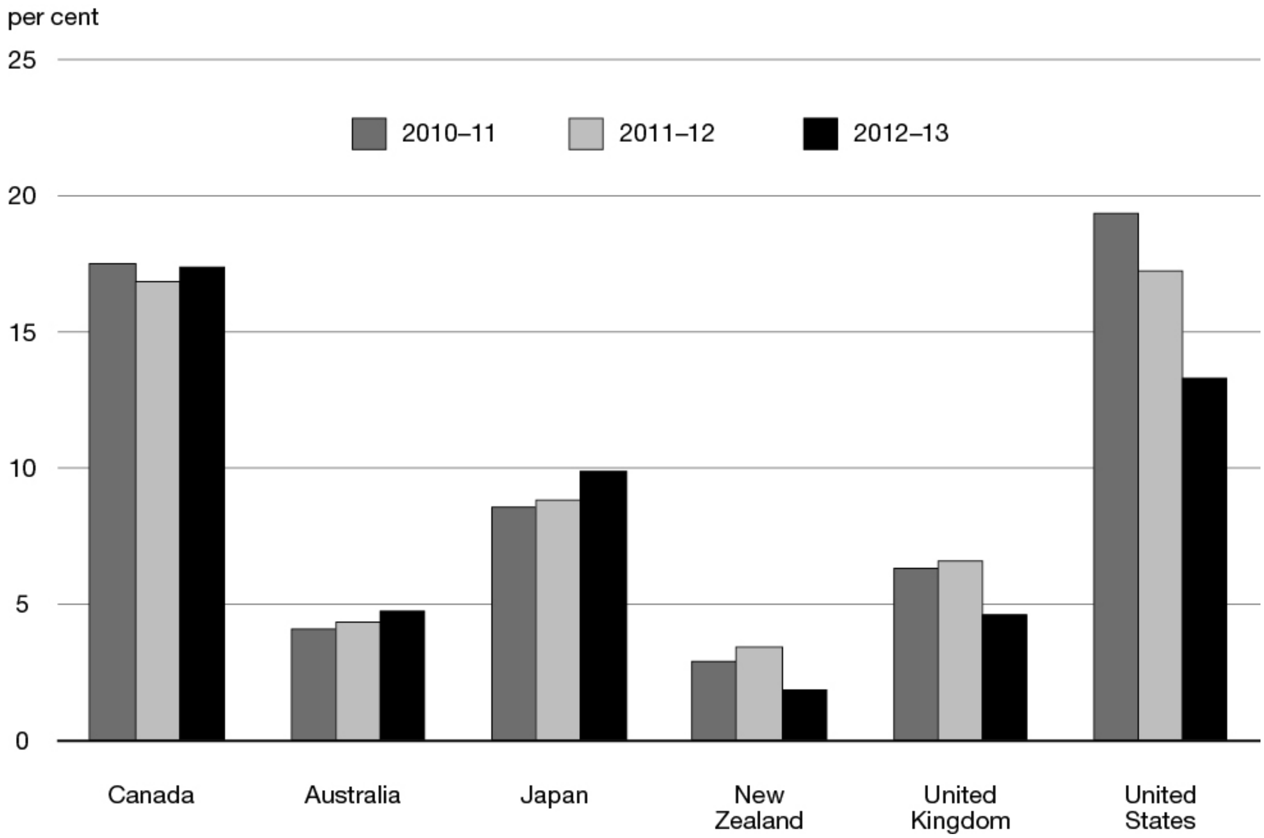
**Non-Resident Total Trading Volume of Government of Canada Bonds**




Source: Bank of Canada.

With an annual debt stock turnover ratio of 17.4 in 2012–13, the Government of Canada secondary bond market compares favourably with other major sovereign bond markets (see Chart 13).

Chart 13
**Sovereign Bond Turnover Ratios**




Note: Turnover ratio is total trading volume in each calendar year/average stock.

Sources: Bureau of the Public Debt of the US, Federal Reserve Bank of New York, Bank of Canada, United Kingdom Debt Management Office, London Stock Exchange, *Australian Financial Markets Report*, Reserve Bank of New Zealand, Japan Ministry of Finance, Japan Securities Dealers Association.

**Supporting secondary market liquidity:** The Bank of Canada operates a securities-lending program to support the liquidity of Government of Canada securities by providing a secondary and temporary source of securities to the market. The program makes available a portion of the Bank's portfolio of Government of Canada bonds and bills when there is strong demand for these securities in the market. The program offers securities held by the Bank of Canada when market pricing moves beyond a specified point.[15] The Bank of Canada conducted 30 securities-lending operations in 2012–13, compared to 14 operations in 2011–12.

[15] For bonds, the minimum bid rate is the lower of 150 basis points or 50 per cent of the Bank's target for the overnight rate (i.e., 150 basis points for target rates of 3 per cent or higher). For treasury bills, the minimum bid rate is the lower of 100 basis points or 50 per cent of the target rate (i.e., 100 basis points for target rates of 2 per cent or higher).

## Crown Borrowing Program Evaluation

An external evaluation of the Government of Canada's Crown Borrowing Program (CBP) was performed from July to December 2012 as part of the ongoing Treasury Evaluation Program. The final summary report, released in May 2013, is available on the Department of Finance website (www.fin.gc.ca/treas/evaluations/cbp-pese-eng.asp).

The objective was to evaluate the implementation, operation and performance of the CBP. The evaluation was intended to be useful for officials within the Department of Finance, participating Crown corporations, Public Works and Government Services Canada and the Bank of Canada, as well as parliamentarians and the public. It covered the activities of the CBP since its inception in 2008 until 2012.

The evaluation found that the CBP was aligned with federal government priorities, as well as with its roles and responsibilities. The evaluation also found that the CBP achieved its expected outcomes of providing for Crown corporation funding liquidity and price efficiency, and the enhancement of the function and liquidity of the Government of Canada bond market. The report provides eight recommendations. Annex F of the report provides the departmental response and action plan.

# Part III

## Report on the 2012–13 Debt Program

In 2012–13, both treasury bill and bond auctions continued to perform well. Demand for Government of Canada securities remained strong throughout the fiscal year as a result of persistent demand for fixed-income securities and Canada's strong fiscal and economic position.

## Domestic Marketable Bonds

### Bond Program

In 2012–13, gross bond issuance was $95.6 billion (including issuance through switch buybacks), about $4.3 billion lower than the $99.9 billion in 2011–12. This gross issuance consisted of $93.4 billion in nominal bonds (including switch operations), and $2.2 billion in Real Return Bonds (see Table 4). Taking into account net issuance and maturities, the stock of outstanding bonds increased by $20.9 billion to $469.0 billion over the course of the fiscal year.

Table 4
**Annual Bond Program Operations**
$ billions

| | 2008–09 | 2009–10 | 2010–11 | 2011–12 | 2012–13 |
|---|---|---|---|---|---|
| Nominal | 69.9 | 97.7 | 88.4 | 95.3 | 92.6 |
| Nominal (switch) | 3.0 | 2.3 | 4.9 | 2.4 | 0.8 |
| Real Return Bonds | 2.1 | 2.3 | 2.2 | 2.2 | 2.2 |
| Total gross issuance | 75.0 | 102.2 | 95.5 | 99.9 | 95.6 |
| Cash buyback | -3.2 | 0.0 | 0.0 | -3.0 | -0.4 |
| Switch buyback | -2.7 | -2.1 | -4.4 | -3.0 | -1.1 |
| Total buyback | -5.9 | -2.1 | -4.4 | -5.9 | -1.5 |
| Net issuance | 69.0 | 100.1 | 91.2 | 94.0 | 94.1 |

Note: Numbers may not add due to rounding.
Source: Bank of Canada.

### Auction Result Indicators for Domestic Bonds

Auction coverage is defined as the total amount of bids received, including bids from the Bank of Canada, divided by the amount auctioned. A higher auction coverage level typically reflects strong demand and therefore should result in a lower average auction yield. Bond auctions continued to be well-covered across all sectors and were above five-year averages.

Assuming that all primary dealers bid at their maximum bidding limit, the coverage ratios for primary dealers would reach 2.80 for bond auctions. However, if all primary dealers only bid at their minimum bidding obligation, the coverage ratios would be 1.40 for bond auctions.[16]

The auction tail represents the number of basis points between the highest yield accepted and the average yield of an auction. A small auction tail is preferable as it is generally indicative of better transparency in the pricing of securities.

A total of 32 nominal bond auctions were conducted in 2012–13, one more operation than in 2011–12. Auction results are presented in Table 5.[17] Low volatility and less uncertainty regarding the economic and interest rate outlook resulted in small tails for most sectors in 2012–13. The size of the tail and coverage on the 3-year bond (reinstated in 2009–10) continues to improve.

Table 5
**Performance at Domestic Bond Auctions**

| | | Nominal Bonds | | | | | Real Return Bonds |
|---|---|---|---|---|---|---|---|
| | | 2-Year | 3-Year | 5-Year | 10-Year | 30-Year | 30-Year |
| Coverage | 2012–13 | 2.87 | 2.87 | 2.79 | 2.55 | 2.71 | 2.76 |
| Coverage | 5-year average | 2.60 | 2.58[1] | 2.43 | 2.37 | 2.60 | 2.48 |
| Tail | 2012–13 | 0.22 | 0.29 | 0.34 | 0.63 | 0.35 | n/a |
| Tail | 5-year average | 0.36 | 0.64[1] | 0.62 | 0.94 | 0.56 | n/a |

Notes: Tail represents the number of basis points between the highest yield accepted and the average yield of an auction. Coverage is defined as the total amount of bids received, including bids from the Bank of Canada, divided by the amount auctioned.

1 Reflects only four years of data since the 3-year bond was reintroduced in 2009–10.

Source: Bank of Canada.

## Participation at Domestic Bond Auctions

In 2012–13, primary dealers (PDs) were allotted 82 per cent of auctioned nominal debt securities and customers were allotted 16 per cent (see Table 6).[18] The 10 most active participants were allotted 81 per cent of these securities. Primary dealers' share of the Real Return Bond allotments was 36 per cent, down 1 percentage point from 2011–12 and below the 52 per cent mark in 2010–11. Customers increased their share to 64 per cent from 62 per cent in 2011–12.

16 Under the *Terms of Participation in Auctions for Government Securities Distributors* (www.bankofcanada.ca/en/markets/markets_auct.html), a primary dealer's bids, and bids from its customers, must total a minimum of 50 per cent of its auction limit or 50 per cent of its formula calculation, rounded upward to the nearest percentage point, whichever is lower. In addition, the minimum level of bidding must be at a reasonable price.

17 Tails are not calculated for Real Return Bond auctions since successful bidders are allotted bonds at the single-price equivalent of the highest real yield (single-price auction type) of accepted competitive bids. See Section 6 of the *Standard Terms for Auctions of Government of Canada Real Return Bonds* (www.bankofcanada.ca/wp-content/uploads/2010/07/terms-rrb110110.pdf).

18 A customer is a bidder on whose behalf a government securities distributor (GSD) has been directed to submit a competitive or non-competitive bid for a specified amount of securities at a specific price.

Table 6

**Historical Share of Amount Allotted to Participants by Type of Auction**[1]

**Nominal Bonds**

| Participant Type | 2008–09 | | 2009–10 | | 2010–11 | | 2011–12 | | 2012–13 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) |
| PDs | 66 | 94 | 85 | 87 | 75 | 84 | 80 | 84 | 76 | 82 |
| Non-PD GSDs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 |
| Customers | 4 | 6 | 13 | 13 | 14 | 15 | 15 | 16 | 15 | 16 |
| Top 5 participants | 46 | 66 | 55 | 56 | 46 | 52 | 51 | 53 | 49 | 53 |
| Top 10 participants | 63 | 91 | 81 | 83 | 72 | 81 | 77 | 81 | 75 | 81 |
| Total nominal bonds issued | 70 | | 98 | | 88 | | 95 | | 93 | |

**Real Return Bonds**

| Participant Type | 2008–09 | | 2009–10 | | 2010–11 | | 2011–12 | | 2012–13 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) |
| PDs | 1 | 37 | 1 | 56 | 1 | 52 | 1 | 37 | 1 | 36 |
| Non-PD GSDs | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Customers | 1 | 62 | 1 | 43 | 1 | 48 | 1 | 62 | 1 | 64 |
| Top 5 participants | 1 | 52 | 1 | 57 | 1 | 56 | 1 | 48 | 1 | 59 |
| Top 10 participants | 2 | 73 | 2 | 75 | 2 | 75 | 2 | 68 | 2 | 77 |
| Total Real Return Bonds issued | 2 | | 2 | | 2 | | 2 | | 2 | |

Note: Numbers may not add due to rounding.

[1] Net of Bank of Canada allotment.

Source: Bank of Canada.

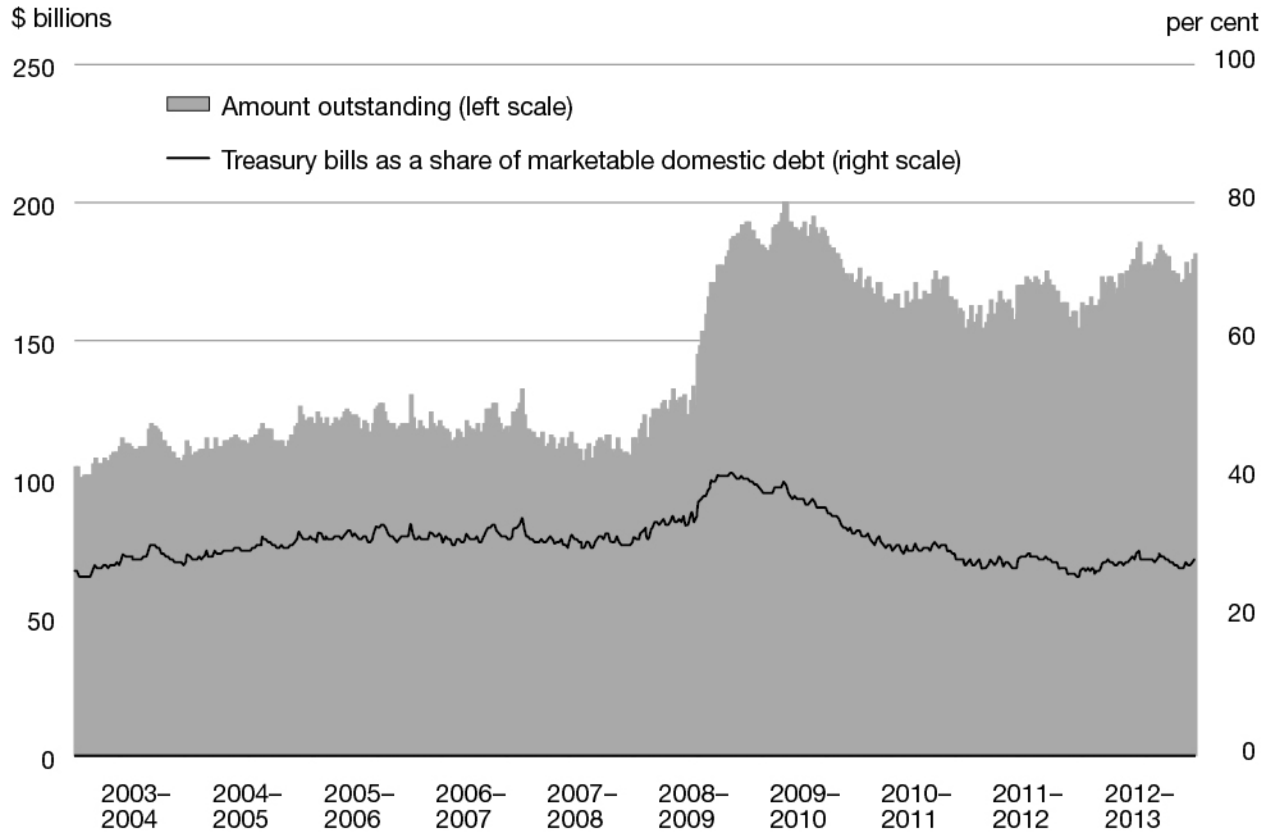
## Treasury Bills and Cash Management Bills

Over 2012–13, $373 billion in 3-month, 6-month and 1-year treasury bills were issued, an increase of $27.5 billion from the previous year. In addition, $78.1 billion in cash management bills were issued compared to $81.9 billion in 2011–12. The number of cash management bill operations was 32 in 2012–13, compared to 33 in 2011–12.

During 2012–13, the combined treasury and cash management bill stock totalled $180.7 billion, a $17.5-billion increase from 2011–12 (see Chart 14). Net new issuance of treasury bills ranged from -$1.7 billion to +$3.3 billion per operation, with a standard deviation of $1.5 billion in 2012–13, compared to -$3.5 billion to +$3.2 billion per operation, with a standard deviation of $1.8 billion in 2011–12.

Chart 14

**Treasury Bills Outstanding and as % of Marketable Debt**




Source: Bank of Canada.

If all primary dealers bid at their maximum bidding limit for treasury bill auctions, the coverage ratios for primary dealers would reach 2.5. However, if all primary dealers only bid at their minimum bidding obligation, the coverage ratios would be 1.04.

In 2012–13, all of the treasury bill and cash management bill auctions were fully covered. Coverage ratios for treasury bill auctions in 2012–13 were slightly higher than the five-year average and were consistent with the trend observed at bond auctions (see Table 7). Low interest rates also resulted in smaller tails for treasury bill and cash management bill auctions.

Table 7

**Performance at Treasury Bill and Cash Management Bill Auctions**

| | | Treasury Bills | | | |
|---|---|---|---|---|---|
| | | 3-Month | 6-Month | 12-Month | Cash Management Bills |
| Coverage | 2012–13 | 2.26 | 2.62 | 2.63 | 2.41 |
| Coverage | 5-year average | 2.12 | 2.40 | 2.36 | 2.33 |
| Tail | 2012–13 | 0.48 | 0.40 | 0.44 | 1.14 |
| Tail | 5-year average | 0.72 | 0.69 | 0.91 | 2.24 |

Notes: Tail represents the number of basis points between the highest yield accepted and the average yield of an auction. Coverage is defined as the total amount of bids received, including bids from the Bank of Canada, divided by the amount auctioned.

Source: Bank of Canada

## Participation at Treasury Bill Auctions

In 2012–13, the share of short-term debt securities allotted to primary dealers decreased by 3 percentage points to 75 per cent, while the share allotted to customers increased by 3 percentage points to 23 per cent (see Table 8). The 10 most active participants were allotted about 83 per cent of these securities.

Table 8

**Historical Share of Amount Allotted to Participants by Type of Auction[1]**

**Treasury Bills**

| Participant Type | 2008–09 | | 2009–10 | | 2010–11 | | 2011–12 | | 2012–13 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) | ($ billions) | (%) |
| PDs | 322 | 90 | 324 | 86 | 285 | 84 | 271 | 78 | 279 | 75 |
| Non-PD GSDs | 1 | 0 | 6 | 1 | 4 | 1 | 7 | 2 | 10 | 3 |
| Customers | 36 | 10 | 46 | 12 | 50 | 15 | 68 | 20 | 84 | 23 |
| Top 5 participants | 246 | 69 | 251 | 67 | 219 | 64 | 206 | 60 | 236 | 63 |
| Top 10 participants | 325 | 91 | 331 | 88 | 287 | 85 | 292 | 85 | 308 | 83 |
| Total treasury bills issued | 359 | | 376 | | 376 | | 339 | | 373 | |

Note: Numbers may not add due to rounding.

1 Net of Bank of Canada allotment.

Source: Bank of Canada.

## Foreign Currency Debt

Foreign currency debt is used to fund the Exchange Fund Account (EFA), which represents the largest component of the official international reserves. The EFA is primarily made up of liquid foreign currency securities and special drawing rights (SDRs). SDRs are international reserve assets created by the International Monetary Fund (IMF) whose value is based on a basket of international currencies. The official international reserves also include Canada's reserve position at the IMF. This position, which represents Canada's investment in the activities of the IMF, fluctuates according to drawdowns and repayments from the IMF. The *Report on the Management of Canada's Official International Reserves* (www.fin.gc.ca/purl/efa-eng.asp) provides information on the objectives, composition and performance of the reserves portfolio.

The market value of Canada's official international reserves increased to $70.2 billion as at March 31, 2013 from $69.4 billion as at March 31, 2012. The change comprised a $556-million increase in EFA assets and a $302-million increase in the reserve position in the IMF. The increase in EFA assets, which totalled $65.8 billion as at March 31, 2013, was consistent with the Government's commitment to maintain holdings of liquid foreign exchange reserves at or above 3 per cent of gross domestic product. EFA assets are held primarily in the debt securities of highly rated sovereigns, their explicitly or implicitly supported borrowing entities, and supranational organizations.

The EFA is funded by liabilities of the Government of Canada denominated in, or converted to, foreign currencies. Funding requirements are primarily met through an ongoing program of cross-currency swaps of domestic bond issues. Total cross-currency swap funding and maturities during the reporting period were $5.9 billion and $4.1 billion respectively.

In addition to cross-currency swaps of domestic bond issues, the EFA can be funded through a short-term US-dollar paper program (Canada bills), medium-term note issuance in various markets (Canada notes, euro medium-term notes) and international bond issues (global bonds), the use of which depends on funding needs and market conditions (see Table 9).

Table 9

### Outstanding Foreign Currency Issues

par value in millions of dollars

| | March 31, 2013 | March 31, 2012 | Change |
|---|---|---|---|
| Swapped domestic issues | 41,376 | 40,821 | 555 |
| Global bonds | 8,564 | 8,667 | -103 |
| Canada bills | 2,001 | 2,001 | 0 |
| Euro medium-term notes | 0 | 0 | 0 |
| Canada notes | 0 | 0 | 0 |
| Total | 51,941 | 51,489 | 452 |

Note: Liabilities are stated at the exchange rates prevailing on March 31, 2013.

As at March 31, 2013, the Government of Canada had three global bonds outstanding (see Table 10). As with all foreign currency borrowing conducted by the Government of Canada, the proceeds from global bond issuance supplement Canada's foreign exchange reserves and further diversify the funding base.

Table 10
**Government of Canada Global Bonds Outstanding**

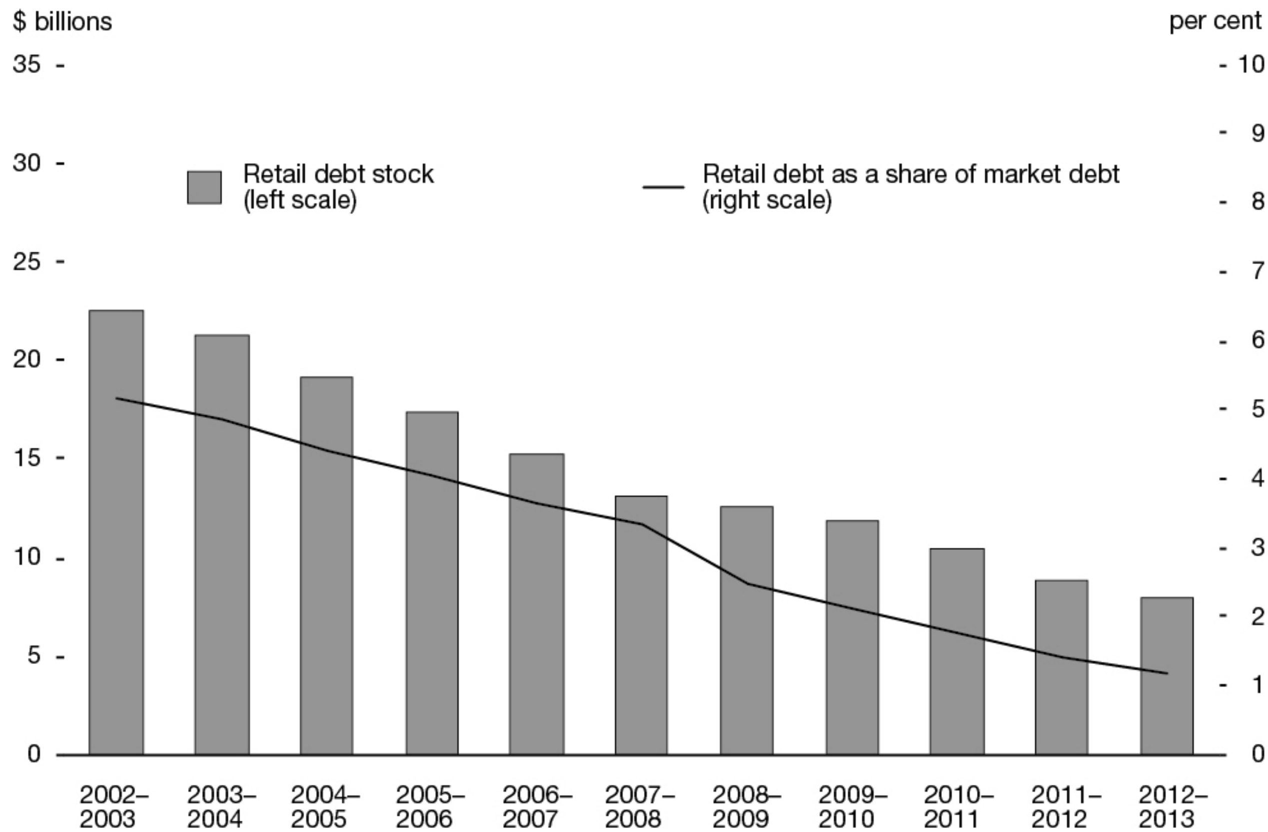
| Year of Issuance | Market | Amount in Original Currency | Yield (%) | Term to Maturity (Years) | Coupon (%) | Benchmark Interest Rate—Government Bonds | Spread From Benchmark at Issuance (Basis Points) | Spread Over Swap Curve in Relevant Currency on Issuance Date (Basis Points) |
|---|---|---|---|---|---|---|---|---|
| 2009 | Global | US$3 billion | 2.498 | 5 | 2.375 | US | 23.5 | LIBOR – 15.0 |
| 2010 | Global | €2 billion | 3.571 | 10 | 3.500 | Germany | 19.4 | EURIBOR + 2.0 |
| 2012 | Global | US$3 billion | 0.888 | 5 | 0.875 | US | 8.0 | LIBOR – 23.5 |

Notes: LIBOR = London Interbank Offered Rate. EURIBOR = Euro Interbank Offered Rate.
Source: Department of Finance.

## Retail Debt

The level of outstanding Canada Savings Bonds and Canada Premium Bonds held by retail investors decreased from $8.9 billion at the start of 2012–13 to $7.5 billion at the end of 2012–13, representing around 1.2 per cent of total market debt as at March 31, 2013 (see Chart 15).

Chart 15
**Evolution of the Retail Debt Stock**




Source: Bank of Canada.

Gross sales and redemptions were $1.7 billion and $3.2 billion, respectively, for a net reduction of $1.4 billion in the stock of retail debt (see Table 11).

Table 11
**Retail Debt Gross Sales and Redemptions, 2012–13**
$ billions

| | Gross Sales | Redemptions | Net Change |
|---|---|---|---|
| Payroll | 1.5 | 1.5 | 0.0 |
| Cash | 0.2 | 1.6 | -1.4 |
| Total | 1.7 | 3.2 | -1.4 |

Note: Numbers may not add due to rounding.
Source: Bank of Canada.

## Cash Management

The Bank of Canada, as fiscal agent for the Government, manages the Receiver General (RG) Consolidated Revenue Fund, from which the balances required for the Government's day-to-day operations are drawn. The core objective of cash management is to ensure that the Government has sufficient cash available at all times to meet its operating requirements.

Cash consists of moneys on deposit to the credit of the Receiver General for Canada with the Bank of Canada, chartered banks and other financial institutions. Cash with the Bank of Canada includes operational balances and balances held for the prudential liquidity plan.

RG cash balances increased from $13 billion to $26 billion in 2012–13, primarily due to the implementation of the prudential liquidity plan announced in Budget 2011 (see Table 12 and Chart 16).

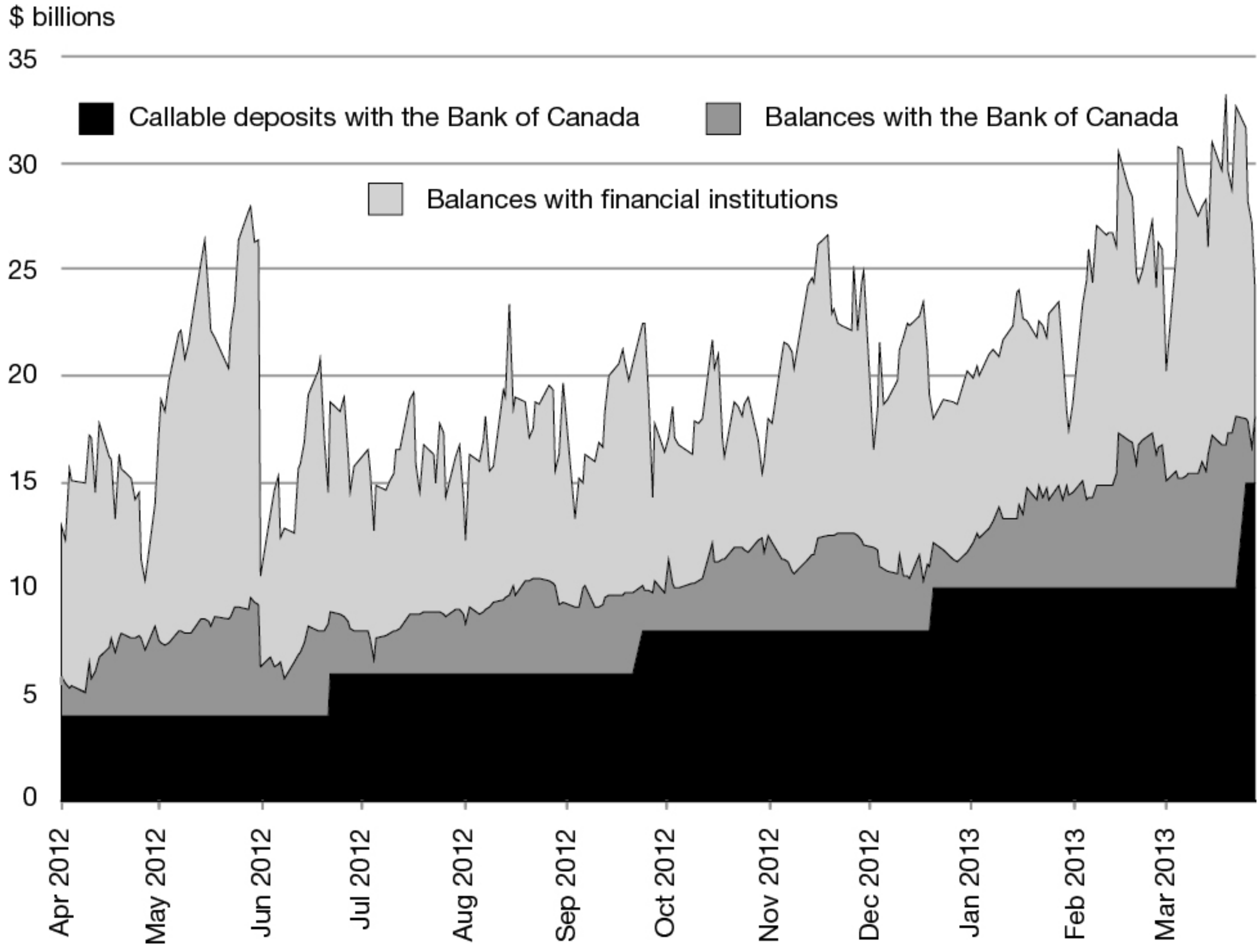
Table 12
**Daily Liquidity Position, 2012–13**
$ billions

| | March 31, 2012 | March 31, 2013 | Average | Net Change |
|---|---|---|---|---|
| Callable deposits with the Bank of Canada | 4.0 | 15.0 | 7.2 | 11.0 |
| Balances with the Bank of Canada | 2.1 | 2.9 | 3.7 | 0.8 |
| Balances with financial institutions | 6.6 | 8.5 | 9.3 | 1.9 |
| Total | 12.6 | 26.4 | 20.1 | 13.8 |

Note: Numbers may not add due to rounding.
Source: Bank of Canada.

Chart 16

**Daily Liquidity Position, 2012–2013[1]**




[1] Represents liquidity available on the specific day versus the 20-day forward-looking requirements from that same day.

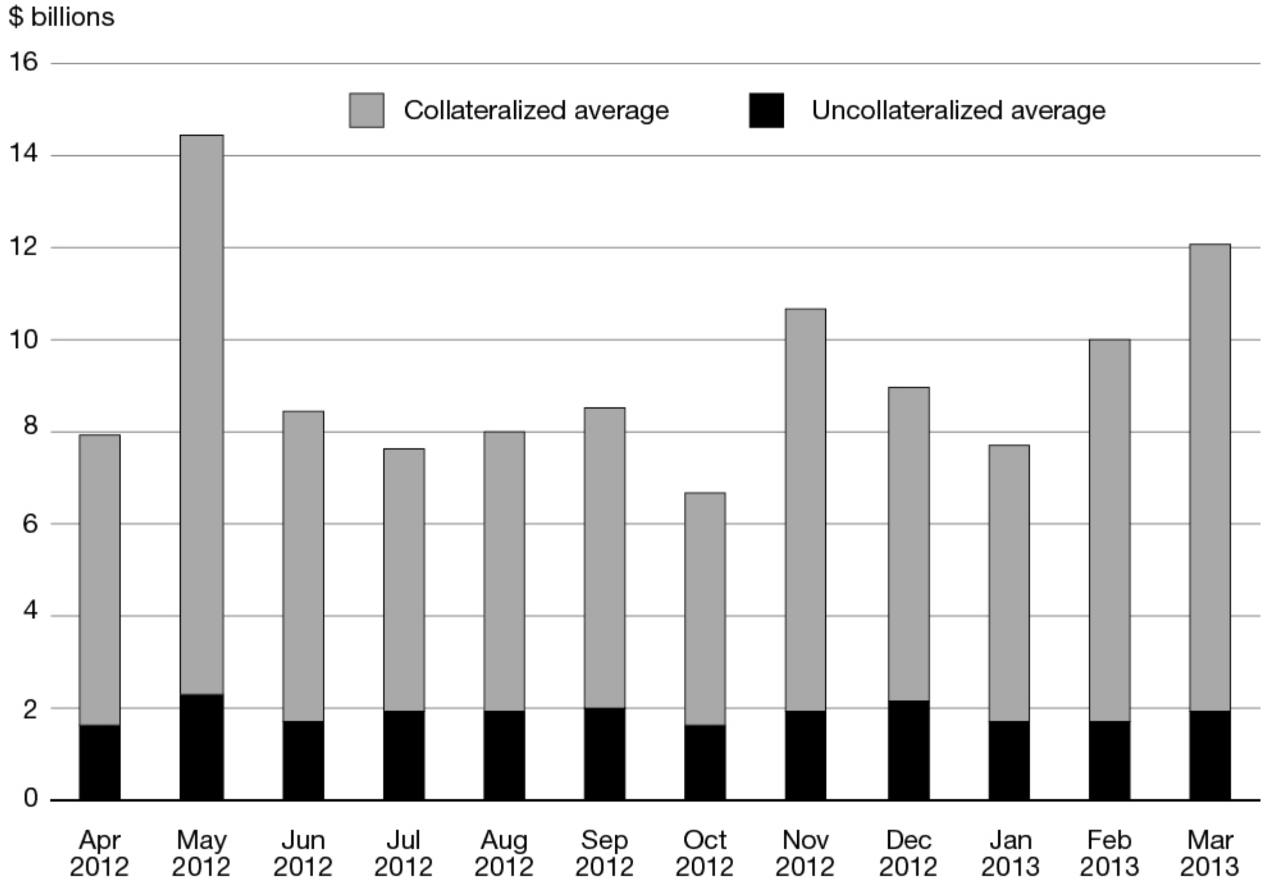
## Investment of Receiver General Cash Balances

RG cash balances on deposit with chartered banks and other financial institutions are invested in a prudent and cost-effective manner. Since February 1999, when Canada's electronic funds transfer system—the Large Value Transfer System—was implemented, RG cash balances have been allocated to bidders twice daily through an auction process administered by the Bank of Canada. These auctions serve two main purposes: first, as a treasury management tool, they are the means by which the Government invests its excess short-term Canadian-dollar cash balances; second, the auctions are used by the Bank of Canada in its monetary policy implementation to neutralize the impact of public sector flows on the financial system.

A portion of the morning auction has been offered on a collateralized basis since September 2002, permitting access to a broader group of potential participants, while ensuring that the Government's credit exposure is effectively mitigated. Participants with approval for uncollateralized bidding limits maximize their uncollateralized lines prior to using their collateralized lines. Generally, at least 20 per cent of the balances are collateralized; however, in months of high balances, the proportion of collateralized balances can exceed 80 per cent (see Chart 17).

Chart 17

**Receiver General Auctions of Cash Balances**
**Allocation Between Collateralized and Uncollateralized Tranches**
(Average of Daily Balances for Each Month)




Source: Bank of Canada.

A key measure of the cost to the Government of maintaining cash balances is the net return on these cash balances—the difference between the return on government cash balances auctioned to financial institutions (typically around the overnight rate) and the weighted average yield paid on treasury bills. A normal upward sloping yield curve results in a negative cost of carry for the Government, as financial institutions pay rates of interest for government deposits based on an overnight rate that is lower than the rate paid by the Government to issue treasury bills. Conversely, under an inverted yield curve, short-term deposit rates are higher than the average of 3- to 12-month treasury bill rates, which can result in a net gain for the Government.

In 2012–13, treasury bill yields traded predominantly higher than the overnight rate, resulting in a loss of carrying cash of $2.2 million for the fiscal year, compared to a gain of $0.7 million in 2011–12 and a loss of $7.2 million in 2010–11.

## Cash Management Bond Buyback Program

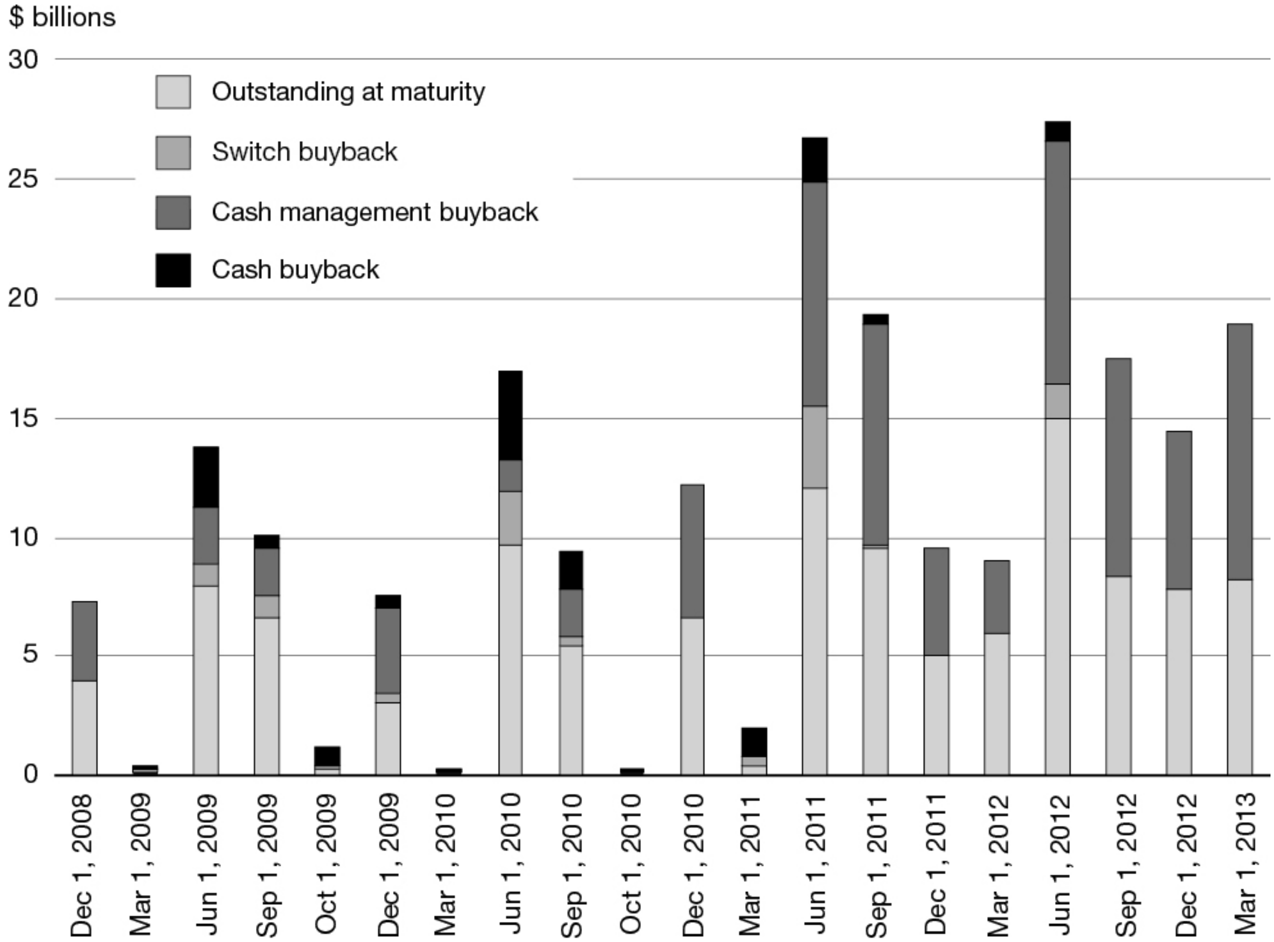
The cash management bond buyback (CMBB) program helps manage cash requirements by reducing the high levels of cash balances needed for key maturity and coupon payment dates. The program also helps smooth variations in treasury bill auction sizes over the year. Securities targeted under this program are Government of Canada bonds with a term to maturity of up to 18 months where the total amount of maturing bonds is greater than $8 billion. Consistent with feedback received during market consultations, weekly CMBB operations were continued in 2012–13.

In 2012–13, the total amount of bonds repurchased through the CMBB program was $31.3 billion, compared to $30.5 billion in 2011–12. In 2012–13, the program contributed to reducing the size of the 2012 June 1, September 1 and December 1 as well as the 2013 March 1 bond maturities by about 27 per cent, from a total of $54.1 billion outstanding at the start of the fiscal year to $39.3 billion outstanding at maturity.

The CMBB program has been the most consistently useful method for reducing maturity sizes (see Chart 18). However, switch and cash repurchase operations have also proven to be valuable tools in recent years. Overall, total repurchase operations reduced the size of the 2012 June 1, September 1 and December 1 as well as the 2013 March 1 bond maturities by 50 per cent.

Chart 18

**Impact of Repurchase Operations on Bond Maturities**




Source: Bank of Canada.

# Annex 1

## Completed Treasury Evaluation Reports

In order to inform future decision making and to support transparency and accountability, different aspects of the Government of Canada's treasury activities are reviewed periodically under the Treasury Evaluation Program. The program's purpose is to obtain periodic external assessments of the frameworks and processes used in the management of wholesale and retail market debt, cash and reserves as well as the treasury activities of other entities under the authority of the Minister of Finance.

Reports on the findings of these evaluations and the Government's response to each evaluation are tabled with the House of Commons Standing Committee on Public Accounts by the Minister of Finance. Copies are also sent to the Auditor General of Canada. The reports are posted on the Department of Finance website.

| Area | Year |
|---|---|
| Debt Management Objectives | 1992 |
| Debt Structure—Fixed/Floating Mix | 1992 |
| Internal Review Process | 1992 |
| External Review Process | 1992 |
| Benchmarks and Performance Measures | 1994 |
| Foreign Currency Borrowing—Canada Bills Program | 1994 |
| Developing Well-Functioning Bond and Bill Markets | 1994 |
| Liability Portfolio Performance Measurement | 1994 |
| Retail Debt Program | 1994 |
| Guidelines for Dealing With Auction Difficulties | 1995 |
| Foreign Currency Borrowing—Standby Line of Credit and FRN | 1995 |
| Treasury Bill Program Design | 1995 |
| Real Return Bond Program | 1998 |
| Foreign Currency Borrowing Programs | 1998 |
| Initiatives to Support a Well-Functioning Wholesale Market | 2001 |
| Debt Structure Target/Modelling | 2001 |
| Reserves Management Framework[1] | 2002 |
| Bond Buybacks[1] | 2003 |
| Funds Management Governance Framework[1] | 2004 |
| Retail Debt Program[1] | 2004 |
| Borrowing Framework of Major Federal Government-Backed Entities[1] | 2005 |
| Receiver General Cash Management Program[1] | 2006 |
| Exchange Fund Account Evaluation[1] | 2006 |
| Risk Management Report[1] | 2007 |
| Evaluation of the Debt Auction Process[1] | 2010 |
| Evaluation of the Asset Allocation Framework of the Exchange Fund Account[1] | 2012 |
| Report of the Auditor General of Canada on Interest-Bearing Debt[2] | 2012 |
| Crown Borrowing Program Evaluation[1] | 2013 |

1 Available on the Department of Finance website (www.fin.gc.ca).

2 This audit was conducted outside of the Treasury Evaluation Program.

# Annex 2

## Debt Management Policy Measures Taken Since 1997

A well-functioning wholesale market in Government of Canada securities is important as it benefits the Government as a borrower as well as a wide range of market participants. For the Government as a debt issuer, a well-functioning market attracts investors and contributes to keeping funding costs low and stable over time. For market participants, a liquid and transparent secondary market in government debt provides risk-free assets for investment portfolios, a pricing benchmark for other debt issues and derivatives, and a primary tool for hedging interest rate risk. The following table lists policy measures that have been taken to ensure a well-functioning Government of Canada securities market.

| Measure | Year |
|---|---|
| Dropped the 3-year bond benchmark | 1997 |
| Moved from weekly to bi-weekly treasury bill auctions | 1998 |
| Introduced a cash-based bond buyback program | 1999 |
| Introduced standardized benchmarks (fixed maturities and increased size) | 1999 |
| Started regular cross-currency swap-based funding of foreign assets | 1999 |
| Introduced a switch-based bond buyback program | 2001 |
| Allowed the reconstitution of bonds beyond the size of the original amount issued | 2001 |
| Introduced the cash management bond buyback program | 2001 |
| Reduced targeted turnaround times for auctions and buyback operations | 2001 |
| Advanced the timing of treasury bill auctions from 12:30 p.m. to 10:30 a.m. | 2004 |
| Advanced the timing of bond auctions from 12:30 p.m. to 12:00 p.m. | 2005 |
| Reduced the timing between bond auctions and cash buybacks to 20 minutes | 2005 |
| Dropped one quarterly 2-year auction | 2006 |
| Announced the maintenance of benchmark targets through fungibility (common dates) | 2006 |
| Consolidated the borrowings of three Crown corporations | 2007 |
| Changed the maturity of the 5-year benchmark and dropped one quarterly 5-year auction | 2007 |
| Reintroduced the 3-year bond benchmark | 2009 |
| Increased the frequency of cash management bond buyback operations from bi-weekly to weekly | 2010 |
| Announced a new medium-term debt management strategy | 2011 |
| Announced plans to increase the level of prudential liquidity by $35 billion over 3 years | 2011 |
| Added four new maturity dates—February 1, May 1, August 1 and November 1 | 2011 |
| Increased benchmark target range sizes in the 2-, 3- and 5-year sectors | 2011 |
| Announced a temporary increase in longer-term debt issuance | 2012 |

# Annex 3

## Glossary

**asset-liability management:** An investment decision-making framework that is used to concurrently manage a portfolio of assets and liabilities.

**average term to maturity:** The weighted average amount of time until the securities in the debt portfolio mature.

**benchmark bond:** A bond that is considered by the market to be the standard against which all other bonds in that term area are evaluated against. It is typically a bond issued by a sovereign, since sovereign debt is usually the most creditworthy within a domestic market. Usually it is the most liquid bond within each range of maturities and is therefore priced accurately.

**budgetary deficit:** The shortfall between government annual revenues and annual budgetary expenses.

**buyback on a cash basis:** The repurchase of bonds for cash. Buybacks on a cash basis are used to maintain the size of bond auctions and new issuances.

**buyback on a switch basis:** The exchange of outstanding bonds for new bonds in the current building benchmark bond.

**Canada bill:** A promissory note denominated in US dollars, issued for terms of up to 270 days. Canada bills are issued for foreign exchange reserves funding purposes only.

**Canada Investment Bond:** A non-marketable fixed-term security instrument issued by the Government of Canada.

**Canada note:** A promissory note usually denominated in US dollars and available in book-entry form. Canada notes can be issued for terms of nine months or longer, and can be issued at a fixed or a floating rate. Canada notes are issued for foreign exchange reserves funding purposes only.

**Canada Premium Bond:** A non-marketable security instrument issued by the Government of Canada, which is redeemable once a year on the anniversary date or during the 30 days thereafter without penalty.

**Canada Savings Bond:** A non-marketable security instrument issued by the Government of Canada, which is redeemable on demand by the registered owner(s), and which, after the first three months, pays interest up to the end of the month prior to cashing.

**cross-currency swap:** An agreement that exchanges one type of debt obligation for another involving different currencies and the exchange of the principal amounts and interest payments.

**duration:** Measures the sensitivity of the price of a bond or portfolio to fluctuations in interest rates. It is a measure of volatility and is expressed in years. The higher the duration number, the greater the interest rate risk for bond or portfolio prices.

**electronic trading system:** An electronic system that provides real-time information about securities and enables the user to execute financial trades.

**Exchange Fund Account (EFA):** An account that aids in the control and protection of the external value of the Canadian dollar. Assets held in the EFA are managed to provide foreign currency liquidity to the Government and to promote orderly conditions for the Canadian dollar in the foreign exchange markets, if required.

**financial source/requirement:** The difference between the cash inflows and outflows of the Government's Receiver General account. In the case of a financial requirement, it is the amount of new borrowing required from outside lenders to meet financing needs in any given year.

**fixed-rate share of interest-bearing debt:** The proportion of interest-bearing debt that does not mature or need to be repriced within one year (i.e. the inverse of the refixing share of interest-bearing debt).

**foreign exchange reserves:** The foreign currency assets (e.g. interest-earning bonds) held to support the value of the domestic currency. Canada's foreign exchange reserves are held in the Exchange Fund Account.

**Government of Canada securities auction:** A process used for selling Government of Canada debt securities (mostly marketable bonds and treasury bills) in which issues are sold by public tender to government securities distributors and approved clients.

**government securities distributor:** An investment dealer or bank that is authorized to bid at Government of Canada auctions and through which the Government distributes Government of Canada treasury bills and marketable bonds.

**interest-bearing debt:** Debt consisting of unmatured debt, or debt issued on the credit markets, liabilities for pensions and other future benefits, and other liabilities.

**Large Value Transfer System:** An electronic funds transfer system introduced in February 1999 and operated by the Canadian Payments Association. It facilitates the electronic transfer of Canadian-dollar payments across the country virtually instantaneously.

**marketable bond:** An interest-bearing certificate of indebtedness issued by the Government of Canada, having the following characteristics: bought and sold on the open market; payable in Canadian or foreign currency; having a fixed date of maturity; interest payable either in coupon or registered form; face value guaranteed at maturity.

**marketable debt:** Market debt that is issued by the Government of Canada and sold via public tender or syndication. These issues can be traded between investors while outstanding.

**money market:** The market in which short-term capital is raised, invested and traded using financial instruments such as treasury bills, bankers' acceptances, commercial paper, and bonds maturing in one year or less.

**non-market debt:** The Government's internal debt, which is, for the most part, federal public sector pension liabilities and the Government's current liabilities (such as accounts payable, accrued liabilities, interest payments and payments of matured debt).

**overnight rate; overnight financing rate; overnight money market rate; overnight lending rate:** An interest rate at which participants with a temporary surplus or shortage of funds are able to lend or borrow until the next business day. It is the shortest term to maturity in the money market.

**primary dealer:** A member of the core group of government securities distributors that maintain a certain threshold of activity in the market for Government of Canada securities. The primary dealer classification can be attained in either treasury bills or marketable bonds, or both.

**primary market:** The market in which issues of securities are first offered to the public.

**Real Return Bond (RRB):** A bond whose interest payments are based on real interest rates. Unlike standard fixed-coupon marketable bonds, the semi-annual interest payments on Government of Canada RRBs are determined by adjusting the principal by the change in the Consumer Price Index.

**refixing share of gross domestic product (GDP):** The amount of interest-bearing debt that matures or needs to be repriced within one year relative to nominal GDP for that year.

**refixing share of interest-bearing debt:** The proportion of interest-bearing debt that matures or needs to be repriced within one year (i.e. the inverse of the fixed-rate share of interest-bearing debt).

**secondary market:** The market where existing securities trade after they have been sold to the public in the primary market.

**sovereign market:** The market for debt issued by a government.

**treasury bill:** A short-term obligation sold by public tender. Treasury bills, with terms to maturity of 3, 6 or 12 months, are currently auctioned on a bi-weekly basis.

**yield curve:** The conceptual or graphic representation of the term structure of interest rates. A “normal” yield curve is upward sloping, with short-term rates lower than long-term rates. An “inverted” yield curve is downward sloping, with short-term rates higher than long-term rates. A “flat” yield curve occurs when short-term rates are the same as long-term rates.

# Annex 4

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# Reference Tables

I Gross Public Debt, Outstanding Market Debt and Debt Charges

II Government of Canada Outstanding Market Debt

III Issuance of Government of Canada Domestic Bonds

IV Outstanding Government of Canada Domestic Bonds as at March 31, 2013

V Government of Canada Cross-Currency Swaps Outstanding as at March 31, 2013

VI Crown Corporation Borrowings as at March 31, 2013

Reference Table I

## Gross Public Debt, Outstanding Market Debt and Debt Charges

$ billions

| | Gross public debt | | | | |
|---|---|---|---|---|---|
| Fiscal year | Market debt | Market debt value adjustments | Accounts payable and accrued liabilities | Pension and other liabilities | Gross debt |
| 1985–86 | 201.2 | -0.4 | 39.4 | 79.1 | 319.4 |
| 1986–87 | 228.6 | -0.4 | 42.1 | 84.7 | 355.0 |
| 1987–88 | 250.8 | -0.9 | 47.2 | 90.9 | 388.0 |
| 1988–89 | 276.3 | -2.2 | 50.2 | 97.1 | 421.4 |
| 1989–90 | 294.6 | -2.9 | 53.2 | 104.5 | 449.3 |
| 1990–91 | 323.9 | -3.2 | 54.9 | 112.1 | 487.7 |
| 1991–92 | 351.9 | -2.2 | 56.1 | 118.5 | 524.2 |
| 1992–93 | 382.7 | -3.0 | 58.4 | 125.1 | 563.2 |
| 1993–94 | 414.0 | -1.8 | 63.7 | 131.4 | 607.3 |
| 1994–95 | 441.0 | -3.4 | 71.3 | 139.8 | 648.7 |
| 1995–96 | 469.5 | -1.7 | 74.9 | 148.5 | 691.3 |
| 1996–97 | 476.9 | 0.3 | 75.9 | 156.3 | 709.4 |
| 1997–98 | 466.8 | 1.4 | 81.7 | 160.9 | 710.8 |
| 1998–99 | 457.7 | 2.6 | 83.7 | 168.2 | 712.2 |
| 1999–00 | 454.2 | -0.2 | 83.9 | 175.8 | 713.6 |
| 2000–01 | 444.9 | 1.3 | 88.5 | 179.0 | 713.6 |
| 2001–02 | 440.9 | 0.9 | 83.2 | 177.9 | 703.0 |
| 2002–03 | 438.6 | -1.1 | 83.2 | 178.3 | 699.0 |
| 2003–04 | 436.5 | -2.5 | 85.2 | 180.9 | 700.1 |
| 2004–05 | 431.8 | -4.3 | 97.7 | 179.8 | 705.0 |
| 2005–06 | 427.3 | -6.1 | 101.4 | 179.9 | 702.5 |
| 2006–07 | 418.8 | -4.7 | 106.5 | 185.1 | 705.8 |
| 2007–08 | 394.1 | -3.4 | 110.5 | 191.2 | 692.3 |
| 2008–09 | 510.9 | 3.1 | 114.0 | 196.1 | 824.2 |
| 2009–10 | 564.4 | -5.3 | 120.5 | 203.7 | 883.3 |
| 2010–11 | 596.8 | -5.7 | 119.1 | 210.7 | 920.9 |
| 2011–12 | 631.0 | -4.7 | 125.0 | 216.4 | 967.7 |
| 2012–13 | 668.0 | -1.0 | 118.7 | 225.0 | 1,010.8 |

Reference Table I

## Gross Public Debt, Outstanding Market Debt and Debt Charges

$ billions

| | Accumulated deficit and debt charges | | | | | |
|---|---|---|---|---|---|---|
| Fiscal year | Gross debt | Financial assets | Net debt | Non-financial assets | Accumulated deficit | Gross public debt charges |
| 1985–86 | 319.4 | 70.1 | 249.2 | 21.4 | 227.8 | 27.7 |
| 1986–87 | 355.0 | 73.2 | 281.8 | 24.2 | 257.7 | 28.7 |
| 1987–88 | 388.0 | 75.0 | 313.0 | 26.3 | 286.7 | 31.2 |
| 1988–89 | 421.4 | 77.9 | 343.6 | 29.0 | 314.6 | 35.5 |
| 1989–90 | 449.3 | 74.5 | 374.8 | 31.0 | 343.8 | 41.2 |
| 1990–91 | 487.7 | 76.6 | 411.1 | 33.4 | 377.7 | 45.0 |
| 1991–92 | 524.2 | 78.5 | 445.7 | 35.8 | 410.0 | 43.9 |
| 1992–93 | 563.2 | 76.0 | 487.2 | 38.2 | 449.0 | 41.3 |
| 1993–94 | 607.3 | 79.3 | 527.9 | 40.4 | 487.5 | 40.1 |
| 1994–95 | 648.7 | 81.2 | 567.5 | 43.3 | 524.2 | 44.2 |
| 1995–96 | 691.3 | 92.7 | 598.6 | 44.4 | 554.2 | 49.4 |
| 1996–97 | 709.4 | 100.4 | 609.0 | 46.1 | 562.9 | 47.3 |
| 1997–98 | 710.8 | 103.6 | 607.2 | 47.2 | 559.9 | 43.1 |
| 1998–99 | 712.2 | 109.3 | 602.9 | 48.7 | 554.1 | 43.3 |
| 1999–00 | 713.6 | 123.5 | 590.1 | 50.2 | 539.9 | 43.4 |
| 2000–01 | 713.6 | 141.9 | 571.7 | 51.7 | 520.0 | 43.9 |
| 2001–02 | 703.0 | 137.7 | 565.3 | 53.4 | 511.9 | 39.7 |
| 2002–03 | 699.0 | 139.5 | 559.6 | 54.2 | 505.3 | 37.3 |
| 2003–04 | 700.1 | 149.1 | 551.0 | 54.8 | 496.2 | 35.8 |
| 2004–05 | 705.0 | 155.4 | 549.6 | 54.9 | 494.7 | 34.1 |
| 2005–06 | 702.5 | 165.6 | 536.9 | 55.4 | 481.5 | 33.8 |
| 2006–07 | 705.8 | 181.9 | 523.9 | 56.6 | 467.3 | 33.9 |
| 2007–08 | 692.3 | 176.0 | 516.3 | 58.6 | 457.6 | 33.3 |
| 2008–09 | 824.2 | 298.9 | 525.2 | 61.5 | 463.7 | 31.0 |
| 2009–10 | 883.3 | 300.8 | 582.5 | 63.4 | 519.1 | 29.4 |
| 2010–11 | 920.9 | 304.0 | 616.9 | 66.6 | 550.3 | 30.9 |
| 2011–12 | 967.7 | 317.6 | 650.1 | 68.0 | 582.2 | 31.0 |
| 2012–13 | 1,010.8 | 339.4 | 671.4 | 68.9 | 602.4 | 29.2 |

Reference Table II

## Government of Canada Outstanding Market Debt

$ billions

| | Payable in Canadian dollars | | | | |
|---|---|---|---|---|---|
| **Fiscal year** | **Treasury bills** | **Marketable bonds**[1] | **Retail debt** | **Canada Pension Plan bonds** | **Total** |
| 1985–86 | 62.0 | 81.1 | 44.2 | 0.4 | 187.7 |
| 1986–87 | 77.0 | 94.4 | 44.3 | 1.8 | 217.5 |
| 1987–88 | 81.1 | 103.9 | 53.3 | 2.5 | 240.8 |
| 1988–89 | 102.7 | 115.7 | 47.8 | 3.0 | 269.2 |
| 1989–90 | 118.6 | 127.7 | 40.9 | 3.1 | 290.2 |
| 1990–91 | 139.2 | 143.6 | 34.4 | 3.5 | 320.7 |
| 1991–92 | 152.3 | 158.1 | 35.6 | 3.5 | 349.5 |
| 1992–93 | 162.1 | 178.5 | 34.4 | 3.5 | 378.4 |
| 1993–94 | 166.0 | 203.4 | 31.3 | 3.5 | 404.3 |
| 1994–95 | 164.5 | 225.7 | 31.4 | 3.5 | 425.1 |
| 1995–96 | 166.1 | 252.8 | 31.4 | 3.5 | 453.8 |
| 1996–97 | 135.4 | 282.6 | 33.5 | 3.5 | 454.9 |
| 1997–98 | 112.3 | 294.6 | 30.5 | 3.5 | 440.8 |
| 1998–99 | 97.0 | 295.8 | 28.2 | 4.1 | 425.0 |
| 1999–00 | 99.9 | 294.4 | 26.9 | 3.6 | 424.7 |
| 2000–01 | 88.7 | 295.5 | 26.4 | 3.5 | 414.1 |
| 2001–02 | 94.2 | 294.9 | 24.0 | 3.4 | 416.5 |
| 2002–03 | 104.6 | 289.2 | 22.6 | 3.4 | 419.8 |
| 2003–04 | 113.4 | 279.0 | 21.3 | 3.4 | 417.1 |
| 2004–05 | 127.2 | 266.7 | 19.1 | 3.4 | 416.3 |
| 2005–06 | 131.6 | 261.9 | 17.3 | 3.1 | 413.9 |
| 2006–07 | 134.1 | 257.9 | 15.2 | 1.7 | 408.9 |
| 2007–08 | 117.0 | 253.8 | 13.1 | 1.0 | 384.9 |
| 2008–09 | 192.5 | 295.3 | 12.5 | 0.5 | 500.8 |
| 2009–10 | 175.9 | 367.9 | 11.8 | 0.5 | 556.1 |
| 2010–11 | 163.0 | 416.1 | 10.1 | 0.0 | 589.2 |
| 2011–12 | 163.2 | 448.1 | 8.9 | 0.0 | 620.3 |
| 2012–13 | 180.7 | 469.0 | 7.5 | 0.0 | 657.2 |

1 Inflation adjusted.

Reference Table II

## Government of Canada Outstanding Market Debt

$ billions

| | Payable in foreign currencies | | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal year | Canada bills | Marketable bonds | Canada notes | Euro medium-term notes | Standby drawings | Term loans | Total |
| 1985–86 | 0.0 | 9.3 | 0.0 | 0.0 | 2.2 | 2.2 | 13.8 |
| 1986–87 | 1.0 | 8.9 | 0.0 | 0.0 | 0.0 | 2.0 | 12.0 |
| 1987–88 | 1.0 | 7.9 | 0.0 | 0.0 | 0.0 | 2.3 | 11.3 |
| 1988–89 | 1.1 | 6.3 | 0.0 | 0.0 | 0.0 | 0.9 | 8.3 |
| 1989–90 | 1.4 | 4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 5.7 |
| 1990–91 | 1.0 | 3.6 | 0.0 | 0.0 | 0.0 | 0.0 | 4.5 |
| 1991–92 | 0.0 | 3.4 | 0.0 | 0.0 | 0.0 | 0.0 | 3.4 |
| 1992–93 | 2.6 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 5.4 |
| 1993–94 | 5.6 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.7 |
| 1994–95 | 9.0 | 7.9 | 0.0 | 0.0 | 0.0 | 0.0 | 16.9 |
| 1995–96 | 7.0 | 9.5 | 0.3 | 0.0 | 0.0 | 0.0 | 16.8 |
| 1996–97 | 8.4 | 12.5 | 2.1 | 0.0 | 0.0 | 0.0 | 23.0 |
| 1997–98 | 9.4 | 14.6 | 1.7 | 1.5 | 0.0 | 0.0 | 27.2 |
| 1998–99 | 10.2 | 19.7 | 1.3 | 4.9 | 0.0 | 0.0 | 36.0 |
| 1999–00 | 6.0 | 21.4 | 1.1 | 4.1 | 0.0 | 0.0 | 32.6 |
| 2000–01 | 7.2 | 21.2 | 1.6 | 3.7 | 0.0 | 0.0 | 33.7 |
| 2001–02 | 3.4 | 19.8 | 1.2 | 3.2 | 0.0 | 0.0 | 27.5 |
| 2002–03 | 2.6 | 14.5 | 1.2 | 3.3 | 0.0 | 0.0 | 21.6 |
| 2003–04 | 3.4 | 13.2 | 1.3 | 3.0 | 0.0 | 0.0 | 20.8 |
| 2004–05 | 3.9 | 9.9 | 1.1 | 1.7 | 0.0 | 0.0 | 16.5 |
| 2005–06 | 4.7 | 7.6 | 0.5 | 1.5 | 0.0 | 0.0 | 14.3 |
| 2006–07 | 1.8 | 6.7 | 0.5 | 1.6 | 0.0 | 0.0 | 10.6 |
| 2007–08 | 1.5 | 6.1 | 0.5 | 1.6 | 0.0 | 0.0 | 9.7 |
| 2008–09 | 8.7 | 0.3 | 0.0 | 1.7 | 0.0 | 0.0 | 10.6 |
| 2009–10 | 2.5 | 5.8 | 0.0 | 0.0 | 0.0 | 0.0 | 8.2 |
| 2010–11 | 2.0 | 5.6 | 0.0 | 0.0 | 0.0 | 0.0 | 7.7 |
| 2011–12 | 2.1 | 8.6 | 0.0 | 0.0 | 0.0 | 0.0 | 10.7 |
| 2012–13 | 2.1 | 8.7 | 0.0 | 0.0 | 0.0 | 0.0 | 10.8 |

Reference Table II

## Government of Canada Outstanding Market Debt

| | Total market debt | | | | |
|---|---|---|---|---|---|
| **Fiscal year** | **Total payable in Canadian dollars** ($ billions) | **Total payable in foreign currencies** ($ billions) | **Less: government's own holdings**[1] ($ billions) | **Total market debt** ($ billions) | **Average interest rate** (%) |
| 1985–86 | 187.7 | 13.8 | -0.3 | 201.2 | 10.7 |
| 1986–87 | 217.5 | 12.0 | -0.9 | 228.6 | 9.3 |
| 1987–88 | 240.8 | 11.3 | -1.2 | 250.8 | 9.6 |
| 1988–89 | 269.2 | 8.3 | -1.2 | 276.3 | 10.8 |
| 1989–90 | 290.2 | 5.7 | -1.3 | 294.6 | 11.2 |
| 1990–91 | 320.7 | 4.5 | -1.3 | 323.9 | 10.7 |
| 1991–92 | 349.5 | 3.4 | -1.0 | 351.8 | 8.9 |
| 1992–93 | 378.4 | 5.4 | -1.1 | 382.7 | 7.9 |
| 1993–94 | 404.3 | 10.7 | -1.0 | 414.0 | 6.8 |
| 1994–95 | 425.1 | 16.9 | -1.0 | 441.0 | 8.0 |
| 1995–96 | 453.8 | 16.8 | -1.0 | 469.5 | 7.3 |
| 1996–97 | 454.9 | 23.0 | -1.1 | 476.8 | 6.7 |
| 1997–98 | 440.8 | 27.2 | -1.2 | 466.8 | 6.6 |
| 1998–99 | 425.0 | 36.0 | -3.3 | 457.7 | 6.7 |
| 1999–00 | 424.7 | 32.6 | -3.1 | 454.2 | 6.2 |
| 2000–01 | 414.1 | 33.7 | -2.9 | 444.9 | 6.1 |
| 2001–02 | 416.5 | 27.5 | -3.1 | 440.9 | 5.6 |
| 2002–03 | 419.8 | 21.6 | -2.7 | 438.6 | 5.3 |
| 2003–04 | 417.1 | 20.8 | -1.5 | 436.4 | 4.9 |
| 2004–05 | 416.3 | 16.5 | -1.1 | 431.7 | 4.6 |
| 2005–06 | 413.9 | 14.3 | -1.0 | 427.2 | 4.7 |
| 2006–07 | 408.9 | 10.6 | -0.7 | 418.9 | 4.9 |
| 2007–08 | 384.9 | 9.7 | -0.5 | 394.1 | 4.6 |
| 2008–09 | 500.8 | 10.6 | -0.6 | 510.8 | 3.2 |
| 2009–10 | 556.1 | 8.2 | -0.1 | 564.2 | 2.7 |
| 2010–11 | 589.2 | 7.7 | -0.1 | 596.8 | 2.8 |
| 2011–12 | 620.3 | 10.7 | -0.1 | 631.0 | 2.7 |
| 2012–13 | 657.2 | 10.8 | -0.0 | 668.0 | 2.5 |

[1] Because certain comparative figures have been restated to reflect the presentation method used in recent years, the numbers presented in this reference table can differ from numbers presented in other sections of the *Debt Management Report*. In the reference table, ''Government's Holding – Consolidation Adjustment'' is presented separately but in the rest of the report the amount is incorporated into the figures. For more information, please consult table 6.10 and table 6.14 of the *Public Accounts of Canada 2013*.

Reference Table III

## Issuance of Government of Canada Domestic Bonds

$ billions

| | Gross issuance | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nominal[1] | | | | | | RRB | | Buybacks | | | |
| Fiscal year | 2-year | 3-year | 5-year | 10-year | 30-year | Total | 30-year | Total | Cash | Switch | Total | Net issuance |
| 1995–96 | 11.1 | 5.1 | 17.0 | 10.5 | 5.0 | 48.7 | 1.0 | 49.7 | | | 0.0 | 49.7 |
| 1996–97 | 12.0 | 11.1 | 13.3 | 11.8 | 5.8 | 54.0 | 1.7 | 55.7 | | | 0.0 | 55.7 |
| 1997–98 | 14.0 | | 9.9 | 9.3 | 5.0 | 38.2 | 1.7 | 39.9 | | | 0.0 | 39.9 |
| 1998–99 | 14.0 | | 9.8 | 9.2 | 3.3 | 36.3 | 1.6 | 37.9 | | | 0.0 | 37.9 |
| 1999–00 | 14.2 | | 14.0 | 12.9 | 3.7 | 44.8 | 1.3 | 46.0 | -2.7 | 0.0 | -2.7 | 43.3 |
| 2000–01 | 14.1 | | 10.5 | 10.1 | 3.8 | 38.5 | 1.4 | 39.9 | -2.8 | 0.0 | -2.8 | 37.1 |
| 2001–02 | 14.0 | | 10.0 | 9.9 | 6.3 | 40.2 | 1.4 | 41.6 | -5.3 | -0.4 | -5.6 | 35.9 |
| 2002–03 | 13.9 | | 11.0 | 12.6 | 4.8 | 42.3 | 1.4 | 43.7 | -7.1 | -5.0 | -12.1 | 31.6 |
| 2003–04 | 13.0 | | 10.7 | 11.5 | 4.2 | 39.4 | 1.4 | 40.8 | -5.2 | -5.0 | -10.2 | 30.7 |
| 2004–05 | 12.0 | | 9.6 | 10.6 | 3.3 | 35.5 | 1.4 | 36.9 | -6.8 | -4.7 | -11.4 | 25.5 |
| 2005–06 | 10.0 | | 9.2 | 10.0 | 3.2 | 32.4 | 1.5 | 33.9 | -5.3 | -3.3 | -8.6 | 25.3 |
| 2006–07 | 10.3 | | 7.8 | 10.4 | 3.3 | 31.8 | 1.6 | 33.4 | -5.1 | -4.7 | -9.8 | 23.5 |
| 2007–08 | 11.7 | | 6.3 | 10.7 | 3.4 | 32.0 | 2.3 | 34.3 | -4.3 | -2.4 | -6.7 | 27.6 |
| 2008–09 | 23.2 | | 29.0 | 15.7 | 5.1 | 72.9 | 2.1 | 75.0 | -3.2 | -2.7 | -6.0 | 69.0 |
| 2009–10 | 31.5 | 20.1 | 24.0 | 17.4 | 7.0 | 100.0 | 2.2 | 102.2 | 0.0 | -2.1 | -2.1 | 100.1 |
| 2010–11 | 36.3 | 18.8 | 21.2 | 12.0 | 5.0 | 93.3 | 2.2 | 95.5 | 0.0 | -4.4 | -4.4 | 91.2 |
| 2011–12 | 44.0 | 18.0 | 21.0 | 10.0 | 4.7 | 97.7 | 2.2 | 99.9 | -3.0 | -3.0 | -5.9 | 94.0 |
| 2012–13 | 35.9 | 13.9 | 20.4 | 16.5 | 6.7 | 93.4 | 2.2 | 95.6 | -0.4 | -1.1 | -1.5 | 94.1 |

1 Including nominal issuance through switch buyback operations.

Reference Table IV

## Outstanding Government of Canada Domestic Bonds as at March 31, 2013

| Maturity date | Amount ($ millions) | Coupon rate (%) | Inflation adjustment ($ millions) | Outstanding amount ($ millions) |
|---|---|---|---|---|
| **Fixed-coupon bonds** | | | | |
| 1-Jun-2013 | 5,486 | 3.50 | | |
| 1-Jun-2013 | 7,932 | 5.25 | | |
| 1-Aug-2013 | 7,721 | 2.00 | | |
| 1-Sep-2013 | 7,632 | 2.50 | | |
| 1-Nov-2013 | 9,404 | 1.50 | | |
| 1-Feb-2014 | 10,617 | 1.00 | | |
| 1-Mar-2014 | 8,008 | 2.00 | | |
| 15-Mar-2014 | 710 | 10.25 | | |
| 1-May-2014 | 9,701 | 0.75 | | |
| 1-Jun-2014 | 12,769 | 3.00 | | |
| 1-Jun-2014 | 9,607 | 5.00 | | |
| 1-Aug-2014 | 15,600 | 2.25 | | |
| 1-Nov-2014 | 9,900 | 1.00 | | |
| 1-Dec-2014 | 15,000 | 2.00 | | |
| 1-Feb-2015 | 15,600 | 1.00 | | |
| 1-May-2015 | 9,900 | 1.00 | | |
| 1-Jun-2015 | 9,000 | 2.50 | | |
| 1-Jun-2015 | 10,143 | 4.50 | | |
| 1-Jun-2015 | 457 | 11.25 | | |
| 1-Aug-2015 | 8,700 | 1.50 | | |
| 1-Dec-2015 | 11,342 | 3.00 | | |
| 1-Feb-2016 | 8,100 | 1.25 | | |
| 1-Jun-2016 | 9,900 | 2.00 | | |
| 1-Jun-2016 | 10,157 | 4.00 | | |
| 1-Sep-2016 | 10,500 | 2.75 | | |
| 1-Mar-2017 | 10,500 | 1.50 | | |
| 1-Jun-2017 | 10,343 | 4.00 | | |
| 1-Sep-2017 | 10,200 | 1.50 | | |
| 1-Mar-2018 | 10,200 | 1.25 | | |
| 1-Jun-2018 | 10,623 | 4.25 | | |
| 1-Jun-2019 | 17,650 | 3.75 | | |
| 1-Jun-2020 | 13,100 | 3.50 | | |
| 15-Mar-2021 | 567 | 10.50 | | |
| 1-Jun-2021 | 11,500 | 3.25 | | |
| 1-Jun-2021 | 286 | 9.75 | | |
| 1-Jun-2022 | 12,700 | 2.75 | | |
| 1-Jun-2022 | 206 | 9.25 | | |
| 1-Jun-2023 | 8,400 | 1.50 | | |
| 1-Jun-2023 | 2,359 | 8.00 | | |

Reference Table IV

## Outstanding Government of Canada Domestic Bonds as at March 31, 2013

| Maturity date | Amount ($ millions) | Coupon rate (%) | Inflation adjustment ($ millions) | Outstanding amount ($ millions) |
|---|---|---|---|---|
| **Fixed-coupon bonds** | | | | |
| 1-Jun-2025 | 2,422 | 9.00 | | |
| 1-Jun-2027 | 4,430 | 8.00 | | |
| 1-Jun-2029 | 11,872 | 5.75 | | |
| 1-Jun-2033 | 13,003 | 5.75 | | |
| 1-Jun-2037 | 13,951 | 5.00 | | |
| 1-Jun-2041 | 15,800 | 4.00 | | |
| 1-Dec-2045 | 11,400 | 3.50 | | |
| **Total** | **425,398** | | | |
| **Real Return Bonds** | | | | |
| 1-Dec-2021 | 5,175 | 4.25 | 2,381 | 7,556 |
| 1-Dec-2026 | 5,250 | 4.25 | 2,001 | 7,251 |
| 1-Dec-2031 | 5,800 | 4.00 | 1,899 | 7,699 |
| 1-Dec-2036 | 5,850 | 3.00 | 1,040 | 6,890 |
| 1-Dec-2041 | 6,550 | 2.00 | 594 | 7,144 |
| 1-Dec-2044 | 6,600 | 1.50 | 325 | 6,925 |
| **Total** | **35,225** | | **8,240** | **43,465** |

Note: Outstanding bond amounts reported in this table are in accordance with Bank of Canada reports, which may vary slightly with Government of Canada amounts due to differences in classification methods.
Source: Bank of Canada.

Reference Table V

## Government of Canada Cross-Currency Swaps Outstanding as at March 31, 2013

CAD$ millions

| | Swaps of domestic obligations | | | Swaps of foreign obligations | |
|---|---|---|---|---|---|
| **Maturity date** | **USD** | **EUR** | **JPY** | **USD** | **Total** |
| 2013 | 1,143 | 1,420 | 0 | | 2,563 |
| 2014 | 2,438 | 1,582 | 54 | | 4,075 |
| 2015 | 2,388 | 1,263 | 0 | | 3,651 |
| 2016 | 1,626 | 2,449 | 144 | | 4,218 |
| 2017 | 2,821 | 1,309 | 0 | | 4,130 |
| 2018 | 4,013 | 1,433 | 108 | | 5,554 |
| 2019 | 1,895 | 1,302 | 0 | | 3,197 |
| 2020 | 6,032 | 65 | 0 | | 6,097 |
| 2021 | 3,452 | 2,963 | 0 | | 6,415 |
| 2022 | 3,044 | 65 | 0 | | 3,109 |
| 2023 | 3,047 | 0 | 0 | | 3,047 |
| **Total** | **31,899** | **13,851** | **306** | | **46,056** |

Notes: Foreign currency swaps converted to Canadian dollars using Bank of Canada closing exchange rates as at March 31, 2013. Table does not include $160.9 million in foreign exchange swaps and $2,287.2 million in foreign exchange forwards that were outstanding as at March 31, 2013. Numbers may not add due to rounding.

Reference Table VI

## Crown Corporation Borrowings as at March 31, 2013

$ millions

| Borrowings from the market | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Export Development Canada | 20,375 | 17,178 | 16,191 | 13,730 | 15,533 | 16,743 | 26,925 | 23,001 | 22,033 | 24,141 | 26,613 |
| Business Development Bank of Canada | 6,263 | 7,302 | 7,432 | 7,898 | 8,256 | 8,025 | 2,354 | 1,488 | 897 | 658 | 648 |
| Farm Credit Canada | 8,082 | 9,209 | 10,181 | 11,133 | 12,182 | 9,624 | 3,949 | 1,765 | 1,293 | 913 | 691 |
| Canada Mortgage and Housing Corporation | 11,091 | 10,441 | 9,573 | 8,953 | 9,071 | 8,907 | 6,153 | 4,421 | 3,039 | 2,221 | 1,870 |
| Canada Housing Trust[1] | 0 | 0 | 57,518 | 77,840 | 96,547 | 127,566 | 160,664 | 180,440 | 199,238 | 213,251 | 212,639 |
| Canada Post Corporation | 114 | 108 | 71 | 64 | 61 | 58 | 93 | 90 | 1,051 | 1,051 | 1,051 |
| Other | 39 | 45 | 36 | 79 | 132 | 119 | 279 | 248 | 204 | 106 | 106 |
| **Total** | **45,964** | **44,283** | **101,002** | **119,697** | **141,782** | **171,042** | **200,417** | **211,453** | **227,755** | **242,341** | **243,617** |

1 The Canada Housing Trust has been included in the government reporting entity effective April 1, 2005 as a result of the application of a new accounting standard.

| Government's loans and advances in enterprise Crown corporations | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Business Development Bank of Canada | 0 | 0 | 0 | 0 | 0 | 1,000 | 7,284 | 12,245 | 13,223 | 12,561 | 13,214 |
| Canada Mortgage and Housing Corporation | 5,408 | 5,189 | 4,999 | 4,799 | 4,651 | 4,393 | 61,863 | 72,262 | 69,569 | 66,595 | 63,123[1] |
| Canada Deposit Insurance Corporation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Farm Credit Canada | 0 | 0 | 0 | 0 | 0 | 3,840 | 11,450 | 15,931 | 17,558 | 19,326 | 21,174 |
| Other | 38 | 66 | 64 | 131 | 98 | 134 | 139 | 132 | 122 | 92 | 90 |
| **Total** | **5,446** | **5,255** | **5,063** | **4,930** | **4,749** | **9,367** | **80,736** | **100,570** | **100,472** | **98,574** | **97,602** |

1 Includes $51,653 million in outstanding lending related to the Insured Mortgage Purchase Program.

Source: *Public Accounts of Canada*.