BUDGET 1999

Building today for a better tomorrow

Debt Management Strategy
1999-2000

February 1999

Department of Finance Canada
Ministère des Finances Canada

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http://www.fin.gc.ca/

Cette publication est également disponible en français.

Cat No.: F1-23/1999-8E
ISBN 0-662-27571-3

Building Today for a Better Tomorrow

Overview

Effective management of the federal debt is important to all Canadians as the annual cost of servicing the debt currently takes about 27 cents of each dollar of revenue collected by the federal government.

In 1998-99, the government achieved its objective of prudently restructuring the debt stock by reducing the share of the federal debt that is maturing or repriced within a year. As a result, the government can better manage unexpected changes in interest rates – a 100-basis-point increase in interest rates today would raise public debt charges by $0.9 billion in the first year, while in the mid-1990s, the first year impact of a 100-basis-point increase was estimated at about $1.8 billion.

Based on results to date, over the fiscal years 1997-98 and 1998-99, a total of almost $20 billion of market debt is expected to be retired. With a commitment to a balanced budget or better in each of the next two fiscal years, the stock of outstanding market debt is expected to continue to decline.

In this context, the debt strategy priority in 1999-2000 will be the maintenance of a well-functioning Government of Canada securities market, which provides low-cost financing for the government. Key initiatives in this regard include consultations on the possible restructuring of the Treasury bill program and the continuation of the pilot bond buyback program into 1999-2000.

The report is divided into the following sections:

- Debt Management Framework, outlining the objectives and key principles of the federal debt management strategy;
- Debt Management Environment, outlining the fiscal outlook over the next two years, and the impact on the debt structure and Government of Canada securities market;
- 1999-2000 Debt Management Strategy, highlighting overall debt strategy and providing an overview of initiatives for the next year; and
- 1999-2000 Federal Debt Programs, providing outlooks for each of the debt programs for 1999-2000.

The *Debt Management Strategy* is an annual publication of the Department of Finance. It provides information on the federal government's debt management strategy for the coming fiscal year.

The government's intention in issuing the *Debt Management Strategy* is to ensure the strategy remains transparent and well understood. It should be noted that the primary audience for this document is investors in Government of Canada securities and therefore the document is quite technical. A glossary is provided at the end of the document for other interested readers.

The government also publishes the *Debt Management Report* shortly after the release of the Public Accounts in the fall. Its focus is to report on the federal government's debt operations over the previous fiscal year, and to provide detailed information on the government's outstanding debt.

Debt Management Framework

This section outlines the federal government's objectives in managing the federal debt and the key principles underlying the pursuit of these objectives.

Debt management objectives

In the current environment of declining market debt, the task of debt management is to refinance maturing debt. In this context, the debt management objectives are to:

- provide stable, low-cost funding for the government; and
- maintain and enhance a well-functioning market for Government of Canada securities.

The fundamental debt management objective is to provide stable, low-cost funding for the government.

Domestic debt management

Principles

- Funding required for the government's domestic operations is raised in the domestic market.
- The government borrows on a regular, pre-announced basis.
- The government focuses on liquidity, transparency, regularity and market integrity in order to maintain a well-functioning market.
- Given the key role played by federal government securities in Canada's fixed-income market, adjustments to the domestic debt programs are made in consultation with market participants.

General strategy

- The debt stock is structured prudently to ensure reasonable cost stability under a range of potential interest rate environments. The target debt structure is not based on a particular interest rate outlook.
- Large benchmarks in Treasury bills and Government of Canada bonds are maintained to provide market liquidity.
- Bond benchmarks are built at the 2-, 5-, 10- and 30-year maturities, and a Real Return Bond benchmark is also maintained.
- The government maintains a broad investor base and active relations with investors and credit rating agencies.

Foreign currency debt management

Principles

Foreign currency debt is issued to raise foreign exchange reserves.

- The government borrows in foreign currencies as required to fund Canada's foreign exchange reserves.

General strategy

- The government raises foreign exchange reserves through a range of programs, including short-term discount notes, medium-term notes, public bond issues and cross-currency swaps of domestic obligations. The liabilities are managed in conjunction with the assets to limit the cost of carrying reserves, and to maintain a prudent maturity structure.

Debt Management Environment

Fiscal outlook: implications

Over the past five years, Canadians and their governments have made tremendous fiscal progress, measured by both domestic and international standards. In 1993-94, the federal deficit was $42 billion and the net public debt as a share of gross domestic product (debt-to-GDP ratio) was rising. Canadians wanted their governments to act. The federal government responded with a measured and responsible plan to eliminate the deficit. That plan was based on a fundamental reform with accompanying reductions of program spending, complemented by a prudent approach to budget planning.

> The government's plan to eliminate the deficit has been a success.

The plan has worked. A budgetary surplus of $3.5 billion was recorded for 1997-98 – the first surplus since 1969-70. A balanced budget or better is expected for 1998-99. As well, the government is now committing to balanced budgets or better for both 1999-2000 and 2000-01.

> The government is now committing to balanced budgets or better for the next two fiscal years.

The Debt Repayment Plan and continued economic growth will ensure that the debt-to-GDP ratio remains on a permanent downward track. The debt-to-GDP ratio is expected to fall to just under 62 per cent by 2000-01, about 9 percentage points lower than the peak of 71.2 per cent five years earlier in 1995-96.

> The debt-to-GDP ratio is expected to fall to just under 62 per cent by 2000-01.

> The Debt Repayment Plan consists of three key elements:
>
> - two-year fiscal plans based on prudent economic planning assumptions;
> - the inclusion in the fiscal plan of an annual Contingency Reserve; and
> - the use of the Contingency Reserve, when it is not needed, to pay down the public debt.

The budgetary deficit/surplus – the budgetary balance – is the most comprehensive measure of the government's financial situation as it includes liabilities incurred by the government regardless of when the actual cash payment is made. It is largely presented on an accrual basis of accounting. However, it is only one measure of the government's financial position.

Another important measure is financial requirements/surplus. This measures the difference between cash coming into the government and cash payments made for programs and public debt charges during the year. Canada recorded a financial surplus of $1.3 billion in 1996-97, $12.7 billion in 1997-98, and on the basis of the current budget plan, is expected to record a surplus of $11.5 billion in 1998-99.

Within the G-7, Canada was the first country to record a financial surplus in this decade.

Financial requirements/surplus are broadly comparable to the measures of the budgetary balance used by other major industrialized countries, including the United States. Within the G-7, Canada was the first country to record a financial surplus in this decade and only Canada and the United States are expected to continue to record financial surpluses over the near term.

The federal government is expected to continue reducing its market debt.

Financial requirements/surplus provide a broad indication of the change in market debt actually outstanding and held by investors. In 1997-98, the government retired $9.6 billion of market debt, and based on results to the end of December 1998, is expected to retire a similar amount in 1998-99, for a cumulative total of about $20 billion over the two years. With a commitment to a balanced budget or better in each of the next two years, which will result in financial surpluses, the stock of outstanding market debt is expected to continue to decline. However, the actual decline will depend not only on the government’s financial surplus but also on foreign exchange transactions and changes in the government’s cash balances. As a result, market debt programs will need to be gradually restructured.

Changing debt structure and holdings

In order to reduce exposure to unexpected changes in interest rates, the federal government has increased the portion of the debt in fixed-rate form[1] from 53 per cent, in 1993-94, to two-thirds in 1998-99. The federal government is committed to maintaining a prudent debt structure.

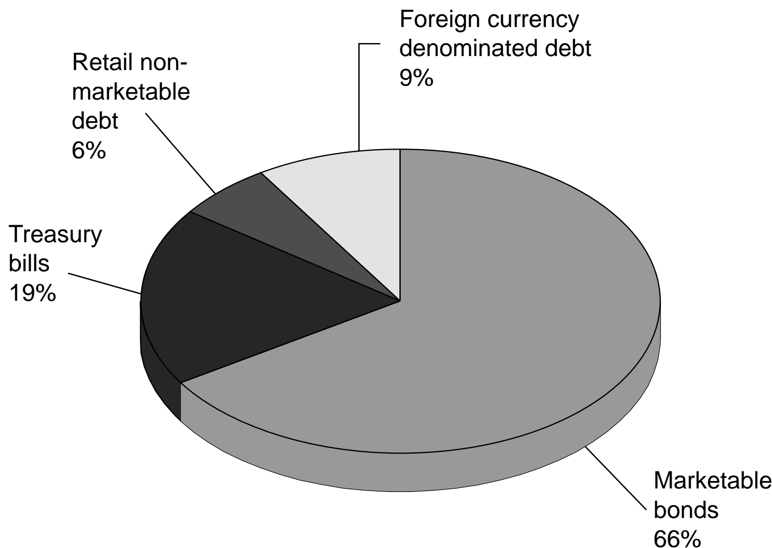
The federal government’s market debt is made up of four major components: marketable bonds, Treasury bills, retail non-marketable debt (primarily Canada Savings Bonds) and foreign

[1] The fixed-rate share of the debt is the percentage of the gross debt that matures or is being repriced in more than 12 months. The target for the fixed-rate share of the debt is based on gross debt, which includes market debt and non-market debt. However, debt management activities focus on market debt only (see glossary for further information).

currency denominated debt. In recent years, the composition of the federal government's market debt has undergone significant changes, with the share held in short-term instruments, primarily Treasury bills, declining, while the share held in longer-term instruments has increased. However, the composition of market debt is expected to remain largely the same over the next few years. The following chart shows the forecast composition of market debt for March 31, 1999.

Forecast composition of federal market debt

March 31, 1999[1]



[1]Excluding bonds issued to the Canada Pension Plan.

Federal government debt is held by a wide range of institutional and retail investors. Of note is the fact that non-resident holdings of Government of Canada debt have been steadily declining in the last few years, from a peak of 28 per cent of total market debt in 1993 to less than 25 per cent today.

The maintenance of a well-functioning Government of Canada securities market remains a high priority for the federal government.

Government of Canada securities market

A well-functioning Government of Canada securities market provides low-cost financing for the government. It is also of general benefit to the domestic capital market, where benchmark federal securities are key investments. Because these securities are actively traded, they act as pricing and hedging tools in the fixed-income market.

The government will continue to pursue the principles of liquidity, transparency and regularity.

Liquidity,[2] transparency, and regularity are the principles underlying the maintenance of a well-functioning market. Borrowing in the domestic market on a regular, pre-announced basis and building bond benchmarks, for instance, reflects these principles (further details of the 1999-2000 debt program plans are provided in a later section of this report).

As market debt declines, a high priority for the federal government is maintaining the attractiveness of the Government of Canada market to investors. The objective is to ensure that the Government of Canada securities market continues to be one of the most liquid and efficient sovereign markets in the world, featuring tight bid-offer spreads, large transaction volumes and high turnover ratios.

The federal government supports the development of all aspects of a well-functioning market.

Initiatives taken in 1998-99 to ensure a well-functioning market include changes to the government's auction rules and the development of an Investment Dealers Association (IDA) Code of Conduct. The modified auction rules reinforce the integrity of the auction process for Government of Canada securities, and encourage participation in auctions by reducing the potential for manipulative behaviour prior to and during auctions. The IDA Code of Conduct, which is actively supported by the federal government and the Bank of Canada, establishes standards for the trading of debt securities in the secondary market.[3]

The federal government will continue to promote the development of the futures market for Government of Canada securities. The federal government's and the Bank of Canada's work with the Montreal Exchange and the investment community has contributed to the development of the highly successful futures contract based on 3-month bankers' acceptance rates (the BAX contract) and active 10- and 5-year Government of Canada bond futures contracts (the CGB and CGF contracts).

The federal government and the Bank of Canada continue to support the development of a screen-based information system on prices and trades in the secondary market in Government of Canada securities. The system would help improve market price transparency in the secondary market.

[2] A liquid market is a market with good trading volumes, where trades of medium and even large sizes can be effected quickly without materially affecting the price.

[3] This initiative is directly linked to the auctions of Government of Canada securities through the new terms of participation in auctions for government securities distributors and customers.

1999-2000 Debt Management Strategy

Providing stable low-cost financing – maintaining a prudent debt structure and diversified investor base

While market debt is being reduced, the stock nonetheless remains large. Canada's debt stock is exposed to interest rate changes originating in Canada and around the world. Interest rate shocks can significantly affect the level of annual debt charges, as the portion of debt that is rolling over must be issued at the new prevailing market interest rates. Some $216 billion of the federal market debt will be maturing or repriced over the 1999-2000 fiscal year.

Maintaining a prudent debt structure is essential in protecting the government's fiscal position from unexpected increases in interest rates, as well as moderating refinancing risk. A prudent debt structure is one that provides reasonable cost stability under a range of economic scenarios. Such a structure also maintains investor and credit rating agency confidence.

The government is committed to maintaining a prudent debt structure.

The federal government's target of two-thirds for the fixed-rate share of the debt, set at the beginning of the 1998-99 fiscal year, has been achieved. This means that a 100-basis-point increase in interest rates would now raise public debt charges by $0.9 billion in the first year; in the mid-1990s, the first-year impact of a 100-basis-point increase was estimated at about $1.8 billion. As a result, the government can better manage unexpected changes in interest rates.

The fixed-rate target of two-thirds of the debt has been achieved.

The federal government is committed to maintaining a prudent debt structure by keeping the target fixed-rate share of the debt at two-thirds. Fluctuations in the ratio will periodically occur due to operational considerations such as large maturing benchmarks.

A diversified investor base ensures that funding costs are kept low. The federal government pursues diversification of its investor base through the maintenance of a liquid and transparent domestic debt program, and internationally through the use of a broad array of sources of funds. In addition, Canada Investment and Savings, the government's retail debt agency, provides diversification by offering savings products designed to suit the needs of individual Canadians.

A diversified investor base is maintained to ensure funding costs are kept low.

Maintaining and enhancing a well-functioning market

Debt program design

Gradual adjustments to the debt programs will be made in consultation with market participants.

To maintain transparency and regularity in its debt operations, the government will continue to borrow in the domestic market on a regular, pre-announced basis. This approach ensures market awareness of future debt operations, attracts a wide range of investors, and promotes liquidity. In 1999-2000, the government will continue to hold regularly scheduled quarterly auctions of 2-, 5- and 10-year bonds, and semi-annual auctions for the 30-year bonds. Quarterly auctions of Real Return Bonds will also be held.

The pilot bond buyback program will be extended into 1999-2000.

To enhance liquidity in Government of Canada bonds, a pilot bond buyback program was implemented in 1998-99. The purpose of this program is to buy back existing less liquid bonds to support the maintenance of a liquid new bond issue market. By buying back less liquid bonds, the government's ability to maintain its strategy of building large benchmark bonds at key maturities is facilitated.

The pilot phase for the program will be extended into 1999-2000. The bond program for 1999-2000 has been designed incorporating buyback activity. Buyback transactions will occur in conjunction with selected bond auctions and will be announced with the auction size.

The Treasury bill program had to be adjusted significantly as the debt structure moved to a fixed ratio of two-thirds and following the success of the government in achieving financial surpluses. Treasury bill stock has declined from $166 billion at the end of fiscal year 1995-96 to $87 billion in December 1998. However, the impact of this decline on money market liquidity has been mitigated by growth in the bankers' acceptance (BA), commercial paper (CP), forward rate agreements (FRA) markets, and by the existence of a liquid bankers' acceptance futures contract (BAX).

A possible Treasury bill program restructuring is under review.

In order to enhance liquidity in the Treasury bill market, the federal government changed the Treasury bill issuance to a bi-weekly pattern (from weekly) in the fall of 1997. In the fall of 1998, in expectation of a gradual continuing decline in the Treasury bill program size, the government commenced consultations with market participants regarding possible options for further Treasury bill program restructuring. These consultations are ongoing, and the government will announce its plans later in 1999.

The government also proposes to update the *Financial Administration Act* (FAA) through the 1999 budget legislation. The relevant sections of the FAA, which date back to the 1950s, need to be amended to modernize the federal government's debt and risk management capabilities, and clarify borrowing authority and the authority for setting the terms of distribution of federal government securities.

Amendments will be proposed to the debt management provisions of the *Financial Administration Act*.

Looking further ahead, the government's plan is to adjust domestic debt programs over time to maintain liquidity in the Government of Canada securities market. The government will be proceeding on a gradual basis, in close consultation with market participants.

Foreign currency borrowing has become a more significant element of debt operations, reflecting the government's announcement in the 1996 and 1998 budgets of its intention to raise the level of reserves, and the increased intervention activity in the foreign exchange market in 1998. There is an active array of funding programs, including Canada bills and Canada notes, Global and Euro bonds, and Euro Medium-Term Notes.

Foreign debt operations will be driven by foreign exchange reserve needs.

Enhancing market integrity

The federal government and the Bank of Canada have been working closely with market participants on a number of initiatives to enhance market integrity.

A number of initiatives will be pursued to ensure the integrity of the Government of Canada securities market is maintained.

In 1999-2000, the federal government and the Bank of Canada will be promoting adoption by institutional investors of a code of conduct similar to the one adopted by the Investment Dealers Association.

The proposed amendments to the FAA to clarify the government's authority for setting the terms of distribution of federal government securities are consistent with the changes in the auction rules made in 1998-99, which were directed at enhancing market integrity in the Government of Canada securities market.

The federal government and the Bank of Canada will also continue to support improved secondary market price transparency.

A note on the year 2000 issue

Since the last months of debt management operations for fiscal year 1999-2000 will take place in the new millennium, the potential impacts of the Year 2000 (Y2K) issue on debt operations have been carefully reviewed by the federal debt managers.

The Bank of Canada is responsible for providing fiscal agency services for the federal government. The Bank began planning for the year 2000 in October 1996. In April 1997, an internal Y2K impact assessment was completed by the Bank, which indicated that its systems will be fully Y2K ready.

1999-2000 Federal Debt Programs

The federal debt management strategy for each debt program is presented below. These plans are based on the 1999 budget outlook for financial surpluses (excluding foreign exchange transactions). The forecast is $5.0 billion for 1999-2000, and $7.0 billion for 2000-01.

Plans for market debt programs are based on the 1999 budget outlook.

The strategy has been developed in consultation with market participants. The federal government will continue to consult with market participants in fiscal year 1999-2000 on potential adjustments to maintain a well-functioning market in the changing debt management environment.

The federal government uses a variety of instruments to fund its domestic operations:

- Fixed-rate marketable bonds
- Real Return Bonds (RRBs)
- Treasury bills
- Retail non-marketable debt (primarily Canada Savings Bonds)

The foreign currency borrowing program is used to fund Canada's foreign exchange reserves.

The following table shows the composition of the government's market debt.

Composition of federal market debt[1]

	March 31, 1998	December 31, 1998
	(billions of C$)	
Fixed-rate marketable bonds	284.7	289.0
RRBs	9.9	11.1[2]
Treasury bills	112.3	87.1
Retail non-marketable debt	29.8	27.6
Foreign currency denominated debt	27.2	36.1
Total	463.8	450.9

Note: May not add due to rounding.

[1] March 1998 numbers are from the Public Accounts. December 1998 numbers are based on the Fiscal Monitor. Bonds issued to the Canada Pension Plan are not included.

[2] RRB numbers for December 1998 do not include consumer price index adjustment so far this fiscal year.

Fixed-rate marketable bonds

Fixed-rate marketable Government of Canada bonds are issued in Canadian dollars and pay interest semi-annually. In 1999-2000, about $45 billion of bonds will be maturing.

1999-2000 program

The planned bond program for 1999-2000 will be about $36 billion in total, incorporating plans to continue the pilot bond buyback program.

- The 1999-2000 bond program (i.e. gross issuance), which takes into account buyback operations, is planned to remain at a level similar to the 1998-99 program, which will be about $36 billion in total.
- Regular, quarterly issuance of the 2-, 5- and 10-year maturities and semi-annual issuance of the 30-year maturity will be maintained.
- The bond auction calendar, containing dates for each bond maturity to be auctioned, will continue to be published prior to the start of each quarter.
- To maintain liquidity, the target benchmark sizes for all maturities will be maintained at $7-10 billion.
- Buyback operations on a pilot basis will continue on selected bonds and auctions.

Real Return Bonds (RRBs)

The target for Real Return Bonds continues to be modest growth.

The federal government plans to issue up to $2 billion in RRBs in 1999-2000, building a new benchmark. The maturity of the new benchmark will be announced later in 1999.

Treasury bills

The Treasury bill program structure is under review given its continuing gradual decline.

Based on the fiscal plan in the budget, the Treasury bill stock in 1999-2000 is expected to fall by about 5 per cent, less sharply than in recent years. However, due to swings in the government's cash needs, the decline will be greater in certain periods during the year.

As noted earlier, in order to offset declining liquidity in the Treasury bill market, the government has commenced consultations with market participants on the program structure. Various options are under consideration, ranging from maintaining the status quo to changes to the frequency of issuance and changes in tranche structure. Consultations are ongoing and further details of the government's plans will be announced later in 1999.

Retail debt

Canada Investment and Savings (CI&S), the government's retail debt agency, plays an important part in the government's debt program, by targeting an investor base among the widest possible range of individual Canadians. Its long-term strategy is to provide products and services that will fulfil investor needs and encourage Canadians to invest in Canada.

Retail debt is an important part of the government's debt program.

The retail debt plan will be released by CI&S later in 1999.

Foreign currency debt programs

Principal sources of funding for the exchange reserves will depend on market conditions, but are expected to include medium-term note issuance in various markets, cross-currency swaps of domestic obligations, outright purchases of U.S. dollars and occasional large international bond issues. Key considerations underlying the choice of funding instruments are asset and liability management, minimization of cost and maintenance of a prudent maturity structure.

Foreign funding activity will be spread across a range of funding sources.

Glossary

bankers' acceptance (BA): Short-term negotiable commercial paper issued by a non-financial corporation but guaranteed by a bank.

BAX: See Futures contract.

benchmark bond: Specific issue outstanding within each class of maturities. It is considered by the market to be the standard against which all other bonds issued in that class are evaluated.

bid: Price a buyer is ready to pay. The bid-offer spread is the difference between bid and offer prices.

budgetary surplus: Occurs when government annual revenues exceed budgetary expenditures. A deficit is the shortfall between government revenues and budgetary spending.

Canada bills: Canada bills are promissory notes denominated in U.S. dollars, issued for terms of up to 270 days. Canada bills are issued for foreign exchange reserve funding purposes only.

Canada notes: Canada notes are promissory notes usually denominated in U.S. dollars and available in book-entry form. 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 reserve funding purposes only.

Canada Savings Bonds (CSBs): Currently offered for sale by most Canadian financial institutions to individual Canadians. CSBs pay a competitive rate of interest which is guaranteed for one or more years. They may be cashed at any time and, after the first three months, pay interest up to the end of the month prior to encashment.

CGB: See Futures contract.

CGF: See Futures contract.

commercial paper: Short-term debt securities issued by non-financial corporations.

Contingency Reserve: The Contingency Reserve is included in the budget projections primarily to cover risks arising from: (i) unavoidable inaccuracies in the models used to translate economic assumptions into detailed budget forecasts, and (ii) unpredictable events. The Contingency Reserve also provides an extra measure of back-up against adverse errors in the economic forecast. The Contingency Reserve is not a source of funding for new policy initiatives.

coupon: The interest rate specified on a bond when it is originally issued.

discount notes: Short-term debt securities where the yield is provided through a discounted selling price relative to the face value of the note.

Euro Medium-Term Notes (EMTNs): Medium-term notes issued outside the United States and Canada. EMTNs are issued for foreign exchange reserve funding purposes only.

Exchange Fund Account: A fund maintained by the Government of Canada for the purpose of promoting order and stability of the Canadian dollar on the foreign exchange market. This function is fulfilled by purchasing foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

financial requirements/surplus (excluding foreign exchange transactions): Measures the difference between the cash received by the government and cash payments made. In the case of a financial requirement, it is therefore the amount of new borrowing required from outside lenders to meet the government's financing needs in any given year.

fixed-coupon marketable bond: A market debt instrument issued by the Government of Canada and sold via public tender. These issues have a specific maturity date and a specified interest rate. All Canadian dollar marketable bonds pay a fixed rate of interest semi-annually and are non-callable. They are transferable and hence can be traded in the secondary market.

fixed-rate debt: The share of the gross debt that is maturing or being repriced in more than twelve months.

foreign exchange reserves: Stocks of foreign exchange assets (e.g., interest earning bonds) held by sovereign states to support the value of the domestic currency. Canada's foreign exchange reserves are held in a special account called the Exchange Fund Account.

forward rate agreement (FRA): Short-term interest rate guarantee instruments that are negotiated by two parties, one of which is typically a chartered bank.

futures contract: Agreement to buy or sell a financial instrument at a particular price, for a specific quantity, on a stipulated future date. Fixed-income futures contracts are traded in the futures market at the Montreal Stock Exchange. The key fixed-income futures contracts are the 5- and 10-year Government of Canada bond futures contracts (the CGF and the CGB contracts) and the bankers' acceptance contracts (BAX).

gross public debt: Total amount the government owes. It consists both of market debt in the form of outstanding securities such as Treasury bills and Canada Savings Bonds, and internal debt owed mainly to the superannuation fund for government employees and other current liabilities.

hedge: A transaction intended to reduce the risk of loss from price fluctuations.

interest bearing debt: Consists of unmatured debt, or market debt, and the government's liabilities to internally held accounts such as federal employees' pension plans.

market debt: For debt management purposes, market debt is defined as the portion of debt that is funded in the public markets and includes marketable bonds, Treasury bills, retail debt (primarily Canada Savings Bonds) and foreign currency denominated bonds and bills.

market transparency: Within the context of debt management, characterization of a bond market where debt management strategies and operations are visible and well understood by market participants.

net public debt: Consists of interest bearing debt and other liabilities, net of financial assets.

non-market debt: Includes the government's internal debt which is for the most part federal public sector pension liabilities, the government's current liabilities (such as accounts payable, accrued liabilities, interest and payment of matured debt), and bonds issued to the Canada Pension Plan.

primary market: Market for new issues of securities.

Real Return Bonds (RRBs): Government of Canada RRBs pay semi-annual interest based upon a real interest rate. Unlike standard fixed-coupon marketable bonds, interest payments on RRBs are adjusted for changes in the consumer price index.

secondary market: Market where securities are bought and sold subsequent to original issuance.

sovereign market: Market for the debt issued by a government.

swap: An agreement that exchanges one type of return for another (e.g., a fixed for a floating rate of interest).

tranche: A portion of a bond offering, delineated by maturity.

Treasury bills: Treasury bills are short-term obligations, sold by public tender. Treasury bills with terms to maturity of three, six, or twelve months are currently auctioned on a bi-weekly basis.

turnover ratio: Volume of securities traded as a percentage of total securities outstanding.