Borrowing Authority Act Report to Parliament 2020



Borrowing Authority Act Report – Foreword

2020 has been a year of extraordinary challenges for Canadians - our most serious public health crisis in a century, followed by the worst global economic downturn since the Great Depression.

From the beginning of the COVID-19 pandemic, our government has kept two objectives uppermost. First, protect Canadians' lives and health. Second, protect their jobs and livelihoods. This remains our over-arching focus and will remain so until the pandemic is behind us, the labour market restored and our economy back on a sustainable, solid footing.

Canada has a well-established tradition of prudent fiscal management. Since 2015, our government has upheld that tradition, even as we invested in people, families and the middle class. It is because of this approach that, when the pandemic struck, Canada had the fiscal firepower to respond. I am happy to tell you that, even after the unprecedented emergency measures of 2020, Canada's fiscal position remains the strongest in the G7.

Canada's COVID-19 response has saved millions of jobs, provided emergency support to millions of families, and kept businesses large and small solvent, across the country. As the Prime Minister has said: We will do whatever it takes to protect Canadians' health, jobs and living standards.

Fighting the pandemic last spring required a total shutdown of our economy. Now, as we fight an aggressive second wave, restrictions are being applied regionally. This comes at a fiscal cost. Canadians who have lost their job due to COVID-19, or have reduced hours, need help, and businesses require a bridge. It is in all of our interests that businesses, charities and non-profits make it through this pandemic, viable and intact. That is how we ensure a rapid, robust and fair recovery.

In 2017, the government delivered on its commitment to restore the requirement for Parliamentary approval of government borrowing by enacting the *Borrowing Authority Act*. The *Act* sets out a legislative maximum amount on total borrowing by the government and agent Crown corporations, and requires the Minister of Finance to update Parliamentarians on how borrowing needs evolve on a regular basis.

In this Report, I propose to amend the *Borrowing Authority Act* to increase the borrowing limit. The new limit will allow the government to continue to support Canadians and Canadian businesses through the pandemic. As well, it will allow for necessary investments, once the pandemic is over, to power a robust, sustained recovery in jobs and growth through 2023.

Canada has a hard-earned and well-deserved international reputation for wise, prudent fiscal stewardship. This will continue to be our approach as we build the foundation for a greener, fairer and more innovative economy, that supports good, well-paying jobs for all Canadians.

The Honourable Chrystia Freeland, P.C., M.P.

Deputy Prime Minister and Minister of Finance

Introduction

The authority to manage public debt is governed by the *Borrowing Authority Act* (BAA) and Part IV of the *Financial Administration Act* (FAA), which together allow the Minister of Finance (the "Minister") to borrow money up to a maximum amount as approved by Parliament.

Parliament granted its approval of a maximum stock of outstanding government and agent Crown corporation market debt of \$1,168 billion under section 4 of the BAA, which came into force on November 23, 2017.

Purpose of this Report

This report provides detailed official figures as at March 31, 2020 from the *Public Accounts of Canada 2020* (soon to be released) of amounts borrowed by the Minister on behalf of Her Majesty in Right of Canada and by agent Crown corporations, as required by the BAA. It also provides an assessment to Parliament on whether the maximum should be adjusted.

This is the first BAA Report. It fulfills a requirement that the Minister table a report in Parliament within three years of the coming-into-force of the BAA.

This report provides transparency and accountability regarding the borrowings of the Government of Canada and of agent Crown corporations. Section 8 of the BAA requires reporting on four elements: the government's borrowings, agent Crown corporations' borrowings, Canada Mortgage Bonds, and any extraordinary borrowings to date (see table 1 for details).

Table 1

Elements of Debt Reporting Requirements

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Combined Debt Stock	The total amount of borrowed money referred to in each of paragraphs 4(a) to (c) of the BAA, being money borrowed:
Government Borrowings ¹	 a) by the Minister on behalf of Her Majesty in Right of Canada and which remains outstanding;
Canada Mortgage Bonds	 b) by way of the issue and sale of Canada Mortgage Bonds (CMBs) guaranteed by the Canada Mortgage and Housing Corporation (CMHC) that remain outstanding; and
Agent Crown Corporation Borrowings	 by agent Crown corporations, other than amounts borrowed from Her Majesty in right of Canada and amounts deemed to be borrowings under any Act of Parliament.
Contingency and	The total amount of money borrowed by the Minister under an order made under
Extraordinary	each of paragraphs 46.1(a) to (c) of the FAA. These paragraphs address
Borrowings ²	contingencies where the Minister might need to borrow:
	a) to avoid defaulting on existing debt,
	b)to reduce or extinguish liabilities, and
	 c) to respond to emergencies such as natural disasters or to promote stability or maintain efficiency of the financial system (i.e. extraordinary borrowings).
	The total amount of money borrowed under each of paragraphs 47(a) and (b) of the FAA. These paragraphs address contingencies where the Minister might need to borrow:
	a) to avoid defaulting on existing debt, and
	b)to respond to emergencies such as natural disasters or to promote stability or maintain efficiency of the financial system (i.e. extraordinary borrowings).
Assessment of Maximum Amount	The Minister's assessment of whether the maximum amount should be increased or decreased.

Borrowing Authority Act

Parliament approved the government's new borrowing authority framework in November 2017. Under the new framework, general authority for the Minister to borrow is granted through the BAA and Part IV of the FAA. Powers to borrow are granted to agent Crown corporations in their enabling statutes. The Minister of Finance approves borrowings in line with agent Crown corporations' corporate plans, which are approved by the Treasury Board.

Parliament approved in the BAA a maximum stock of debt of \$1,168 billion, which was based on Budget 2017 projections for the following three fiscal years. This figure includes amounts borrowed by the Minister and by agent Crown corporations and Canada Mortgage Bonds guaranteed by CMHC.

¹ Government borrowings are the Government of Canada's outstanding stock of domestic and foreign debt (e.g., bonds, treasury bills, Canada bills, medium term notes and any outstanding retail debt).

² Paragraphs 46.1(a), 46.1(b) and 47(a) are referred to as contingency borrowing authorities. These are specific borrowing authorities that do not require extraordinary circumstances to invoke. Paragraphs 46.1(c) and 47(b) are to be triggered only when there are extraordinary circumstances and are referred to as extraordinary borrowing authorities.

Under section 8 of the BAA, the Minister must table a report in Parliament every three fiscal years. This report supplements annual reporting in the Debt Management Report, which reports on the government's borrowing activities over the previous fiscal year, and the Debt Management Strategy, which lays out the Government's borrowing plans for the coming fiscal year.

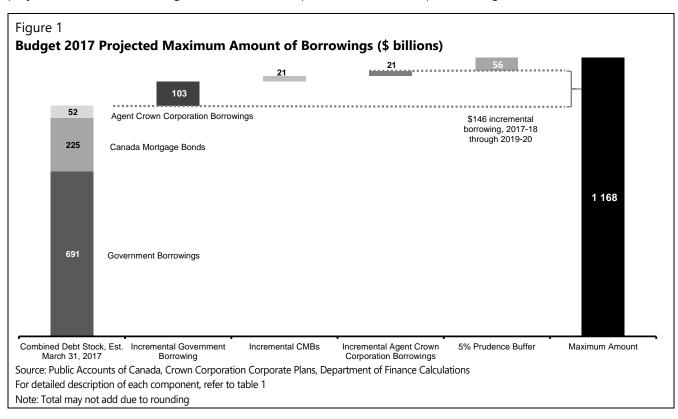
Contingency and Extraordinary Borrowing Authorities

There are two sets of contingency and extraordinary borrowing authorities under the FAA. The first set under section 46.1 was enacted in 2016 under the new borrowing authority framework. The second set under section 47 was enacted through *the COVID-19 Emergency Response Act* that Parliament passed on March 25, 2020. Section 47 permitted the government to borrow to fund its response to the extraordinary circumstances caused by the COVID-19 pandemic from April 1 until September 30, 2020. Borrowings under Section 47 are exempt from the overall borrowing ceiling as set out in the BAA.

A separate Extraordinary Borrowing Report was tabled in Parliament on October 22, 2020 that provided details on amounts borrowed under Section 47.

Current Maximum Amount that May be Borrowed

Section 4 of the BAA specifies that the maximum amount that may be borrowed is \$1,168 billion and lists the categories of borrowings to which, in aggregate, this maximum applies. This amount was determined based on the aggregate total maximum level of outstanding debt for the various categories over three fiscal years as projected at the time of Budget 2017, as well as a prudence buffer of 5 per cent (Figure 1).



Report to Parliament on Total Amount of Money Borrowed

Government borrowings, CMBs and agent Crown corporation borrowings as of March 31, 2020

Table 2 outlines the level of borrowing of each category listed under section 4 as at March 31, 2020.

Table 2

Description of amounts under each paragraph of section 4 of the BAA as of March 31, 2020 (see Annex A for further details)

Description	Amount
a) Government borrowings	\$765,373,925,902
b) Canada Mortgage Bonds	\$244,642,588,000
c) Agent Crown corporation borrowings	\$65,591,947,000
Combined market debt stock under section 4 of the BAA	\$ 1,075,608,460,902

Source: Public Accounts of Canada, Department of Finance Calculation

Together, the total of (a) Government borrowings, (b) Canada Mortgage Bonds, and (c) agent Crown corporation borrowings covered by section 4 of the BAA was approximately \$1,076 billion, about \$92 billion below the maximum amount of \$1,168 billion set out in section 4 of the BAA.

The growth in combined market debt prior to the COVID 19 pandemic has been less than projected at the time of Budget 2017 primarily due to lower-than-expected deficits leading to less issuance of direct Government of Canada treasury bills and bonds (i.e., government borrowings). This reduction in overall borrowings was due to a lower than expected financial requirement for the government in the years 2017-18 and 2018-19 which is in large part due to better-than-expected economic performance.

Contingency and Extraordinary Borrowings

The BAA requires the Minister to include in a report the total amount of money borrowed under orders made under each of paragraphs 46.1(a) to (c) of the FAA, and of money borrowed under each of paragraphs 47(a) and (b) of the FAA (see box below).

Financial Administration Act, Section 47

During the period beginning on the day on which this section comes into force and ending on September 30, 2020, the Minister may borrow money for:

- (a) the payment of any amount that is required to be paid in that period in respect of any money borrowed under the authority of this Act or any other Act of Parliament; or
- (b) the payment, by Her Majesty, of any amount in extraordinary circumstances, including in the event of a natural disaster or to promote the stability or maintain the efficiency of the financial system in Canada, if the Minister is of the opinion that the borrowing of money is necessary in those circumstances.

As of November 23, 2020, borrowing under section 46.1 is nil.

The borrowing authority under section 47 expired on September 30, 2020. Paragraph 47(a) allowed the government to borrow to refinance existing debt or to pay interest on existing debt under what is referred to as the contingency borrowing authority. The total amount borrowed under paragraph 47(a) is \$322 billion. Paragraph 47(b) allowed for all other borrowings during the extraordinary circumstances, including for the government to fund its response to the extraordinary circumstances under what is referred to as the extraordinary borrowing authority. The total amount borrowed under 47(b) is \$286 billion (updated as at November 3, 2020).

Minister's assessment of whether the maximum amount of borrowings under section 4 of the BAA should be increased or decreased

The BAA also requires the Minister to include in this Report an assessment of whether the maximum amount of borrowings under section 4 of the BAA should be increased or decreased.

Since September 30, after the end of the extraordinary borrowing authority, the government borrowed approximately \$31 billion by October 31. This brings the total combined debt stock to an estimated \$1,134 billion or about \$33 billion below the maximum borrowing amount.

In light of continued higher financial requirements for the remainder of the fiscal year and ongoing funding that is needed to address COVID-19 and related impacts on the economy, the Minister assesses that the maximum amount in section 4 of the BAA should be increased. In addition, while the amount of extraordinary borrowings of \$286 billion borrowed under paragraph 47(b) is normally excluded from the maximum borrowing amount calculations, to promote transparency and accountability, the government will propose amendments to include this amount in the calculation against the new maximum borrowing amount.

Given the current level of uncertainty with regards to government spending needs, the Minister will provide her recommendation for the higher maximum amount when the related legislation is tabled.

Annex A: Details of Outstanding Borrowings at March 31, 2020

Table A.1 **Amounts Covered by Section 4 of the BAA as at March 31, 2020**(All figures in CAD)

596,864,101,260
151,867,000,000
1,026,000,000
15,940,653,642
323,829,000
765,373,925,902
244,642,588,000
63,249,217,000
997,339,000
833,152,000
141,621,000
35,964,000
8,995,000
0
65,266,288,000
265,430,000
3,789,000
56,440,000
327,000,000
\$65,591,947,000

Total Combined Market Debt Under Section 4 of the BAASource: Public Accounts of Canada, Bank of Canada

1,075,608,460,902

Retail debt amounts include matured but unclaimed bonds, which differs from public accounts treatment. These are deemed to be part of the total debt stock for the purpose of Borrowing Authority calculations.

Debt of consolidated agent Crown corporations is accounted for as direct Government of Canada debt in the Public Accounts of Canada. To be consistent with the definitions in the BAA and the FAA, debt of consolidated agent Crown corporations is removed from (a) Government of Canada debt and included as part of (c) a Crown corporation debt (excluding Canada Mortgage Bonds). Includes \$325 million in Crown corporation borrowing and \$1.8 million in Crown corporation held securities.