Borrowing Authority

After talking about the debt, I have to turn now to outline for the House the terms of the Borrowing Authority Bill for 1988-89. In looking at the Bill, subclause 2(1) requests borrowing authority in the amount of $24.8 billion for fiscal 1989-90. This amount is equal to $21.8 billion of borrowing requirements, $20.5 billion of which are the Government's estimated net financial requirements from the Budget and $1.3 billion of which relate to the forecast exchange fund account earnings. The exchange fund earnings have grown very rapidly in recent years as a result in the increase in Canada's official reserves reflecting the strength of the Canadian dollar. Even though the exchange fund earnings are reported in the public accounts as budgetary revenues, they give rise to additional Canadian dollar borrowing requirements because they are retained in the exchange fund account and are not available for general expenditures.

As in recent years, the borrowing authority requested in the Bill includes a $3 billion reserve to cover contingencies such as a further build-up in official international reserves in 1989-90.

In previous years, exchange fund earnings were not large enough to warrant being explicitly included in requests for borrowing authority. For example, five years ago these earnings amounted to about $300 million. By contrast, in 1988-89 exchange fund account earnings grew to $1.7 billion. At this level of earnings, it becomes necessary to explicitly recognize these additional borrowing requirements in its request for borrowing authority.

The $3 billion reserve requested in the borrowing Bill is the same as was granted in the previous two years. However, this reserve was not large enough in 1988-89, forcing the Government to use Section 47 of the Financial Administration Act in late March when statutory borrowing authority ran out.

The reason the Government ran out of borrowing authority in 1988-89 was because of the strengthening of the Canadian dollar and the consequent build-up in Canada's international reserve assets. This amounted to the Canadian dollar equivalent of about $4.8 billion, adding substantially to the Government's Canadian dollar financial requirements. Canadian dollars used in purchasing these assets were borrowed in the domestic market. Thus, while we are seeking only $3 billion as a reserve, we hope this amount will be sufficient in 1989-90.

In subclause 2(2), the Government is asking for $750 million of statutory borrowing authority in order to refinance borrowings pursuant to Section 47 of the Financial Administration Act undertaken in fiscal 1988-89, actually on March 31, the last day of the fiscal year. Funds borrowed under this section cannot be rolled over in the regular way under authority provided by Section 46 but require new statutory authority. In effect, this request for $750 million of statutory borrowing authority covers the short-fall in statutory borrowing authority in the last fiscal year.

Clause 3 of the Bill states that all unused borrowing authority granted by the Borrowing Authority Act, 1989-90 to the extent that the unused authority exceeds $3 billion will be cancelled on March 31, 1990. Thus, this clause preserves the Government's non-lapsing reserve into the next year to accommodate the possibility that new statutory borrowing authority is not provided before the 1990-91 fiscal year begins.

For the information of Hon. Members, I would like to briefly review for you the Government's debt operations in 1988-89. The domestic debt program increased the unmatured domestic debt outstanding by approximately $27.7 billion to $264.7 billion. The domestic debt program financed approximately $23.7 billion of borrowing requirements, including the exchange fund profits referred to earlier, other foreign exchange transactions, and a small build-up in cash balances.

I should point out that the domestic financial requirements for 1988-89, excluding Exchange Fund profits, are now estimated in the fiscal plan at $22 billion, about $300 million lower than forecast in the February, 1988 Budget.

Of the total net new debt issued in 1988-89, $11.8 billion was in the form of marketable bonds. As well, the Government increased the emphasis on selling bonds by auction, which was found to be a cost effective form of issuing debt. Auctions now account for 60 per cent of all marketable bonds issued, up from about 50 per cent in the previous fiscal year.

Treasury Bills were used to raise $21.6 billion of new funds in 1988-89, up sharply from the amount issued in the previous fiscal year. However, approximately $5.7 billion of the amount issued was to replace the decline in the stock of Canada Savings Bonds.