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Fiscal Implications of the Government's Purchase of Canada Mortgage Bonds

OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report provides an overview of the fiscal impact of the Government's commitment to purchase up to $30 billion annually in Canada Mortgage Bonds.

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Highlights

In the 2023 Fall Economic Statement, the Government announced it would purchase up to $30 billion in Canada Mortgage Bonds (CMBs) each year, starting in early 2024.

To date, the Government has purchased $50.8 billion in CMBs, which represents 48.1 per cent of the total amount of CMBs issued since February 2024.

The yield spread between CMBs and Government of Canada bonds of similar maturity, has narrowed since the Government's purchases started, reducing its expected revenue relative to what would have been anticipated based on historical spreads.

Increased borrowing to fund these purchases could raise the Government's overall borrowing costs, while relying on short-term debt to finance longer-term assets exposes it to higher short-term interest rates, which if realized could also reduce or offset net revenues from the purchased CMBs.

It is uncertain whether the Government's annual maximum of $30 billion in purchases could be increased without affecting the functioning of the CMB market, which investors use as a risk management tool.

Summary

In February 2024, the Government of Canada started to purchase Canada Mortgage Bonds (CMBs), committing to purchasing up to an annual maximum of $30 billion. This represents as much as half of the yearly issuance limit of $60 billion. As of September 30, 2025, the Government has purchased $50.8 billion worth of CMBs, which represents 48.1 per cent of the total amount of CMBs issued since February 2024.

Historically, CMBs have yielded more than Government of Canada bonds with the same maturity. This spread enabled the Government to finance CMB purchases with debt issued at lower interest rates, thereby generating (net) revenue without increasing net debt. Since the Government's CMB purchases started in early 2024, however, this yield spread has narrowed, reducing net revenue from subsequent purchases.

Based on our September 2025 Economic and Fiscal Outlook, we analyze scenarios with alternative yield spreads to assess net revenue, or the fiscal impact, from the Government's CMB purchases over the medium term. Under the scenarios considered, the Government is projected to generate net revenue ranging from $353.4 million to $509.7 million annually by 2030-31.

While additional purchases exceeding $30 billion annually, either by increasing purchases within the current issuance limit, or by raising the issuance limit and purchasing more, could potentially generate additional revenue, program parameters were set after consultation with market participants to preserve the integrity of the CMB market. Further expansion could undermine the role of CMBs as a market-based risk management instrument.

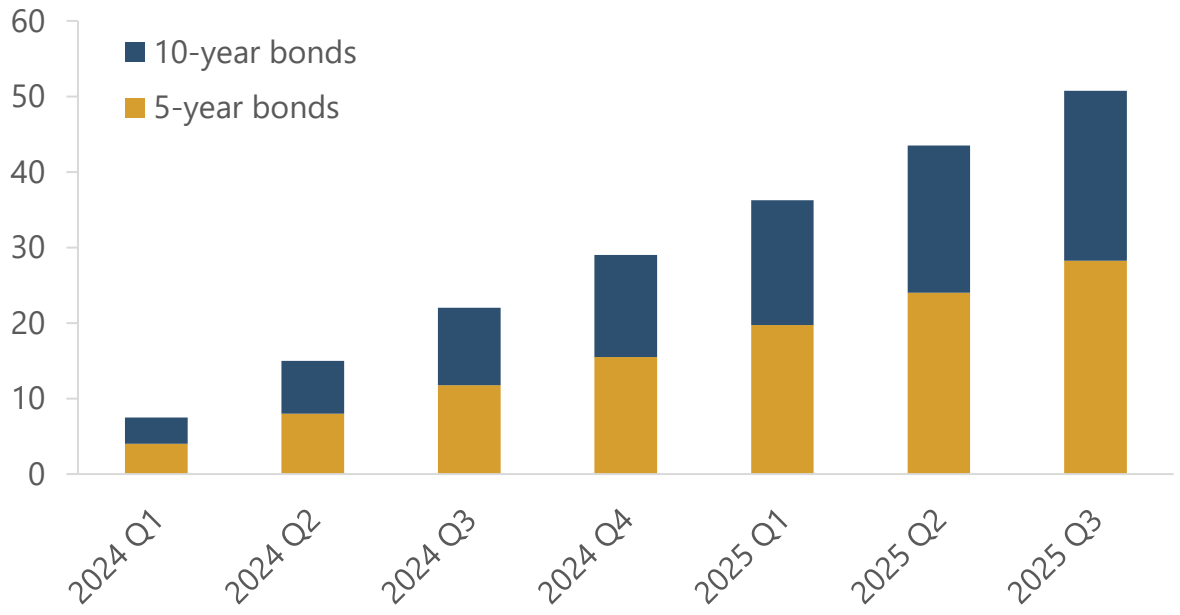
At the same time, gross debt issued to finance CMB purchases is projected to increase by $30 billion annually, reaching $179.3 billion in 2030-31. This additional issuance could place upward pressure on the Government's overall borrowing costs, reducing or offsetting net revenues from CMB purchases. Moreover, because borrowing is concentrated in shorter-term instruments such as treasury bills and 2-year bonds while purchasing longer-duration assets, the Government is exposed to higher short-term interest rates, which if realized could reduce or offset net revenues from CMB purchases.

Government purchases of CMBs

In the 2023 Fall Economic Statement, the Government announced its intention to purchase up to $30 billion of fixed-rate CMBs annually, starting as early as February 2024, and to increase the annual issuance limit to $60 billion.[1] As of September 30, 2025, the Government has purchased $50.8 billion in CMBs, nearly half of all bonds issued since February 2024. These include $28.3 billion in 5-year CMBs and $22.5 billion in 10-year CMBs (Figure 1). The Appendix provides background information on the securitization process and CMBs.

Figure 1

Government of Canada stock of 5-year and 10-year CMBs, billions of dollars



Source:
Office of the Parliamentary Budget Officer and Canada Mortgage and Housing Corporation.

Fiscal impact

CMB purchases are financed through federal borrowing. Each purchase increases both the Government's assets and liabilities by the same amount, leaving net debt unchanged but raising gross debt.[2]

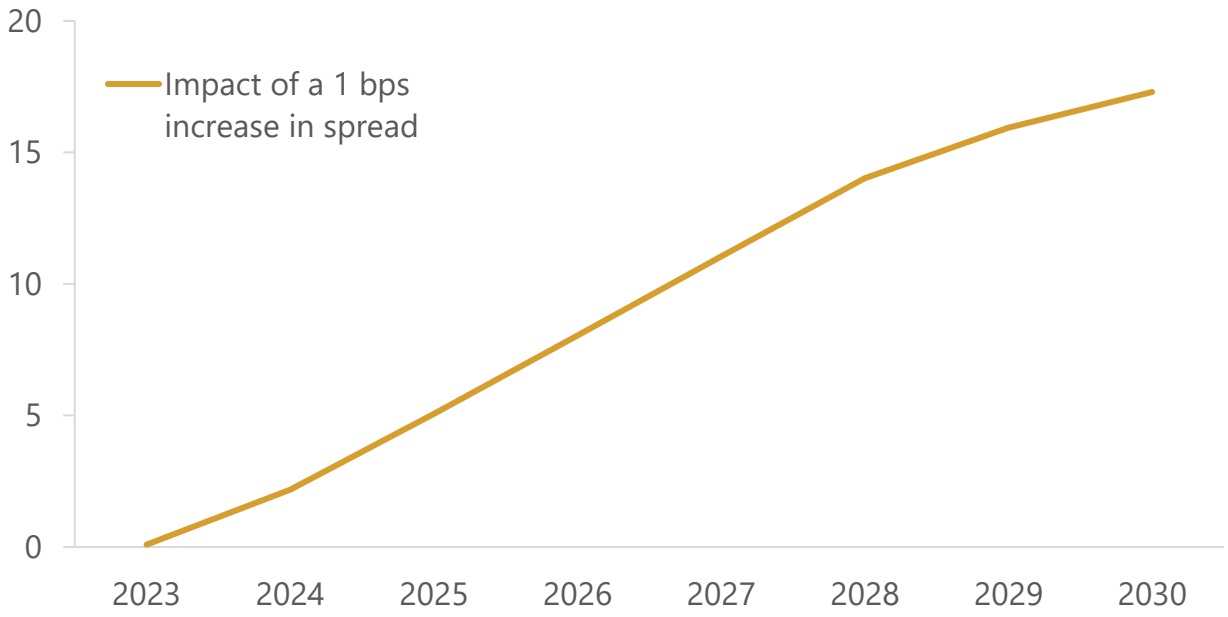
CMBs offer higher yields than comparable Government of Canada bonds, reflecting additional compensation investors require to hold the relatively less liquid CMBs. [3] Since the Government holds CMBs to maturity it benefits from this premium. Credit risk for CMBs is equivalent to Government of Canada bonds, as Canada Mortgage and Housing Corporation (CMHC) guarantees both interest and principal payments.

For simplicity, in this analysis, we assume the Government follows a maturity-matching strategy.[4] For example, issuing 5-year bonds to finance the purchase of 5-year CMBs. As such, the fiscal impact, or the net revenue generated, depends on the size of the spread and the scale of purchases. The Government has stated its intention to buy up to $30 billion annually, which will increase the size of the CMB portfolio until the bonds that comprise it mature. Consequently, the fiscal impact of a one-basis-point increase (or decrease) in the average spread across the portfolio cumulates over the medium term as the Government's stock of CMBs grows (Figure 2).

Further, we assumed that as the purchased CMBs mature they will be used to retire the debt issued to acquire them. In this analysis we assumed that the Government would maintain the size of purchases for 5-year and 10-year bonds for the remainder of 2025, $4.25 billion and $3 billion per quarter, respectively. Beyond 2025 we assumed that the Government would buy $15 billion of 5-year CMBs and $15 billion of 10-year CMBs annually. Under these assumptions, the Government is projected to hold $179.3 billion in CMBs by 2030-31 with a corresponding increase in gross debt.

Figure 2

Fiscal impact of a 1-basis-point increase in the CMB yield spread, millions of dollars



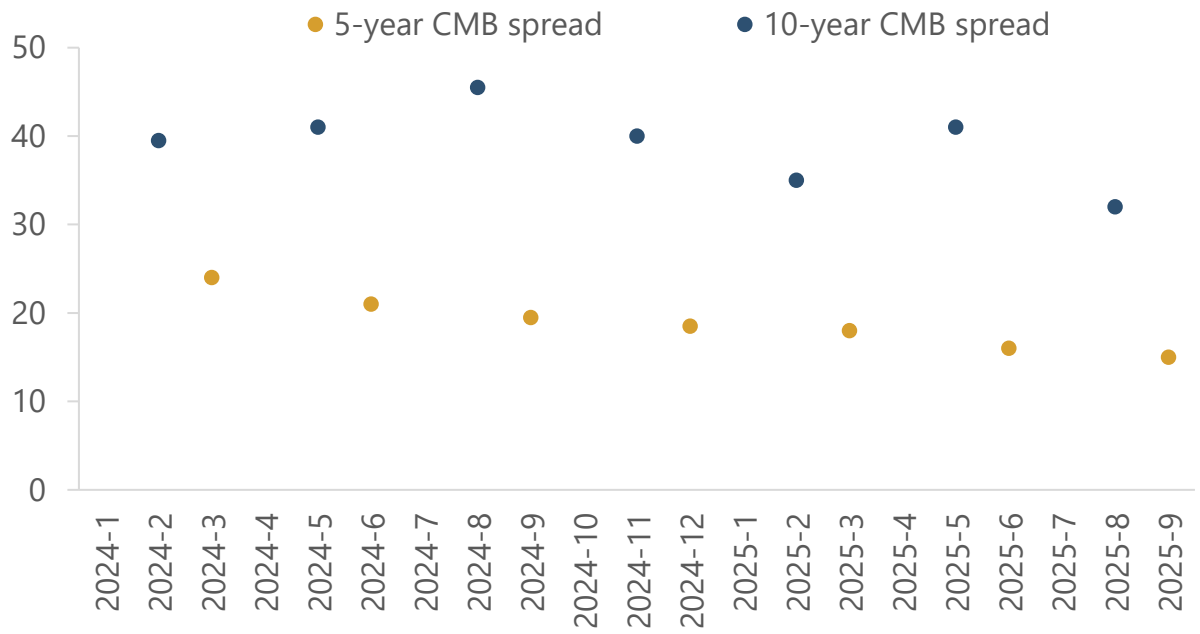
Source:
Office of the Parliamentary Budget Officer.

Note:
Data are in fiscal years (2024 corresponds to fiscal year 2024-25). Similarly, a 1-basis-point decrease in the CMB yield spread would result in a negative fiscal impact of the same magnitude.

Since the Government started to purchase CMBs in February 2024, spreads at the time of issue have declined from 24.0 to 15.0 basis points for 5-year CMBs, and from 39.5 to 32.0 basis points for 10-year CMBs. That said, there have been fluctuations around the trend declines in yield spreads (Figure 3).

Figure 3

5-year and 10-year CMB yield spreads over corresponding Government of Canada bonds (basis points)



Source:
Office of the Parliamentary Budget Officer and Bank of Canada.

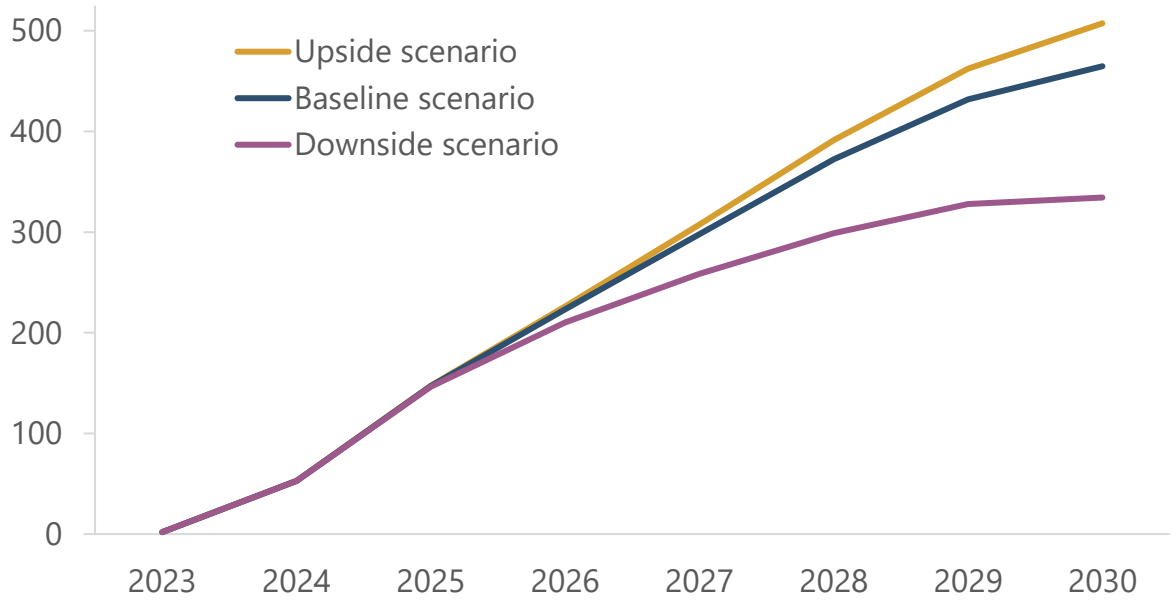
Note:
These spreads reflect the difference between the CMB and the corresponding benchmark Government of Canada bond when the CMB is first made available to investors.

The narrowing of the spreads has reduced net revenues from CMB purchases, but their projected path forward is uncertain. As such, under our September 2025 Economic and Fiscal Outlook status quo assumptions, we analyze three scenarios to assess the fiscal impact of the Government's CMB purchases over the medium-term horizon (Figure 4):[5]

- Baseline: CMB yield spreads remain at the same level as the most recent acquisition;[6]
- Downside: CMB yield spreads continue to decline at the observed pace since February 2024;[7]
- Upside: CMB yield spreads revert to a higher historical average observed over July 2015 to July 2025.[8]

Figure 4

Fiscal impact of CMB purchases under alternative yield spread assumptions, millions of dollars



Source:
Office of the Parliamentary Budget Officer and Canada Mortgage and Housing Corporation.

Note:
Data are in fiscal years (2024 corresponds to fiscal year 2024-25). Fiscal years 2023-24 and 2024-25 are estimates. The projection period covers fiscal years 2025-26 to 2030-31.

Under each scenario, the Government continues to generate net revenue annually. In 2030-31, net revenue is projected to be $509.7 million (upside), $464.7 million (baseline), and $353.4 million (downside). In the 2023 Fall Economic Statement, the Government projected that it would generate $596.0 million in net revenue from the purchase of CMBs in 2028-29, while we project net revenue of $392.5 million in our upside scenario.[9]

While additional purchases, either by increasing purchases within the current issuance limit, or by raising the issuance limit and purchasing more, could potentially generate additional revenue, program parameters were set in consultation with market participants to preserve the integrity of the CMB market. Further expansion could undermine CMBs' role as a market-based risk management instrument. If more CMBs were offered there could be a lack of eligible *National Housing Act* securities for a given issue. Moreover, increased demand from the Government could further narrow the yield spread.

The ultimate fiscal impact of the CMB program depends not only on CMB yields but also on broader market and interest rate conditions. Gross debt issued to finance CMB purchases is projected to increase by $30 billion annually, reaching $179.3 billion in 2030-31 and representing 7.6 per cent of outstanding federal marketable debt.[10] This additional issuance could place upward pressure on the Government's overall borrowing costs, reducing or offsetting net revenue. [11] Market analyses and swap market evidence suggest that increased borrowing could affect the yield curve, reflecting the fiscal and market impacts of elevated bond issuance.

Furthermore, since borrowing is concentrated in shorter-term instruments such as treasury bills and 2-year bonds[12] while purchasing longer-duration assets, the Government is exposed to higher short-term interest rates, which could if realized reduce or offset net revenues from CMB purchases.[13]

Appendix

The securitization process

CMBs are created through a process known as securitization. Securitization allows originators (for example, banks) to pool income-generating assets, such as mortgages, into a reference portfolio, and borrow against them through the sale of debt securities to investors. These securities are backed by the income that is generated by the underlying assets. This transforms illiquid assets into liquid securities and transfers credit risk.

An intermediary (for example, Canada Housing Trust) can be introduced to the process to create a legal separation from originators. This can protect the assets that comprise the reference portfolio should the originator face financial difficulties. It is common that originators continue to service the assets that comprise the reference portfolio.[14]

Originators and investors both benefit from securitization. It allows originators to make use of resources that would otherwise be tied down in the assets that comprise the reference portfolio. This allows them to expand their operations beyond what may have otherwise been possible without the ability to securitize their assets.

Securitization can also decrease borrowing costs for originators if the assets have better credit ratings than they do. It also facilitates the transfer of the reference portfolio's credit risk to investors.

For investors, securitization allows them to gain diversified exposure to assets that may otherwise be out of reach. For example, few investors could afford direct and diversified exposure to the mortgage market given the size of the individual assets. It also allows the investor to accept risks that they may be better suited to handle within the composition of their own portfolio.

The lifecycle of a CMB

The process to create a CMB begins with a mortgage being taken out on residential single family, multifamily, or social housing property, which are then insured. These mortgages are pooled into *National Housing Act Mortgage-Backed Securities* (NHA MBS).

For an NHS MBS to be eligible to become part of a newly created CMB it must fulfill several criteria: (1) the underlying mortgages must be fully insured by eligible mortgage insurers; (2) the underlying mortgages must mature on or before the CMB's maturity date; and (3) the NHA MBS meet regulatory requirements regarding structure and guarantees.[15] Eligible NHA MBS can be sold to the Canada Housing Trust (CHT), which issues CMBs to investors. The total size of a given CMB issue may not exceed the supply of eligible NHA MBS.

CHT and its financial advisors gauge market demand when determining the size and parameters of each CMB issue, constrained by the supply of eligible NHA MBS. After the parameters of a given CMB issue are determined, those wishing to purchase the CMBs must act as price takers. This includes the Government, which acquires the CMBs through its fiscal agent, the Bank of Canada. Since January 2015, each CMB issue and re-opening has been fully subscribed, meaning that the amount offered to acquire the CMBs has equaled or exceeded the amount that CHT is issuing.

CHT then establishes several agreements to facilitate the creation of the CMBs. The first is to ensure that CMHC is available to guarantee timely payment of the cash flows that the CMB will pay to investors.

CHT also arranges a series of swap agreements. This enables the conversion of the monthly payments of the NHA MBS to match the CMB's coupon and principal payments. The fixed rate CMBs that the Government purchased have semi-annual coupon payments, and full repayment of the principal when the bond matures. The income streams of the NHA MBS are reinvested into other eligible assets, with part of the funds being allocated to pay the coupon, and the remainder to pay back the face value of the CMB when it matures.

With the determination of the market demand and the establishment of the necessary agreements CHT can begin selling CMBs to investors, simultaneously using the funds to acquire the eligible NHA MBS, and entering into the guarantee and swap agreements with relevant parties. The CMBs may then be held by the investor until maturity or later sold on the secondary market.

Notes

[1] Bank of Canada: Operational Details for Government Purchases of Canada Mortgage Bonds.

[2] As outlined in Budget 2024 (Annex 2, Uses of Borrowings), the *Borrowing Authority Act* applies to both Government of Canada bonds and CMBs. To address the issue of double counting, where Government bonds are issued to finance the purchase of CMBs, Budget 2024 amended the Act to exclude from total borrowings the amounts raised by the Government of Canada specifically for CMB acquisitions.

[3] Public Accounts of Canada 2023-24 Volume 1, Section 1.

[4] In practice, timing differences may arise as Government bond and CMB auctions occur on different schedules. For instance, if borrowing takes place early in the month to fund CMB purchases at month-end, the Government's cost of borrowing may differ from the prevailing market spread at the time of the CMB issuance. Consequently, even under a maturity-matching framework, short-term interest rate movements could generate small deviations between borrowing costs and CMB yields.

[5] For each of these scenarios it was assumed that the Government would earn the same average premium/discount on the acquisition of the CMBs as it has realized to date. This was then amortized over the life of the CMB using the straight-line method.

[6] The most recent spreads were 15.0 basis points for 5-year CMBs acquired in September 2025, and 32.0 basis points for 10-year CMBs acquired in August 2025. This is roughly in line with the assumptions in our 2025 September Economic and Fiscal Outlook.

[7] In our analysis we assume that the 5-year CMB spread will not fall below 5 basis points and that the 10-year CMB spread will not fall below 18.1 basis points, which is consistent with its historical spread over 5 Year CMBs.

[8] This represents 32.1 basis points for 5-year CMBs, and 45.2 basis points for 10-year CMBs.

[9] Fall Economic Statement, 2023. Annex 2, Debt Management Strategy.

[10] Our modelling of the Government's purchase of CMBs results in a portfolio size of $179.3 billion by the end of 2030-31. In the Economic and Fiscal Outlook – September 2025 we projected that the stock of market debt to be $2.3 trillion by the end of 2030-31.

[11] In the Government's consultations with market participants it was anticipated that the consolidation of CMBs into the regular bond program could increase Government borrowing costs by 5-7 basis points. This estimate was for the initial parameters of the program as proposed in Budget 2023, when the Government was considering purchasing the full $40 billion worth of CMBs issued each year.

[12] For example, the Government's latest Debt Management Strategy, projects that 68 per cent of planned borrowing in 2025-26 will be through treasury bills and 2-year bonds.

[13] The Bank of Canada's losses provide a recent example of the potential fiscal costs associated with interest rate risk. The Bank of Canada's liabilities were predominantly short term (and sensitive to rising interest rates), while its assets were longer term, yielding comparatively lower returns that did not adjust quickly enough to offset the increased costs of borrowing. This mismatch between the duration of assets and liabilities highlights the potential fiscal costs associated with interest rate risk, particularly when policy rates rise rapidly.

[14] For example, if the assets are mortgages, the originator would be responsible for collecting monthly payments, foreclosing, and other operational activities. The originator collects a fee for these services and transfers the remainder of the cash flow to either the issuer or investors depending on the structure that was used to create the security.

[15] For further details, please consult the CMB guide, as well as the NHA MBS Guide.

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