

## What drives provincial-Canada yield spreads?

### *Qu'est-ce qui explique l'écart entre les rendements sur les débetures fédérales et provinciales?*

Laurence Booth, George Georgopoulos, Walid Hejazi

First published: 23 July 2007

<https://doi.org/10.1111/j.1365-2966.2007.00440.x>

Email: [hejazi@rotman.utoronto.ca](mailto:hejazi@rotman.utoronto.ca)



## Abstract

**Abstract.** Although recent research has led to a deeper understanding of the factors determining yields on long-term Canada bonds, there has been little corresponding work on provincial bonds. By using a carefully constructed new data set, we establish two important results. First, provincial fiscal positions (debt and deficits) are an important factor in determining yield spreads between provincial and Canada bonds. Second, we show that provincial bonds are a substitute for corporate debt, in that during recessionary 'flights to quality' their yields react like those on corporate bonds.

## Abstract

Même si les recherches récentes ont contribué à faire mieux comprendre les facteurs qui déterminent les rendements sur les débetures à long terme du gouvernement canadien, on a fait peu de travail sur le même sujet à propos des débetures provinciales. En utilisant une nouvelle base de données, on peut établir deux résultats importants. D'abord, les fondements fiscaux des provinces (dette et déficit) sont des facteurs importants dans la détermination de l'écart de rendements avec les débetures fédérales. Ensuite, les débetures provinciales sont des substituts

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

---

Amihud, Y., and H. Mendelson (1991) 'Liquidity, maturity and the yields on U.S. government securities,' *Journal of Finance* 46, 1411–25

[Web of Science®](#)  | [Google Scholar](#) 

---

Ardagna, S, F. Caselli, and T. Lane (2004) 'Fiscal discipline and the cost of public debt service; some estimates for OECD countries,' Centre for Economic Policy Research, Discussion Paper 4661, October

[Google Scholar](#) 

---

Atkinson, T. (1967) 'Trends in corporate bond quality,' paper, National Bureau of Economic Research

[Google Scholar](#) 

---

Barro, R. (1974) 'Are government bonds net wealth?' *Journal of Political Economy* 82, 1095–117

[Web of Science®](#)  | [Google Scholar](#) 

---

Bayoumi, T, M. Goldstein, and G. Woglom (1995) 'Do credit markets discipline sovereign borrowers? Evidence from U.S. states,' *Journal of Money, Credit and Banking* 27, 1046–59

[Web of Science®](#)  | [Google Scholar](#) 

---

Bernoth, K, J. Von Hagen, and L. Schknecht (2004) 'Sovereign risk premia in the European government bond market,' European Central Bank Working Paper No. 369, June

[Google Scholar](#) 

---

Booth, L. (1995) 'Equities over bonds, but by how much?' *Canadian Investment Review*, Summer, 9–15

[CAS](#)  | [Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

---

Dickey, D., and W. Fuller (1979) 'Distribution of the estimators for autoregressive time series with a unit root,' *Journal of the American Statistical Association* **74**, 427-31

[Web of Science®](#) | [Google Scholar](#)

---

Dickey, D., and W. Fuller (1981) 'Likelihood ratio statistics for autoregressive time series with a unit root,' *Econometrica* **49**, 1057-72

[Web of Science®](#) | [Google Scholar](#)

---

Evans, P. (1985) 'Do large deficits produce higher interest rates?' *American Economic Review* **75**, 68-87

[Web of Science®](#) | [Google Scholar](#)

---

Evans, P. (1987a) 'Do budget deficits raise nominal interest rates? Evidence from six countries,' *Journal of Monetary Economics* **20**, 281-300

[Web of Science®](#) | [Google Scholar](#)

---

Evans, P. (1987b) 'Interest rates and expected future budget deficits in the United States,' *Journal of Political Economy* **95**, 34-58

[Web of Science®](#) | [Google Scholar](#)

---

Fair, R., and B. Malkiel (1971) 'The determination of yield differences between debt instruments of the same maturity,' *Journal of Money Credit and Banking* **3**, 733-49

[Google Scholar](#)

---

Friedman, B. (2005) 'Deficits and Debt in the short and long run,' NBER working paper, September

[Google Scholar](#)

---

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

---

Johnson, D. (1993) 'International interest rate linkages in the term structure,' *Journal of Money, Credit and Banking* 25, 755-70

[Web of Science®](#) | [Google Scholar](#)

---

Johnson, D., and D. McIlraith (1998) 'Opinion polls and Canadian bond yields during the 1995 Quebec referendum campaign,' *Canadian Journal of Economics* 31, 411-26

[Web of Science®](#) | [Google Scholar](#)

---

Kotlikoff, L., and B. Raffelhueschen (1991) 'How regional differences in taxes and public goods distort life cycle location choice,' NBER Working Paper No. 3598

[Google Scholar](#)

---

Landon, S., and C. Smith (2000) 'Government spillovers and creditworthiness in a federation,' *Canadian Journal of Economics* 33, 634-61

[Web of Science®](#) | [Google Scholar](#)

---

Maddala, G.S., and S. Wu (1999) 'A comparative study of unit root tests with panel data and a new simple test,' *Oxford Bulletin of Economics and Statistics* 61, Special Issue, 631-52

[Google Scholar](#)

---

Martin, P. (2001) 'The Canadian experience in reducing budget deficits and debt,' *Economic Review*, Federal Reserve Bank of Kansas City, Spring, 203-25

[Google Scholar](#)

---

Mattina, T., and F. Delorme (1997) 'The impact of fiscal policy on the risk premium of government long-term debt: some Canadian evidence,' Department of Finance, Working Paper No. 97-01

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

---

Nunes-Correia, J., and L. Stemitsiotis (1993) 'Budget deficit and interest rates: is there a link? International evidence,' Commission of the European Communities Economic Papers 105, November

[Google Scholar](#) 

---

Pedroni, Peter (1999) 'Critical values for cointegration tests in heterogeneous panels with multiple regressors,' *Oxford Bulletin of Economics and Statistics* 61, 653-70

[Web of Science®](#)  | [Google Scholar](#) 

---

Phillips, P., and P. Perron (1988) 'Testing for a unit root in a time series regression,' *Biometrika* 75, 335-46

[Web of Science®](#)  | [Google Scholar](#) 

---

Plosser, C. (1982) 'Government financing decisions and asset returns,' *Journal of Monetary Economics* 9, 335-52

[Web of Science®](#)  | [Google Scholar](#) 

---

Plosser, C. (1987) 'Fiscal policy and the term structure,' *Journal of Monetary Economics* 20, 343-67

[Web of Science®](#)  | [Google Scholar](#) 

---

Scotia Capital (2004) 'Investor guide to the federal and provincial bond markets in Canada,' May

[Google Scholar](#) 

---

Shum, P. (1995) 'The 1992 Canadian constitutional referendum: using financial data to assess economic consequences,' *Canadian Journal of Economic* 28, 794-807

[Google Scholar](#) 

---

Siklos, P. (1988) 'The deficit-interest rate link: empirical evidence for Canada,' *Applied Economics* 20, 1563-77

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

Wooldridge, J. (2002) 'Econometric analysis of cross section and panel data,' (Cambridge, MA : MIT Press)

[Google Scholar](#) 

Citing Literature 

[Download PDF](#)

### ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

### HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

### OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

### CONNECT WITH WILEY

[The Wiley Network](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



**Manage Preferences**

**Accept All**

**Reject Non-Essential**