

What drives provincial-Canada yield spreads?

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

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Abstract

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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.

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