

Undertaking #21

MPI to advise as to the basis of the new money yield rate of 2.17 percent provided in MPI 43.

RESPONSE:

~~The marketable bond yield of 2.17% for the 2022, 2023, 2024 calendar years is the annual weighted average yield of the Provincial and Corporate bonds held by MPI. For example, MPI forecasted the 2022 calendar year Provincial bonds to represent 69.1% of marketable bonds with a yield of 1.85%. MPI forecasted Corporate bonds to represent 30.9% of marketable bonds with a yield of 2.89%. The figure below shows the calculation of the 2.17% marketable bond yield:~~

Figure 1 — Marketable Bond Yield

Line No.	2022 Forecast	Weight (W)	Yield (Y)	WxY
1	Provincial Bonds	69.1%	1.85%	1.28%
2	Corporate Bonds	30.9%	2.89%	0.89%
3	Total	100.0%		2.17%

~~The 2.34% new money yield includes MUSH bonds in addition to provincial and corporate bonds. The marketable bond yield (2.17%) includes only provincial and corporate bonds. The omission of the MUSH bonds is the reason for the discrepancy between 2.17% and 2.34%.~~

After review, an error was discovered with the forecasted marketable bond yields. In addition, an error was also discovered with the MUSH bond yields. Please see INV-3 restated in *figure 1*, below.

Figure 1 – Interest Rate Forecast (Figure INV-3)

Line No.	Calendar Year/ Quarter	Fiscal Year/ Quarter	91-Day T.Bill Rate 2022 Budget	GoC 10 Yr Rate 2022 Budget	Mrk. Bond Yield 2022 Budget	MUSH Yield 2022 Budget	Claims Discount Rate 2022 Budget	91-Day T.Bill Rate 2022 GRA	GoC 10 Yr Rate 2022 GRA	Mrk. Bond Yield 2022 GRA	MUSH Yield 2022 GRA	Claims Discount Rate 2022 GRA	91-Day T.Bill Rate Difference	GoC 10 Yr Rate Difference	Mrk. Bond Yield Difference	MUSH Yield Difference	Claims Discount Rate Difference
1	21:01	2021/22 Q1	0.17%	1.22%	2.16%	4.37%	2.60%	0.09%	1.56%	2.49%	4.37%	2.89%	0.08%	-0.34%	-0.33%	0.00%	-0.29%
2	21:02	2021/22 Q2	0.17%	1.22%	2.39%	4.34%	2.76%	0.09%	1.56%	2.49%	4.36%	2.85%	0.08%	-0.34%	-0.10%	-0.02%	-0.09%
3	21:03	2021/22 Q3	0.17%	1.22%	2.36%	4.30%	2.73%	0.09%	1.56%	2.49%	4.35%	2.84%	0.08%	-0.34%	-0.13%	-0.05%	-0.11%
4	21:04	2021/22 Q4	0.17%	1.22%	2.36%	4.26%	2.72%	0.09%	1.56%	2.49%	4.33%	2.83%	0.08%	-0.34%	-0.13%	-0.07%	-0.11%
5	22:01	2022/23 Q1	0.17%	1.22%	2.33%	4.23%	2.69%	0.09%	1.56%	2.46%	4.32%	2.81%	0.08%	-0.34%	-0.13%	-0.10%	-0.12%
6	22:02	2022/23 Q2	0.17%	1.22%	2.34%	4.19%	2.68%	0.09%	1.56%	2.46%	4.31%	2.80%	0.08%	-0.34%	-0.12%	-0.12%	-0.12%
7	22:03	2022/23 Q3	0.17%	1.22%	2.34%	4.16%	2.66%	0.09%	1.56%	2.46%	4.30%	2.79%	0.08%	-0.34%	-0.12%	-0.14%	-0.12%
8	22:04	2022/23 Q4	0.17%	1.22%	2.33%	4.12%	2.65%	0.09%	1.56%	2.46%	4.28%	2.78%	0.08%	-0.34%	-0.13%	-0.16%	-0.12%
9	23:01	2023/24 Q1	0.17%	1.22%	2.32%	4.09%	2.63%	0.09%	1.56%	2.46%	4.27%	2.76%	0.08%	-0.34%	-0.14%	-0.18%	-0.13%
10	23:02	2023/24 Q2	0.17%	1.22%	2.32%	4.06%	2.62%	0.09%	1.56%	2.46%	4.26%	2.75%	0.08%	-0.34%	-0.14%	-0.20%	-0.13%
11	23:03	2023/24 Q3	0.17%	1.22%	2.32%	4.02%	2.61%	0.09%	1.56%	2.46%	4.24%	2.74%	0.08%	-0.34%	-0.14%	-0.22%	-0.13%
12	23:04	2023/24 Q4	0.17%	1.22%	2.32%	3.99%	2.59%	0.09%	1.56%	2.46%	4.23%	2.73%	0.08%	-0.34%	-0.14%	-0.24%	-0.13%
13	24:01	2024/25 Q1	0.17%	1.22%	2.31%	3.96%	2.58%	0.09%	1.56%	2.46%	4.22%	2.72%	0.08%	-0.34%	-0.15%	-0.26%	-0.14%
14	24:02	2024/25 Q2	0.17%	1.22%	2.31%	3.93%	2.57%	0.09%	1.56%	2.46%	4.20%	2.71%	0.08%	-0.34%	-0.15%	-0.27%	-0.14%
15	24:03	2024/25 Q3	0.17%	1.22%	2.31%	3.90%	2.56%	0.09%	1.56%	2.46%	4.19%	2.70%	0.08%	-0.34%	-0.15%	-0.29%	-0.14%
16	24:04	2024/25 Q4	0.17%	1.22%	2.31%	3.87%	2.55%	0.09%	1.56%	2.46%	4.17%	2.69%	0.08%	-0.34%	-0.15%	-0.31%	-0.15%

17 * 2022 Budget is based on the August 2021 Naïve Interest Rate Forecast

18 **2022 GRA is based on the March 2021 Naïve Interest Rate Forecast

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