

Provincial borrowing: Glass ‘half full’ as mid-year approaches

By Warren Lovely

As we approach the mid-year point of the calendar year, provincial bond issuance is running at a record clip. Through June 22nd, Canada’s provinces had collectively lifted \$104 billion (CAD equivalent) from debt capital markets globally—a handy total for less than six-months’ work.

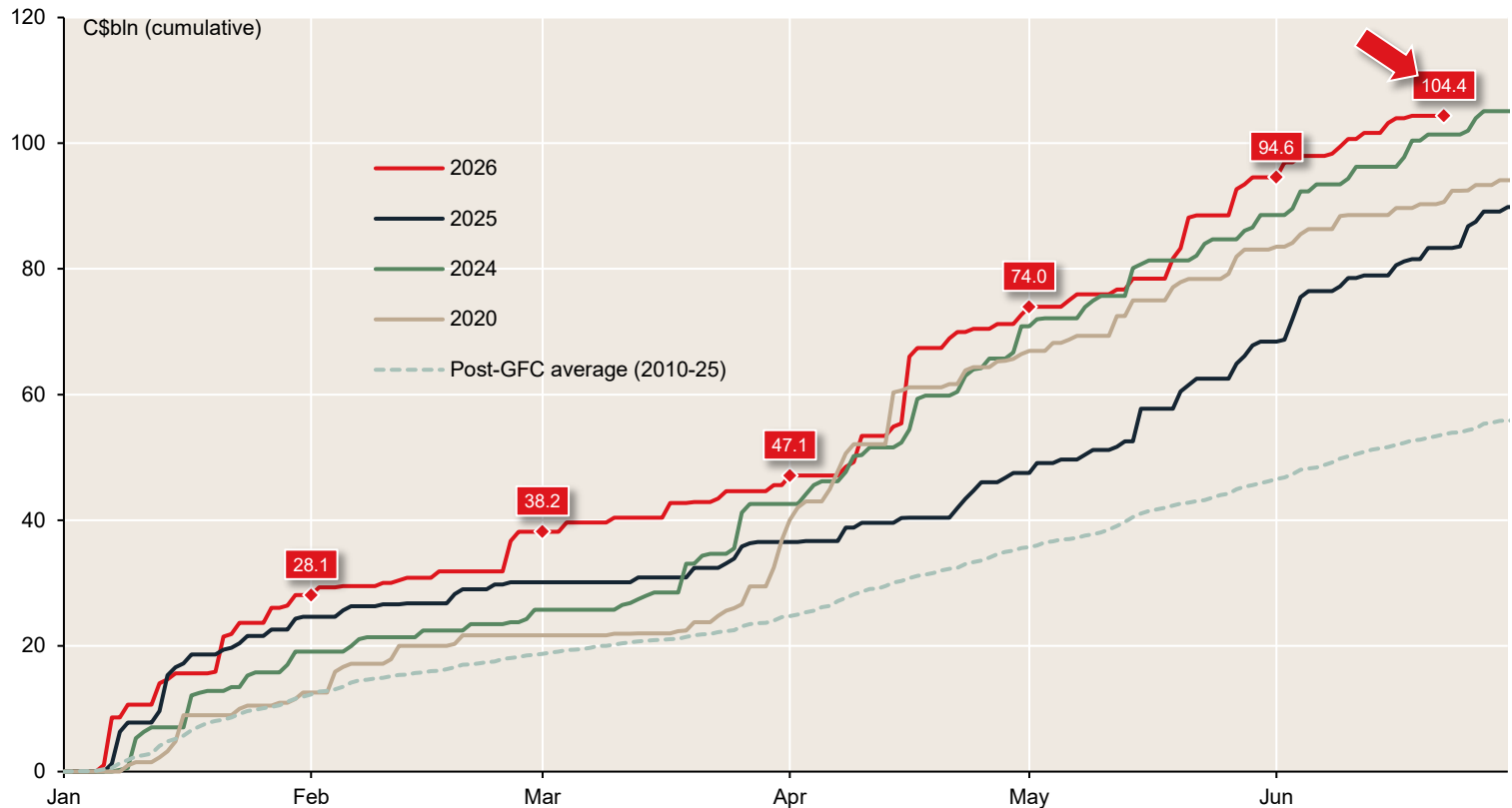
On its face, wholly unprecedented year-to-date bond supply may be no reason to rejoice. After all, this year’s breakneck borrowing tempo is a byproduct of historically elevated cash requirements. These needs in turn stem from large(r) budget deficits and needed investments to protect/transform less-than-highly productive and/or overly trade-dependent regional economies. Indeed, at the risk of generalizing, the 2026 provincial budget season could be broadly dubbed ‘credit negative’. In select cases, sizeable after-capital deficits and planned increases in key leverage metrics have led to adverse credit rating actions (i.e., ‘negative’ outlooks if not outright downgrades).

As for the borrowing strategies now being pursued in the provincial sector, they are not without some risk. Of particular note, provinces have leaned on international markets (and hard). Even where foreign currency trades have notionally saved some basis points (vis-à-vis the domestic cost of funds), surging international bond supply has increased the provincial sector’s relative exposure to non-residents. It has likewise contributed to a shortening in the average term of new supply, increasing eventual refi risk (vs. relatively longer-term issuance). This is all true.

And yet, as we properly reflect on an extraordinary and more internationally flavoured half-year of bond supply, we view the chosen funding path as pragmatic, efficient and relatively cost-effective. From a tactical and strategic perspective, there are some redeeming elements here. A long history of prudent provincial debt management survives. Call it a glass ‘half full’ at the half-way mark of the calendar year.

Chart 1: Gross provincial bond supply on record-setting pace so far this year

Cumulative gross provincial bond issuance in all currencies during first half of the calendar year: 2026 vs. select years/prior trend



C\$bn	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Avg: 10-25	2026
All ccy	38.2	40.1	36.6	37.6	41.3	38.0	44.8	49.8	43.3	51.1	90.7	72.1	46.5	44.5	101.4	83.3	53.7	104.4
CAD only	24.4	30.0	26.9	33.7	32.0	30.6	30.4	27.7	31.8	32.7	66.1	49.3	34.5	35.5	58.0	53.0	37.3	51.9
Fgn ccy	13.8	10.1	9.7	3.9	9.3	7.4	14.4	22.0	11.5	18.4	24.5	22.8	12.0	8.9	43.4	30.3	16.4	52.5
Fgn share (%)	36%	25%	26%	10%	23%	19%	32%	44%	27%	36%	27%	32%	26%	20%	43%	36%	31%	50%

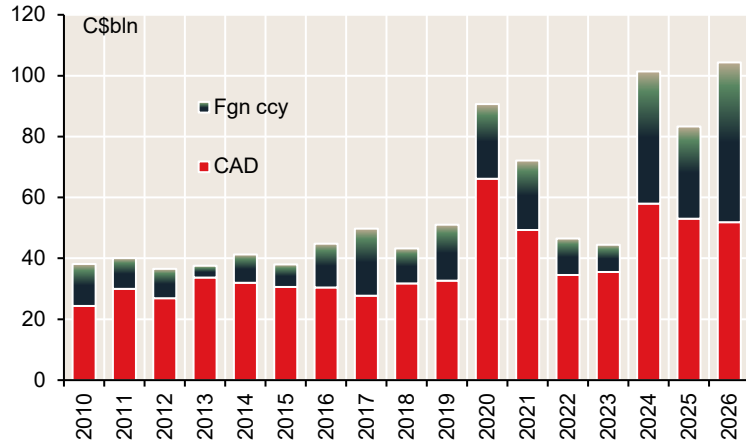
Source: NBC, BBG | Note: 2026 is calendar YTD (as of 22-Jun); chart isolates for first half of calendar year only; markers are cumulative month-end tallies; table is gross supply to 22-Jun

Collectively, Canada’s provinces have issued just over \$104bn (CAD equivalent) of long-term debt since the 2026 calendar year began. That’s a larger tally for this time of year than at any time in history, outpacing each of 2020, 2024 and 2025—the three largest years of full-year provincial bond supply. The year kicked off with \$28bn in primary supply in January, representing the third largest month ever. Following provincial budget season, and with the official kick-off of a new fiscal year on April 1st, issuance shot higher in April-May. While hardly insignificant, primary activity this June has been a touch underwhelming... at least so far. But the month, the quarter, the half-year, is not over. Issuers are circling and could quickly jump back in if market conditions prove supportive.



Chart 2: International issues a big(ger) part of funding story

Gross provincial bond issuance: Calendar YTD basis

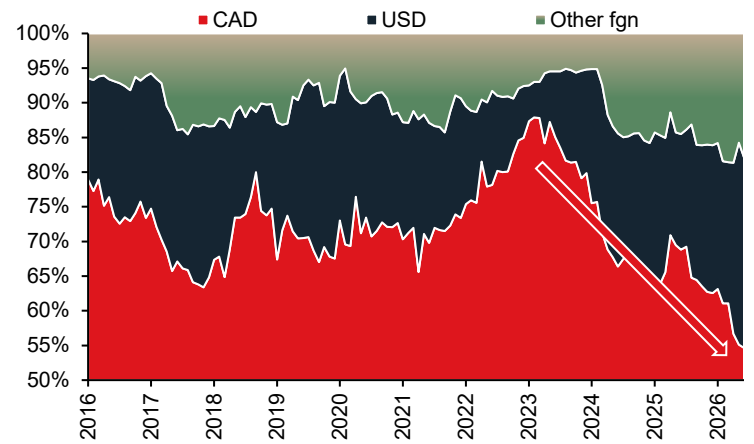


Source: NBC, BBG | Note: Based on gross supply completed as of 22-Jun each year

Provinces have secured just as much of their YTD funding from international markets (\$52.5bln CAD equivalent) as from the home/domestic market (\$51.9bln). While this roughly 50-50 YTD split is unprecedented, provinces have (predictably and sensibly) leaned on international markets since gross borrowing needs shot higher in 2024, with the domestic share of trend supply in rapid decline.

Chart 3: CAD share of provincial bond supply in decline

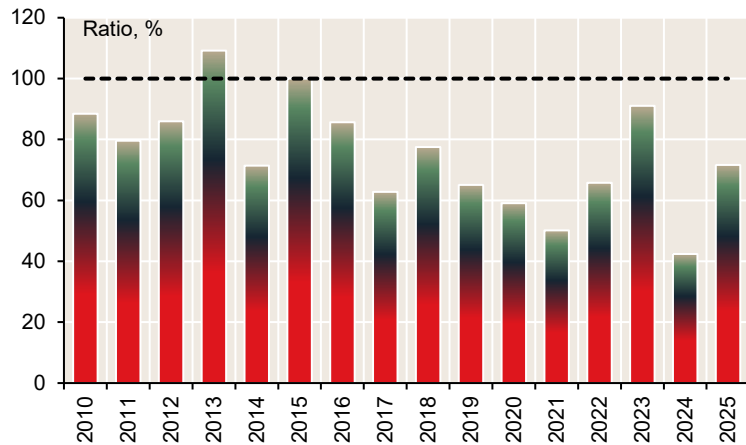
Currency share of gross provincial bond issuance: 12M moving sum



Source: NBC, BBG | Note: 12M trend based on monthly data; latest is Jun-26 (as of 22nd)

Chart 4: Mind, issuance pace typically slows in second half

Ratio of gross provincial bond issuance in all currencies: Second half vs. first half

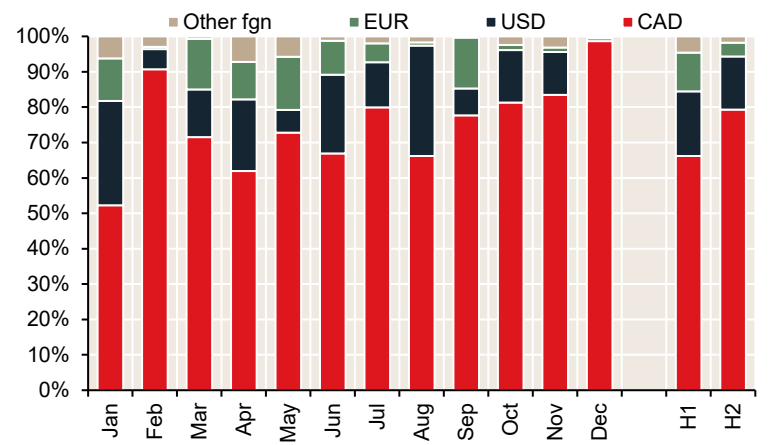


Source: NBC, BBG | Note: Ratios <100% imply less gross bond supply in H2 than in H1

What can be expected to follow these first-half funding heroics? Well, in the post-GFC period, the traditional or seasonal supply narrative has generally been characterized by: a slower issuance pace overall (with H2 supply below H1 in each of the past 10 years); a relatively greater home market bias (with international share of gross supply, on average, shrinking in H2 vs. H1). However...

Chart 5: Back-half supply often skews more to CAD too

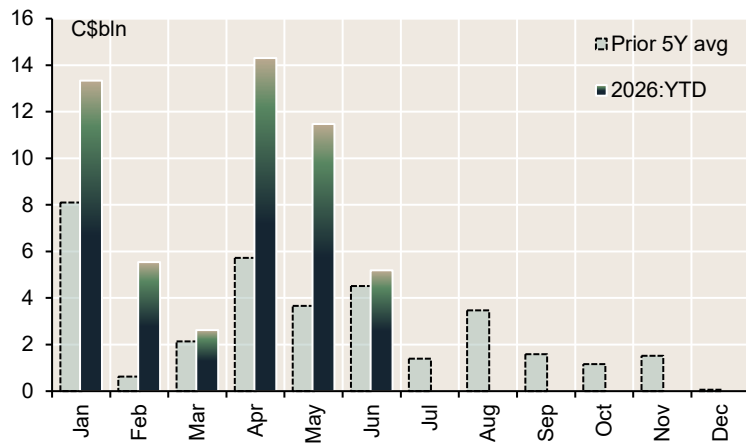
Seasonal pattern of gross provincial bond issuance: By month & by half-year



Source: NBC, BBG | Note: Reflects prior 5Y averages (from 2021-25)

Chart 6: Visualizing seasonality in international issuance

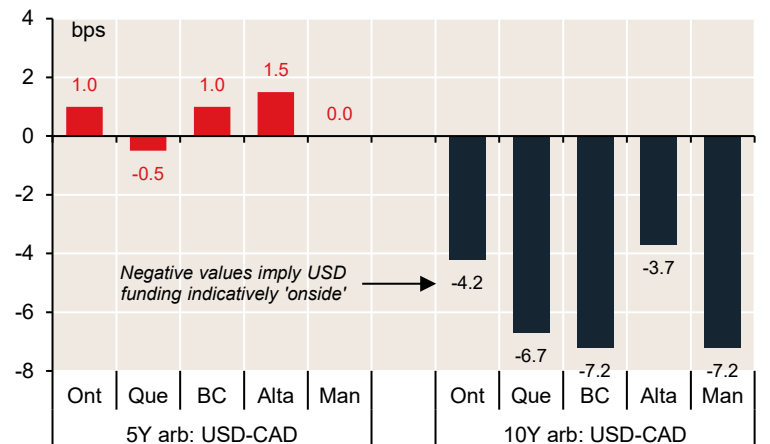
Gross provincial bond issuance in international markets: 2026 vs. prior trend



Source: NBC, BBG | Note: 2026 is calendar YTD (to 22-Jun-26)

Chart 7: International funding arbitrage important to watch

Indicative provincial funding arbitrage for select issuers: USD market vs. CAD



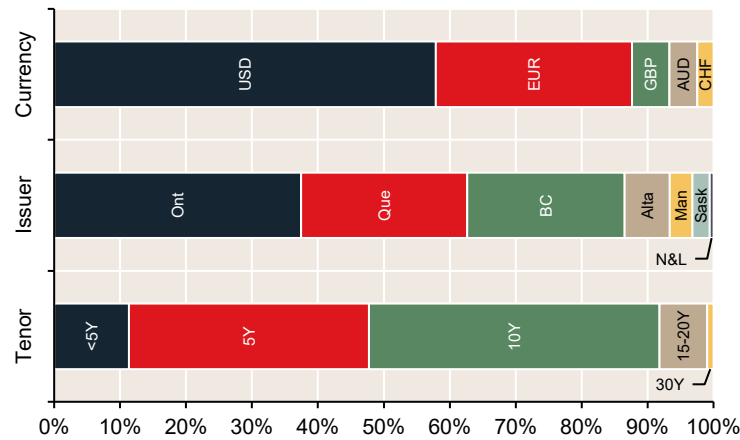
Source: NBC | Note: Based on NBC indications as of 18-Jun-26

... bond supply seasonals are to be interpreted with some caution. While fiscal year borrowing programs are currently well advanced, future year needs are non-trivial. Issuers will presumably be looking for opportunities to secure marginal financing, and notwithstanding the historical tendency toward CAD in H2, suitable cost-effective international opportunities are likely to be seized upon.



Chart 8: Dissecting an extraordinary year-to-date tally

Share of gross provincial bond supply in international markets: 2026:YTD

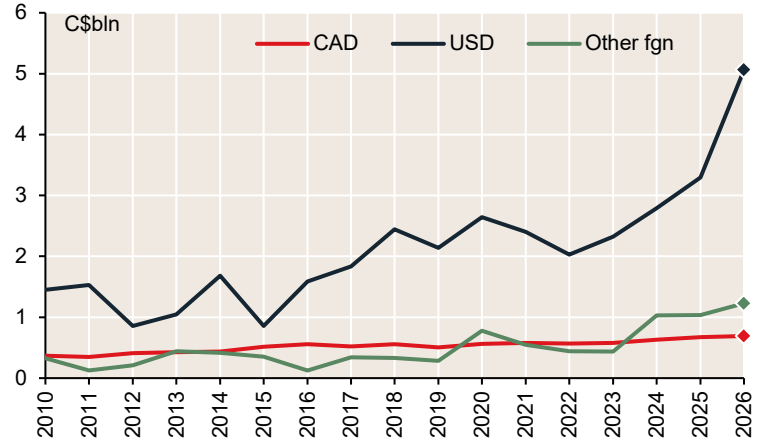


Source: NBC, BBG | Note: Based on C\$52.4bln in gross supply to 22-Jun-26

Even if foreign currency supply moderates in the second half, 2026 will be seen as a remarkable year. Through June 22nd, we've had 24 international bond offerings, from 7 provincial issuers, in 5 foreign currencies. The efficiency of these international deals has been on clear display, with the average USD trade bringing in ~\$5bln (CAD) this YTD vs. ~\$700mln for the average CAD offering.

Chart 9: Foreign ccy trades can be uber-efficient (i.e., deal size)

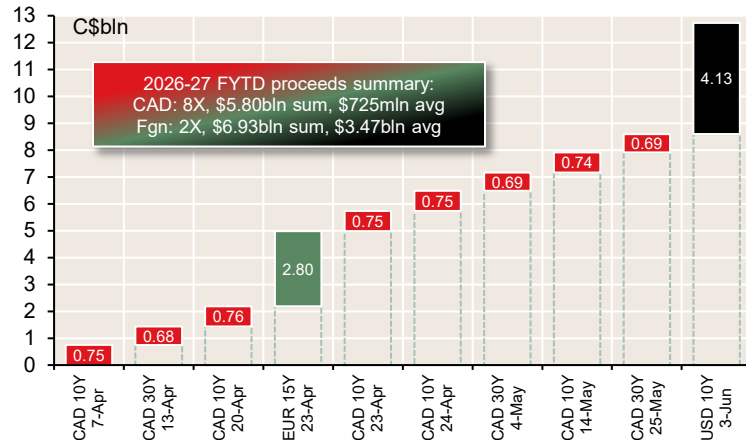
Average provincial bond deal size: By currency



Source: NBC, BBG | Note: 2026 is YTD (to 22-Jun); prior periods are full-year averages

Chart 10: International markets help Quebec get ahead

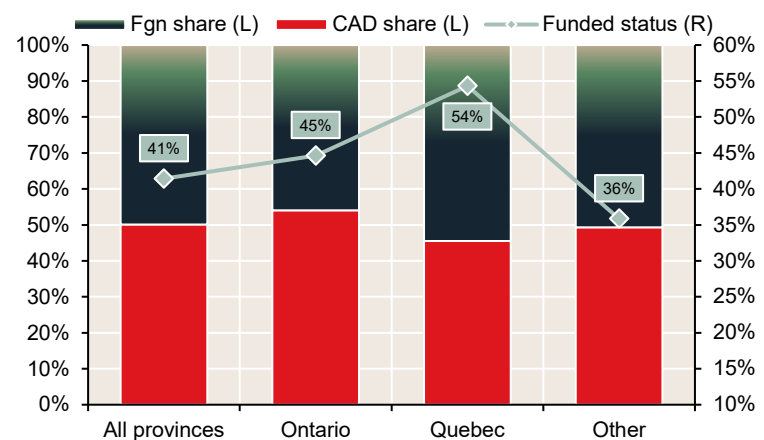
Quebec cumulative long-term borrowing proceeds by transaction: 2026-27



Source: NBC, Que, BBG | Note: Fiscal year basis since 1-Apr-26

Chart 11: Ditto for other provinces (and sector as a whole)

Share of gross bond supply by currency & share of requirement funded: 2026-27

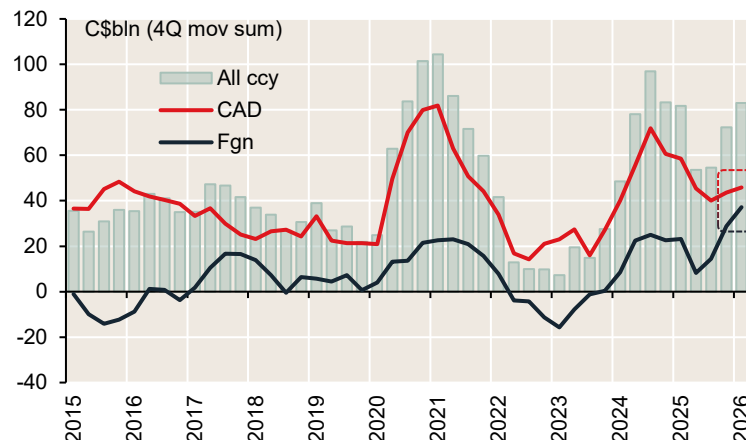


Source: NBC, prov gov'ts, BBG | Note: Refer to NBC's provincial borrowing update for details

Whether in Ontario, Quebec, British Columbia or elsewhere, the odd large-size international offering can quickly advance a fiscal year borrowing requirement. Having leveraged international markets so effectively, Canada's provinces have already secured more than 40% of collective requirement at the 22% mark of fiscal 2026-27. Far ahead of schedule with a major assist from foreign markets.

Chart 12: Foreign markets help absorb net new supply

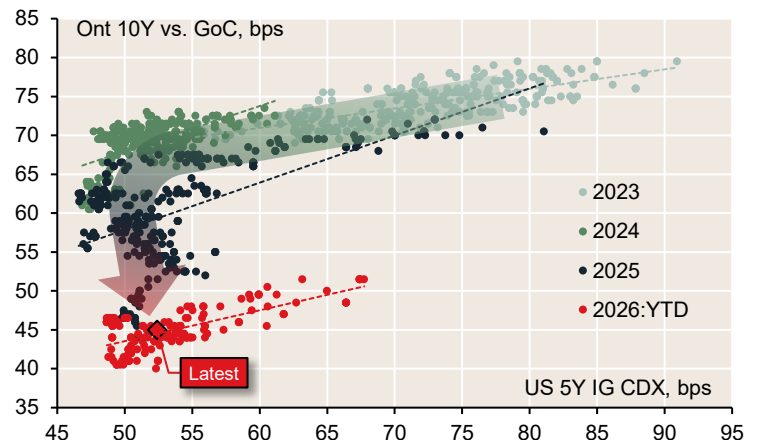
Net new issuance of provincial long-term debt by currency of issue: Quarterly



Source: NBC, StatCan | Note: Quarterly to 2026:Q1

Chart 13: Supply technicals support domestic spreads

Ontario 10Y domestic G-spread vs. traditional risk proxy (U.S. IG 5Y CDX)



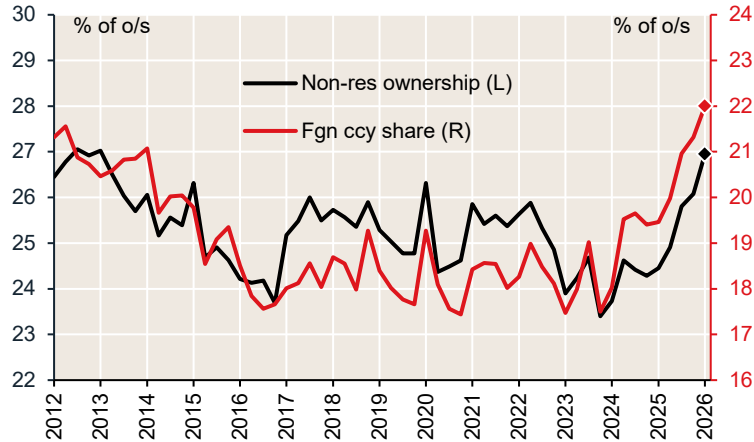
Source: NBC, BBG | Note: Latest refers to 22-Jun-26

Gross bond supply is easy enough to monitor, but we consider net new issuance the more material valuation driver. As earlier explored (link), foreign markets are sopping up record amounts of net new provincial bond supply. Shielding the CAD market from net supply saturation supports domestic G-spreads, where the relationship with traditional risk proxies has been redefined.



Chart 14: Exposure to non-residents has increased

Foreign ownership & foreign currency share of outstandings provincial bonds

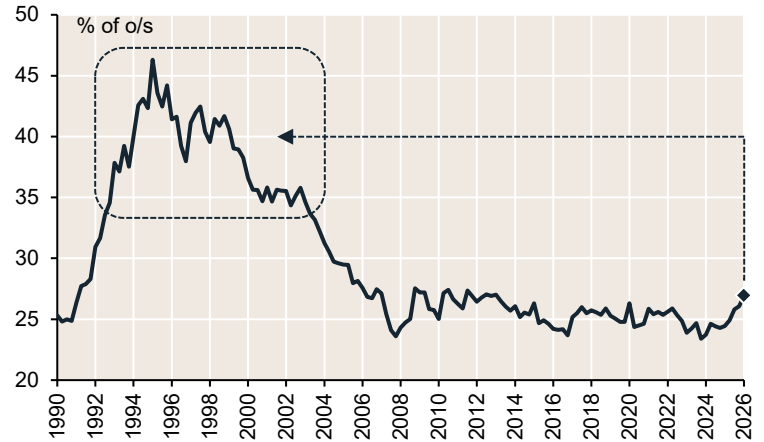


Source: NBC, StatCan | Note: Quarterly to 2026:Q1

Heavy reliance on international markets/foreign investors is not without risk. Unlikely notionally 'captive' domestic players, non-residents may not necessarily be committed to provs over the long haul. Still, today's non-resident ownership share is nothing like we saw in the 1990s. Moreover, provinces are relatively less exposed to non-residents than Canada's sovereign, crowns or banks.

Chart 15: But this is not the 1990s! (In terms of foreign leverage)

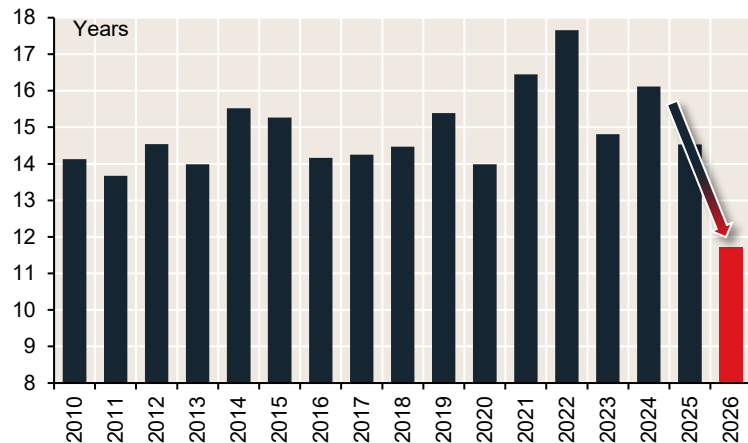
Foreign ownership of outstanding provincial bonds



Source: NBC, StatCan | Note: Quarterly to 2026:Q1

Chart 16: Average term of provincial supply gets shorter...

Weighted average term of gross provincial bond supply: All currencies

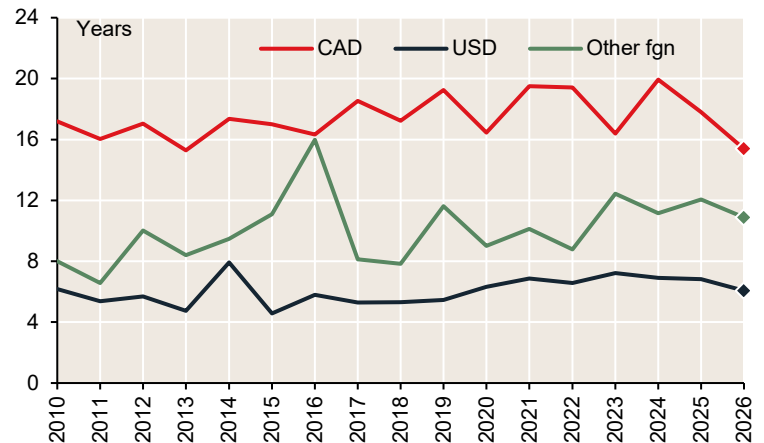


Source: NBC, BBG | Note: 2026 is YTD (to 22-Jun); prior periods are full-year averages

On average, your standard international trade is of a shorter duration than a domestic bond offering. It follows that a growing reliance on foreign currency markets shortens the weighted average term of primary supply. But this year's drop in WAT also reflects shifting preferences in the domestic market, where longs account for the smallest share of gross supply in the post-GFC period.

Chart 17: ... with international utilization only part of story

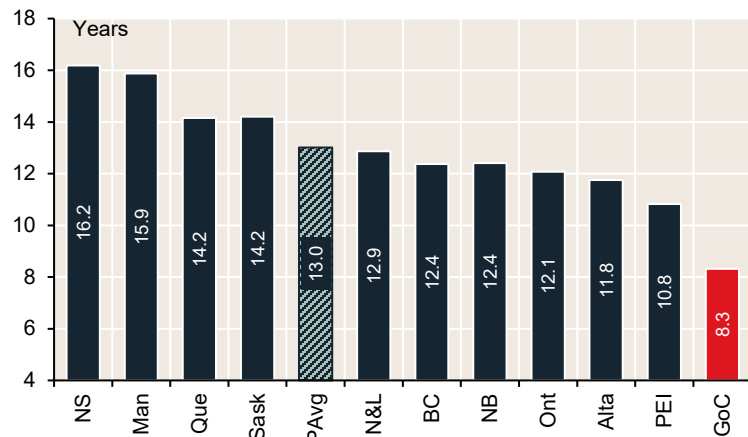
Average term of gross provincial bond supply: By currency



Source: NBC, BBG | Note: 2026 is YTD (to 22-Jun); prior periods are full-year averages

Chart 18: Provinces have long insulated against refi risk

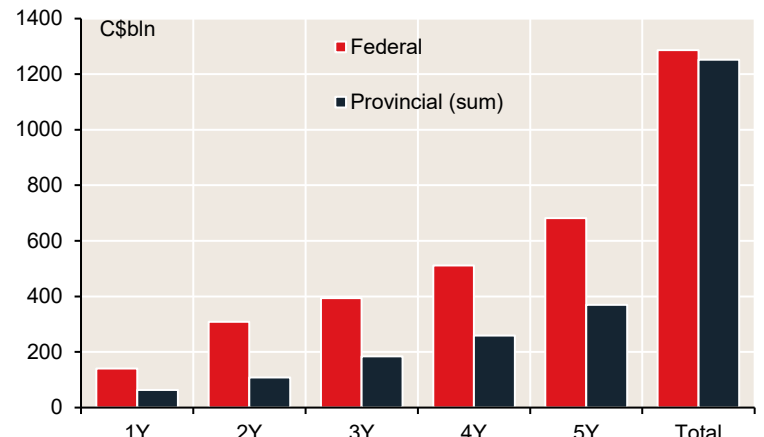
Weighted average term of outstanding bonds: Provinces vs. GoC



Source: NBC, BBG | Note: Based on marketable bonds, in all currencies, as of 22-Jun-26

Chart 19: Provincial bond stock rolls (much) slower

Cumulative amount of outstanding bonds to be refinanced: Provinces vs. GoC



Source: NBC, BBG | Note: Based on marketable bonds, in all currencies, as of 22-Jun-26

A shortening of provincial supply is less problematic than meets the eye. Credit the provinces for earlier terming out a material share of their debt stock. We view the cost of that earlier duration as akin to an insurance premium, in that protects against refi risk and allows provinces to shorten supply when/where needed. Simply put, the average provincial debt stock rolls slower than key competing sectors. That means a slower, less painful re-couping of maturing debt, the adjustment in the provincial interest bite far less painful than what the feds have been dealing with. Prudence!



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