Market View
Economics and Strategy

NATIONAL BANK OF CANADA
CAPITAL MARKETS

November 27, 2026 - (Vol. X, No. 128)

Financing Canada's sizeable foreign investor IOU

By Warren Lovely

Black Friday bargain hunting may have distracted from StatCan's Q3 balance of payments release. But for those that noticed, Canada's current account surplus was a fair bit lighter than the consensus. Yes, there was a distinctly positive goods trade surplus (thanks, energy), but a few items leaned the other way, including a larger investment income deficit. That brings us to the topic of today's *Market View*: the financing of Canada's increasingly significant foreign investor IOU.

The story goes something like this… For many years, Canada has peddled its debt to foreign investors. From a balance of payments perspective, the incurrence of large-scale portfolio investment liabilities offset what was, until recently, a string of current account deficits. Looked at another way, Canadian governments have been eager to place net new debt with foreign investors, since marginal demand makes funding operational shortfalls and transformative capital plans more efficient. For their part, Canadian corporate issuers (including the big banks) have long been beating a path to international debt capital markets.

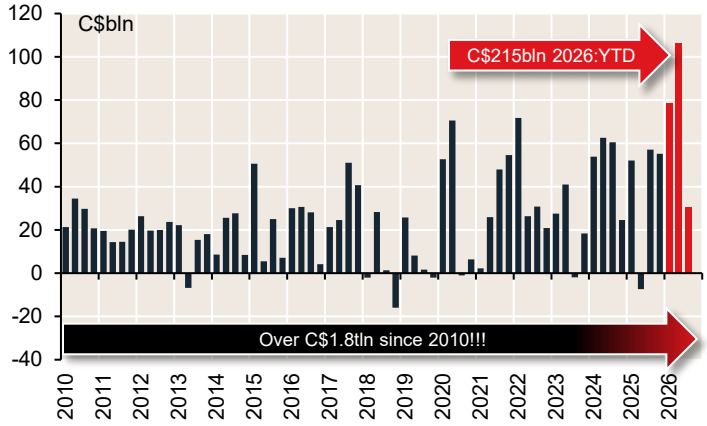
The cumulative results are striking. Since the end of the Global Financial Crisis, Canada has placed ~$1.8 trillion of net new bonds with foreign investors. Despite the emergence of a current account surplus in 2026, Canada continues to sell its debt to non-residents. Foreign investors gobbled up $215 billion of Canadian bonds in the first three quarters of the year, more than double the corresponding clip from 2025:YTD.

To clarify, a majority of the "Canadian" bonds owned by non-residents are denominated in foreign currencies. Regardless, interest needs to be paid to a growing army of international creditors. And so the foreign interest bill is surging. Back in 2022, when interest rates were at the effective lower bound, roughly $40 billion/year was paid to foreign debt holders. Today, the annualized interest charge is almost $100 billion, capturing not only growth in non-resident holdings but also costlier borrowing rates.

With over 40% of all national debt now held outside the country, Canada has never been more beholden to foreign investors. It follows that larger and larger interest payments must be made to non-residents. Since there appears to be no real let up in planned borrowing, this trend could well continue. Ultimately, this may be a case of taking the 'good' (i.e., easier absorption of cash requirements and enhanced investor breadth) with the 'bad' (i.e., unprecedented foreign exposure and record payments to non-residents, many of whom are situated in the U.S.).

Chart 1: Non-residents have loaded up on Cdn bonds…

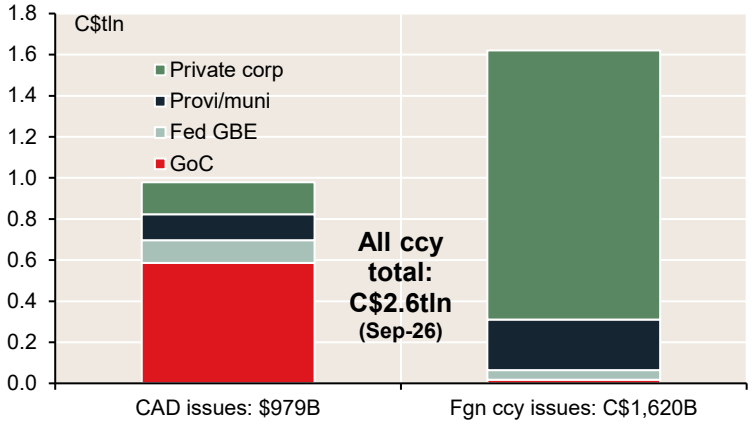
Net foreign buying of Canadian debt securities: Quarterly



Source: NBC, StatCan | Note: Quarterly to 2026:Q3

Chart 2: … with majority denominated in foreign currencies

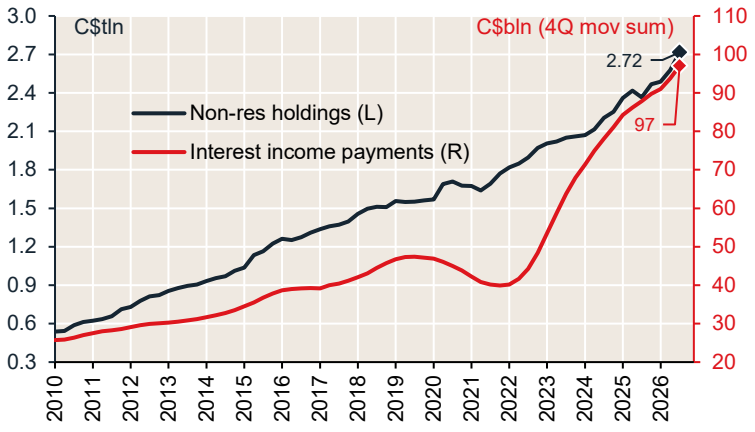
Foreign holdings of Canadian bonds by currency of issue & sector: Sep-26



Source: NBC, StatCan | Note: Book value for latest available month (Sep-26)

Chart 3: Canada's foreign interest bill marching higher

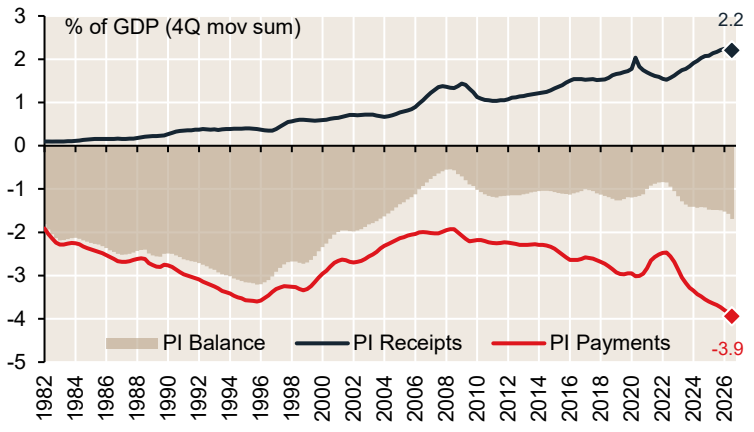
Foreign holdings of Cdn debt securities & related interest payments (current acct)



Source: NBC, StatCan | Note: Quarterly to 2026:Q3; non-res holdings lagged 1Q

Chart 4: Record payments to non-resident portfolio investors

Canada portfolio investment income receipts, payments & balance



Source: NBC, StatCan | Note: Quarterly to 2026:Q3; PI refers to portfolio investment

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