

Re-thinking provincial funding expectations

By Warren Lovely

Geopolitically, economically and fiscally, here in Canada things are clearly unsettled. Despite immense (arguably unprecedented) uncertainty, provincial governments are in the process of tabling their 2025 budgets. At this point, only three of ten provinces have presented budgets. (Four more are set to arrive by March 25th.) Regardless, some trends are easy enough to spot... like weaker budget balances and non-trivial borrowing needs. It's on this latter point—provincial funding needs—that we turn to today.

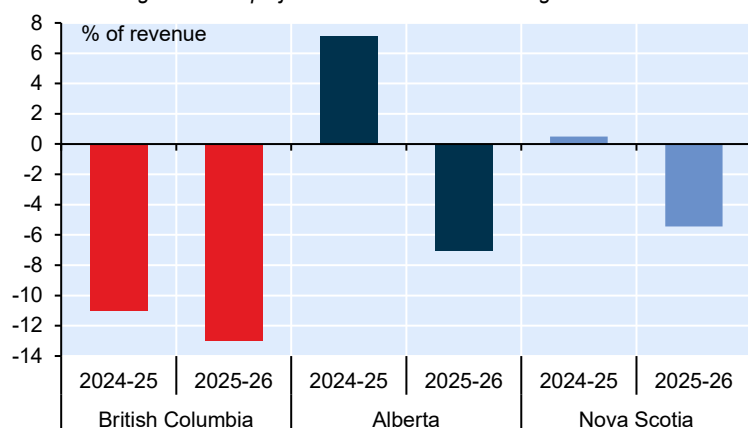
Based on the available information in-hand and our perceived balance of risks, we've revised up our thinking for calendar year provincial

issuance. We now see roughly C\$150 billion in gross supply for calendar 2025—matching if not exceeding the annual record first set in 2020 and recently re-established in 2024.

We will revise/fine-tune our thinking as more provincial budgets arrive but provinces can be expected to lean into international funding markets. We foresee roughly one-third of total supply being sourced from international markets, with foreign currency issuance getting off to a very brisk start in 2025. Another traditional/seasonal funding window is poised to open shortly, with markets having seemingly positioned for a busy (if volatile) spring.

Chart 1: Provincial budgets coming under some pressure

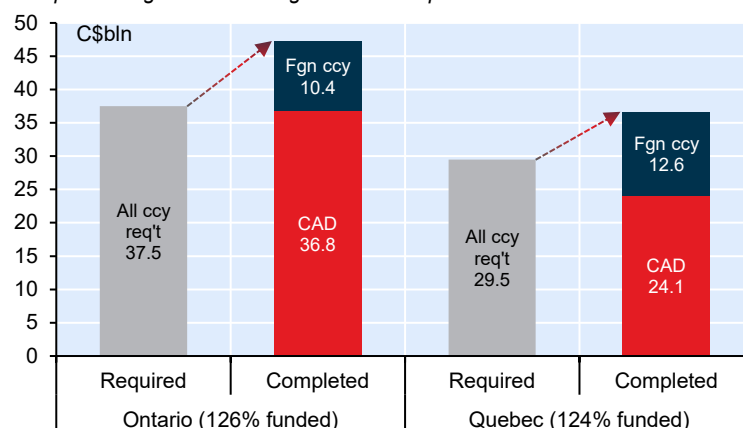
Provincial budget balance projections: Available 2025 budgets



Source: NBC, prov gov'ts | Note: Budget balance scaled to revenue for comparability

Chart 2: Provinces prudently proactive

Completed long-term borrowing vs. official requirement*: 2024-25

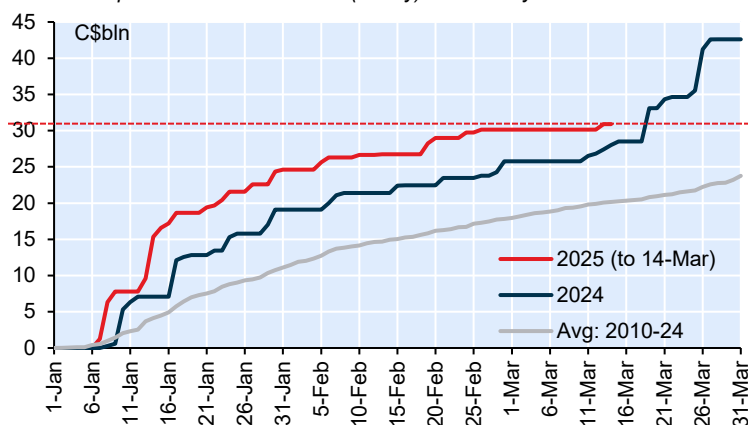


Source: NBC, Ont, Que | Note: Requirement from fall updates; completed as at 14-Mar-25

A highly anticipated provincial budget season continues this week, with three more provinces (NB, Sask, Man) set to release fiscal blueprints. Based on what we've seen so far (from BC, Alta, NS), intense geopolitical uncertainty is contributing to provincial budget pressure. Budgetary shortfalls (either new or enlarged), capital spending plans and non-trivial maturities add up to significant borrowing requirements for fiscal 2025-26. With economic clouds having been on the horizon for some time, provinces have pre-funded to a material (and larger-than-average) extent.

Chart 3: Calendar 2025 had got off to a very fast start...

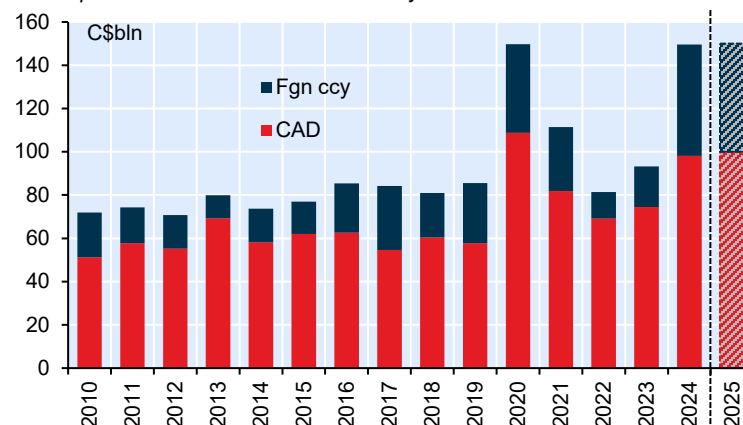
Cumulative provincial bond issuance (all ccy): Calendar year-to-date



Source: NBC, BBG | Note: Cumulative total of gross issuance (all ccy) from start of year

Chart 4: ...a (near) record provincial bond crop now in sight?

Annual provincial bond issuance: Calendar year



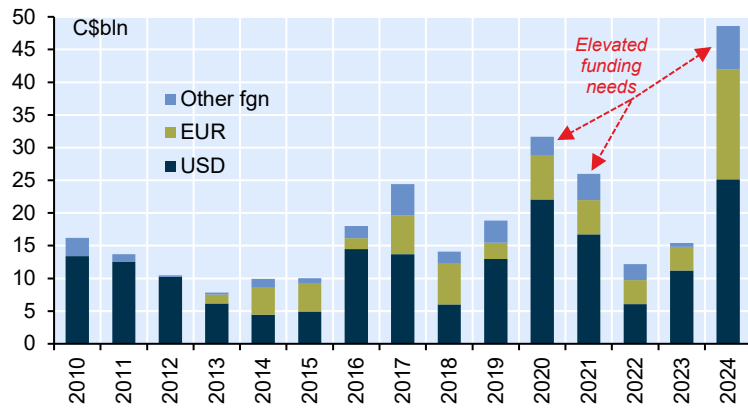
Source: NBC, BBG | Note: 2025 reflects NBC's current operating assumption (subject to chg)

The pre-funding push meant provincial bond supply started calendar 2025 with a very brisk tempo. At the end of last week (March 14th), Canada's provinces had already secured nearly C\$31 billion in term funding (all currencies), a brisker pace than what itself was an extraordinary 2024. Given the balance of risks, we don't see things letting up much. A trade war risks destroying jobs/growth. Faced with a more challenging economic outlook, provincial red ink and fresh promises/supports could ultimately mean unprecedented provincial bond supply in 2025. Having upped our expectations for calendar year supply to ~C\$150 billion, we would anticipate roughly up to one-third (the equivalent of C\$50 billion) being sourced internationally (via USD, EUR and other foreign currencies).



Chart 5: International markets as a funding shock absorber

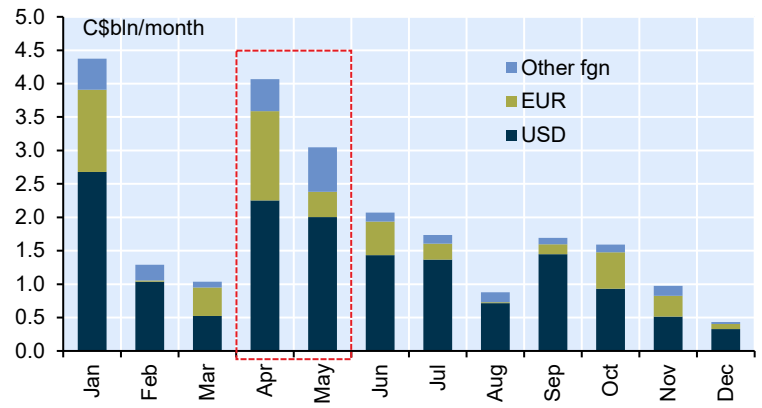
International provincial bond issuance: Calendar year



Source: NBC, BBG | Note: Calendar year totals; converted to CAD at prevailing FX rates

Chart 6: Busy season for provincial issuance upon us

Average monthly international provincial bond issuance: 15Y sample (2010-24)



Source: NBC, BBG | Note: Monthly averages; converted to CAD at prevailing FX rates

Notwithstanding the 'optics' of turning to the U.S. for marginal financing, international markets can serve as an important shock absorber when borrowing requirements are elevated—as they could be for some time. Foreign currency markets have proven their utility time and again, pursuant to established season patterns. On that score, a traditionally busy window is effectively set to open.

Chart 7: An even closer look at the traditional/seasonal pattern of provincial borrowing in international markets

Average daily international (i.e., non-CAD) provincial bond issuance: 15Y sample (2010-24)

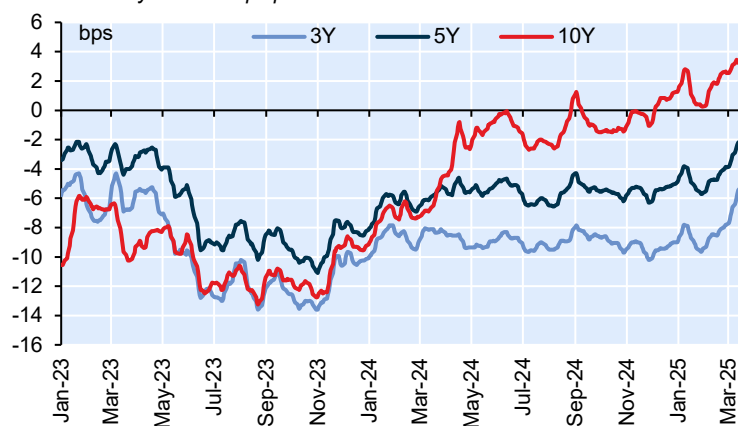


Source: NBC, BBG | Note: Daily issuance smoothed +/- 5 days

Statistical caveats aside, there's an observable seasonal tendency to provincial bond supply, particularly in international markets. January is traditionally quite busy and this year didn't disappoint; indeed, the ~C\$13 billion sourced from international markets in Jan-25 was a record tally—an international bond surge picked up in StatCan's international transactions in securities data (out today). Coming out of budget season, we typically see things heat up in the tail end of March, international funding often running hot(ish) through spring. So it would not be surprising to see action pick up.

Chart 8: Xccy basis swaps look to discount supply

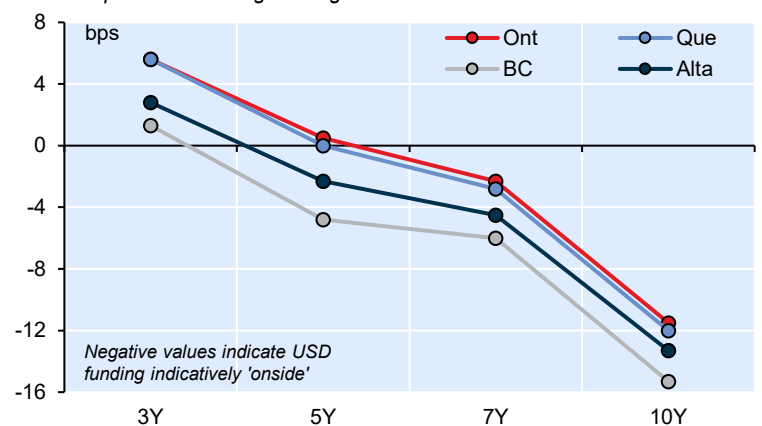
Cross-currency basis swap spreads: CORRA vs. SOFR



Source: NBC, BBG | Note: 5-day moving avg; latest data point refer to 17-Mar-25

Chart 9: (As always) relative funding arbs carefully monitored

Indicative provincial funding arbitrage: USD vs. CAD



Source: NBC | Note: Based on indicative new issue levels as at 14-Mar-25

As is their way, markets/investors have (to some extent) positioned for international issuance by Canada's provinces. Just look at the recent move in xccy basis swaps, reflecting the prevailing sentiment that 'northbound' is apt be the predominant direction of flow (given the Maple market isn't exactly humming). We still have provincial budgets to drop and credit rating decisions to be confirmed, but given underlying requirements it is likely to be a relatively busy spring for the provinces. It's worth noting that certain international funding arbs look relatively attractive at present.



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