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DMS deep dive in 10 charts

By Taylor Schleich, Ethan Currie & Warren Lovely

This week's federal budget ushered in a significantly larger deficit in 2025-26 with substantial red ink spilling across the rest of the decade. One would naturally assume that would produce larger borrowing needs. It didn't. Instead, gross borrowing requirements were revised down in 2025-26 and there will be even less borrowing next year. What gives?

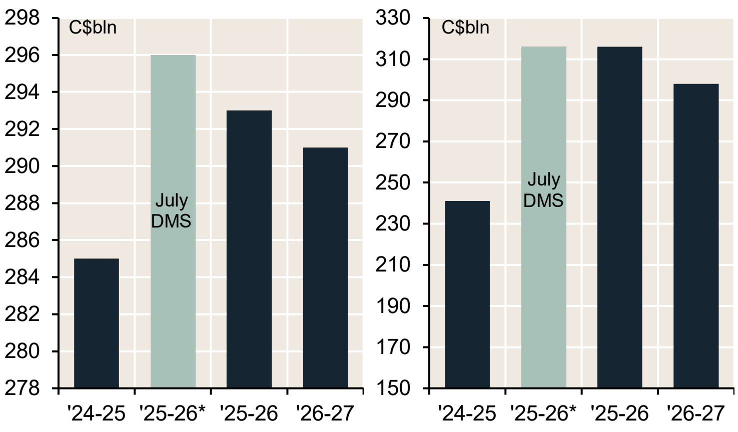
When it comes to 2025-26, recall that the government published a DMS in July. That incorporated *some* of government's budgetary deterioration. But a large downward revision to non-budgetary transactions (NBTs)—a less transparent component of the fiscal plan—helped ease pressure on debt issuance. In contrast, NBTs were revised *up* in 2026-27. Why doesn't issuance rise next year? The $39 billion fewer bonds to refinance and a $13 billion improvement in the deficit more than offset the rise in off-budget items. A smaller borrowing program next year was not unexpected (see our budget preview), but markets nonetheless breathed a sigh of relief, yields retreating 3-4 basis points after the budget dropped.

Gross issuance is only part of the story. *Net* bond issuance will actually accelerate in 2026-27 as the feds finance their entire financial requirement with bonds, rather than bills. Thankfully, BoC balance sheet run-off will slow, which limits the ultimate ask of end investors.

The duration of bond issuance will technically extend, though the shift is marginal. We see the weighted average term of bond supply hovering *around* 7 years for the foreseeable future. The size of the bond program is also set for stability through the end of the decade. However, the echo of prior large issuance years (e.g., COVID) could reverberate in the 2030s when the GoC bond program could rise to roughly $380 billion (based on the new budget plan and a reasonable fiscal path further out).

Chart 1: Counterintuitively, borrowing is stepping down…

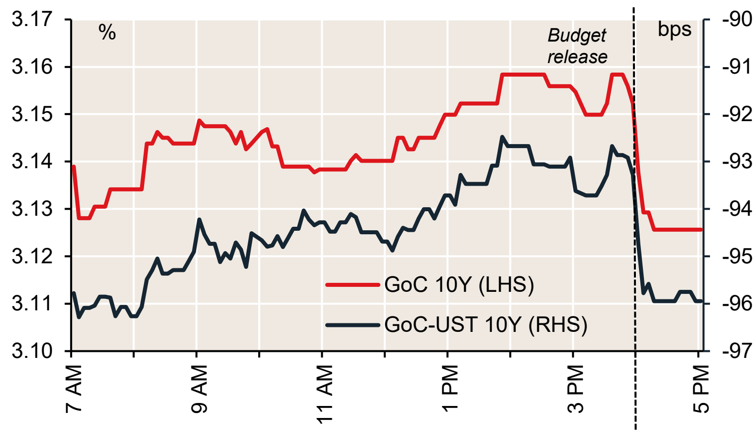
Actual/projected bill stock (LHS) and gross bond issuance (RHS) by year, DMS



Source: NBC, GoC | Note: '25-26 lighter bar denotes July 2025 DMS update*

Chart 2: …allowing GoC investors to breathe a sigh of relief

November 4, 2025, intraday price moves on GoC 10Y yield and UST differential

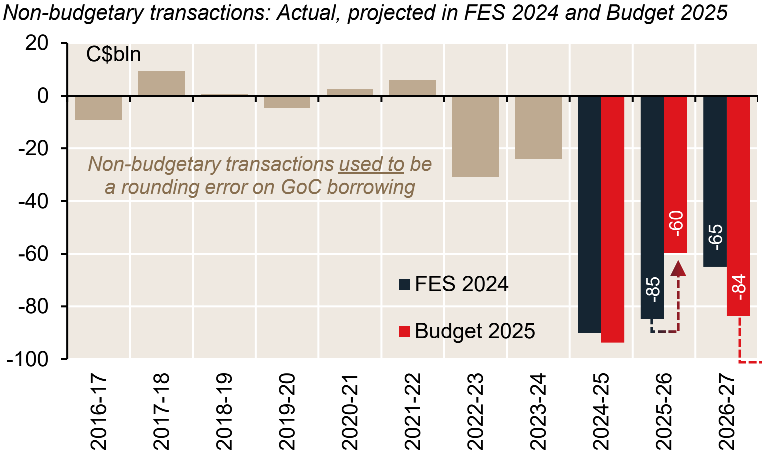


Source: NBC, Bloomberg | Note: Times in EST; 5-minute intervals

The Debt Management Strategy from July was the one that formally introduced the large jump in borrowing needs. This updated DMS re-affirms the size of the bond program while the bill program is now set to come in *lower*. Despite the larger deficit than was previously expected, non-budgetary transactions were revised down which led to (slightly) lower gross borrowing needs. In 2026-27, gross debt issuance will actually step *down*. Ahead of the budget, GoC yields reflected some fiscal anxiety, but the relatively contained borrowing outlook allowed investors to breathe a sigh of relief.

Chart 3: NBTs an increasingly large role in fin'l requirement

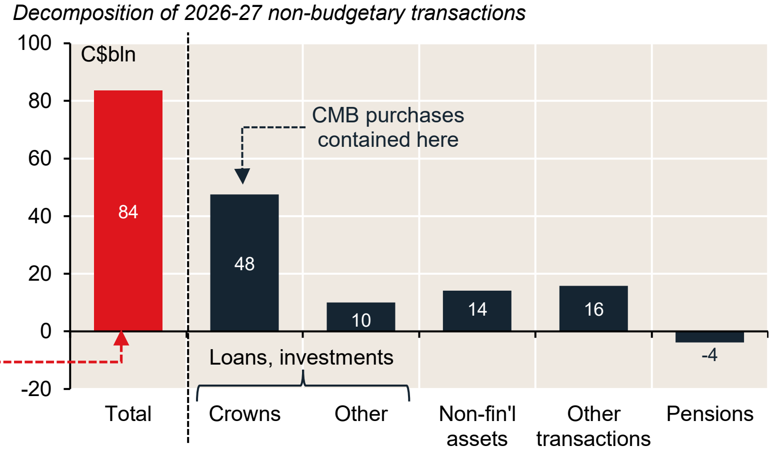
Non-budgetary transactions: Actual, projected in FES 2024 and Budget 2025



Source: NBC, GoC

Chart 4: Breaking down non-budgetary transactions

Decomposition of 2026-27 non-budgetary transactions

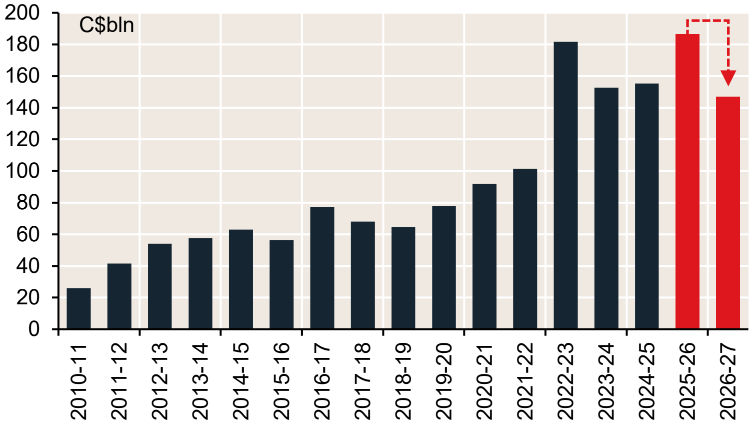


Source: NBC, GoC

In years past, non-budgetary transactions (NBTs) were a rounding error in driving the amount of bond/bill issuance (typically +/- $10 billion). Those have stepped up big recently and are set to remain elevated. Details on NBTs are scant, but we know $30 billion can be traced to CMB purchases (classified under loans, investments and advances to Crown corporations). A downward revision to 2025-26 NBTs led to issuance stability this year (despite the larger deficit). Meanwhile, 2026-27 NBTs are stepping up by nearly $25 billion. Yet gross bond and bill issuance are lower? Read on…

Chart 5: Maturities stepping down, at least in the near term

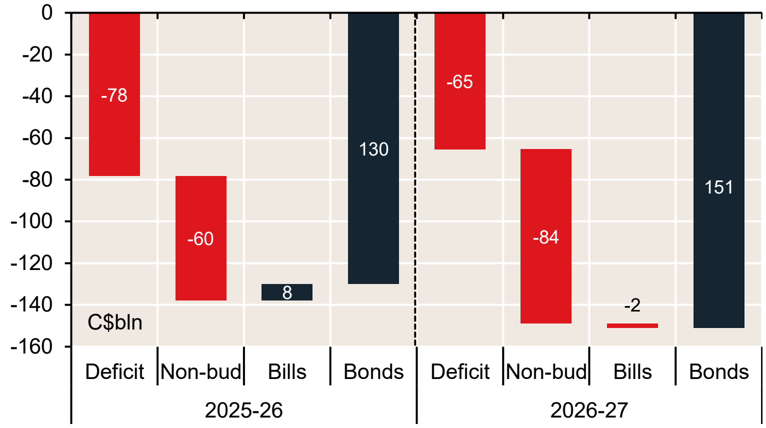
Maturing amount of GoC bonds by fiscal year, up to 2026-27



Source: NBC, GoC, BoC | Note: 2026-27 maturities as per DMS.

Chart 6: Visualizing '25-26 & '26-27 net financial requirements

Components of the net financial requirement and net GoC bill / bond supply

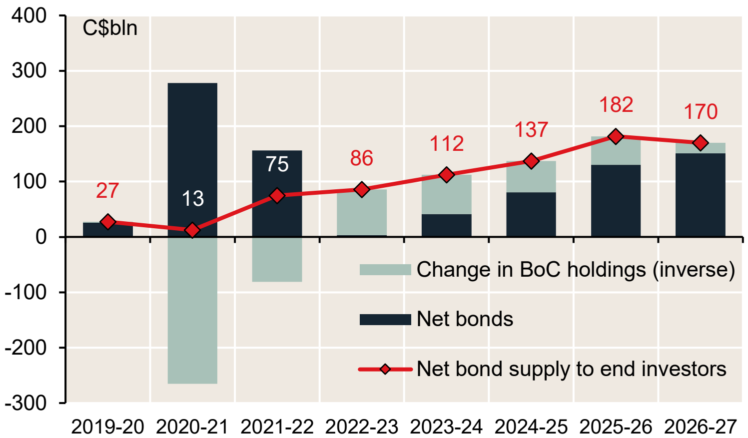


Source: NBC, GoC | Note: Red bars denote uses of cash, blue bars are sources of cash

After rising in '25-26, there will be ~$40 billion fewer maturing bonds in '26-27. That puts downward pressure on gross issuance needs. But less *gross* bond issuance ≠ less *net* bond issuance. The bond stock will rise more next year than this year (which itself saw a sizeable increase). More net *bond* supply is a function of the financing mix. None of the net requirement will be funded by T-bills.

Chart 7: Net bond supply to investors dips just slightly

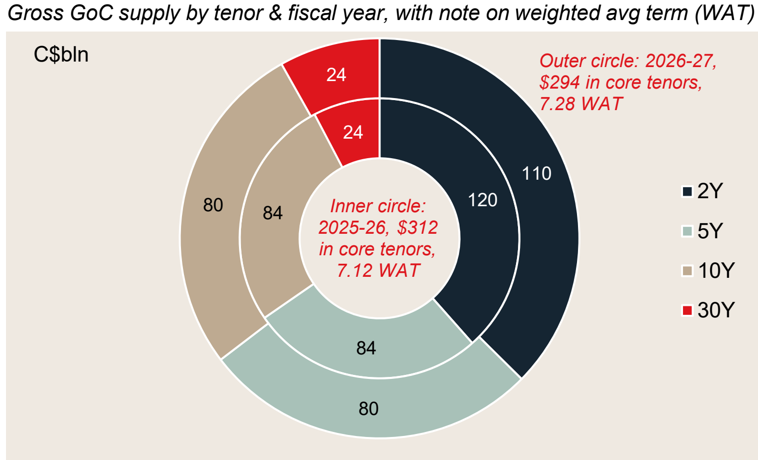
Net bond supply, change in BoC holdings, and resulting supply to end investors



Source: NBC, GoC | Note: Net bonds – change in BoC holdings = net supply to end investors

Chart 8: 2s, 5s and 10s trimmed while 30Y supply unch'd…

Gross GoC supply by tenor & fiscal year, with note on weighted avg term (WAT)

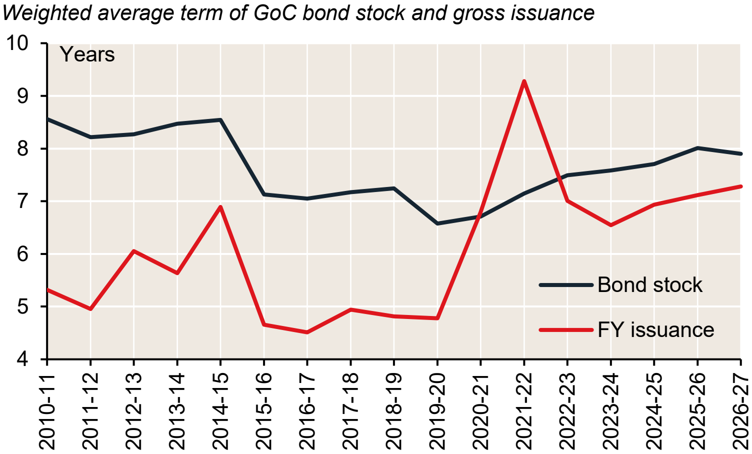


Source: NBC, GoC | Note: Refers to "core" tenors and does not include off-the-run supply

Net bond supply is moving up in '26-27, but BoC balance sheet run-off will moderate. That means (slightly) fewer bonds for end investors. In 2027, the BoC will be buying bonds again, so we're likely past the peak of net supply 'to the street'. The distribution of next year's bond program is shifting slightly but non-trivially: 2-, 5-, and 10-year issuance was trimmed but 30-year supply isn't changing.

Chart 9: … slightly pushing up the weighted average term

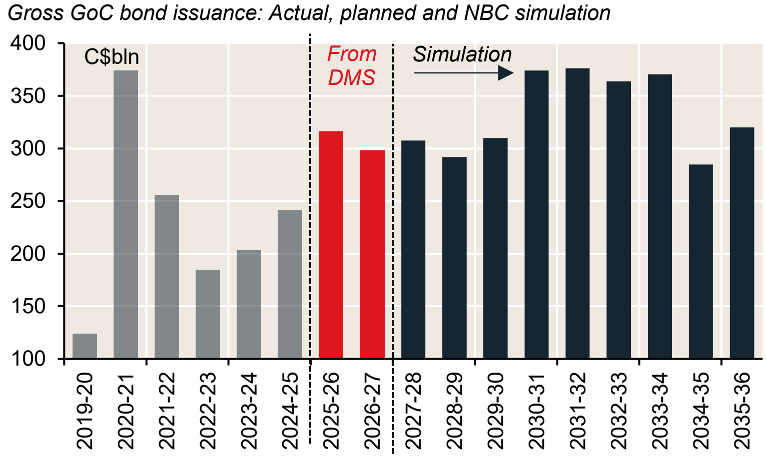
Weighted average term of GoC bond stock and gross issuance



Source: NBC, GoC, Bloomberg | Note: Bond stock as at end of fiscal year

Chart 10: Bond issuance to stabilize, then pick up in 2030s

Gross GoC bond issuance: Actual, planned and NBC simulation



Source: NBC, GoC | Note: Simulation based on fiscal outlook presented in Budget 2025.

With 30Y supply steady in '26–27 and other tenors cut, the weighted average term of issuance will rise to 7.3 years (from 7.1 years). We expect issuance duration to stabilize around here. That's shorter than the peak COVID term-out but longer than short-term program from '15-20.

The bond program should enjoy a few years of stability with annual (gross) issuance *around* $300 billion. But as COVID-issued debt comes due in 2030, expect a pick-up in gross borrowing needs. The current budgetary outlook implies a ~$380 billion program at the turn of the decade.

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