

WEEKLY COMMENTARY

The Fiscal Cost of Higher Rates

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A government's interest bill rises when debt issued at older, lower interest rates comes due and is replaced with new debt at higher interest rates. Since governments typically lock in borrowing costs for years, only a portion of their outstanding debt is exposed to current market rates each year. As debt rolls over, higher interest payments gradually increase the government's borrowing costs. The speed of adjustment depends on when existing debt comes due for repayment and the pace of new borrowing. Put simply:

$$\Delta \text{ interest expense} \approx \Delta \text{ yield} \times (\text{refinanced debt} + \text{new borrowing})$$

This framework provides a useful way to compare how much government interest costs rise when borrowing rates increase across major economies. Graph 1 estimates the impact of a 100bp increase in borrowing costs, while graph 2 uses the average year-to-date rise in bond yields in each jurisdiction.

Graph 1
Increase in Interest Expense in 2026 from a 100bps Rate Shock

General government, as a % of 2025 tax revenue



International Monetary Fund, national debt agencies and Desjardins Economic Studies

Graph 2
Increase in Interest Expense in 2026 from the Year-to-Date Change in Bond Yields

General government, as a % of 2025 tax revenue



International Monetary Fund, national debt agencies and Desjardins Economic Studies

Our calculations are based on the stock of general government debt (total debt owed by all levels of government) at the end of 2025, bills and bonds maturing in 2026 and projections of new borrowing for 2026 by respective government agencies. For graph 3 on page 2, the increase in interest rates is measured as the mid-point of the year-to-date rise in 2-year, 5-year and 10-year government bond yields. These estimates capture only the first-year impact. They exclude the cumulative effect that would emerge over time as a larger share of debt is refinanced at higher rates.

The results show that some governments are much more exposed to higher interest rates than others. The United States appears most exposed to higher funding costs, followed by Japan, Italy and France. For the US, a 100bp increase in borrowing costs would raise annual interest payments by roughly

CONTENTS

Musing of the Week.....	1	What to Watch For.....	3	Economic Indicators.....	5
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Graph 3
Interest Expense as a % of Tax Revenue from a 100bps Rise in the Funding Rate

General government, as a % of 2025 tax revenue



International Monetary Fund, national debt agencies and Desjardins Economic Studies

US\$85 billion in the first year, equivalent to 1.4% of 2025 tax revenue. That is notable given that the federal government already devotes about 20% of tax revenues to paying interest. At the other end of the spectrum, Sweden, Australia and Germany appear less affected by higher borrowing costs, reflecting a combination of lower debt levels and debt structures that are less sensitive to higher interest rates.

Canada falls in the middle of the spectrum. The table below examines the federal government's exposure to higher interest rates. We estimate refinancing requirements using the maturity profile of outstanding Government of Canada bonds. We assume the current debt management strategy is maintained, and deficits evolve broadly in line with Budget 2025 projections. For the interest rate shock, we assume the year-to-date increase in bond yields is permanent.

Table
The Federal Government Interest Bill Will Remain Manageable

All values in billions of CAD	Federal government interest expense given the year to date increase in bond yields				
	Actual		Projected		
	2025–26	2026–27	2027–28	2028–29	2029–30
Refinancing*	476	445	449	423	391
New borrowing**	138	149	145	146	127
Total issuance	614	594	594	569	518
Interest expense	50.9	52.5	55.8	59.0	62.1
Δ interest expense	+0.1	+1.6	+3.3	+3.2	+3.1

* Desjardins estimates based on bond maturities; ** Budget 2025 projections.
Desjardins Economic Studies

Under these assumptions, federal interest expense rises by roughly C\$1.6 billion in 2026. The first-year impact is modest because a portion of the government's funding was locked in earlier this year at lower yields. The cumulative increase in interest costs reaches approximately C\$11.2 billion by 2030, equivalent to around 0.3% of 2025 GDP. **In our view, the increase is not large enough to significantly change Canada's fiscal outlook.**

What to Watch For

TUESDAY October 13 - 10:00

September	ann. rate
Consensus	3,960,000
Desjardins	3,990,000
August	3,980,000

WEDNESDAY October 14 - 8:30

September	m/m
Consensus	0.6%
Desjardins	0.5%
August	0.4%

THURSDAY October 15 - 8:30

September	m/m
Consensus	0.3%
Desjardins	0.2%
August	1.2%

FRIDAY October 16 - 9:15

September	m/m
Consensus	0.4%
Desjardins	0.4%
August	0.0%

UNITED STATES

Existing home sales (September) – For the first time since summer 2024, existing home sales fell for three consecutive months between June and August. Sales levels fell back to their June 2025 low, which was the worst month on record since September 2024. Based on August's slight growth in pending sales, we expect September's existing home sales to come in flat or slightly higher. That said, mortgage interest rates increased last month and have continued to tick up since, while mortgage applications for home purchases have declined, painting a less promising picture. Preliminary regional data for September are not yet available, but releases in the coming days should allow us to fine-tune our projections.

Consumer price index (September) – Rising gasoline and diesel fuel prices caused the consumer price index (CPI) to spike again in August. This same factor likely drove September's monthly CPI print up even further. Pump prices jumped 5.5%, a rise that will be exacerbated by seasonal adjustments, since prices tend to fall in September. Diesel prices reached a record high during the month and could push energy prices up further. We expect the all items less food and energy index to come in at 0.2%, slightly higher than August's 0.1% advance. Prices of used cars and trucks may have declined after two months of more robust gains. Look for the all items index to have increased 0.5%. This would push the year-over-year change in the all items index up from 3.4% to 3.5%, with the all items less food and energy index holding steady at 2.4%.

Retail sales (September) – After falling 0.5% in July, retail sales rebounded by 1.2% in August, their strongest monthly growth since March. We expect September's print to show a more modest increase. Based on new vehicle sales figures published at the beginning of the month, a decrease in auto sales is likely. We're also anticipating less pronounced gains for most retail categories that outperformed in August, particularly in durable goods and food services. Conversely, higher gasoline prices are expected to contribute to strong growth in gas station receipts. All in all, we expect a 0.2% increase in total sales and a 0.3% rise in sales excluding motor vehicles and gasoline.

Industrial production (September) – Industrial production was disappointing in August, stalling under the impact of an unexpected monthly decline of 0.3% in manufacturing output, the first this year. Look for a stronger print for September, although gains will likely remain modest. The increase in hours worked in manufacturing is a positive sign, but this is partially offset by the decrease in the ISM Manufacturing index's production component, although it remains relatively high. We're forecasting a 0.3% rise in manufacturing output. Furthermore, the mining sector and energy production likely helped drive the gain in overall industrial production, which is expected to show a monthly increase of 0.4%.

THURSDAY October 15 - 8:30

August	m/m
Consensus	1.1%
Desjardins	1.1%
July	-0.4%

FRIDAY October 16 - 5:00

September	m/m
Consensus	n/a
Desjardins	-2.0%
August	-0.7%

FRIDAY October 16 - 8:15

September	ann. rate
Consensus	230,000
Desjardins	250,000
August	229,000

TUESDAY October 13 - 21:30

September	y/y
Consensus	1.0%
August	0.8%

THURSDAY October 15 - 2:00

August	m/m
Consensus	-0.1%
July	0.4%

CANADA

Manufacturing sales (August) – We anticipate that manufacturing sales rose by 1.1% m/m in August, in line with Statistics Canada’s flash estimate. Sales of primary metal and chemical products probably saw the biggest gains. In real terms, manufacturing sales appear to have declined by 0.2%, as seasonally adjusted industrial product prices rose 1.3%.

Existing home sales (September) – National seasonally adjusted home sales likely fell by roughly 2% month over month in September. Preliminary data from several local real estate boards point to weaker activity than a year earlier. Toronto’s seasonally adjusted sales fell sharply, declining 5.2% from August.

Housing starts (September) – September housing starts likely climbed to roughly 250k (saar), up from around 229k in each of the previous two months, keeping the six-month trend near its current pace of about 245k. Government-supported purpose-built rental construction should continue to underpin starts, even as the pullback in [condo](#) development weighs on overall homebuilding.

OVERSEAS

China: Consumer price index (September) – Inflation may have firmed up slightly in September, after rising from 0.5% in July to 0.8% in August. The decline in food prices, which came in at -1.4% year over year again, should continue to curb inflation, but more favourable base effects and the recent rebound in energy prices could have the opposite effect. However, service prices rose by only 0.8% year over year and reflect domestic demand that remains sluggish.

United Kingdom: Monthly GDP (August) – The UK economy delivered another upside surprise in July as monthly real GDP ticked higher once again. The 0.4% increase, the strongest since March, was particularly impressive as the consensus had predicted a flat print. The economy likely continued to expand in August, as retail sales rose 0.5% and the PMI improved again before inching back down slightly in September. While a pullback after several months of strong results cannot be ruled out, a further gain would help consolidate substantial carry-over growth in third-quarter real GDP.

Economic Indicators

Week of October 12 to 16, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY I2	---	Bond markets closed (Columbus Day)				
	12:10	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
TUESDAY I3	3:45	Speech by Federal Reserve Governor C. Waller				
	10:00	Existing home sales (ann. rate)	Sep.	3,960,000	3,990,000	3,980,000
	13:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	16:00	Speech by Federal Reserve Bank of Boston President S. Collins				
WEDNESDAY I4	5:40	Speech by Federal Reserve Vice Chair M. Bowman				
	8:30	Consumer price index				
		Total (m/m)	Sep.	0.6%	0.5%	0.4%
		Excluding food and energy (m/m)	Sep.	0.2%	0.2%	0.3%
		Total (y/y)	Sep.	3.6%	3.5%	3.4%
		Excluding food and energy (y/y)	Sep.	2.5%	2.4%	2.4%
	13:30	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	14:00	Release of the Beige Book				
THURSDAY I5	8:30	Initial unemployment claims	Oct. 5–9	199,000	199,000	197,000
	8:30	Philadelphia Fed index	Oct.	29.7	15.0	37.8
	8:30	Producer price index				
		Total (m/m)	Sep.	0.5%	0.7%	0.4%
		Excluding food and energy (m/m)	Sep.	0.3%	0.3%	0.2%
	8:30	Retail sales				
		Total (m/m)	Sep.	0.3%	0.2%	1.2%
		Excluding automobiles (m/m)	Sep.	0.6%	0.7%	1.4%
	10:00	Business inventories (m/m)	Aug.	0.4%	0.4%	0.8%
	16:30	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	23:30	Speech by Federal Reserve Chair K. Warsh				
FRIDAY I6	8:30	Export prices (m/m)	Sep.	1.0%	1.6%	0.6%
	8:30	Import prices (m/m)	Sep.	0.7%	1.0%	0.7%
	9:15	Industrial production (m/m)	Sep.	0.4%	0.4%	0.0%
	9:15	Production capacity utilization rate	Sep.	76.5%	76.5%	76.3%
CANADA						
MONDAY I2	---	Markets closed (Thanksgiving Day)				
TUESDAY I3	---	---				
WEDNESDAY I4	---	Speech by Bank of Canada Governor T. Macklem				
	8:30	Building permits (m/m)	Aug.	n/a	7.4%	-17.3%
THURSDAY I5	5:00	Speech by Bank of Canada Senior Deputy Governor C. Rogers				
	8:30	Wholesale sales (m/m)	Aug.	-1.5%	-1.5%	0.3%
	8:30	Manufacturing sales (m/m)	Aug.	1.1%	1.1%	-0.4%
FRIDAY I6	0:15	Speech by Bank of Canada Governor T. Macklem				
	5:00	Existing home sales (m/m)	Sep.	n/a	-2.0%	-0.7%
	8:00	Speech by Bank of Canada External Deputy Governor M. Alexopoulos				
	8:15	Housing starts (ann. rate)	Sep.	230,000	250,000	229,000

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of October 12 to 16, 2026

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US\$B)	Sep.	118.10		119.09	
MONDAY I2							
Japan	19:50	Producer price index	Sep.	0.5%	7.6%	-0.2%	7.6%
TUESDAY I3							
Germany	---	Current account (€B)	Aug.	n/a		21.2	
Germany	2:00	Consumer price index – final	Sep.	0.6%	3.3%	0.6%	3.3%
China	21:30	Consumer price index	Sep.		1.0%		0.8%
China	21:30	Producer price index	Sep.		4.5%		3.8%
WEDNESDAY I4							
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THURSDAY I5							
Japan	0:30	Industrial production – final	Aug.	n/a	n/a	-1.7%	3.4%
United Kingdom	2:00	Trade balance (£M)	Aug.	-4,300		-3,450	
United Kingdom	2:00	Construction	Aug.	0.0%	-2.1%	0.1%	-2.5%
United Kingdom	2:00	Index of services	Aug.	-0.1%		0.4%	
United Kingdom	2:00	Monthly GDP	Aug.	-0.1%		0.4%	
United Kingdom	2:00	Industrial production	Aug.	-0.1%	0.7%	0.2%	0.6%
France	2:45	Consumer price index – final	Sep.	-0.3%	3.0%	-0.3%	3.0%
Eurozone	5:00	Industrial production	Aug.	0.0%	-0.1%	-0.1%	0.0%
FRIDAY I6							
Eurozone	5:00	Trade balance (€B)	Aug.	n/a		5.0	
Eurozone	5:00	Consumer price index – final	Sep.	0.6%	3.8%	0.6%	3.8%
Italy	5:00	Consumer price index – final	Sep.	0.7%	4.2%	0.7%	4.2%
Italy	6:00	Trade balance (€M)	Aug.	n/a		8,240	

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).