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[The Potential for Increased Municipal Debt Activity as Interest Rates Decline in CY 25-26.](#)

The prospect of declining interest rates presents a significant opportunity for municipal debt issuance and capital project activity among local governments.

For sophisticated investors, understanding the dynamics at play is crucial. Lower interest rates reduce the cost of borrowing, which can incentivize municipalities to issue new debt or refinance existing obligations. As the yield curve slowly normalizes, issuers can secure long-term financing at more favorable rates, thereby lowering the overall debt service costs. This environment often encourages local governments to accelerate capital projects that were previously shelved due to higher borrowing costs.

In this article, we will take a closer look at the interest rate forecast and how it may foster an attractive issuance timeframe for municipal governments.

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by Jayden Sangha

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