BUDGET ANALYSIS

Quebec: A Cautious Update Ahead of an Election Year

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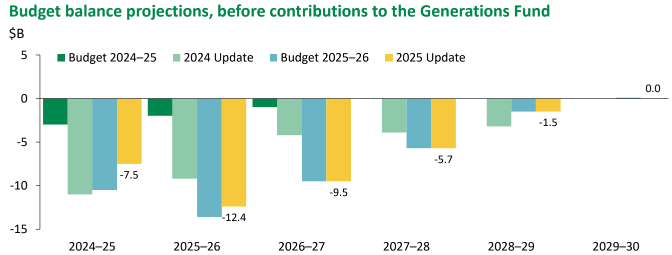
HIGHLIGHTS

- As somewhat expected, Quebec's government deficit has been revised downward, from $13.6B to $12.4B after contributions to the Generations Fund (1.9% of GDP). The accounting deficit now stands at $9.9B (1.5% of GDP).
- Revenue has been revised upward by $2.4B and is now expected to grow by 1.7% this year, reaching $158.7B in 2025–26.
- Spending for the fiscal year is up by $861M, reaching $166.6B, a 3.4% increase compared to 2024–25.
- Real GDP growth for 2025 has been revised downward, from 1.1% to 0.9%. However, it remains above our forecast of 0.7%, supported by the still modest growth observed so far in the third quarter.
- Quebec's financing program for 2025–26 is set at $24.3B, $5.4B less than estimated when the budget was tabled in March 2025. This decrease is partly due to the use of pre financing in 2024–25 and transactions related to credit policy. In addition, extending the use of the Generations Fund for another year to repay $2.5B in borrowings will reduce financing needs in 2026–27 to $34.1B.
- However, no information has been provided on the fiscal measures that will need to be identified starting in 2027–28 to return to a balanced budget by 2029–30, even though program spending is expected to grow by less than 2% from this fiscal year onward. Fiscal flexibility still appears quite limited.
- All in all, this economic update outlines a relatively cautious plan that doesn't appear to overspend ahead of next fall's provincial election. Credit rating agencies are unlikely to raise any concerns about the overall content of the update.
- From an economic policy standpoint, the government appears to be following in the federal government's footsteps—a vision outlined earlier this fall in its document *Le pouvoir québécois* [in French only]. However, there's little certainty that these measures will deliver the intended results, particularly when it comes to boosting investment and productivity. In this regard, transparent and regular reporting on the outcomes of these initiatives would be desirable.

Economic Forecasts Were Sufficiently Cautious

As expected, strong revenue performance early in the fiscal year (April–June) allowed the government to revise its deficit targets for 2025–26 downward. The deficit now stands at $12.4B after contributions to the Generations Fund (1.9% of GDP), compared to $13.6B previously. The accounting deficit is now $9.9B (1.5% of GDP). Over the longer term, revenue variations are offset by equivalent spending adjustments, so deficits for 2026–27 through 2029–30 remain unchanged (graph 1 and table 1 on page 2).

Graph 1
Quebec's Deficit Outlook Remains Unchanged Beyond This Year



Update: Economic and financial update
NOTE: FY24 to FY26 refer to the fiscal years from 2023–2024 to 2025–2026.
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Table 1
Financial Framework

$B (unless otherwise indicated)	2024–25 Budget	2024–25 Update*	2025–26 Budget	2025–26 Update*	2026–27 Budget	2026–27 Update*	2027–28 Budget	2027–28 Update*	2028–29 Budget	2028–29 Update*	2029–30 Budget	2029–30 Update*
Total revenue	**155.2**	**156.1**	**156.3**	**158.7**	**165.2**	**164.6**	**171.2**	**170.3**	**176.2**	**175.3**	**181.3**	**179.5**
Own-source revenue	124.5	125.6	125.7	127.5	132.8	132.5	138.1	138.2	143.1	142.8	148.2	147.5
Federal transfers	30.6	30.5	30.6	31.2	32.4	32.1	33.1	32.1	33.1	32.5	33.1	31.9
Total expenses	**163.3**	**161.3**	**165.8**	**166.6**	**170.3**	**169.8**	**173.9**	**173.0**	**176.1**	**175.2**	**179.4**	**177.7**
Program spending	153.4	151.3	156.1	156.4	159.9	159.5	162.3	161.7	164.1	163.6	167.2	166.0
Debt service	9.9	10.0	9.7	10.2	10.4	10.3	11.6	11.3	12.0	11.6	12.2	11.7
Contingency reserve	---	---	**2.0**	**2.0**	**2.0**	**2.0**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Accounting surplus (deficit)	**-8.1**	**-5.2**	**-11.4**	**-9.9**	**-7.1**	**-7.1**	**-4.2**	**-4.2**	**-1.4**	**-1.4**	**0.4**	**0.3**
% of GDP	*-1.3*	*-0.8*	*-1.8*	*-1.5*	*-1.1*	*-1.1*	*-0.6*	*-0.6*	*-0.2*	*-0.2*	*0.1*	*0.0*
Generations Fund	2.4	2.4	2.2	2.5	2.4	2.4	2.5	2.5	2.6	2.6	2.8	2.8
Gap to be bridged*	---	---	---	---	---	---	1.0	1.0	2.5	2.5	2.5	2.5
Budget balance within the meaning of the Act	**-10.5**	**-7.5**	**-13.6**	**-12.4**	**-9.5**	**-9.5**	**-5.7**	**-5.7**	**-1.5**	**-1.5**	**0.1**	**0.0**
% of GDP	*-1.7*	*-1.2*	*-2.2*	*-1.9*	*-1.5*	*-1.4*	*-0.9*	*-0.8*	*-0.2*	*-0.2*	*0.0*	*0.0*
Net debt (% of GDP)	**38.7**	**38.3**	**40.4**	**39.7**	**41.5**	**40.8**	**41.9**	**41.3**	**41.0**	**40.4**	**39.8**	**39.3**
Real GDP (% change)	1.4	1.7	1.1	0.9	1.4	1.1	1.6	1.4	1.7	1.5	1.7	1.5
Nominal GDP (% change)	5.3	5.9	3.4	4.0	3.4	3.1	3.5	3.3	3.5	3.4	3.6	3.4
Financing program	**36.7**	**36.5**	**29.7**	**24.3**	**37.5**	**34.1**	**33.3**	**33.6**	**27.3**	**27.5**	**28.9**	**27.6**
Net financial requirements	25.4	25.4	29.1	28.3	25.9	26.5	22.5	22.5	15.3	15.1	13.7	11.9

* Fall 2025 economic and financial update; ** Note that, starting with the 2025–26 Budget, the gap to be bridged is calculated after the accounting balance.
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Despite the ongoing trade dispute and the resulting uncertainty, the labour market remains resilient, supported by persistent wage growth despite a sharp decline in job vacancies. Domestic demand stayed particularly strong in the second quarter, partly offsetting the steep drop in international exports.

The government's real GDP growth forecast has been revised downward, from 1.1% to 0.9%. However, it remains above our forecast of 0.7%. Our more conservative estimate has been reinforced by the still modest growth observed so far in the third quarter (see our analysis). Conversely, the government's projections for 2026 are lower than ours by the same margin (1.1% versus 1.3%). In the end, the differences offset each other, which we view as sufficiently cautious.

Short-Lived Upward Revision of Revenue

Revenue has been revised upward by $2.4B and is now expected to grow by 1.7% this year, reaching $158.7 B in 2025–26 (table 2). Both federal transfers (+$0.6B) and own-source revenue (+$1.8B) contributed to this increase. For the latter, the gain is fairly evenly distributed among the main components: +$230M from personal income tax, +$356M from corporate income tax, +$408M from consumption taxes (supported by robust domestic demand) and +$283M from government enterprises, mainly due to higher Hydro-Québec revenue linked to increased exports.

Table 2
Adjustments to the Financial Framework Since March 2025

$M (unless otherwise indicated)	2025–26	2026–27	2027–28
Budget balance – Budget 2025*	**-13,607**	**-9,528**	**-5,695**
New revenues	2,393	-567	-940
New spending	-861	544	928
Revision in deposits to the Generations Fund	-284	23	12
Total – Adjustments	**1,248**	**0**	**0**
Of which: New initiatives	-65	-218	-195
Budget balance – November 2025*	**-12,359**	**-9,528**	**-5,695**

* After deposits into the Generations Fund.
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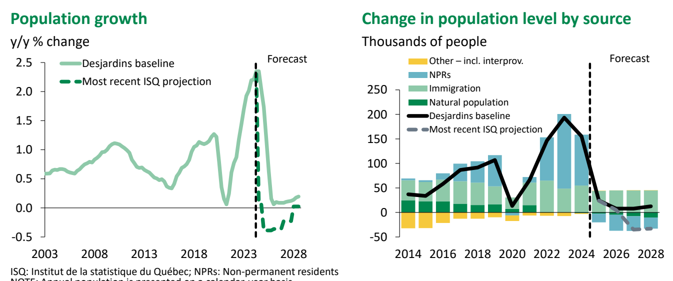
Over the longer term, revenue hasn't undergone any significant revisions, as demographic growth is expected to stagnate (graph 2). In this update, the government highlighted its population projections. According to these estimates, the population will stagnate for the rest of the decade, and net job creation will be limited to about 14,000 per year. These projections also anticipate an unemployment rate slightly above 4% in a few years, which aligns with our own forecasts.

Graph 2
Population Stagnation Will Limit Revenue Growth



ISQ: Institut de la statistique du Québec; NPRs: Non-permanent residents
NOTE: Annual population is presented on a calendar-year basis.
ISQ, Statistics Canada and Desjardins Economic Studies

We also note that the government is acknowledging the implications of slower demographic growth, as its long-term real GDP projection has been revised from 1.7% to 1.5%, a change that aligns with our estimates of the province's potential GDP.

Note that the cancellation of the increase in the capital gains inclusion rate has been incorporated into the financial framework, which also affects revenue performance over the forecast horizon ($2.0B by 2029–30). Although the government presents this measure as savings for asset holders, it had not yet come into effect. The reduction in QPP and QPIP contribution rates, attributable to the strong performance of these plans, could partly support consumption. In addition, revenue reductions such as the payroll tax holiday for certain industries most affected by tariff barriers (agriculture, forestry and fishing) aim to help businesses survive. In principle, these should prove to be sound investments once uncertainty surrounding international trade dissipates. That said, the government's current financial constraints limit the scope of this support.

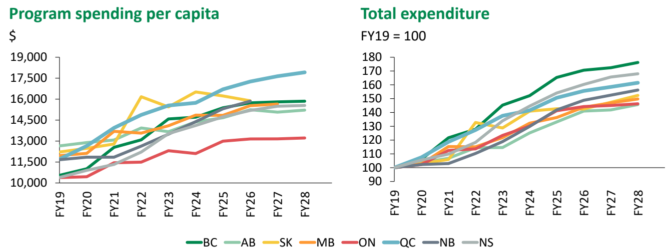
Spending to Slow, Limited Initiatives Given the Current Context

At first glance, the headline initiatives each have their own rationale and do not significantly alter the overall spending picture, particularly those related to housing conditions, such as the increased funding for the Home Adaptation Program and the RénoRégion program.

The extension and enhancement of accelerated depreciation measures introduced in 2018 reflect the need to stimulate business investment and, in turn, revive productivity growth. These are measures we have supported, and they align with federal initiatives. Maintaining internationally competitive tax policies is essential to offset the dampening effect that uncertainty has on investment.

More broadly, spending for fiscal year 2025–26 has been revised upward by $861M, reaching $166.6B—a 3.4% increase compared to the previous year. Most of this increase stems from higher debt servicing costs (+$498M), with the remainder mainly due to the reversal of certain education-related cuts. However, this pace will not hold for the rest of the financial framework, as program spending is expected to grow at an annual rate of only 1.5%. That said, with a population on the verge of stagnation and an intent to achieve internal efficiencies, it is fair to question whether this can be done without compromising service quality. That said, many citizens already view service quality as unsatisfactory, even though Quebec posts the highest per capita program spending among the eight largest provinces in the country (graph 3).

Graph 3
Quebec's Per Capita Spending Remains High Relative to Peers



FY: Fiscal year
Provincial Budget Documents and Desjardins Economic Studies

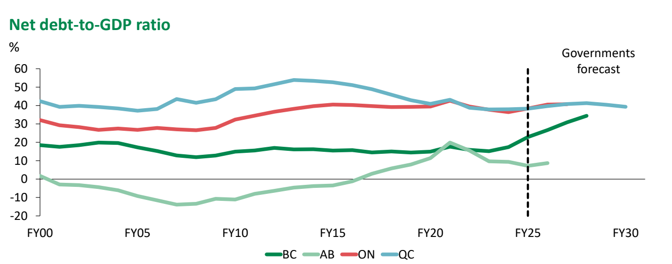
Financing Program

Quebec's financing program for 2025–26 is set at $24.3B, $5.4B less than estimated when the budget was tabled in March 2025. This decrease is partly explained by the use of pre-financing in 2024–25 and by transactions under the credit policy. As of November 12, 2025, with the borrowing program for 2025–26 already fully completed, the government had raised $448 M in advance for the next fiscal year.

For fiscal year 2026–27, the continued use of the Generations Fund to repay $2.5B in borrowings will help reduce financing needs to $34.1B, a decrease of $3.4B compared to what was expected in March. For the period from 2027–28 to 2029–30, financing programs are expected to average $29.6B per year (table 3 on page 4).

On the net debt front, it will remain below pre-pandemic levels, peaking at 41.3% of GDP in 2027–28 (graph 4). The recently set target of 32.5% for 2037–38 is maintained.

Graph 4
Quebec's Net Debt Ratio to Stabilize Around Current Levels



FY: Fiscal year
Provincial Budget Documents and Desjardins Economic Studies

Table 3
Quebec's Borrowing Program

$B (unless otherwise indicated)	2025–26 Budget	2025–26 Update*	2026–27 Budget	2026–27 Update*	2027–28 Budget	2027–28 Update*	2028–29 Budget	2028–29 Update*	2029–30 Budget	2029–30 Update*
Net Financial Requirements	29,084	28,295	25,882	26,536	22,456	22,485	15,280	15,052	13,737	11,924
Repayments of Borrowings	16,899	18,482	14,104	12,977	13,309	13,629	14,488	14,989	17,701	18,219
Use of the Generations Fund to Repay Borrowings	-2,500	-2,500	---	-2,500	---	---	---	---	---	---
Retirement Plans Sinking Fund Withdrawals	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500
Withdrawal from the Accumulated Sick Leave Fund	---	-180	---	---	---	---	---	---	---	---
Use of Pre-Financing	-9,322	-12,752	---	-448	---	---	---	---	---	---
Change in Cash Position	---	-554	---	---	---	---	---	---	---	---
Transactions Under the Credit Policy	---	-2,454	---	---	---	---	---	---	---	---
Pre-Financing	---	448	---	---	---	---	---	---	---	---
Increase in the Outstanding Amount of Quebec Treasury Bills	-2,000	-2,000	---	---	---	---	---	---	---	---
Total	**29,661**	**24,285**	**37,486**	**34,065**	**33,265**	**33,614**	**27,268**	**27,541**	**28,938**	**27,643**

* Fall 2025 economic and financial update.
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Bond Market Reaction and Fiscal Prudence Heading into 2026

Interest rate spreads between Quebec and Ontario narrowed slightly following the release of this economic and financial update, a sign that markets welcomed it positively. Investors may be reacting to the fact that revenues exceeded initial expectations, even though several indicators were available prior to publication.

Another potential factor is the overall caution reflected in the document, which does not appear to ramp up spending ahead of the provincial elections in fall 2026. In our preview, we emphasized the importance of maintaining discipline in the face of possible campaign promises by ensuring that any revenue reductions or spending increases are paired with offsetting measures. Since this update does not introduce any major changes on either side of the ledger, it respects that principle.

However, no information has been provided on the fiscal measures that will need to be identified starting in 2027–28 to return to a balanced budget by 2029–30, even though program spending is expected to grow by less than 2% from this fiscal year onward. Fiscal flexibility still appears quite limited. While credit rating agencies are unlikely to take issue with the overall content of this update, they will no doubt reiterate the structural challenges Quebec faces, which make managing public finances over the medium term all the more difficult.

Conclusion

In short, the government faced a delicate balancing act heading into this update: providing some relief to households affected by the loss of purchasing power, protecting industries directly targeted by US protectionist measures, encouraging businesses to invest, all while staying the course toward a balanced budget. In the end, the government more or less checks each of these boxes, albeit in a relatively modest way in most cases.

As with the federal government, the structural impact of certain measures will only become clear over a fairly long period. In the meantime, many questions remain unanswered. Will the accelerated approval of major national infrastructure projects in Quebec spur new private-sector investments? Will the 10 new research chairs make Quebec more competitive in commercializing innovations? Will payroll tax holidays for affected sectors help preserve a significant number of businesses? These are all questions for which it would be desirable for the government to commit to transparent reporting in the future.