ECONOMIC VIEWPOINT

Quebec: 2025 Fiscal Update Preview

Targets Will Likely Be Met Despite a Slowing Economy

By Sonny Scarfone, Principal Economist

HIGHLIGHTS

- The government is set to release its fall economic and financial update on November 25. Based on the available data, the projected $11.4B deficit (before deposits in the Generations Fund [GF]) for 2025–26 remains realistic, if not cautious. The public accounts released in September showed a smaller-than-expected deficit for 2024–25, revised down from $8.1B to $5.2B before contributions to the GF.
- The March budget's economic forecasts proved to be sufficiently conservative: the second-quarter decline in GDP was not enough to significantly lower revenues. A stable labour market, rising wages and consumer spending that has remained resilient despite prevailing conditions are keeping own-source revenues on track.
- On the spending side, wage negotiations involving difficult concessions to various groups may increase upward pressure, but slowing population growth is expected to help contain spending.
- The financing program is ahead of schedule: The province has already secured 80% of the funding required for 2025–26, with approximately $6.1B left to be raised over the next five months. Given the persistently high risk of a global bond shock, this level of pre-financing is a prudent strategy. Government estimates indicate that a 1 percentage point increase in interest rates could increase annual debt servicing costs by $496M this year and $1.8B by year five.
- We expect the fall fiscal update to provide specifics on the shortfall projected for the 2028 to 2030 financial years. The provincial election, now just over 10 months away, will inevitably bring its share of promises involving revenue reductions and increased spending. We can only hope that fiscal discipline will prevail, notably through the identification of credible budgetary offsets to support these new commitments. The current fiscal framework offers limited room to accommodate uncosted promises.

Public Accounts Review: A Stronger Starting Point than Expected

On September 26, the Quebec government published its public accounts for the 2024–25 fiscal year (FY25). The projected deficit for FY25 narrowed, falling from $8.1B to $5.2B before contributions to the GF.[1] This represents a deficit of 0.8% of GDP. This improvement, first hinted at in the preliminary results released in June, was driven by both stronger own-source revenues and lower-than-expected spending (table 1 on page 2). Net debt remained unchanged at 38.7% of GDP.

Despite Economic Headwinds, the Economy Performed Well in the First Quarter of the Fiscal Year

On the same day that the public accounts were released, the Quebec government published its Q1 fiscal update (April to June) for the 2025–26 financial year (FY26). The projected deficit

[1] For clarity and simplicity, all references to the "deficit" in this analysis pertain to the deficit before deposits into the GF. It should be noted that the budgetary balance projected for 2029–2030 is calculated after payments to the GF, which implies an estimated surplus of approximately $2.8B relative to the figures presented in this document.

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Table 1
Quebec's Updated Fiscal Forecasts

	2024–25		2025–26	
$B (unless otherwise indicated)	**Budget 2025–26**	**Public accounts**	**Budget 2025–26**	**Q1 update**
Revenue	**155.2**	**156.1**	**156.3**	**156.8**
% change	*6.6*	*7.2*	*0.7*	*0.5*
Own-source revenue	124.5	125.6	125.7	126.1
% change	*8.6*	*9.5*	*1.0*	*0.4*
Federal transfers	30.6	30.5	30.6	30.7
% change	*-0.8*	*-1.2*	*-0.1*	*0.8*
Expenditure	**163.3**	**161.3**	**165.8**	**166.3**
% change	*7.7*	*6.4*	*1.5*	*3.1*
Portfolio expenditures	153.4	151.3	156.1	156.1
% change	*8.4*	*6.9*	*1.8*	*3.2*
Debt service	9.9	10.0	9.7	10.2
% change	*-1.3*	*-0.1*	*-1.9*	*1.8*
Contingency	**0.0**	**0.0**	**2.0**	**2.0**
Accounting surplus (deficit)	**-8.1**	**-5.2**	**-11.4**	**-11.4**
% of GDP	*1.3*	*0.8*	*1.8*	*1.8*
Contribution to the Generations Fund	2.4	2.4	2.2	2.2
Budget balance within the meaning of the *Balanced Budget Act*	**-10.4**	**-7.6**	**-13.6**	**-13.6**
% of GDP	*1.7*	*1.2*	*2.2*	*2.2*
Net debt (% of GDP)	38.7	38.7	40.4	40.4
Quebec Infrastructure Plan	19.4	---	19.0	---
Real GDP (% change)	1.4	---	1.1	---
Nominal GDP (% change)	5.3	---	3.4	---

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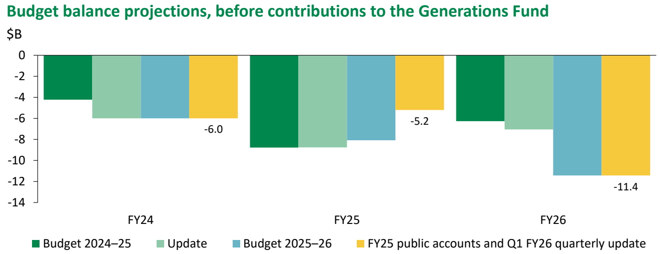
remained unchanged at $11.4B, or 1.8% of GDP (graph 1). The unchanged figure reflected relatively modest revisions within the budget's components: higher revenue projections are being offset by increased spending in the education sector and higher debt servicing costs.

Graph 1
Quebec's Deficit Outlook Remains Unchanged

Budget balance projections, before contributions to the Generations Fund



FY: Fiscal year; Update: Fall 2024 economic and financial update
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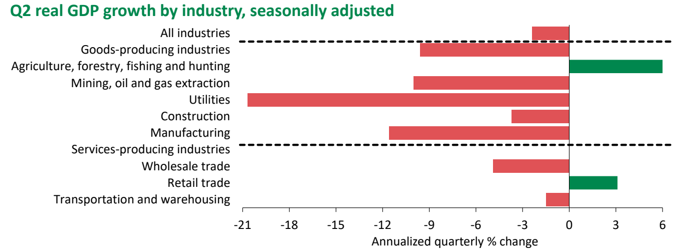
This fiscal stability stands in contrast to the [economic softness observed in those months](), when Quebec's GDP contracted at an annualized rate of 2.4%, as output shrank in most goods-producing sectors, and some services-based industries—especially those involved in international trade—also saw declines (graph 2).

Graph 2
GDP in Goods-Producing Industries Fell Sharply in Q2

Q2 real GDP growth by industry, seasonally adjusted



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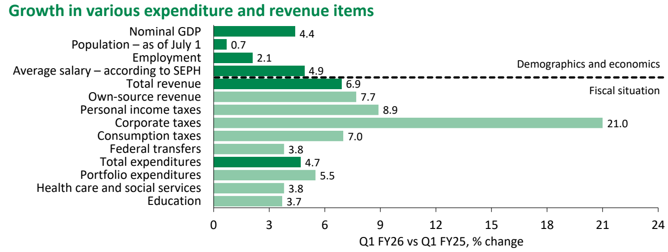
Despite this slowdown, government revenues held up well, underpinned by a resilient labour market. From April to June, personal income tax revenues rose 8.9% year over year, in line with the cumulative growth in employment and wages in the preceding 12 months (graph 3). QST collections increased by 7.0%, reflecting strong domestic demand. Corporate tax revenues climbed 21% compared to the same period last year. Altogether, revenue for FY26 was revised upward by $480M, including $350M from own-source revenues and $130M from federal transfers.

Graph 3
Revenues Are Fairly Robust Under the Circumstances

Growth in various expenditure and revenue items



SEPH: Survey of Employment, Payrolls and Hours; FY: Fiscal year
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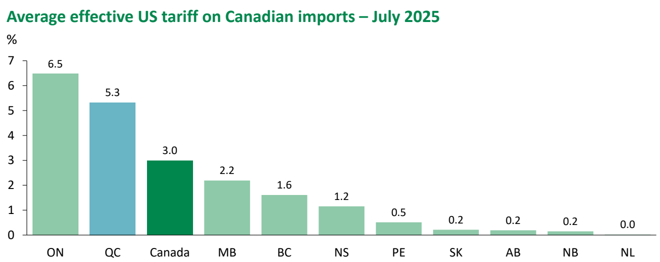
From July to September (Q3 2025 or Q2 FY26), the Quebec job market remained mostly stable, while wages picked up somewhat compared to the start of the year, limiting the downside risk to government revenues. (This trend continued into October, with Quebec posting the lowest unemployment rate in the country.) But high-frequency payment data suggest that household contributions may have plateaued, albeit at a high level.

Uncertainty around US trade policy will linger for the rest of the fiscal year. Our latest estimate of average effective tariff rates dates back to July, as the US government shutdown has prevented the release of more recent data. It shows that the effective tariff on Quebec is just above 5% (graph 4), well below the tariff rate assumed by the Ministère des Finances' baseline scenario (10% for two years). But new sector-specific tariffs have recently been added to those already in place for aluminum and steel. The new tariffs target goods by furniture, truck and bus manufacturers, as well as lumber.

Graph 4
Tariffs Hit Hardest in Ontario and Quebec

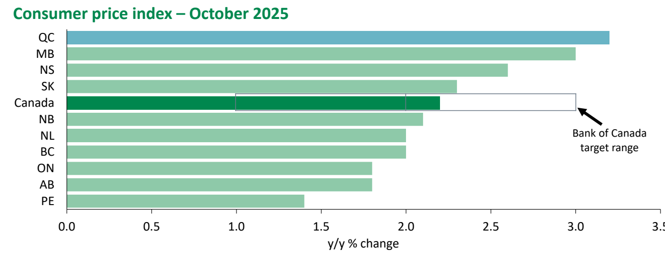


Statistics Canada, U.S. International Trade Commission and Desjardins Economic Studies

The renegotiation of the Canada-United States-Mexico Agreement (CUSMA) is scheduled for July 2026, which means uncertainty looms over trade policy for the following years as well, since CUSMA currently exempts nearly 90% of Canada's exports from US tariffs.

Finally, there's inflation, which is currently higher in Quebec than elsewhere in Canada (graph 5). Persistent inflation generally supports government revenues over the short term but increases costs over the longer run, mostly as a result of wage negotiations with government employees. Quebec's inflation gap with the rest of the country is mainly due to base effects resulting from the continuation of Quebec's carbon pricing program, which—unlike the discontinued federal system applied in the other provinces—doesn't return revenues to households. Rising rents also contribute to inflationary pressures, driven primarily by lease renewal adjustments rather than asking rents for vacant units. Overall, the underlying inflation dynamics influencing monetary

Graph 5
Quebec's Inflation Continues to Outpace the National Average



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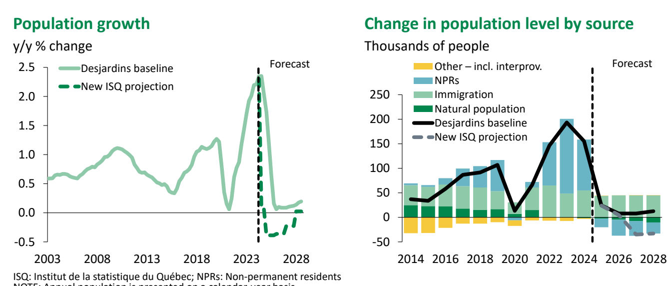
policy are broadly similar to those observed in the rest of the country and are not expected to result in significantly higher tax revenues for Quebec, aside from net revenues from rent.

Demographic Trends Will Limit Cost Pressures, Though Possibly Less than Expected

Between April and June, year-over-year portfolio spending rose 5.5% (graph 3 on page 2). However, the overall spending forecast for FY26 remained unchanged, as a $250M increase in education from the March budget was offset by an equivalent, but unspecified, reduction in "other portfolios." Meanwhile, debt service charges were revised upward by $480M, mirroring the increase in total revenue. This adjustment reflected changes in long-term interest rates since the budget was tabled in March.

In the first quarter, expenditures followed their usual seasonal pattern, which suggested that the targets set for March 2026 should be met in the midst of a marked slowdown in demographic growth (0.7% year over year as of July 1). The Institut de la statistique du Québec's baseline scenario for the next few years, released in July, predicted a population decline over the next couple of years, which we believe to be unlikely (graph 6).

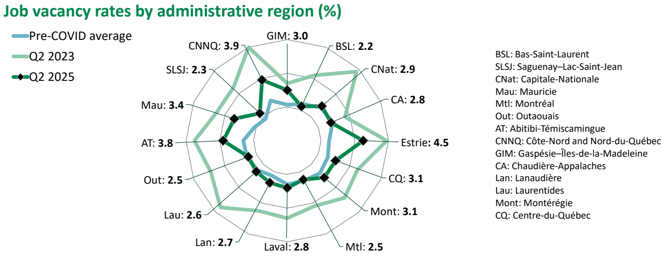
Graph 6
Quebec's Population Will Grow More Slowly, but Won't Decline



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

In a province where natural growth is now negative (meaning there are fewer births than deaths) and demand for labour is still high in many regions (graph 7), population stagnation appears to be the more probable outcome. We'd see a slowdown, not a contraction. It would result from a decline in non-permanent residents that isn't steep enough to offset a sustained number of permanent immigrants. (This outlook is supported by the permanent immigration targets announced in early November.)

Graph 7
Hiring Difficulties Persist Outside Urban Areas



Institut de la statistique du Québec and Desjardins Economic Studies

A Realistic Fiscal Target

In summary, when we look ahead to the rest of FY26, the balance of risks appears skewed towards smaller deficits. Revenues remain robust despite the economic softness, and the available data confirm that potential tax collections can be sustained. Our baseline scenario sees economic conditions improving by the end of the year. As for expenditures, the short-term numbers support the projected deficit. However, demand for services in future years may be underestimated. That said, a larger population would also imply higher revenues, given the continuing excess labour demand in many industries and regions of Quebec.

Consequently, the unchanged $2B contingency reserve should be sufficient to absorb remaining downside risks. But looking beyond FY26, substantial revenue and expenditure adjustments will still be needed to meet the balanced budget target by 2029–30 (FY30), as required under the *Balanced Budget Act*. Measures to close a $2.5B gap had yet to be identified when the budget was tabled back in March. We expect the upcoming fall update to provide greater clarity on the government's strategy for achieving this objective. (Table 2 presents the fiscal framework outlined in the 2025–26 Budget.)

Table 2
Financial Framework Presented in the 2025–26 Budget

$B	2023–24	2024–25		2025–26		2026–27		2027–28		2028–29		2029–30
(unless otherwise indicated)	Actual	Update*	Budget	Update*	Budget	Update*	Budget	Update*	Budget	Update*	Budget	Budget
Total revenue	**145.5**	**152.6**	**155.2**	**157.3**	**156.3**	**164.8**	**165.2**	**170.3**	**171.2**	**174.9**	**176.2**	**181.3**
Own-source revenue	114.7	121.6	124.5	126.6	125.7	132.5	132.8	137.8	138.1	142.7	143.1	148.2
Federal transfers	30.9	31.0	30.6	30.7	30.6	32.3	32.4	32.5	33.1	32.2	33.1	33.1
Total expenses	**151.5**	**160.6**	**163.3**	**163.6**	**165.8**	**166.6**	**170.3**	**171.7**	**173.9**	**175.5**	**176.1**	**179.4**
Program spending	141.6	150.7	153.4	153.9	156.1	156.4	159.9	160.8	162.3	164.1	164.1	167.2
Debt service	10.0	9.9	9.9	9.8	9.7	10.2	10.4	11.0	11.6	11.4	12.0	12.2
Contingency reserve	---	**0.8**	---	**1.5**	**2.0**	**1.5**	**2.0**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Accounting surplus (deficit)	**-6.0**	**-8.8**	**-8.1**	**-7.8**	**-11.4**	**-3.3**	**-7.1**	**-2.9**	**-4.2**	**-2.1**	**-1.4**	**0.4**
% of GDP	*-1.0*	*-1.4*	*-1.3*	*-1.2*	*-1.8*	*-0.5*	*-1.1*	*-0.4*	*-0.6*	*-0.3*	*-0.2*	*0.1*
Generations Fund	2.0	2.2	2.4	2.2	2.2	2.4	2.4	2.5	2.5	2.6	2.6	2.8
Gap to be bridged**	---	---	---	0.8	---	1.5	---	1.5	1.0	1.5	2.5	2.5
Budget balance within the meaning of the *Balanced Budget Act*	**-8.0**	**-11.0**	**-10.4**	**-9.2**	**-13.6**	**-4.2**	**-9.5**	**-3.9**	**-5.7**	**-3.2**	**-1.5**	**0.1**
% of GDP	*-1.4*	*-1.8*	*-1.7*	*-1.5*	*-2.2*	*-0.6*	*-1.5*	*-0.6*	*-0.8*	*-0.5*	*-0.2*	*0.0*
Net debt (% of GDP)	**38.0**	**39.0**	**38.7**	**39.8**	**40.4**	**39.5**	**41.5**	**39.1**	**41.9**	**38.6**	**41.0**	**39.8**
Real GDP (% change)	0.6	1.2	1.4	1.5	1.1	1.6	1.4	1.6	1.6	1.7	1.7	1.7
Nominal GDP (% change)	5.0	4.6	5.3	3.6	4.1	3.6	3.4	3.6	3.5	3.6	3.5	3.6
Financing program	---	**32.5**	**36.7**	**29.2**	**29.7**	**30.1**	**37.5**	**27.9**	**33.3**	**28.5**	**27.3**	**28.9**
Net financial requirements	---	26.4	25.4	22.4	29.1	18.5	25.9	17.1	22.5	16.4	15.3	13.7

* Fall 2024 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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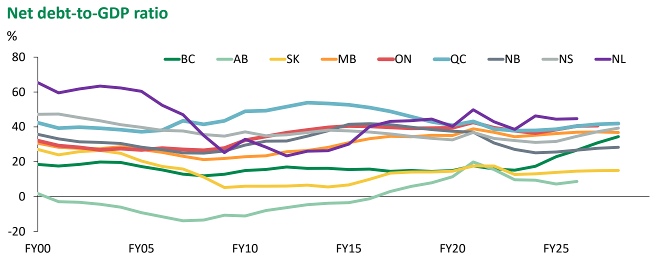
Quebec is still highly indebted, with a debt ratio that's expected to stay close to 40% of GDP for the rest of the decade—a relatively high level, second only to Newfoundland and Labrador (graph 8). The financing program is ahead of schedule: The province has already secured 80% of the funding required for 2025–26, with approximately $6.1B left to be raised over the next five months. Given the persistently high risk of a global bond shock, this level of pre-financing is a prudent strategy. Government estimates indicate that a 1 percentage point increase in interest rates could increase annual debt servicing costs by $496M this year and $1.8B by year five.

Graph 8
Quebec's Debt Remains Higher than That of Other Provinces



FY: Fiscal year
Provincial budget documents and Desjardins Economic Studies

Finally, the provincial election, now just over 10 months away, will inevitably bring its share of promises involving revenue reductions and increased spending. We can only hope that fiscal discipline will prevail, notably through the identification of credible budgetary offsets to support these new commitments. The current fiscal framework offers limited room to accommodate uncosted promises.