

Economics

PROVINCIAL BUDGET BRIEFS

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Québec budget 2026

The province of Québec is projecting slightly narrower deficits than expected a year ago, although spending plans could change following the ongoing CAQ leadership race as well as October's provincial election. For now though the \$6.3bn shortfall projected for fiscal 2026/27 on a Public Accounts Basis represents just under 1% of nominal GDP and therefore puts the deficit on the smaller end of the provincial range seen so far. Stronger revenues than expected a year ago have been only partly offset by higher spending. The slightly smaller projected deficit for the upcoming fiscal year, combined with lower refinancing needs and pre-funding undertaken in the past year, is expected to see borrowing ease to \$26.2bn in 2026/27, from \$32.1bn completed in 2025/26.

Table 1: Summary of fiscal position: (C\$billions)

Fiscal measure	2024/25 Actual	2025/26 25 Budget	2025/26 26 Budget	2025/26 Change	2026/27 26 Budget	2027/28 26 Budget	2028/29 26 Budget	2029/30 26 Budget	2030/31 26 Budget
Revenue	156.1	156.3	160.5	4.2	166.5	172.8	177.6	181.8	188.2
Own-source	125.6	125.7	130.0	4.2	134.4	139.8	144.6	149.4	154.8
• % Change	9.5	1.0	3.5	2.5	3.4	4.1	3.4	3.4	3.6
Federal transfers	30.5	30.6	30.6	0.0	32.1	32.9	33.0	32.3	33.3
Expenditure	161.3	165.8	168.2	2.4	170.8	175.2	177.2	179.5	185.5
Portfolio expenditures	151.3	156.1	158.0	1.9	160.5	164.3	165.9	167.9	173.2
• % Change	6.9	1.8	4.5	2.7	1.6	2.4	1.0	1.2	3.2
Public debt interest	10.0	9.7	10.2	0.5	10.3	10.9	11.3	11.6	12.3
Contingency Reserve	0.0	2.0	0.0	-2.0	2.0	1.5	1.5	1.5	1.5
Budget balance (public accounts basis)	-5.2	-11.4	-7.7	3.8	-6.3	-4.0	-1.1	0.8	1.2
Generations fund deposit	-2.4	-2.2	-2.3	-0.1	-2.3	-2.5	-2.6	-2.8	-2.9
Gap to be bridged						0.8	2.3	2.0	1.8
Budget Balance per Balanced Budget Act	-7.6	-13.6	-9.9	3.7	-8.6	-5.7	-1.5	0.0	0.0

Real GDP growth expected to pick up marginally

The Québec economy is estimated to have grown only marginally in 2025, with real GDP held back by the impact of US tariffs on manufacturing and exports. The province noted that manufacturing activity hit its lowest level since July 2020 towards the end of last year, with declines sharpest in industries exposed to sector-specific US tariffs such as paper and primary metals. The economic projections in today's budget assume that the average effective tariff rate remains relatively stable over the next few years.

Real GDP growth is expected to accelerate slightly in 2026 and again in 2027, but remain modest. Exports are expected to recover slightly, but domestic demand is projected to slow in line with softer population growth. Nominal GDP growth, which is often better correlated with provincial revenues, is actually expected to slow to around 3.5% throughout the forecast horizon, from 4.5% in 2025. The province noted that the recent increase in oil prices had been incorporated into the projections, but it is assumed that the spike will be temporary and ease in back in the coming months.

As has been the case in recent years, the province provided downside and upside economic forecasts to highlight the potential impact on revenues. A downside scenario in which a mild recession leaves the level of output permanently below the base case assumption would have a fiscal impact of just over \$2.5bn a year and \$13bn over five years. A stronger growth scenario where real GDP rises by roughly 0.5%-pts more a year in 2026 and 2027 than in the base case would have a positive fiscal impact of \$10bn over 5 years.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2025	2026	2027	2028-30
Real GDP	0.8	1.1	1.4	1.5
• Private sector average	0.9	1.0	1.6	1.5
Nominal GDP	4.5	3.5	3.4	3.4
• Private sector average	4.3	3.4	3.7	3.6
Employment change (K)	79	20	16	15
Jobless rate (%)	5.6	5.4	4.6	4.1
Real Household consumption	1.1	1.3	1.6	1.5
Housing starts (k)	59.9	56.0	49.0	37.4
Household income	3.8	3.2	3.4	3.3
Corporate net operating surplus	5.7	3.7	3.1	3.6
CPI	2.4	2.3	2.1	2.0

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2025	2026	2027
3-month T-Bills (%)	2.60	2.20	2.40
10-year GoC Bonds (%)	3.20	3.30	3.30
Exchange rate (US\$/C\$)	71.50	73.60	75.50

Note: 2028-30 is three-year average

Deficits still expected to narrow ahead

For the outgoing 2025/26 fiscal year, the deficit of \$7.7bn now expected on a Public Accounts Basis (before deposits to the Generations Fund) is almost \$4bn smaller than budgeted for a year ago. Half of that reflects the removal of an unused \$2bn in contingencies. However, own-source revenues are expected to be \$4bn higher than initially expected due to stronger tax revenues linked to an upward revision in historic nominal GDP growth. That was only partly offset by \$1.9bn more spending than initially budgeted for. While the new deficit projection would still be wider than the 2024/25 fiscal year, at 1.2% of nominal GDP it is actually on the smaller end of the provincial scale given deteriorations seen in other provinces. Following deposits totalling \$2.3bn to the Generations Fund, the deficit will be almost \$10bn under the Balanced Budget Act.

For the upcoming fiscal year, the deficit is expected to narrow to \$6.3bn (0.9% GDP) on a Public Accounts Basis. While the budget announced spending increases of \$2.1bn for fiscal 2026/27 (\$9.6bn over six years), program spending is still expected to rise by only a relatively modest 1.6% relative to the prior year. The higher base for own-source revenues seen in the prior year is expected to increase by a further 3.4%, which would be broadly in line with nominal GDP. A contingency of \$2bn is applied again to guard against any unforeseen expenditures or weaker than expected revenue growth. Given the ongoing race to be the next leader of the CAQ party and also Québec Premier (at least until this October's election) the Finance Minister stated that \$250mn a year over the next five years was set aside for the next leader to use for electoral promises.

The longer-term projections show that the province still expects to balance the budget on a Public Accounts Basis by fiscal 2029/30. There remains a gap to be bridged to eliminate the deficit on a Balanced Budget Act basis, but that gap is actually smaller than in Budget 2025 due to the favourable changes in revenue forecasts. The gap to be bridged has narrowed by \$250mn in fiscal 2027/28 and 2029/30, and \$500 million in 2029/30.

Borrowing program lower due to pre-funding

In their fall update, the province adjusted this year's borrowing requirements down by \$5.4bn to \$24.3bn, after the use of more pre-financing (\$3.4bn), lower net financial requirements (\$0.8bn), some improvements in transactions under the credit policy (\$2.5bn), which all offset an increase in repayments of borrowings (\$1.6bn). Meanwhile, the province already

started to pre-fund for the 2026/27 fiscal year. In today's budget, requirements were further adjusted downward by some \$1.5bn, placing this outgoing fiscal year's needs at \$22.8bn. Meanwhile, the province has borrowed \$32.1bn of which \$9.3bn is being allocated to pre-funding for the upcoming year.

As for this upcoming year, net financial requirements are increasing to \$26.0bn, while repayment of borrowings are \$14.4bn for a total of \$40.4bn. However, the province is using \$2.5bn from the Generations Fund to repay borrowings, withdrawing \$2.5bn from the Retirement Plans Sinking Fund (RPSF), as well as applying that \$9.3bn of pre-funding, bringing the overall financing program to \$26.2bn. When compared to this outgoing year, net financial requirements are up by \$1.3bn, while repayment of borrowings is down by \$4.5bn. Of note, unlike the past few years, the province will not be increasing their short-term debt outstanding to satisfy the financing program.

The government began withdrawing funds from that RPSF in 2024/25 as the sums accumulated to pay the retirement benefits of government employees are projected to exceed the government's liability. Overall, these withdrawals will help decrease the financing program with an estimated \$2.5bn in reduction every year through 2030/31.

Looking further ahead, borrowing requirements are forecasted to increase in 2027/28 to \$31.4bn. Despite lower net financial requirements and repayment of borrowings, currently there are no planned withdrawals from the Generations Fund, as well as no pre-funding being applied at this point. Over the remaining time horizon, decreasing net financial requirements while increasing levels in repayment of borrowings, as well as the annual \$2.5bn in withdrawals from the RPSF, places projected borrowing on a slightly declining path for the next two years at \$29.3bn and \$28.9bn, before jumping up to \$34.8bn by 2030/31. When compared to latest update this past November, borrowing through 2029/30 is now some \$700mn higher.

Table 4: Borrowing requirements (C\$billions)

Borrowing requirements	2025/26E	2026/27F	2027/28F	2028/29F	2029/30F	2030/31F
Net financial requirements	24.7	26.0	20.8	17.2	13.6	13.4
Repayments of borrowings	19.0	14.4	13.1	14.5	17.7	24.0
Withdrawal from sick leave fund	-0.2	-	-	-	-	-
Use of pre-financing	-12.8	-9.3	-	-	-	-
Transactions under credit policy ¹	-1.0	-	-	-	-	-
Increase in ST debt	-2.0	0.0	-	-	-	-
Use of Generations Fund	-2.5	-2.5	-	-	-	-
Retirement Plans Sinking Fund withdrawals	9.3	-	-	-	-	-
Pre-financing for following year	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Total	32.1	26.2	31.4	29.3	28.9	34.8

Net debt-to-GDP is slightly increasing and forecasted to peak in 2027/28

Driven by the deficit and net capital investments, net debt is forecasted to increase by \$14.1bn to \$250bn as at March 31, 2026. That growth will cause the net debt-to-GDP ratio to increase to 38.8% by the end of this outgoing fiscal year, up from 38.3%. Compared to last year's budget estimate for this outgoing year, it is lower than the 40.4% forecasted due to a lower deficit than forecasted.

As for this upcoming year starting on April 1, the concept of net debt will be replaced by that of net financial liabilities. The adjustment relates to deferred revenue as non-financial liabilities, which correspond to deferred revenue, will no longer be added to net debt which currently includes all liabilities. It is estimated that this change will result in a \$5.6bn reduction in net debt in 2026/27, or 0.8% of GDP.

Despite net debt/liabilities forecasted to increase by \$14.8bn in this upcoming year, the downward adjustment places the total at \$260bn, or 38.9% of GDP. Meanwhile, the following year (2027/28) sees that grow further to \$271bn as a result of continued capital investments and a deficit, representing 39.3% of GDP. The debt ratio is expected to peak that year, as the following three years sees the ratio gradually declining to 36.9% by 2030/31. In those three years, an accounting surplus is expected which is keeping the growth in net debt/liabilities at a slower pace than GDP growth.

Although the ratio is expected to rise in the short-term, the government stated that it is staying the course on its objective to reduce the net debt burden. It aims to reduce it to 35.5% of GDP by 2032/33 and to 32.5% of GDP by 2037/38.

¹ Payments to / (from) counterparties to reduce exposure.

Capital spending increasing over 10 years

Québec's 10-year capital spending program, referred to as the Québec Infrastructure Plan (QIP) calls for \$167bn in cumulative investments (\$16.7bn/year avg), up from \$164bn last year. Over the past eight years, the QIP has been increased each year, up from \$100.4bn in March 2018. From 2025/26 to 2030/31, investments will total \$108bn which is \$5.2bn more than what was planned in the budget last year. The province expects the federal government to contribute financially to the QIP, particularly through the Build Communities Strong Fund and the Canada Public Transit Fund.

The QIP allocates considerable sums to health and social services, education, higher education, transportation, as well as social housing. Overall, 71% share will be used for infrastructure maintenance, while new infrastructure will account for the remaining 29% of investments. That compares to last year when the split was 65% and 35%, respectively.

As highlighted in the budget both this and last year, Hydro-Québec's plan will require capital investments of between \$135bn to \$160bn over the 2024-2035 period, contributing to the overall economic growth in the province.

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