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## **Quebec: On the path to a balanced budget, one year of spending sobriety at a time**

By Matthieu Arseneau and Daren King

### **Highlights**

The 2026 budget presented by Minister Girard indicates that public finances for the current fiscal year (2025–2026) are in much better shape than anticipated a year ago, with the deficit standing at \$9.9 billion (1.5% of GDP) compared to \$13.6 billion (2.2% in the 2025 budget), despite spending that continues to rise sharply (4.3% versus the 1.5% projected last year). While the government can certainly boast of a deficit that compares favourably with the average among Canadian provinces, this is not the result of rigorous spending control. In fact, revenues were much higher than expected in 2025–2026. Overall, the Quebec economy performed better than expected in a complex environment marked by the U.S. administration's tariff measures and the resulting uncertainty.

Looking ahead to the coming fiscal year (2026–27), the minister is not reporting any negative news regarding the deficit compared to the previous budget—for the first time in three years. In fact, the projected deficit is \$8.6 billion (1.3% of GDP) for 2026–27, lower than the \$9.9 billion projected last year (1.5% of GDP) and the \$9.5 billion in the fall update (1.4% of GDP). This improved starting point even allows for the announcement of new initiatives for the coming years without compromising the deficit path. We would have preferred, however, that the fiscal flexibility be used to address the gap to be bridged in the forecast horizon.

Minister Girard described his 2026 budget as sober. This fiscal restraint, which was supposed to begin last year, has ultimately been postponed until this year. After years of strong spending growth (+7.0% between 2018–19 and 2025–26), the Government of Quebec will need to exercise restraint each year through 2029–30 to balance its budget over the long term, as required by the Balanced Budget Act. However, the path to balance is fraught with obstacles. Economically, the risks are numerous, including not only the renewal of the USMCA this year, but also an oil shock that could push the global economy into recession and a historic demographic slowdown. The Minister of Finance stated that he was leaving room for maneuver for the future party leader through the contingency reserve, but one might wonder whether the winner of the fall election will limit themselves to this reserve by exercising frugality after making campaign promises. We continue to urge the government to limit its spending following the sharp increases in recent years. Per capita spending is now 27% higher than in Ontario, a record gap. Since Quebec already has the highest tax burden in the country, there is limited room for maneuver on the revenue side. Furthermore, the deficit is essentially structural, given that the unemployment rate remains below 6%. In other words, in our view, the government cannot rely on an economic upturn to balance its budget. The government is under pressure from all sides to ease the burden of the cost of living, due to the sharp rise in inflation in recent years. Without downplaying the challenges faced by certain segments of the population, it is worth noting that wages have recently risen faster than inflation and are at a record high in real terms.

Fiscal discipline is therefore essential to ensure intergenerational equity in the years ahead. Currently, the present generation is leaving future generations with the second-highest net debt in the federation and a colossal deficit in infrastructure maintenance, while demographic changes will continue to put pressure on public finances over the next 15 years. This is why we support the government's goal of limiting its portfolio spending to 1.9% over the next five years—a significant challenge given that the years 2011 through 2015 were described by some as years of austerity, with average growth of 2.3%. It will take great determination to achieve such a sharp reduction in the Quebec government's spending.

- **Economic Outlook** — The economic landscape over the past year has been particularly turbulent due to the deterioration of trade relations with the United States, the sharp slowdown in population growth, and, more recently, the outbreak of conflict in Iran. In addition to the widespread climate of uncertainty that has eroded consumer confidence and business investment, Quebec's economy has been disproportionately impacted compared to other Canadian provinces by the U.S. administration's imposition of sector-specific tariffs, as the forestry, aluminum, and automotive sectors account for a significant portion of the province's economy. As a result, it is estimated that real GDP growth in Quebec in 2025 was halved compared to 2024, falling from 1.7% to 0.8%, a smaller increase than the 1.7% observed across the country (2.0% in 2024). Nominal GDP, which is of greater importance for public finances, nevertheless saw a strong increase of 4.5% in 2025—a higher growth rate than the 4.3% recorded across the country as a whole due to higher inflation in the province. In regard to the labour market, Quebec compares favourably with the rest of Canada. Indeed, job creation in the province accelerated, rising from 0.9% in 2024 to 1.7% in 2025, compared to a slowdown from 1.9% to 1.4% across the country. Given the higher population growth and the increase in the labour force participation rate, the unemployment rate in Quebec rose from 5.4% in 2024 to 5.6% in 2025, the second-lowest level among Canadian provinces after Saskatchewan. Demographically, changes in the federal government's immigration policy significantly slowed population growth (from 2.0% in 2024 to 0.7% in 2025), but the slowdown was less abrupt than elsewhere in the country due to the smaller proportion of non-permanent residents in the province. As for the real estate market, Quebec also stood out from the rest of the country in 2025 due to greater resilience in new construction and transactions in the resale residential property market.
- **Budget balance for the outgoing fiscal year (2025–26)** — A deficit of \$9.9 billion is projected for 2025–26 after transfers to the Generations Fund, which is \$3.7 billion less than anticipated in last spring's budget and \$2.4 billion less than in the November budget update. To put this in perspective, this deficit represents 6.2% of revenue or 1.5% of GDP. Before the transfer to the Generations Fund, the deficit stood at \$7.7 billion, a decrease of \$3.7 billion compared to the last budget. This discrepancy is due to a larger upward revision in revenues than in expenditures. In fact, revenue levels were 2.7% higher than forecast, while expenditures were 1.4% higher than estimates from a year ago. Revenues ultimately increased by 2.8%, while



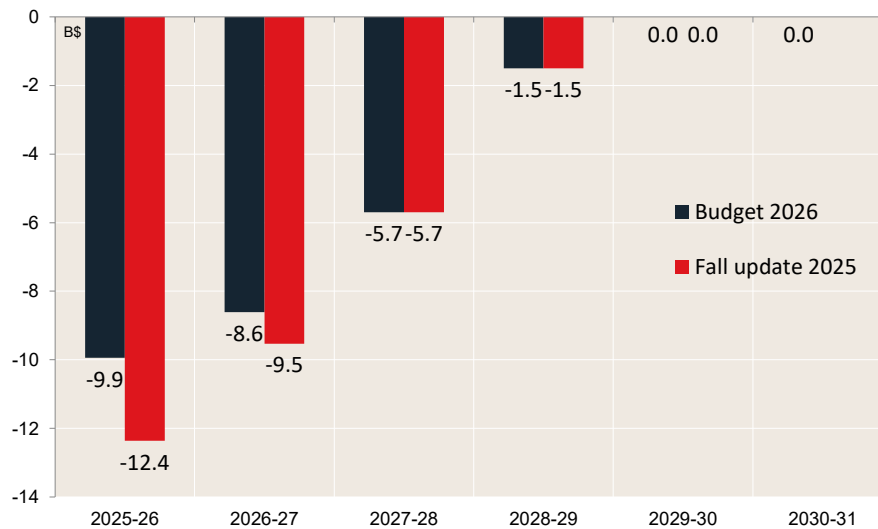
expenditures rose by 4.3%, including a 4.5% increase in portfolio expenditures. Debt service was \$485 million lower than the level anticipated in the previous budget.

- Medium-Term Fiscal Outlook (2026–27 and beyond)** — Quebec may therefore record an accounting deficit of \$6.3 billion in 2026–27, representing 0.9% of GDP, down from the 1.2% recorded in 2025–26. Under the balanced budget law—that is, after the contribution to the Generations Fund—the deficit is projected to reach \$8.6 billion and 1.3% of GDP in 2026–27. This implies a significant spending restraint, with expenditures rising at a tepid rate of 1.5% this year, while revenues are projected to increase by 3.7%. Health care spending is projected to grow at a rate of 4.1%, education at 2.4%, and higher education at 3.6%, while growth for other portfolios is expected to contract by 2.1%. The budget also presents the results of alternative scenarios, including one involving a recession in the event of an escalation of the trade conflict or a worsening of geopolitical tensions. Assuming instead a 0.2% contraction in the Quebec economy, the deficit—including the contribution to the Generations Fund—would rise from \$8.6 billion to \$11.1 billion in 2026–27 and from \$5.7 billion to \$8.5 billion in 2027–28.

Furthermore, the government still intends to comply with the Balanced Budget Act and plans to return to balance in 2029–30, but a shortfall of \$2.0 billion remains to be addressed—the same amount indicated in last year’s budget. To achieve this, spending growth will need to be limited to an average of 2.0% over five years (1.9% for portfolio expenditures), while revenues are expected to grow by 3.2%. In comparison, portfolio expenditures increased by an average of 2.3% from 2011 to 2015 during the period described as the Couillard government’s austerity era. Since debt rollovers at higher interest rates could occur, debt service is projected to increase at an average rate of 3.9% over five years (see details below). As a precaution, the province’s financial plan includes a contingency reserve of \$2.0 billion for the coming fiscal year and \$1.5 billion for subsequent years. Given the risks currently facing the economy, such a buffer appears entirely justified.

### Quebec: A smaller deficit, but one that still needs to be eliminated by 2029–30

Budget balance under the Balanced Budget Act



NBC Economy and strategy (data via Ministère des Finances du Québec)

- New initiatives** — Titled “A Responsible Budget with targeted measures for Quebecers,” the 2026 budget is being presented against a unique political backdrop, both internationally and provincially, due to the CAQ leadership race currently underway. In addition to an explicitly allocated amount of \$250 million, the Minister of Finance indicated that a portion of the contingency reserves could be used to implement new additional measures following the election of the party’s new leader. Nevertheless, the 2026 budget, which was intended to be an exercise of “sobriety,” still announces additional investments of \$9.6 billion over five years, compared to \$9.3 billion in the previous budget. The new initiatives fall into three key areas: 1) accelerating Quebec’s economic transformation; 2) supporting the government’s major initiatives; and 3) supporting Quebecers and communities through targeted measures.

The first component, aimed at accelerating Quebec’s economic transformation, promises \$1.7 billion in investments over five years, including \$480 million starting in the 2026–27 fiscal year. Among the new measures announced under this pillar, the government is allocating \$693 million over five years to help businesses adapt to the new economic landscape by promoting investment projects in industries of the future (\$410 million) and enhancing Quebec’s economic competitiveness through innovation (\$283 million). To this end, the government is allocating \$375 million to support high-potential business investments, particularly in the defence and manufacturing sectors, it is increasing the budget of the Critical and Strategic Minerals Fund by \$1 billion to help Quebec become a leader in the production and processing of critical minerals, and is also increasing the budget of the Quebec Business Growth Fund by \$1 billion to promote Quebec ownership of strategic businesses. To improve competitiveness, the budget allocates \$187 million to support the innovation chain by funding the innovation ecosystem (\$91 million), supporting public research (\$55 million), and strengthening digital sovereignty (\$42 million). The second major pillar aimed at accelerating the province’s economic transformation is designed to support SMEs with \$581 million over five years. The budget therefore invests \$216 million to strengthen the regions’ key assets (regional economic development (\$40 million), tourism sector development (\$79 million), and bio-food sector development (\$97 million)), as well as \$365 million to support forestry businesses and communities (support for struggling forestry businesses (\$165 million) and maintaining the government’s commitment to forestry communities (\$201 million). The final action plan for transforming Quebec’s economy promises \$429 million in investments to support the



growth of the cultural sector. To this end, the budget allocates \$280 million to address challenges in the audiovisual sector, \$75 million to ensure the sustainability of the media ecosystem, and \$73 million to promote Quebec cultural content.

The second component, aimed at supporting the government’s key priorities, promises \$4.3 billion in investments over five years, including \$910 million starting in fiscal year 2026–27. To achieve this, the budget initially allocates \$2.2 billion to improve access to healthcare by strengthening the delivery of care and services in public healthcare facilities (\$811 million), supporting access to medications (\$756 million), reducing surgical waitlists (\$200 million), strengthening access to primary care (\$165 million), implementing the National Health Prevention Strategy (\$100 million), and supporting caregivers and seniors in private residences (\$136 million). Second, the budget aims to support educational success with an investment of \$639 million, which will be used to address urgent and temporary school space needs (\$250 million), promote educational success (\$315 million), and enhance the attractiveness of the workforce in the education system (\$74 million). Third, the budget allocates \$391 million to support higher education training, labour market integration, and research by continuing to expand training and certification in targeted fields (\$347 million), and supporting university research (\$45 million). Finally, the government is allocating \$1.1 billion to strengthen the safety of Quebecers and access to justice services by consolidating prevention and intervention activities related to safety (\$750 million), continuing efforts to combat armed violence (\$66 million), ensuring cybersecurity operations (\$43 million), and strengthening access to justice services (\$217 million).

Finally, the last major component of the budget, aimed at supporting Quebecers and communities through targeted measures, promises investments of \$3.6 billion over five years, including \$742 million in 2026–27. To achieve this, the budget initially allocates \$2.4 billion to support Quebecers by converting 5,000 non-subsidized childcare spaces (\$397 million), capping school tax growth at 3% (\$450 million), addressing homelessness and mental health issues (\$264 million), combating domestic and sexual violence (\$260 million), supporting access to housing (\$740 million), and strengthening services for vulnerable people (\$257 million). Second, the government is allocating \$1 billion to ensure community resilience by supporting adaptation to and the fight against climate change (\$584 million) and by strengthening communities (\$445 million). Finally, the budget invests \$217 million to promote Quebec culture and cultural heritage by maintaining funding for culture in schools and cultural field trips (\$119 million), supporting cultural organizations (\$58 million), and preserving our cultural heritage (\$40 million).

### Financial impact of the measures in Budget 2026-2027 (millions of dollars)

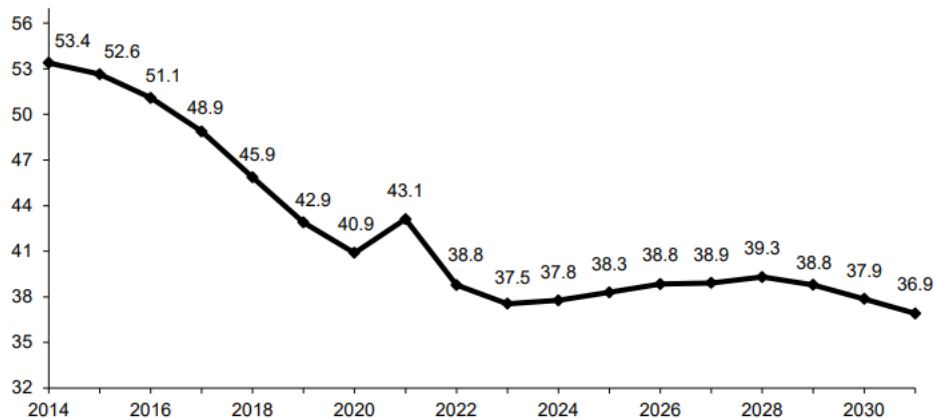
	2025- 2026	2026- 2027	2027- 2028	2028- 2029	2029- 2030	2030- 2031	Total
Accelerating Québec's economic transformation	—	-480.3	-507.4	-360.7	-204.7	-150.4	-1 703.5
Supporting the government's main missions	—	-910.0	-928.3	-851.0	-794.7	-791.4	-4 275.4
Supporting Quebecers and communities with targeted action	-37.0	-742.3	-1 129.6	-724.1	-503.6	-478.6	-3 615.2
<b>TOTAL</b>	<b>-37.0</b>	<b>-2 132.6</b>	<b>-2 565.3</b>	<b>-1 935.8</b>	<b>-1 503.0</b>	<b>-1 420.4</b>	<b>-9 594.1</b>

Note: Totals may not add due to rounding.

- Debt outlook & interest bite** — Debt Outlook and Interest Burden—As a reminder, since 2023–2024, the Quebec government has been targeting the net debt-to-GDP ratio under its Act to Reduce the Debt and Establish the Generations Fund, rather than gross debt or debt representing accumulated deficits. Net debt corresponds to the government’s total liabilities, from which financial assets are subtracted. This measure allows for better comparison between provinces and internationally. The government’s target is to gradually reduce the net debt-to-GDP ratio to 35.5% by 2032–33 and to 32.5% by 2037–2038, which is closer to the average for Canadian provinces. As of March 31, 2026, net debt should total \$250.2 billion, or 38.8% of GDP, representing an increase from 38.3% in 2025. According to the projections included in the budget, debt targets are not expected to be met until their target years. Until then, net debt as a percentage of GDP is expected to continue rising, reaching 38.9% in 2027 and a peak of 39.3% in 2028, before gradually declining to 36.9% in 2031. This debt trajectory, however, compares favourably to the one published in the previous budget, which projected a ratio of 40.4% in 2026 and a peak of 41.9% in 2028. This improvement is due in part to an upward revision of historical GDP data, but also to smaller past and future deficits. Nevertheless, significant efforts will be required to meet the targets set by the government. After declining by 1.9% over five years between 2026 and 2031, the government will need to reduce net debt as a percentage of GDP by 1.4% in just two years (by 2033) and by another 2.0% over the following five years (by 2038).



**Net debt as at March 31**  
(percentage of GDP)



Note: As of April 1, 2026, the concept of net debt will be replaced by that of net financial liabilities due to the coming into force of the new accounting standard on financial statement presentation.

For 2025–26, debt service amounted to \$10.2 billion, up 1.9% from the previous year and representing 6.3% of total government revenue. In the coming years, debt service is expected to increase by 1.1% in 2026–27, before jumping by 6.5% in 2027–28 due to the rollover of fixed-rate loans at higher interest rates. Interest payments are then projected to rise by 3.7% in 2028–29, 2.4% in 2029–30, and 5.7% in 2030–31. As a share of revenue, debt service is projected to decline slightly from 6.3% in 2025–26 to 6.2% in 2026–27, but is expected to rise gradually thereafter, reaching 6.5% in 2030–31.

- **Borrowing requirement** — Borrowing for the current fiscal year (2025–26) will total \$32.1 billion, which is \$2.4 billion more than projected in the 2025 budget. This increase is due to \$9.3 billion in pre-financing and an increase in repayment of borrowings (+\$2.1 billion), which were only partially offset by a decrease in net financing requirements (-\$4.3 billion), the use of pre-financing (-\$3.4 billion), and transactions under the credit policy (-\$1.0 billion). To date, 47% of borrowings have been raised on foreign financial markets, a higher proportion than the 34% in the previous budget and the 31% average over the past 10 years. The government uses a range of financial instruments to limit risks associated with fluctuations in exchange rates and interest rates. After accounting for swaps, the debt is entirely denominated in Canadian dollars. For 2026–27, the government’s financing program calls for borrowing of \$26.2 billion. For subsequent years, borrowing requirements will average \$31.1 billion per year.

**Government’s financing program from 2026-2027 to 2030-2031**  
(millions of dollars)

	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031
Net financial requirements	26 040	20 799	17 217	13 638	13 390
Repayments of borrowings	14 448	13 143	14 535	17 727	23 958
Use of the Generations Fund to repay borrowings	-2 500	—	—	—	—
Withdrawal from the Retirement Plans Sinking Fund	-2 500	-2 500	-2 500	-2 500	-2 500
Use of pre-financing	-9 264	—	—	—	—
<b>TOTAL</b>	<b>26 224</b>	<b>31 442</b>	<b>29 252</b>	<b>28 865</b>	<b>34 848</b>

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

- **Current long-term credit ratings** — S&P: A+, Stable | Moody’s: Aa2, Stable | DBRS: AA(L), Stable | Fitch: AA-, Stable  
*[Refer to our [Provincial Ratings Snapshot](#) for additional colour on specific credit rating drivers/considerations]*

## Multi-year financial framework (millions of dollars, unless otherwise indicated)

	2025- 2026	2026- 2027	2027- 2028	2028- 2029	2029- 2030	2030- 2031	AAGR <sup>(1)</sup>
<b>Revenue</b>							
Personal income tax	49 003	50 800	52 687	54 667	56 629	58 734	
Contributions for health services	9 175	9 412	9 749	10 198	10 498	10 826	
Corporate taxes	14 102	14 527	15 296	15 358	15 968	17 037	
School property tax	1 255	1 311	1 435	1 579	1 720	1 853	
Consumption taxes	29 364	30 008	30 975	31 784	32 523	33 294	
Duties, permits and royalties	6 311	6 542	6 939	7 204	7 537	7 792	
Miscellaneous revenue	15 395	15 908	16 285	16 819	17 471	18 042	
Government enterprises	5 347	5 853	6 442	6 984	7 096	7 254	
<b>Own-source revenue</b>	<b>129 952</b>	<b>134 361</b>	<b>139 808</b>	<b>144 593</b>	<b>149 442</b>	<b>154 832</b>	
% change <sup>(2)</sup>	3.5	3.4	4.1	3.4	3.4	3.6	3.6
Federal transfers	30 577	32 131	32 948	33 022	32 337	33 325	
% change	0.3	5.1	2.5	0.2	-2.1	3.1	1.7
<b>Total revenue</b>	<b>160 529</b>	<b>166 492</b>	<b>172 756</b>	<b>177 615</b>	<b>181 779</b>	<b>188 157</b>	
% change	2.8	3.7	3.8	2.8	2.3	3.5	3.2
<b>Expenditure</b>							
Portfolio expenditures	-158 029	-160 489	-164 279	-165 909	-167 887	-173 218	
% change <sup>(3)</sup>	4.5	1.6	2.4	1.0	1.2	3.2	1.9
Debt service	-10 155	-10 268	-10 931	-11 340	-11 612	-12 271	
% change	1.9	1.1	6.5	3.7	2.4	5.7	3.9
<b>Total expenditure</b>	<b>-168 184</b>	<b>-170 757</b>	<b>-175 210</b>	<b>-177 249</b>	<b>-179 499</b>	<b>-185 489</b>	
% change	4.3	1.5	2.6	1.2	1.3	3.3	2.0
Contingency reserve	—	-2 000	-1 500	-1 500	-1 500	-1 500	
<b>ACCOUNTING SURPLUS (DEFICIT)<sup>(4)</sup></b>	<b>-7 655</b>	<b>-6 265</b>	<b>-3 954</b>	<b>-1 134</b>	<b>780</b>	<b>1 168</b>	
% of GDP	1.2	0.9	0.6	0.2	0.1	0.2	

Note: Totals may not add due to rounding.

(1) Average annual growth rate, corresponding to the geometric mean over five years, from 2026-2027 to 2030-2031.

(2) In 2027-2028, the growth in own-source revenue is primarily due to the 3.4% change in nominal GDP in 2027, the increase in Hydro-Québec's results, and the effect of harmonization with the accelerated depreciation and expensing measures announced in the 2024 federal budget.

(3) Excluding 2025-2026 expenditures not recurring in 2026-2027, including advance payments for public transit infrastructure projects, the growth in portfolio expenditures stands at 3.3% in 2026-2027 instead of 1.6%.

(4) The accounting surplus (deficit) refers to the operating surplus (deficit) as presented in the public accounts.

## Budgetary balance within the meaning of the *Balanced Budget Act*

(millions of dollars, unless otherwise indicated)

	2025- 2026	2026- 2027	2027- 2028	2028- 2029	2029- 2030	2030- 2031
<b>ACCOUNTING SURPLUS (DEFICIT)<sup>(1)</sup></b>	<b>-7 655</b>	<b>-6 265</b>	<b>-3 954</b>	<b>-1 134</b>	<b>780</b>	<b>1 168</b>
% of GDP	1.2	0.9	0.6	0.2	0.1	0.2
Gap to be bridged	—	—	750	2 250	2 000	1 750
Deposits of dedicated revenues in the Generations Fund	-2 289	-2 347	-2 491	-2 616	-2 780	-2 918
<b>BUDGETARY BALANCE WITHIN THE MEANING OF THE <i>BALANCED BUDGET ACT</i></b>	<b>-9 944</b>	<b>-8 612</b>	<b>-5 695</b>	<b>-1 500</b>	<b>—</b>	<b>—</b>
% of GDP	1.5	1.3	0.8	0.2	0.0	0.0

Note: Totals may not add due to rounding.

(1) Accounting surplus (deficit) refers to the surplus (deficit) from operations as presented in the public accounts.



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