

## Quebec's 2025-26 deficit shrinks (again), easing funding needs

By Warren Lovely

While not the final, audited tally, Quebec's preliminary report on 2025-26 delivers 'positive' news for Canada's second largest province. Prior to deposits to the Generations Fund, Quebec's 2025-26 budget deficit is now seen at \$4.9 billion or 0.8% of GDP. That's less than half of what was planned for back in Budget 2025—that original plan arriving when U.S. tariff anxiety was more or less at its zenith.

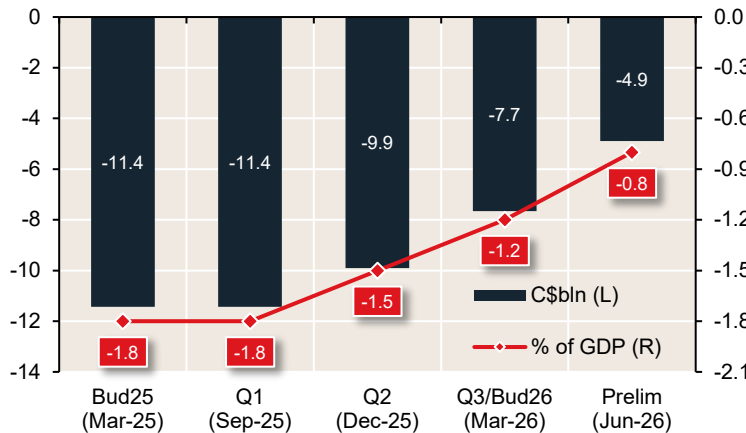
To be clear, some of the budgetary improvement vs. the latest estimate captures a slower-than-expected pacing to cost-shared/subsidized infrastructure projects. So some of the fiscal 'improvement' may prove temporary. Still, the economy remains resilient, as evidenced by a firming

in key own-source revenue streams. The balance sheet also looks better, with the vital net debt-to-GDP ratio ending 2025-26 on an improved trajectory. To us, S&P was perhaps hasty in downgrading the province (from AA- to A+) last April, when a 'negative' outlook might have sufficed.

Of note to bondholders, the ~\$2.8 billion fiscal improvement ostensibly means there was more cash on hand to start 2026-27. Cue a dollar-for-dollar reduction in the 2026-27 borrowing program, which is nicely ahead of schedule (due in part to a couple of highly efficient, read large, international bond deals). [Note: The first 2026-27 update is due in September.]

### Chart 1: Quebec shows a smaller 2025-26 deficit...

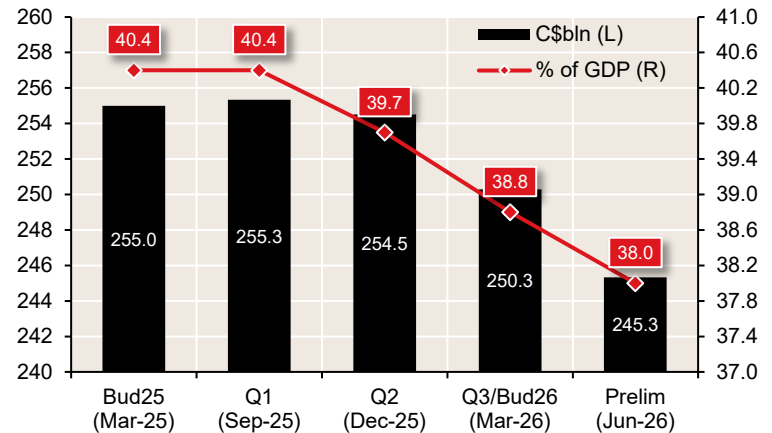
Quebec budget balance: Original plan (Mar-25) to latest estimate (Jun-26)



Source: NBC, Que | Note: Accounting surplus/(deficit) prior to deposit to GF

### Chart 2: ... and lower debt burden vs. prior estimates

Quebec net debt: Original plan (Mar-25) to latest estimate (Jun-26)

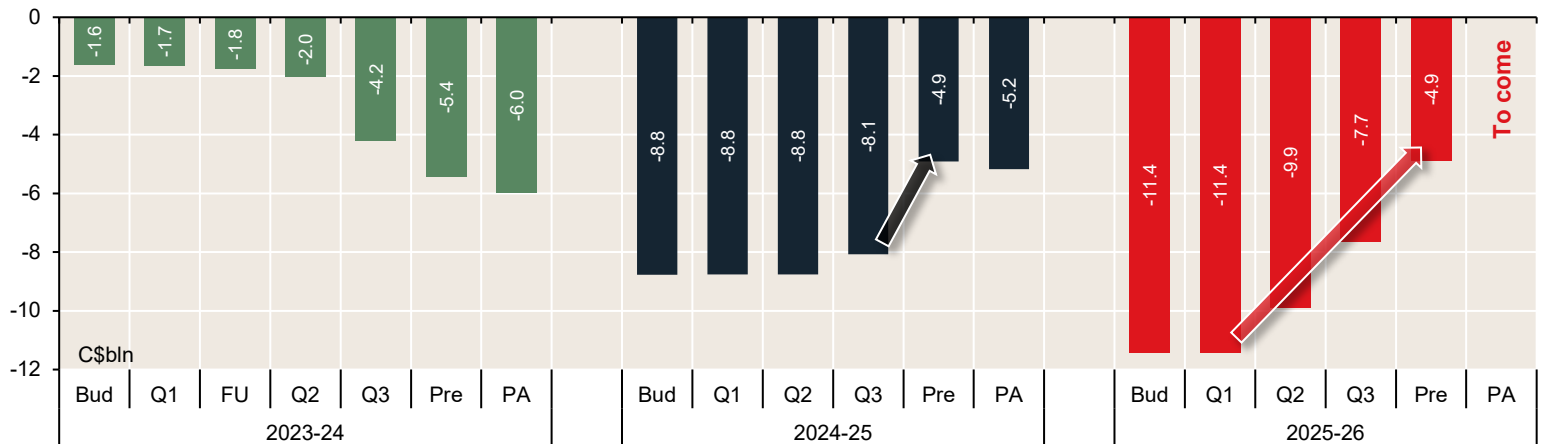


Source: NBC, Que

On a preliminary basis (not to be confused with final, audited figures), Quebec's 2025-26 deficit has been marked down to \$4.9bn or 0.8% of GDP. After depositing ~\$2.3bn into the Generations Fund—earmarked for debt reduction—the resulting deficit of \$7.2bn is barely 1% of GDP. Either way, it's a material improvement vs. prior guidance. Indeed, the preliminary shortfall is less than half of what was originally planned for in Budget 2025. The positive tone extended to the balance sheet, where there is less net debt than previously envisaged (outright and scaled to GDP). This serves as a positive handoff for the current 2026-27 fiscal year, where a Q1 update is due in September. To us, S&P appears to have been a bit hasty in downgrading Quebec last April (from AA+ to A-).

### Chart 3: Preliminary budget tally latest in string of positive revisions for fiscal 2025-26 (with final/audited public accounts to come)

Evolution of Quebec accounting surplus/(deficit) from original budget plan to final result (or latest estimate), arranged by fiscal year



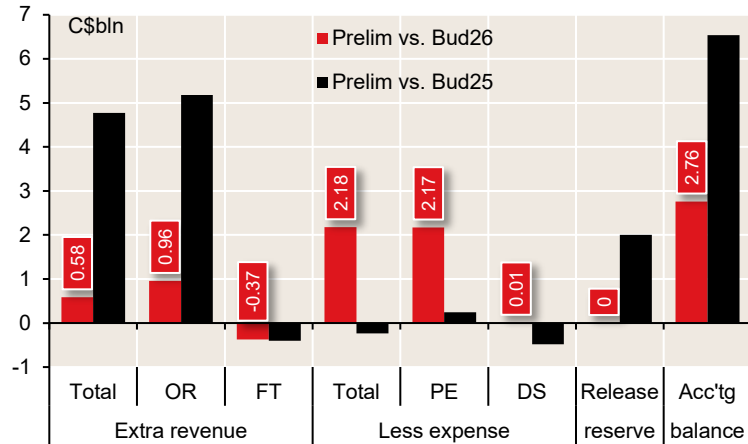
Source: NBC, Que | Note: 2023-24 and 2024-25 results are final; latest figure for 2025-26 is preliminary with audited public accounts to come

The preliminary result for 2025-26, released on June 11<sup>th</sup>, is the latest in a string of budgetary upgrades. Back in Mar-25, as U.S. tariff anxiety swirled, Quebec planned for an \$11.4bn accounting deficit. As things stand, the shortfall is now less than half that amount, with the eventual audited public accounts having the final word. Looking back, the preliminary tally for 2024-25 also ushered in 'good news', that fiscal year's deficit likewise cut down to size. Bottom line: This is a positive 'surprise' for Canada's second largest province. Beyond the direct/ immediate implications for Quebec's current borrowing program (read on), elements of the improved revenue base could carry over. At a minimum, the starting point for net debt in 2026-27 is now lower than previously estimated. Nice.



### Chart 4: Dissecting Quebec's improved 2025-26 balance

Contribution to Quebec's improved 2025-26 budget balance vs. prior estimates

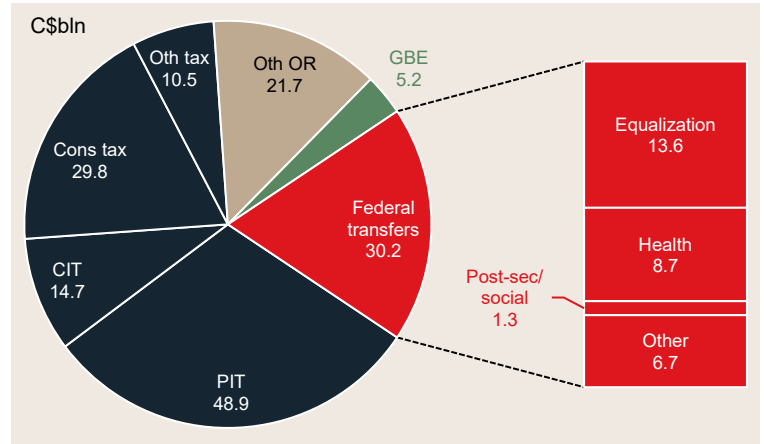


Source: NBC, Que | Note: Preliminary results; balance is accounting surplus/(deficit)

The \$2.76bln net improvement vs. Mar-26 is down to firmer own-source revenue (on economic resilience) and lower portfolio expenditures (incl. a slower pace on federal-funded infra projects). Expect infra dollars to eventually get spent, but the firmer revenue base could bolster 2026-27. Roughly 19% of revenue came via GoC transfers, lending a degree of stability to the revenue side.

### Chart 5: A diverse (and now firmer) revenue base

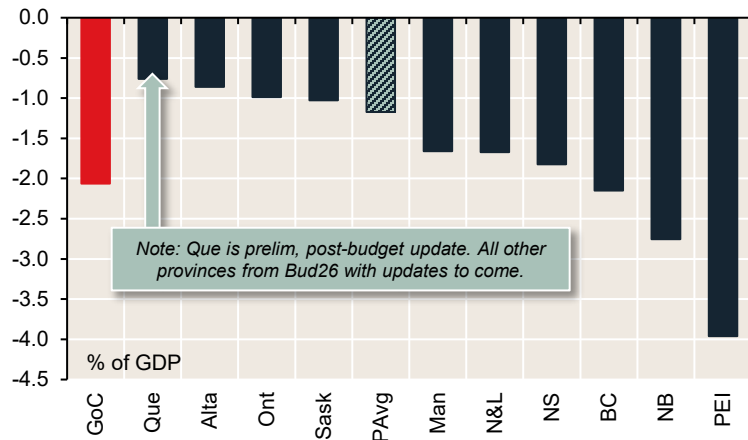
Breakdown of Quebec own-source revenue & federal transfers: 2025-26



Source: NBC, Que | Note: Preliminary results; federal transfers = 18.7% of total revenue

### Chart 6: Smaller deficit in Quebec (with final adjustments to come)

Federal-provincial budget balance-to-GDP ratio: 2025-26 (estimated)

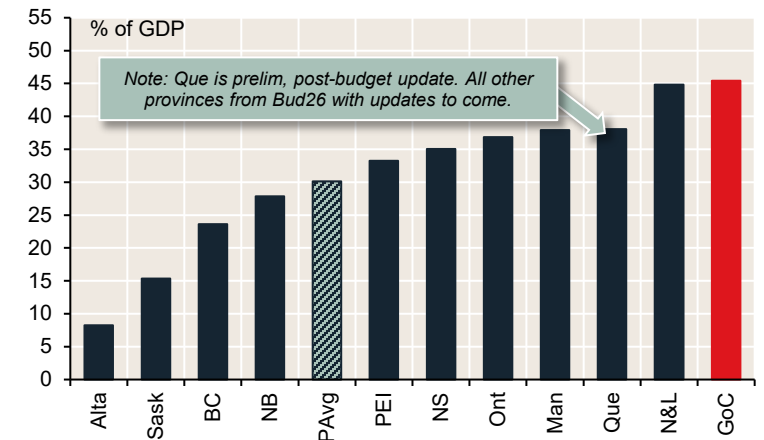


Source: NBC, prov gov'ts | Note: Based on latest official projections; subject to change

Full disclaimer: Quebec is the first province to update 2025-26 results subsequent to the 2026 budget season. Estimated tallies in all provinces will be finalized as part of the upcoming public accounts process. As things stand, Quebec's 2025-26 deficit sits at the low end of the provincial spectrum. While Quebec's 2025-26 debt burden has improved, it remains at the higher end vs. peers.

### Chart 7: Quebec debt burden remains relatively high

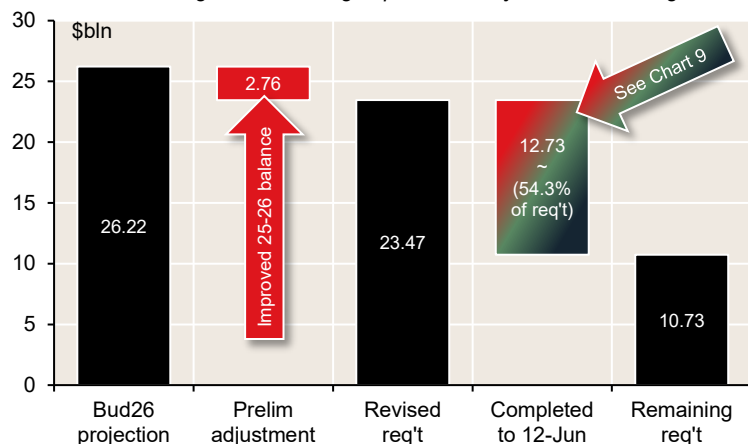
Federal-provincial net debt-to-GDP ratio: 2025-26 (estimated)



Source: NBC, prov gov'ts | Note: Based on latest official projections; subject to change

### Chart 8: Stronger 2025-26 lowers current FY requirement

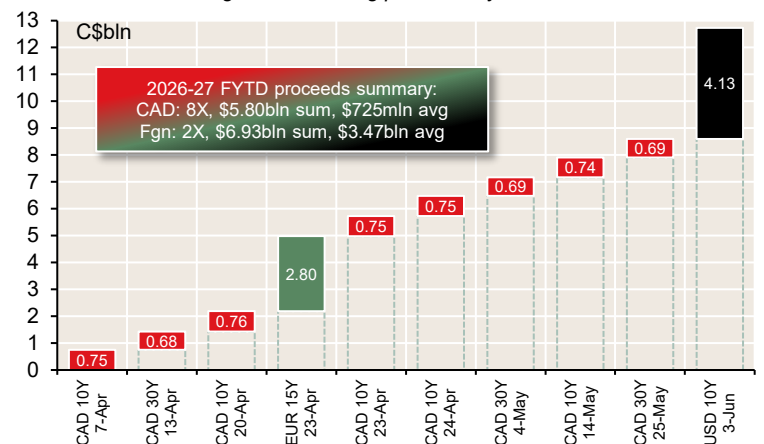
Quebec 2026-27 long-term borrowing requirement: Adjustment & funding status



Source: NBC, Que

### Chart 9: Ahead of schedule as fgn ccy deals move needle

Quebec cumulative long-term borrowing proceeds by transaction: 2026-27



Source: NBC, Que, BBG

Bondholders take note: The ~\$2.8bln net fiscal improvement gets lopped directly off the 2026-27 borrowing requirement. Good news. Quebec is also nicely ahead of schedule, having completed 54% of the revised requirement at the 20% mark of the fiscal year. So far, more than half of Quebec's 2026-27 funding has been sourced from international markets (USD, EUR), with two large trades having moved the funding needle in a big way. Saying that, Quebec remains committed to the home (CAD) market, with regular 10Y/30Y supply and solid two-way secondary liquidity.



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**To contact us:**  
514-879-2529

**Stéfane Marion**  
Chief Economist and Strategist  
[stefane.marion@nbc.ca](mailto:stefane.marion@nbc.ca)

**Matthieu Arseneau**  
Deputy Chief Economist  
[matthieu.arseneau@nbc.ca](mailto:matthieu.arseneau@nbc.ca)

**Jocelyn Paquet**  
Senior Economist  
[jocelyn.paquet@nbc.ca](mailto:jocelyn.paquet@nbc.ca)

**Kyle Dahms**  
Senior Economist  
[kyle.dahms@nbc.ca](mailto:kyle.dahms@nbc.ca)

**Alexandra Ducharme**  
Senior Economist  
[alexandra.ducharme@nbc.ca](mailto:alexandra.ducharme@nbc.ca)

**Daren King, CFA**  
Senior Economist  
[daren.king@nbc.ca](mailto:daren.king@nbc.ca)

**Warren Lovely**  
Chief Rates and Public Sector Strategist  
[warren.lovely@nbc.ca](mailto:warren.lovely@nbc.ca)

**Taylor Schleich**  
Rates Strategist  
[taylor.schleich@nbc.ca](mailto:taylor.schleich@nbc.ca)

**Ethan Currie**  
Strategist  
[ethan.currie@nbc.ca](mailto:ethan.currie@nbc.ca)

**Angelo Katsoras**  
Geopolitical Analyst  
[angelo.katsoras@nbc.ca](mailto:angelo.katsoras@nbc.ca)

**Nathalie Girard**  
Senior Coordinator  
[n.girard@nbc.ca](mailto:n.girard@nbc.ca)

**Giuseppe Saltarelli**  
Desktop Publisher  
[giuseppe.saltarelli@nbc.ca](mailto:giuseppe.saltarelli@nbc.ca)

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