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Quebec on improved fiscal trajectory as general election looms

By Warren Lovely

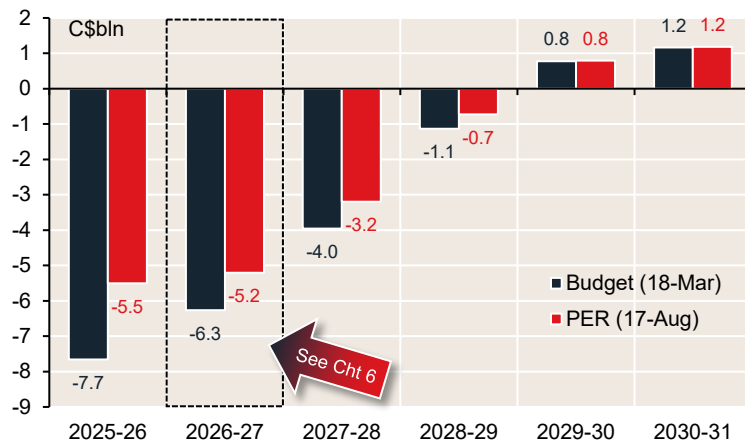
Quebecers will vote in a general election on October 5th. Polls currently hint at a potentially close race with presumably ample room for movement once the campaign gets officially underway. Stay tuned.

For a province with as significant a weight as Quebec, there's clearly much at stake here. And it would be fair to say that some past Quebec elections certainly galvanized investors. It is thus helpful that Quebec law requires the finance minister to present a detailed 'Pre-election Report on the State of Quebec's Public Finances' (PER). That report dropped on August 17th ([link](#)), with key elements summarized here.

The punch line: Consistent with an improved base (previously confirmed in the 2025-26 public accounts), key fiscal metrics—the budget balance and the net debt burden—are on healthier trajectories vs. March's budget.

Chart 1: Improved fiscal trajectory relative to March budget

Quebec accounting surplus/(deficit): PER vs. Bud26

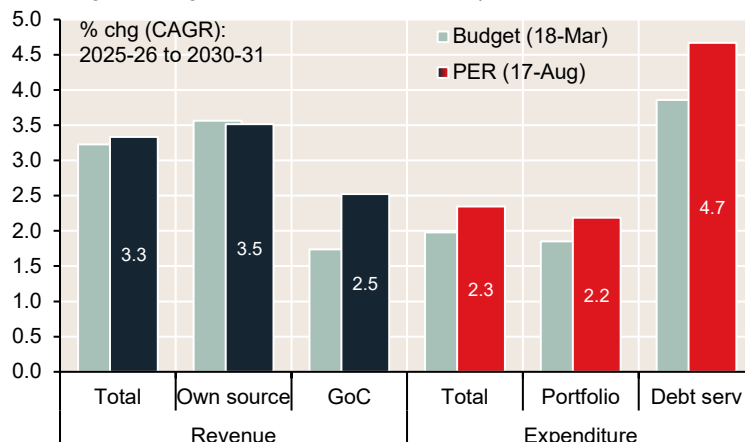


Source: NBC, Quebec | Note: Accounting balance before GF deposit or 'gap to be bridged'

Quebec's pre-election report—a legislative requirement—revealed an improved trajectory vs. March's budget. That's not all that surprisingly given the enhanced 'base' previously confirmed via the 2025-26 public accounts. Before factoring in any prospective pledges or future surprises, the 2026-27 deficit (prior to a Generations Fund deposit) is down to \$5.2bn or a contained 0.8% of GDP.

Chart 3: Spending restraint needed to balance the budget

5Y average annual growth in Quebec revenue & expenditure: PER vs. Bud26



Source: NBC, Quebec | Note: GoC refers to federal transfers

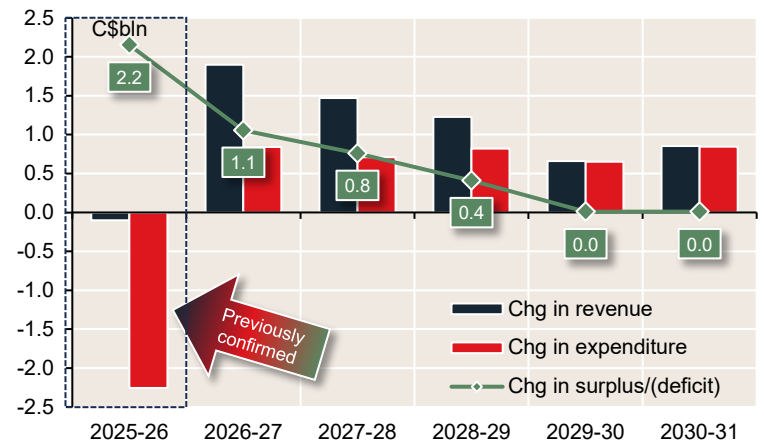
Notwithstanding the relative improvement in the budgetary path, balancing the books will likely require sustained program/portfolio spending restraint. While the interest bite is manageable, higher interest rates risk adding to debt servicing costs. There's a residual 'gap to be bridged' over the medium term, albeit this 'gap' has been pushed back/marked down. Note that Quebec sets aside a non-trivial reserve, equivalent to \$2bn for 2026-27 and \$1.5bn/year thereafter. Official sensitivity analysis points to a \$1.2bn own-source revenue impact for a 1%-pt 'surprise' in nominal GDP.

Despite the notional improvement to Quebec's fiscal path flagged in the pre-election report, the economic outlook remains highly uncertain. The outlook could be tested as early as this week, depending on how U.S.-Canada trade negotiations unfold.

So rather than interpreting the relative upgrade as providing room for fresh promises, note that restraint will be needed to ultimately return the budget to balance. Indeed, there's still a 'gap to be bridged' in the out years (i.e., savings to be identified/actions to be taken). A relatively heavy debt burden also argues for a degree of prudence, particularly with real borrowing rates on the move higher.

Chart 2: Public accounts had delivered good news (for '25-26)

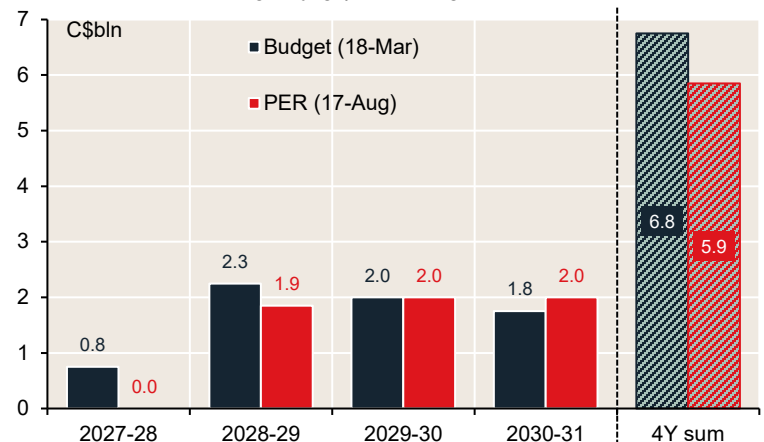
Change in Quebec revenue, expenditure & surplus/(deficit): PER vs. Bud26



Source: NBC, Quebec | Note: Balance excl. changes in GF deposits & 'gap to be bridged'

Chart 4: Though later/smaller, a 'gap' remains to be bridged

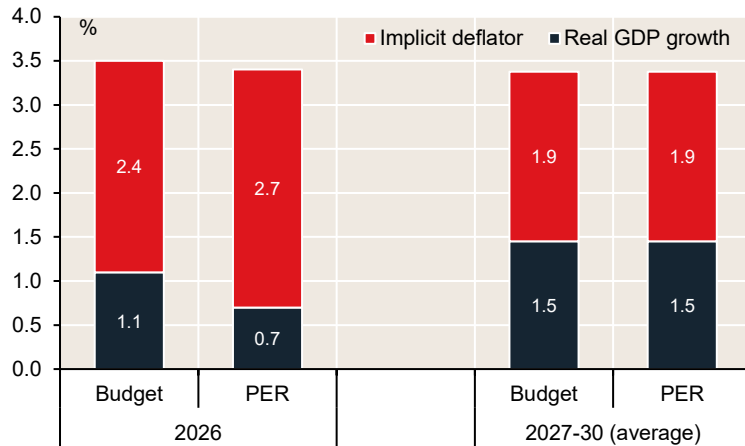
Quebec medium-term budgetary 'gap to be bridged': PER vs. Bud26



Source: NBC, Quebec

**Chart 5: A look at underlying growth outlook assumptions**

Quebec GDP growth expectations for 2026 & longer-term: PER vs. Bud26

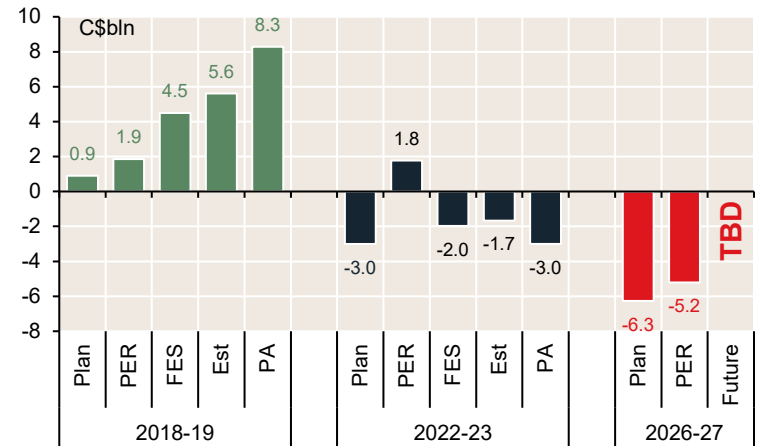


Source: NBC, Quebec

As with other PERs, the Auditor General reviewed the updated finances and deemed the underlying assumptions/forecasts "plausible in all material respects". Saying that, the economic outlook remains uncertain, including on the pivotal issue of Canada-U.S. trade. While there will be less *real* growth in 2026, the expected profile for *nominal* GDP isn't much changed vs. March.

Chart 6: Historical perspective on prior election periods

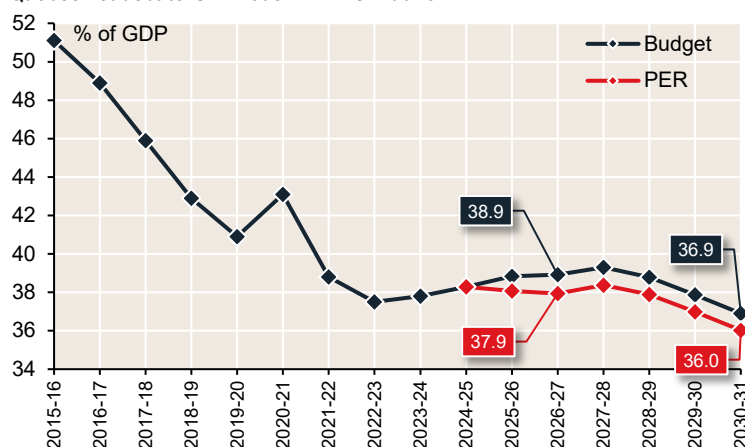
Evolution in Quebec surplus/(deficit): Current fiscal year vs. past election years



Source: NBC, Quebec | Note: Accounting balance before GF deposit or 'gap to be bridged'

Chart 7: Net debt burden on improved path...

Quebec net debt-to-GDP ratio: PER vs. Bud26

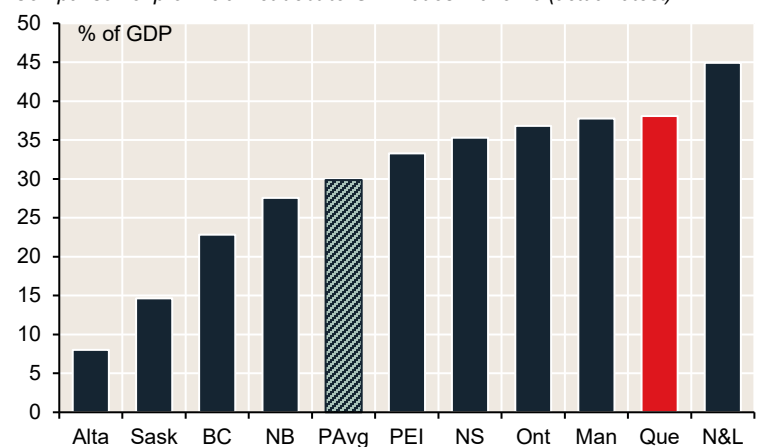


Source: NBC, Quebec | Note: PER includes actual net debt level to 2025-26

As previously confirmed, Quebec ended 2025-26 with less net debt than telegraphed in March's budget. That has vaulted the closely watched net debt-to-GDP ratio onto an improved path, which extends through the forecast horizon (all else equal). The current plan involves getting the net debt burden down to 35.5% by 2032-33 and 32.5% by 2037-38. All ratings are currently 'Stable'.

Chart 8: ... though Quebec remains a high(er) debt province

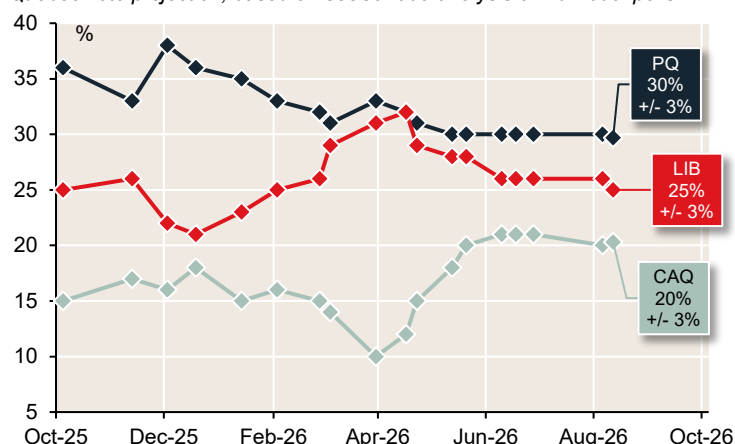
Comparison of provincial net debt-to-GDP ratios: 2025-26 (actual/latest)



Source: NBC, prov gov'ts | Note: Uses current NBC assumptions for 2025 nominal GDP

Chart 9: Watch the polls... and ultimately the vote!

Quebec vote projection, based on 338Canada analysis of individual polls

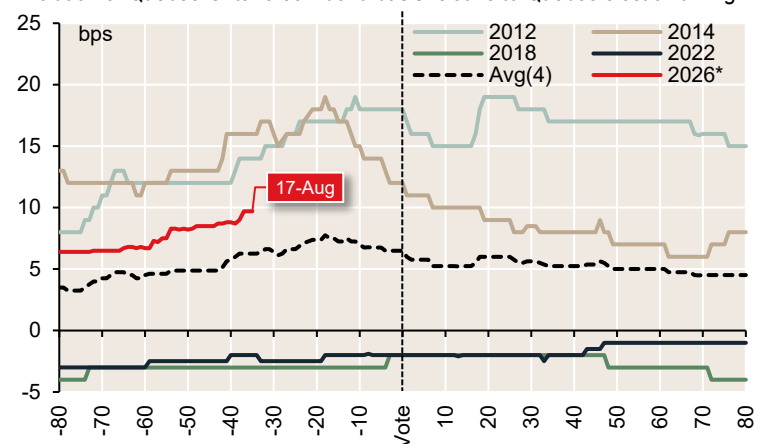


Source: NBC, 338Canada (Quebec) | Note: Latest projection as of 12-Aug-26

All in all, the fresh PER paints Quebec's finances in an improved light ahead of a very influential vote. As we've previously examined ([link](#)), Quebec will at some point enter a funding blackout ahead of the vote. Notwithstanding that eventual primary market lull, investors will be eying campaign developments closely and looking to polls to help gauge party prospects/prospective outcomes. As we've seen the past, shifting party fortunes are a potential catalyst for re-pricing Quebec spreads in the run up to the vote. And there will of course be much to digest once ballots are tallied.

Chart 10: History hints at scope for Quebec to be re-priced

Evolution of Quebec-Ontario 30Y bond basis relative to Quebec election timing



Source: NBC, BBG | Note: Benchmark bonds at time of election; horizontal axis is weekdays



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