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Québec: Less borrowing to do as budget track improves

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Summary

- Québec's finances ended 2024-25 in better shape than expected and this momentum allowed the province to trim its 2025-26 accounting deficit projection by $1.5 billion to $9.9 billion (or $12.4 billion after deposits to the *Generations Fund*). That's more red ink compared to last year, but the fiscal hit is not surprising given the economic context. Nor is Québec unique in projecting a larger deficit in 2025-26. Beyond this year, the fiscal plan is little changed from the original budget path. There's still a communicated goal to balance by 2029-30 but to achieve this, Québec will (still) need to "bridge a gap" (i.e., find savings and/or new revenue) of $1.0 to $2.5 billion in the outer years of the plan.
- New measures announced in this update ($8.3 billion over 5 years) aim at protecting both the purchasing power of Québecers, and the resilience of the provincial economy. A reduction in base contributions to the (well-funded) Québec Pension Plan (QPP) will provide savings for employers and employees alike. The update also presents a reduction in QPIP premiums, provides colour on the indexation of the tax system, and introduces targeted support for vulnerable populations. To bolster corporate activity, Québec offers updated plans outlining support to key industries which are impacted by tariffs and/or struggling from a competitiveness perspective. Consistent with a renewed national interest, Québec will also introduce a bill to accelerate the authorization of projects deemed of national importance.
- Despite carrying a relatively heavier debt burden than many provincial peers, Québec has revealed an improved trajectory. For 2025-26, all key debt burden measures (related to net debt, gross debt and the accumulated deficit) are due to come at lower-than-planned levels. Though debt will continue to accumulate, the anticipated peak in all three debt burden measures will be lower than envisioned in the budget. Interim and longer-term targets for net debt (revised in Budget 2025) were reiterated here. Meanwhile, Québec anticipates only limited movement in its interest bite. Debt servicing costs are set to consume 6.4% of total revenue in 2025-26 and 6.5% by 2029-30.
- Reflecting an improved budget balance, Québec's net financial requirement for 2025-26 has eased (to $28.3 billion in FES vs. $29.1 billion in budget). Moreover, the smaller-than-expected 2024-25 deficit essentially meant Québec started the year in a more advantageous cash position than assumed back in March. Add to that roughly $2.5 billion of net receipts related to hedged foreign currency debt, and it means the current year's underlying borrowing need has stepped down appreciably. With $24.3 billion in long-term funding in-hand, Québec is already $448 million pre-funded towards 2026-27. The level of pre-funding will presumably grow which would lessen the eventual requirement for 2026-27.

Selected highlights

- **Economic backdrop** ➢ *Québec's notable resilience in the face of a trade dispute*

The negative impact of tariffs has proven to be outsized for Québec, where a relatively large portion of the province's U.S. export basket is under pressure from sector-targeted (and thus, non-USMCA exempt) levies on metals, autos, and forestry. That said, Québec's economy continues to grow, albeit, below potential with the rest of Canada, and is poised for a 0.9% and 1.1% expansion in 2025 and 2026, respectively (both figures revised down slightly from March's Budget projections). A stronger-than-expected handoff in 2024 real growth (1.7% vs an expected 1.4%) in Budget 2025 also contributes to a relatively outperforming economy on the national scale.

  - Under the base case scenario, real growth is on a lower trajectory in Québec, despite 2024 GDP coming in stronger than expected, but nominal GDP is pointed higher in the projection period relative to Budget thanks to a strong 2025 (where residential investment was notably stronger than previously anticipated). Expansions in real GDP from 2027-2029 are expected to come in two ticks lower relative to Budget in each year (1.4%, 1.5%, 1.5%). Projections in both real and nominal GDP from the provincial government are relatively in-line with the private sector consensus, as it sets average growth in the forecast horizon at 1.3% in real terms (consensus-matching) and 3.4% in nominal terms (one tick lower than the private sector).
  - Regarding the labour market, the update revised unemployment rate projections up in the near-term, but down out the forecast horizon. The jobless rate is seen averaging 5.6% in 2026 (up two ticks from March forecast), before recovering substantially in 2027 to 4.6% (up one tick from prior guidance). Further out the horizon, the provincial government is expecting the unemployment rate to fall as low as 4.1% in 2029, previously penciling in a 4.3% average rate for the same period in Budget 2025.
  - Consistent with Budget 2025 and the high degree of uncertainty faced year-to-date, the update presents two alternative scenarios for the growth outlook. In a recession scenario (which could occur, for example, following an escalation of trade disputes or withdrawal of the U.S.'s participation in CUSMA), economic activity in Québec would contract by 0.3% (representing a 1.4% downward shock to the base case) in 2026, before rebounding by 1.3% a year later. The cumulative *negative* gap in real GDP under this scenario relative to the baseline would reach 1.2 percentage points in 2028. Alternatively, a stronger growth scenario (which could materialize on the back of positive trade/uncertainty developments), forecasts a 0.5% positive gap to the baseline real growth assumption for 2026. The cumulative *positive* gap in comparison to the base case scenario would reach 1.2 percentage points in 2028.

- **Fiscal outlook** ➢ *The fiscal outlook improves on a better budgetary base, but there's still a "gap to be bridged"*

Québec's finances ended 2024-25 in better shape than expected and this momentum allowed the province to trim its 2025-26 accounting deficit projection to $9.9 billion. That's more red ink versus last year, but the fiscal hit is not surprising given the economic context. Nor is Québec unique by running a larger deficit in 2025-26. Beyond this year, the fiscal plan is little changed from the budget. There's still a communicated path to balance by 2029-30 but to achieve this, Québec will need to find savings and/or new revenue of $1.0 to $2.5 billion in the outer years of the plan.

  - As confirmed in the 2024-25 public accounts, Québec's finances ended last fiscal year in better shape than expected. The province registered a $5.2 billion accounting deficit (0.8% of GDP) compared to expectations for a $8.1 billion shortfall. There was also a $2.4 billion deposit to the Generations Fund leaving the budget balance within the meaning of the *Balanced Budget Act* (*BBA*) at $7.6 billion.
  - The stronger budgetary base acts as tailwind to 2025-26 as the province now sees the current year's shortfall being $1.5 billion smaller than they'd thought in the spring. That's a function of upside revenue (+1.5% vs. Budget 2025) more than offsetting new spending (+0.5% vs. budget). Still, Québec is left with an expected budgetary gap of $9.9 billion (1.5% of GDP), nearly double last year's deficit. After a $2.5 billion deposit to the *Generations Fund*, the budget balance under the *BBA* would stand at $12.4 billion.
  - Beyond 2025-26, changes to the fiscal plan are negligible. The province expects *accounting* deficits of $7.1 billion, $4.2 billion and $1.4 billion in 2026-27, 2027-28 and 2028-29, respectively. All these planned shortfalls are within $0.1 billion of what was telegraphed in the spring budget. There remains an expected return to *accounting* balance in 2029-30. To achieve this, the province sees revenues growing at a 3.1% annual rate starting next year, which compares to 1.6% average annual spending growth.
  - Across all years of the fiscal plan, Québec is planning deposits to the *Generations Fund* to the tune of at least $2.4 billion and as much as $2.8 billion. Within the meaning of the *BBA,* budgetary shortfalls will then be at least $2.4 billion larger than outlined above. With a very small accounting surplus in 2029-30, the planned $2.8 billion *Generations Fund* deposit would mean that the province would be in deficit at the end of its planning horizon under the *BBA*…
  - …As was the case in Budget 2025, the government identifies a "gap to be bridged" in the outer the years of the fiscal plan to ensure compliance with the *BBA*. In practice, this means the government will need to find savings and/or generate additional revenue to achieve the fiscal path they've outlined. Specifically, the gap is $1.0 billion in 2027-28 and $2.5 billion in 2028-29 and 2029-30.
  - The "gap to be bridged" could be, at least in part, filled by the release of contingency reserves. Indeed, the province incorporates $1.5 billion of budgetary prudence in each of those three fiscal years. Nearer-term, there remains a $2 billion contingency reserve set aside for 2025-26 and 2026-27.
  - Amid heightened economic uncertainty, Québec also provided alternative fiscal outlooks for scenarios in which economic growth is faster or slower than expected. The stronger economic scenario involves an $8.7 billion shortfall in 2025-26 and a return to balance by 2028-29 after deposits to the *Generations Fund*. The "recession scenario" sees $11.7 billion of red ink in 2026-27 (after deposits to the *Generations Fund*) and would involve deficits throughout the projection horizon (i.e., no return to balance). Note that differences in 2025-26 deficit projections are negligible between the baseline outlook and two alternative scenarios.

- **New measures** ➢ *Protecting purchasing power and the economy*

With a plan to build a 'Strong Québec', Budget 2025 highlighted economic difficulties related to trade and geopolitical uncertainty, and outlined how the provincial government would respond by 1) stimulating wealth creation and business activity, 2) supporting Québecers and their communities, and 3) improving the tax system. The *Update of Québec's Economic and Financial Situation* (hereafter, 'the Update'), builds on this plan by presenting initiatives aimed at protecting individual purchasing power and the economy's resilience as a whole.

  - *Returning $ to Québecers* → One of the largest new measures announced in the Update was a reduction in base contribution rates to the Québec Pension Plan (QPP), effective January 1st, 2026. The 0.2 percentage point reduction (which puts the contribution rate at 10.6% for 2026) will be shared equally between employers and employees. A 13% reduction in the Québec Parental Insurance Plan (QPIP) premium, also effective at the turn of the calendar year, will ensure that, when combined with QPP adjustments, workers will save a total of $378 million in 2026. The update also provides colour on the harmonization of Québec tax legislation with federal measures proposed in the national budget. Perhaps most interesting for individuals, the indexation of the tax system will provide total savings of $4.1 billion over five years. In sum, an average gain of $182 will be realized per individual in 2026-27 in accordance with the above measures. The government is also cancelling the increase in the capital gains inclusion rate, in line with the decision made by the Feds. Other measures are enhanced in the update, with $59 million allocated to ensure the well-being of more vulnerable individuals. Initiatives include increasing emergency assistance to address the homeless population, and upgrading funding for the Residential Adaptation Assistance/RénoRégion Programs.
  - *Providing $ to bolster Québec's economic resilience* → With $2.5 billion allocated to increase the province's economic resilience, the Québec government aims to stimulate business investment by enhancing accelerated depreciation measures, in coordination with the federal government as announced earlier this month. As mentioned, a reduction in QPP contributions rates and QPIP premium rates will also produce savings of $421 million for Québec-based employers in 2026. In response to developments in the trade landscape since Budget 2025's release, the update aims to support key sectors which have had outsized exposure to U.S. tariffs – namely, the forestry industry, which was hit with new levies in the fall. A new extension of the income-averaging mechanism for forest producers will continue to promote private forest ownership and subsequently encourage the management of these lands with a view to marketing timber. In recognition of broader competitiveness struggles, a temporary contribution holiday to the Health Services Fund (HSF) will also be introduced to support the agriculture, forestry, and fishing sectors – targeted stimulus in each industry adjusted in their own respects

this Update, with certain regional considerations made as well (such as the tax credit extension for Gaspésie and specific maritime areas in the province). Finally, to support its new economic vision, consistent with the federal government's attempt to build the strongest economy in the G7, Québec will also introduce a bill to accelerate the authorization of projects deemed of national importance.

- **Debt burden & interest bite** ➢ *Debt burden peaking at lower level, interim and longer-term targets reiterated*

Despite carrying a relatively heavier debt burden than many provincial peers, Québec has revealed an improved trajectory. For 2025-26, all key debt burden measures (related to net debt, gross debt and the accumulated deficit) are due to come at lower-than-planned levels. Though debt will continue to accumulate, the anticipated peak in the all three debt burden measures will be lower than in budget. Interim and longer-term targets for net debt (revised in Budget 2025) were reiterated here.

- The absolute level of net debt projected for the end of the current 2025-26 fiscal year has been scaled back slightly vs. budget, by roughly $500 million. Factoring in an enhanced nominal GDP profile (consistent with StatCan's earlier-reported provincial economic accounts), the closely watched net debt-to-GDP ratio is estimated to end 2025-26 at 39.7% vs. the 40.4% figure originally telegraphed. In other words, the debt burden is still rising but from a lower base.
- Budget deficits and strategic infrastructure investments mean the net debt burden will continue to rise in each of the next two fiscal years. Still, debt-to-GDP should peak at a lower level than previously forecast. The precise peak is now 41.3% by 2027-28 (vs. 41.9% prior guidance). It's a similar story for other leverage metrics, as both the accumulated deficit and gross debt ratios are set to establish lower peaks than in the budget plan. Consistent with the alternative fiscal scenarios touched on above, Québec's "recession scenario" would see net debt-to-GDP peak at 42.6% in 2027-28. A "stronger growth scenario" could ease the debt burden by roughly 1%-pt by 2027-28.
- Recall that Québec modified its official/legislated debt targets back in Budget 2025. The interim target entails getting the net debt-to-GDP ratio down to 35.5% (+/-2.5%-pts) by 2032-33. From an estimated 39.3% ratio in 2029-30, hitting the interim target would require trimming 3.8%-pts (or 1.3%-pts/year) over three years. The longer-term target is a net debt burden of 32.5% (+/-2.5%-pts) by 2037-38, implying a steady/sustained downward slope of 0.6%-pts/year relative to the interim commitment.
- For 2025-26, debt servicing costs are set to consume 6.4% of total revenue. That's a somewhat larger 'interest bite' than flagged back in March (6.2%) owing to higher-than-anticipated bond yields. While more debt and higher interest rates mean gross interest charges are rising, the netting of expected investment income from the retirement plans sinking fund would keep net interest charges growing by a relatively manageable 4.2% compound average annual growth rate in the three years to 2027-28. As a result, Québec anticipates only limited movement in its interest bite, that debt affordability metric standing at 6.5% by 2029-30. All else equal, official sensitivity analysis suggests a 1%-pt parallel shift higher in interest rates would add $669 million to the interest bill in year one and $1.75 billion by year five (as more debt is gradually re-couponed).

- **Borrowing** ➢ *Noted funding relief, with Québec already pre-borrowing towards 2026-27*

Beyond the improved budget balance and enhanced debt burden trajectory, bond investors were buoyed by Québec's funding update, which shows the province already getting a jump start on its 2026-27 borrowing requirement.

- Reflecting an improved budget balance, Québec's net financial requirement for 2025-26 has eased (to $28.3 billion in FES vs. $29.1 billion in budget). Better still, previously released public accounts (for the prior fiscal year) confirmed a smaller deficit than had been estimated, which essentially meant Québec started the year in a more advantageous cash position than assumed back in March. Added to that is a roughly $2.5 billion net receipt from counterparties under the province's credit policy (related to hedged foreign currency debt). It all means that the current year's underlying borrowing need has stepped down appreciably. Indeed, with $24.3 billion in long-term funding in-hand, Québec is already $448 million pre-funded towards 2026-27. The current level of pre-funding will presumably grow, should Québec continue to take advantage of favourable market conditions by issuing more debt through March 2026. In other words, it would be reasonable to expect the province to continue to fund, with each incremental offering pushing the level of pre-funding higher and the eventual requirement for 2026-27 lower on a dollar-for-dollar basis.
- Reflecting on the $24.3 billion so far issued in 2025-26, just under two-thirds (63%) has been steered to the domestic bond market, ensuring a continuation of strong benchmark liquidity in the CAD market. To this point, international markets have accounted for 37% of completed borrowing, which stands above the longer-term average of just over 30%. The highlight here was surely a €3.0 billion trade, which established a record deal size for a Canadian province in euros. Québec maintained its established presence in the U.S. dollar market and also raised funds in AUD and CHF. A larger-than-average share (and the overwhelming majority) of new issuance was 10 years or longer. Québec, like most provinces, has succeeded in locking in much of its debt for longer, thereby limiting interest rate reset risk and near-term refinancing pressures.
- Given that Québec is already pre-funding towards 2026-27, you can expect the official requirement for next fiscal year to step down from here, perhaps significantly so. As things stand, with just the initial $448 million of pre-funding accounted for, Québec's 2026-27 gross financing requirement is down $34.1 billion. It had been $37.5 billion in Budget 2025. One suspects the official requirement for next fiscal year could be less than $30 billion when all is said and done, assuming market conditions and investor demand for provincial debt remain favourable. Further out, telegraphed requirements for 2027-28 through 2029-30 aren't all that different than budget, averaging less than $30 billion/year for that three-year period. All in all, there's less funding to do than previously flagged and a relatively comfortable position attained, with Québec able to selectively pre-fund when/where conditions are most favourable.

Current long-term credit ratings — S&P: A+, Stable | Moody's: Aa2, Stable | DBRS: AA (low), 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)

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	AAGR[1]
Revenue							
Personal income tax	45 689	47 838	49 601	51 387	53 457	55 360	
Contributions for health services	8 852	9 082	9 297	9 579	10 022	10 307	
Corporate taxes	13 344	13 552	13 663	14 496	14 459	15 116	
School property tax	1 196	1 255	1 378	1 531	1 675	1 816	
Consumption taxes	28 377	28 821	29 662	30 630	31 473	32 258	
Duties and permits	6 191	6 040	6 849	7 148	7 461	7 800	
Miscellaneous revenue	16 252	15 511	15 704	16 134	16 911	17 493	
Government enterprises	5 689	5 442	6 389	7 272	7 327	7 377	
Own-source revenue	**125 590**	**127 541**	**132 543**	**138 177**	**142 785**	**147 527**	
% change	***9.5***	***1.6***	***3.9***	***4.3***	***3.3***	***3.3***	***3.3***
Federal transfers	30 498	31 194	32 077	32 088	32 546	31 935	
% change	*−1.2*	*2.3*	*2.8*	*0.0*	*1.4*	*−1.9*	*0.9*
Total revenue	**156 088**	**158 735**	**164 620**	**170 265**	**175 331**	**179 462**	
% change	***7.2***	***1.7***	***3.7***	***3.4***	***3.0***	***2.4***	***2.8***
Expenditure							
Portfolio expenditures	−151 294	−156 435	−159 486	−161 669	−163 607	−165 950	
% change	*6.9*	*3.4*	*2.0*	*1.4*	*1.2*	*1.4*	*1.9*
Debt service	−9 969	−10 198	−10 283	−11 281	−11 586	−11 727	
% change	*−0.1*	*2.3*	*0.8*	*9.7*	*2.7*	*1.2*	*3.3*
Total expenditure	**−161 263**	**−166 633**	**−169 769**	**−172 950**	**−175 193**	**−177 677**	
***% change*[2]**	***6.4***	***3.3***	***1.9***	***1.9***	***1.3***	***1.4***	***2.0***
Contingency reserve	—	−2 000	−2 000	−1 500	−1 500	−1 500	
ACCOUNTING SURPLUS (DEFICIT)[3]	**−5 175**	**−9 898**	**−7 149**	**−4 185**	**−1 362**	**285**	
% of GDP	*0.8*	*1.5*	*1.1*	*0.6*	*0.2*	*0.0*	

Note: Totals may not add due to rounding.
(1) Average annual growth rate, corresponding to the geometric mean over five years, from 2025-2026 to 2029-2030.
(2) From 2025-2026 to 2029-2030, the annual growth in expenditure will average 2%, a rate of growth compatible with average annual revenue growth of close to 3% and the plan to restore fiscal balance.
(3) The accounting surplus (deficit) refers to the operating surplus (deficit) as presented in the public accounts.

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