

Update on Québec's Economic and Financial Situation - Fall 2025



November 25, 2025

Update on Québec's Economic and Financial Situation: Short-Term Financial Improvement and Proper Effort to Debt Reduction

Welcomed Short-Term Improvement

The [Update](#) on Québec's Economic and Financial Situation reveals an improvement to the financial picture, this year and next. This advancement takes the form of a modestly lower annual deficit and moderately lower bond issuance.

The deficit estimate for FY 2025–26 of \$12.4B, representing 1.9% of nominal GDP, is a touch lower than the \$13.6B shortfall estimate provided in Budget 2025 released last March. Own-source revenues during FY 2025-26 are modestly higher than projected in Budget 2025. The higher revenue intake is principally driven by the recurrence of better taxation results during the prior year, FY 2024-25. This factor alone more than offsets the larger drag related to U.S. tariffs, the cancellation of the increase in the capital gains inclusion rate, lower anticipated revenue from the carbon market and higher program spending.

The economic outlook underlying the revenue path remains constructive for the time being. Real GDP growth forecasts for 2025 (0.9%) and 2026 (1.1%), propelled mostly by consumer spending, have been revised down relative to Budget 2025. Nominal GDP growth remains constructive for the tax base in part due to CPI inflation in Québec sitting at the highest ranking among Canadian provinces. This base case scenario assumes less than 10% tariffs during a transitional period of two years, although the Québec government admits "certain tariff measures will be persistent, if not permanent". As such, the two alternative scenarios proposed are quite useful. Under the pessimistic assumption of tariff escalation and an outright recession, the deficit in FY 2026-27 would be almost the same as this year and lead to a \$2B deficit in FY 2029-30. Under the optimistic scenario of rapid economic growth, a balanced budget would be within reach in FY 2028-29, one year earlier than under the base case scenario.

Among key variables of the revisited economic outlook, let us flag the very dynamic level of housing starts in 2026-27 near 50K units annually, continuous balanced labour market conditions with unemployment staying firmly below 6% and a very small decline in population by 2029 reflecting lower immigration targets.

Debt Reduction Effort Contributes to Lower Bond Issuance

Relative to Budget 2025, the unchanged \$9.8B deficit estimate projected in FY 2026-27 hides a material improvement to public finances. Underneath lies a reinforcement of debt reduction. Indeed, this \$9.8B shortfall incorporates the annual contribution to the Generations Fund. The annual contribution during FY 2026-27 will be significantly higher than usual, at \$4.2B, due to the total transferring of the \$1.8B surplus from the Electrification and Climate Change Fund, also called the Green Fund.

At the same time, Québec has decided to take \$2.5B out of the Generations Fund to pay down debt, an action called "repayments of borrowings" under the government's financing program table. As a result, borrowing requirements projected in FY 2026-27 are \$3.4B lower than previously anticipated in Budget 2025, at \$34.1B.

Long-term borrowing for FY 2025-26 were revised down to a greater extent, by \$5.4B to \$24.3B. This lower figure comes notably from the narrower deficit and higher repayments of borrowings. Also, unexpected temporary payments of \$2.5B in

response to FX variations related to the credit policy framework of the Québec government contributed to lower bond issuance. Altogether, the FY 2025-26 bond program is completed, with close to two-thirds done on the domestic market (the same as the provincial average). Québec will be able to begin pre-borrowing for FY 2026–27 shortly.

Long-Term Path Proposing Deficit Reduction Intact

In addition to better-than-expected short-term financial results, the 5-year outlook preserves the gradual narrowing of annual deficits until a balanced budget is reached in FY 2029-30. The approach to restore fiscal balance is still the same: 3% average annual growth in revenue outpacing spending penciled at a low rate of 2%.

Another thing that has not changed relative to Budget 2025 is the \$2.5B annual gap to be bridged required to eliminate the deficit. There are no formal policies taken to address this gap. Instead, a list of plausible options is exposed: stronger-than-expected economic growth, additional funding from the federal government, efficiency in public services delivery and the non-utilization of the annual contingency reserve (of \$1.5B to \$2B per year). This gap could be addressed in Budget 2026 or after the general elections of 2026.

Takeaway

Short-term fiscal developments are constructive with a smaller-than-expected deficit and lower bond issuance. Beside that, the most positive move from the viewpoint of financial markets is unambiguously the additional deposit to the Generations Fund in FY 2025-26 and sudden additional effort to debt reduction.

Given the moderate size of the deficit and elevated economic uncertainty, it is clearly not the right time to embark on broad-based tax reduction and/or new spending initiatives. Instead, judicious targeted policies were announced. For instance, the Québec government proposes a temporary payroll tax holiday for the forestry, agricultural and fishing sectors. Also, businesses, workers and families will benefit from a modest temporary reduction in 2026 to the contribution rate under the Québec Pension Plan and Québec Parental Insurance Plan. Altogether, new policy measures announced today do not derail the longer-term objective of restoring fiscal balance and keep the net debt-to-NGDP ratio in a comfortable tight range of 40%-41% over time.