Quebec
Budget 2025

2025 Quebec Budget—Worthy Fiscal Adjustments in a Global Trade War Environment

Let us begin our review on the Quebec budget with key numbers for market participants. The government projects a record high FY2025–26 deficit at $13.6B, a sizeable 2.2% of nominal GDP. Excluding the $2.2B deposit to the Generations Fund—a fund created almost two decades ago to pay down debt—the deficit is projected at $11.4B or 1.8% of NGDP. This large shortfall rests on a base case economic scenario incorporating 10% U.S. tariffs on Canada and equivalent retaliation over two years. Including the 10% U.S. tariffs in the base case economic scenario is a prudent and commendable decision which deserves credit. In comparison, the Nova Scotia and BC 2025 budgets do not include tariffs in their base case scenario.

Growth Forecasts and Deficit and Debt Projections

The inclusion of 10% U.S. tariffs drives the prudent Quebec real GDP growth forecasts of 1.1% in 2025 and 1.4% in 2026. These forecasts are in line with the median of private sector forecasters. In addition, the $13.6B deficit incorporates an annual reserve of $2B, representing 1.2% of FY2025–26 total revenues. This buffer is smaller than the cushion built into the BC and Alberta budgets but $0.5B higher than the annual reserve built into the Quebec budget of 2024.

Beyond FY2025–26, the deficit remains relatively large, projected at $9.5B in FY2026–27 It then narrows gradually as the pace of growth in revenues moderately surpasses spending. Large deficits this year and next year translate into an increase in the public debt burden. The net debt-to-GDP ratio of 38.7% today is projected to reach 41.9% in March 2028, surpassing the 40% mark for the first time since the pre-pandemic period.

FY2025–26 borrowing requirements are projected at $29.7B under the base case scenario, unchanged relative to the fall fiscal update. The government plans to avoid higher bond issuance in FY2025–26 by securing a total of $6.5B by: withdrawing $2.5B from the Generations Fund, withdrawing $2B from the Retirement Plans Sinking Fund (RPSF), and increasing T-bills issuance by $2B.

Budget 2025 is the second consecutive budget in which the Quebec government will dip into the Generations Fund and RPSF to taper off bond issuance. The positive aspect is the smaller withdrawal from the Generations Fund this year ($2.5B) compared to last year ($4.4B). The Quebec government will make a deposit of $2.2B in FY2025–26. This deposit almost matches the withdrawal of $2.5B, resulting in a small positive net contribution to the Generations Fund. The Fund's balance, estimated at $16.8B in March 2025, is expected to stay about the same next year and then start increasing again.

After FY2025–26, long-term borrowing requirements will significantly increase to $37.5B in FY2026–27 and $33.3B in FY2027–28. This increase is partly due to the Quebec government avoiding permanent withdrawals from the Generations Fund, while continuing to use the RPSF. Higher-than-usual borrowing needs in FY2026–27 and FY2027–28 also reflect the enhancement of the Plan Québécois des Infrastructures (PQI) capital spending program. The PQI will receive an $11B increase in funding, which represents a 7% jump, over the next three years. The Quebec government intends to boost public investment as private investment becomes more challenging due to the trade war. We see this additional funding to the PQI as a positive step. Since the pandemic, the increase in capital spending has primarily covered higher project costs, which has limited the positive impact on the real economy.

U.S. Tariffs will Bite

Total revenues are projected to edge up by only 1.0% in FY2025–26. Meanwhile, total expenses rising by 1.9% are poised to briefly outpace revenue growth. As of this writing, our economic team tracks an outright contraction of Canadian and Quebec real GDP in calendar Q2-2025. The magnitude and length of this contraction is challenging to assess. Given the April 2nd threat of larger tariffs from the U.S. administration, Budget 2025 incorporates an alternative downside scenario of 25% U.S. tariffs on Canadian non-energy exports and 10% on energy. In other words, the alternative scenario leads to a recession in 2025 bringing down annual real GDP growth near zero, at -0.1%. Under this alternative tariff shock scenario lasting two years, the FY2025–26 deficit would moderately deteriorate by $1.2B, from $13.6B to $14.8B. Borrowing requirements are re-assessed to $30.8B—a notch higher than the $29.7B figure projected under the base case scenario. The debt-to-NGDP ratio would peak at 43.3% in three years from now, instead of 41.9%—similar to the figure reached during the pandemic.

Innovation Efforts

To offset some of the tariff-induced uncertainty hindering household and business spending, the Quebec government is making valuable new efforts to boost innovation. More precisely, a new tax credit for research, innovation, and commercialization (CRIC) is being introduced, replacing eight tax measures currently in effect. The CRIC will facilitate eligible expenditures for R&D and pre-commercialization tied to technological and production uncertainty.

Hydro-Québec Revenues

Another factor weighing down revenues is Hydro-Québec (HQ). The revenues dedicated to the Quebec government have been revised down by $1B in FY2025–26 due to the new Churchill Falls deal and low runoff in HQ's basins, which is restraining electric output capacity. The revenue outlook includes a possible increase in the capital gains inclusion rate in 2026, although the impact appears small.

Balancing the Budget

Market participants and credit agencies will be pleased to notice the intention of the Quebec government to maintain the return of a balanced budget in FY2029–30 despite U.S. trade policy uncertainty. On the surface, the mathematics look simple: 3.2% average annual growth in revenues outpacing 1.9% average annual growth in spending brings a zero-deficit in FY2029–30. While the surface-level numbers and projections might look straightforward and achievable, there are underlying complexities and challenges: the exact path to return to a balanced budget is still unclear. There is a gap to be bridged: $1B in FY2027–28 and $2.5B for both FY2028–29 and FY2029–30. Economic growth, and thus revenues, could be better-than-expected. If not, the Quebec government will have to taper off spending growth or increase the tax burden. Over the long term, it's important to note the revisions to the debt reduction targets. The initial targets, announced in March 2023, aimed for a net debt-to-GDP ratio of 33% in FY2032–33 and 30% in FY2037–38. Given the lower water levels of HQ's basins, ramp-up in capital spending and other initiatives to boost business investment and innovation, these targets have been revised up by 2.5pp, to 35.5% and 32.5%, respectively.

Takeaway: Balanced Budget Still within Reach

The FY2024–25 deficit of $10.4B is moderately lower than the $11B shortfall initially projected a year ago. In relative terms, the upward revisions to the FY2025–26 and FY2026–27 deficits are more material. Ultimately, Budget 2025 reveals a manageable deterioration in public finances over the short- and medium-term. The plan to a balanced budget in five years remains intact. However, the road to get there appears more slippery than a year ago because of the trade war. One striking missing piece of the 5-year financial framework relates to the gap to be bridged. The elimination of the structural deficit has not been completely addressed in Budget 2025. But the gap of $2.5B in FY2029–30 represents a small 0.3% of nominal GDP, implying the balanced budget objective is still within reach, as long as U.S. President Trump does not impose persistent 25% tariffs on Canada and other trading partners.