



# Quebec

## First Quarter of 2025-2026 Report on Quebec's Financial Situation

### Fiscal Situation Remains Unchanged from the 2025 Budget

The [Report on Quebec's Financial Situation](#) reveals the province's **fiscal situation** this fiscal year **remains unchanged** relative to the March 2025 budget. The budgetary deficit for fiscal year 2025–26 is still projected at \$13.6 billion. This includes a \$2.2 billion deposit to the Generations Fund and an unused \$2 billion contingency reserve. The **net debt-to-GDP ratio is also unchanged**, expected to reach 40.4% by March 2026. This compares to 38.7% as of March 2025 and a long-term trough of 37.9% registered two years ago.

### Minor Upward Adjustment to Revenue; Higher Debt Servicing Costs

**Tax revenues for FY 2024–25 came in higher than expected**, which is good news for the government since these gains are recurrent. As a result, the estimate for own-source revenues in FY 2025–26 was increased by \$350 million. Federal transfers were also adjusted upward by \$130 million.

On the spending side, **program expenditures remain unchanged**. However, **debt servicing costs rose by nearly \$500 million** relative to the budget expectations. This increase is due to higher global interest rates and lower-than-expected returns from the Retirement Plans Sinking Fund last year.

### Quebec's Real GDP: A Mix of Positive and Negatives Forces

**Total spending is expected to grow by 3.1% in FY 2025–26, while total revenues will rise by only 0.5%.**

The quasi-stagnant revenues reflect the **slow pace of economic growth**. The March budget forecasted Quebec real GDP growth of 1.1% for 2025. We do not see a material downside to this figure. We're currently tracking 1.0%, which includes the sharp 2.4% annualized quarter-over-quarter contraction in the second quarter, as reported last week in [Quebec's economic accounts report](#).

The breakdown of Quebec's second-quarter 2025 GDP shows a mix of conflicting forces. **International exports of goods fell sharply**—down 36% (quarter-over-quarter annualized) in 2025Q2—after a surge in activity ahead of U.S. tariff implementation. This was the steepest decline since the pandemic, largely driven by the aluminum sector, which was hard-hit by U.S. tariffs and by volatility in the aerospace industry. Export volumes of precious metals and chemical products also dropped significantly.

In addition, many **businesses are postponing investment projects**. Investment in **non-residential structures declined** for the fourth time in five quarters—a trend that's likely to continue as long as economic uncertainty persists. **Investment in machinery and equipment has been mostly flat** for two years. A [survey](#) conducted earlier this year by the Quebec Manufacturers and Exporters Association found that about half of companies have paused investment plans due to tariffs. Half of respondents also cited rising costs.



On the positive side, households are resilient. **Consumer spending grew by 3.8%** (quarter-over-quarter annualized), led by a rebound in durable goods and steady growth in services. However, **some of this spending was financed by savings, as labour income momentum fizzled**. The household savings rate fell for the third straight quarter, though it remains high at 7.9%. Finally, **housing market activity remains at a dynamic level**. Low resale listings are contributing to rising home prices across all regions of the province.

## Takeaway: Fiscal Resilience in 2025–26, with Multiple Possible Paths Ahead for 2026–27

The [Report on Quebec's Financial Situation](#) highlights **short-term fiscal resilience in FY 2025–26, but the outlook for next year is clouded by uncertainty**.

Although tariff-related uncertainty hasn't significantly led to a downside risk to the 2025 Quebec real GDP forecast relative to the 2025 budget expectations, a different story could unfold in 2026. Indeed, **Budget 2025 projects 1.4% real GDP growth for 2026, which may be optimistic**. If economic growth turns out softer-than-expected, it could put pressure on public finances in FY 2026–27. The deficit is projected to narrow to \$9.5 billion in FY 2026–27, down from \$13.6 billion.

Several factors could shape Quebec's fiscal outlook in 2026–27 and beyond:

- Will **tariff-related uncertainty** worsen or ease during the 2026 USMCA negotiations?
- Will the planned **reduction in immigration** contribute to end the rising uptrend in unemployment?
- Will the Quebec government introduce **new fiscal policies** ahead of the October 2026 elections?
- To what extent will the federal budget's **investment-focused policies** boost consumer and business spending in 2026?
- What impact could the **appointment of a new U.S. Federal Reserve Chair** to replace Jerome Powell in May 2026 have on short- and long-term interest rates?