

# Quebec Budget 2026



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## Quebec Budget 2026: Rigorous Deficit Reduction Plan To Continue

Budget 2026 contains market-friendly features. To begin with, the FY 2025-26 deficit of \$9.9B is meaningfully lower than projected in last year's budget (\$13.6B). Such improvement results from higher-than-expected taxation revenues outpacing higher spending.

The objective of balancing the books in FY 2029-30 after consistent deposits to the Generations Fund is maintained. A modest deficit reduction is planned in FY 2026-27, to \$8.6B (1.3% of NGDP). This figure is smaller than envisioned a year ago (\$9.5B).

Furthermore, an initial reduction in the projected gap that must be addressed to achieve a balanced budget has been taken. This gap stands at \$2B rather than \$2.5B in FY 2029-30, reflecting the favourable economic outlook. If economic uncertainty abates somewhat, this gap could narrow further.

Another positive feature can be extracted by looking at the accounting deficit, defined as total revenues "minus" expenses and excluding the deposits to the Generations Fund. After reaching \$7.6B in FY 2025-26 (1.5% of NGDP), the accounting deficit is projected to shrink further to \$6.3B in FY 2026-27 (only 0.9% of NGDP). Such figures are better than what have been proposed by most other Canadian provinces so far in this 2026 budget season. Annual deficit-to-NGDP ratios are poised to move down further afterward, ranging from 0.6% to 0.1%.

As indicated in last year's budget, the lowest pace of growth in expenses in about three decades is projected over 5 years (2% annually, on average). In comparison, the average annual pace of spending between FY 2018-19 and FY 2024-25 stood near 7%. The arithmetic to a balanced budget in FY 2029-30 requires growth in total revenues – of 3.2% annually on average – to outpace expenses. Modest Quebec real GDP growth forecasts, of 1.1% in 2026 and 1.4% in 2027, incorporate economic uncertainty and assume current tariffs remain in place. Economic forecasts used in the budget incorporate information as of March 6, assuming the Iran conflict will last six weeks and that WTI oil prices will revert from US\$90 to US\$67 per barrel. The economic outlook also includes a modest population and labour force reduction over the next two years, limiting job gains and bringing down unemployment below 5%.

The hypothetical upside economic scenario provided would lead to a balanced budget one year earlier, in FY 2028-29. The hypothetical downside scenario would translate into a \$2.6B deficit by FY 2029-30. Budget 2026 incorporates an annual contingency of \$2B in FY 2026-27 representing 1.2% of revenues, the same buffer as indicated a year ago. The contingency sums up to \$8B over the 5-year plan.

One alteration relates to the moderate upgrade of funding of \$3B for the 10-year \$167B capital spending program called the Quebec Infrastructure Plan (QIP). The QIP annual funding is projected to decline by a cumulative 22% over 2 years, starting in FY 2028-29. Such decline is required to maintain the government's long-term net debt-to-GDP ratio targets (of 35.5% in FY 2032-33 and 32.5% in FY 2037-38). The net

debt-to-NGDP ratio stands at 38.8%. This figure is lower than projected a year (40.4%) and lower than the pre-pandemic level of 42.9%. Also, the planned reduction in the QIP starting in 2028 will bring down the capital spending-to-revenue ratio to a level perceived as sustainable for the S&P rating agency (of 17%). One new positive adjustment relates to the choice of using a higher percentage share of the 10-year QIP to finance infrastructure maintenance rather than build new assets (71% instead of 65% a year ago).

FY 2025-26 ended with long-term borrowing program of \$32B, incorporating \$9.3B in pre-funding activity for FY 2026-27. The Quebec government notably received in FY 2025-26 an unusually larger sum of \$1B tied to an increase in the balance of transactions under the credit policy. 47% of the borrowings contracted in FY 2025-26 were made internationally, compared to an average of 31% over the past decade.

The FY 2025-26 bond program of \$32B is completed. The Quebec government will be positioned to return actively to markets in April at the earliest. Long term borrowing requirements for FY 2026-27 are penciled at \$26B, a lower than usual amount relative to recent years reflecting notably lower repayments of borrowings. A bump to an annual average of \$31B is projected between FY 2027-28 and FY 2030-31, resulting in part from not using \$2.5B annually from the Generations Fund to repay borrowings as indicated for both FY 2025-26 and FY 2026-27. This has been already announced in last year's budget.

## **Takeaway**

Small accounting annual deficits to GDP ratio figures this year and beyond merit to be recognized by market participants considering the vast economic transformation influenced by AI, trade disruptions and global wars hindering economic decisions. The Quebec government is taking a constructive step toward achieving a balanced budget in FY 2029-30 while some Canadian provinces have no deficit reduction plan in sight.