

BUDGET ANALYSIS

Quebec: Budget 2026–27

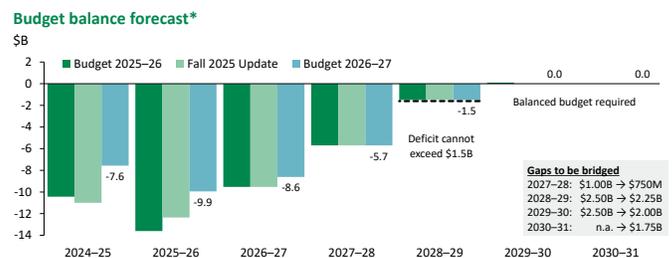
(Potentially) Passing the Baton: A Plan to Return to Budget Balance That Will Require Difficult Decisions from the Next Government

By Jimmy Jean, Vice-President, Chief Economist and Strategist, and Sonny Scarfone, Principal Economist

HIGHLIGHTS

- ▶ The Government of Quebec is revising downward its projected deficit for fiscal year 2027 (FY2027), reducing it from \$9.5B to \$8.6B¹. For FY2026, which is nearing its end, the deficit is also revised downward, from \$12.4B to \$9.9B (graph 1 and table 1 on page 2). Budget balances from FY2028 onward remain unchanged, including the planned return to balance in FY2030, in accordance with the requirements of the *Balanced Budget Act*.
- ▶ The improvement in FY2026 stems primarily from the non use of the contingency reserve, following the upward revision to prior year GDP, which translated into higher-than-expected revenue inflows. For FY2027, the revision is explained by a larger increase in total revenues (+\$1.9B) than in expenditures (+\$1.0B) relative to the projections presented in the 2025 Fall Economic Statement. Overall, the government is revising its revenue outlook upward across the entire forecast horizon, with increases that exceed the upward adjustments to projected spending. This evolution largely reflects the upward revision to GDP in recent years, which raises the starting point for the financial trajectory.
- ▶ Significant gaps nevertheless remain to be bridged. One quarter of the adjustments required by FY2028 has been identified (\$250M out of \$1B as of fall 2025), while only 20% of the measures needed to meet the FY2030 target have been specified (\$0.5B out of \$2.5B as of fall 2025).
- ▶ Real GDP growth of 1.1% in 2026, followed by 1.4% in 2027, appears optimistic in the current context. In this respect, the anticipated 3.4% increase in own source revenues comes as Quebec faces demographic stagnation, a slowing labour market, persistent uncertainties, and a GDP that declined in eight of the past ten months (as of November). These factors mean that Quebec entered FY2026 with a particularly weak growth carry over.

Graph 1
Quebec's Budgetary Balance



* After deposits in the Generations Fund.
Ministère des Finances du Québec and Desjardins Economic Studies

¹ Unless otherwise indicated, all references in this document pertain to the budget balance after deposits in the Generations Fund. Otherwise, they refer to the accounting surplus or deficit.

- ▶ On the expenditure side, optimism also appears to prevail, at least if the objective is to preserve the existing basket of public services, as the government is projecting average annual spending growth of just 1.9% over a five-year period (from FY2026 to FY2031). This represents an unprecedented level of discipline for a comparable period, with growth even lower than what was observed during the most constrained years of the 2010s, years in which inflation was roughly half of what it is today.
- ▶ The government has taken into account the significant infrastructure maintenance deficit and the upward revision to GDP in order to increase the amounts allocated to the Plan québécois des infrastructures (PQI). The decision to prioritize upgrades to existing infrastructure (71% of the PQI increase) rather than high visibility projects is reasonable and desirable. However, this increase remains modest given the rising costs of project delivery. As a result, the infrastructure maintenance deficit could continue to grow in real terms. The trajectory announced beginning in 2028 is also consistent with the projected decline in the net debt to GDP ratio. It is not clear that upward revisions will not be required at that time.
- ▶ The government prefinanced a significant portion of its borrowing in FY2026, totaling \$9.3B, which was an opportune decision in a context of rising long-term interest rates. For FY2027, the financing program is therefore revised downward, from \$34.1B to \$26.2B. Borrowing needs are expected to continue declining over the remainder of the decade as deficits narrow and planned PQI investments decrease starting in 2028. An increase in the repayment of past borrowings is expected in FY2031, consistent with the substantial financing undertaken ten years earlier during the first year of the pandemic.

Table 1
Quebec Fiscal Forecasts

SB (unless otherwise indicated)	2025–26		2026–27		2027–28		2028–29		2029–30		2030–31	
	Update*	Budget	Update*	Budget								
Total revenue	158.7	160.5	164.6	166.5	170.3	172.8	175.3	177.6	179.5	181.8	---	188.2
Own-source revenue	127.5	130.0	132.5	134.4	138.2	139.8	142.8	144.6	147.5	149.4	---	154.8
Federal transfers	31.2	30.6	32.1	32.1	32.1	32.9	32.5	33.0	31.9	32.3	---	33.3
Total expenses	166.6	168.2	169.8	170.8	173.0	175.2	175.2	177.2	177.7	179.5	---	185.5
Program spending	156.4	158.0	159.5	160.5	161.7	164.3	163.6	165.9	166.0	167.9	---	173.2
Debt service	10.2	10.2	10.3	10.3	11.3	10.9	11.6	11.3	11.7	11.6	---	12.3
Contingency reserve	2.0	0.0	2.0	2.0	1.5	1.5	1.5	1.5	1.5	1.5	---	1.5
Accounting surplus (deficit)	-9.9	-7.7	-7.1	-6.3	-4.2	-4.0	-1.4	-1.1	0.3	0.8	---	1.2
<i>% of GDP</i>	<i>-1.5</i>	<i>-1.2</i>	<i>-1.1</i>	<i>-0.9</i>	<i>-0.6</i>	<i>-0.6</i>	<i>-0.2</i>	<i>-0.2</i>	<i>0.0</i>	<i>0.1</i>	---	<i>0.2</i>
Generations Fund	2.5	2.3	2.4	2.3	2.5	2.5	2.6	2.6	2.8	2.8	---	2.9
Gap to be bridged**	---	---	---	---	1.00	0.75	2.50	2.25	2.50	2.00	---	1.75
Budget balance within the meaning of the Act	-12.4	-9.9	-9.5	-8.6	-5.7	-5.7	-1.5	-1.5	0.0	0.0	---	0.0
<i>% of GDP</i>	<i>-1.9</i>	<i>1.5</i>	<i>-1.4</i>	<i>1.3</i>	<i>-0.8</i>	<i>0.8</i>	<i>-0.2</i>	<i>0.2</i>	<i>0.0</i>	<i>0.0</i>	---	<i>0.0</i>
Net debt (% of GDP)	39.7	38.8	40.8	38.9	41.3	39.3	40.4	38.8	39.3	37.9	---	36.9
Real GDP (% change)	0.9	0.8	1.1	1.1	1.4	1.4	1.5	1.5	1.5	1.5	---	1.4
Nominal GDP (% change)	4.0	4.5	3.1	3.5	3.3	3.4	3.4	3.4	3.4	3.4	---	3.3
Financing program	24.3	32.1	34.1	26.2	33.6	31.4	27.5	29.3	27.6	28.9	---	34.8
Net financial requirements	28.3	24.7	26.5	26.0	22.5	20.8	15.1	17.2	11.9	13.6	---	13.4

* Fall 2025 economic and financial update; ** Note that, starting with the 2025–26 Budget, the gap to be bridged is calculated after the accounting balance.
Ministère des Finances du Québec and Desjardins Economic Studies

Key Developments

The government is presenting a budget with few new measures, as previously indicated. It is also a budget that shows an improvement in the short-term fiscal outlook, despite mostly negative developments since last year’s budget, aside from the upward revision to past GDP figures. These developments include geopolitical conflicts and the gradual slowing of Quebec’s economy.

For the fiscal year drawing to a close, FY2026, the deficit is being revised downward by \$2.4B, bringing it to \$9.9B. This improvement is explained primarily by the non use of the contingency reserve, made possible by a revenue revision (+\$1.8B) that exceeded the revision to expenditures (+\$1.6B). In addition, deposits in the Generations Fund were \$200M lower than expected.

For FY2027, the deficit is also being revised downward, by \$0.9B, bringing it to \$8.6B. This revision is explained by a \$1.9B upward adjustment to own source revenues, compared with a \$1.0B increase in portfolio spending relative to last fall’s expectations (table 2).

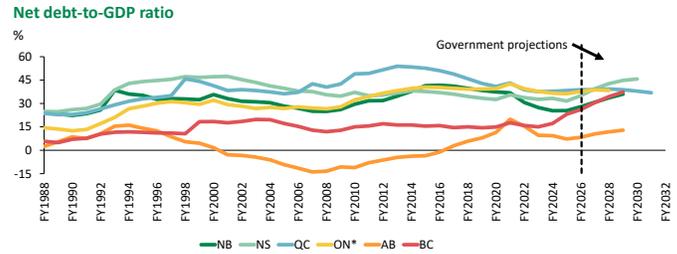
Table 2
Adjustments to the Financial Framework Since Nov. 2025

\$M	2025–26	2026–27	2027–28
Accounting surplus (deficit) – Nov. 2025	-9,898	-7,149	-4,185
New revenue	1,794	1,872	2,491
New spending	1,551	988	2,260
<i>Of which: New initiatives, March 2026</i>	37	2,133	2,565
<i>Accelerating Quebec’s economic transformation</i>	0	480	507
<i>Supporting the government’s main missions</i>	0	910	928
<i>Supporting Quebecers and communities</i>	37	742	1,130
Total – Adjustments to the economic and budgetary situation	243	884	231
Contingency reserve	2,000	0	0
Accounting surplus (deficit) – March 2026	-7,655	-6,265	-3,954

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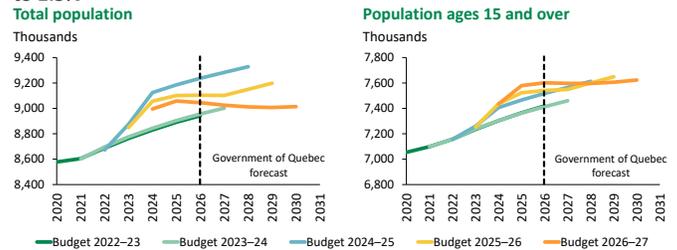
The lower projected deficits, an accounting adjustment related to the definition of net debt, and the recent upward revision to GDP for the past few years prevent the debt to GDP ratio from exceeding the 40% threshold. Instead, it is expected to peak at 39.3% in FY2028 before beginning a downward trajectory to reach 36.9% in FY2031. If these objectives were achieved, the official net debt to GDP targets—35.5% in FY2033 and 32.5% in FY2038—would be within reach. Quebec would also record a debt ratio equivalent to or lower than that of Newfoundland and Labrador, Ontario, Nova Scotia, New Brunswick, and British Columbia (graph 2).

Graph 2
Quebec’s Net-Debt-to-GDP Ratio Now Expected to Peak at 39% in 2028–29



Regarding demographic projections, the decline of 24,000 people in Quebec over the last quarter of 2025 is consistent with the government’s projected population decrease over the coming years (graph 3). Between FY2027 and FY2031, the anticipated reduction amounts to 31,000. According to age cohort data from the Labour Force Survey, the working age population (ages 15 to 64) is already stable and expected to decline over the next few years, while the 65 and over cohort will continue to expand at a solid pace, although gradually more slowly as the youngest baby boomers reach that age.

Graph 3
Population Revised Downward; Potential GDP Growth Falls From 1.7% to 1.5%

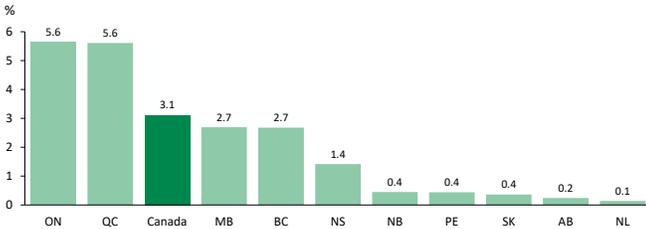


Assumptions regarding the economy and revenues appear optimistic ... for a baseline scenario

As was the case last year, the budget outlines various scenarios in light of the many uncertainties facing the economy. What will be the impact of the Canada–United States–Mexico Agreement (CUSMA) joint review? What will happen to the sector specific tariffs not covered by the agreement, which result in Quebec having, along with Ontario, the highest effective tariff levels in the country (graph 4 on page 4)? And what will be the duration and extent of the conflict in Iran?

Graph 4
Quebec and Ontario Are Hit the Hardest by US Tariffs

US average effective tariff rate* on Canadian imports by province, December 2025



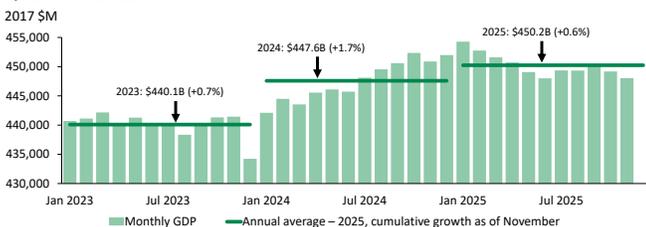
* Average effective tariff rate based on calculated duties at the HS6 level, scaled by provincial exports to the US. Statistics Canada, United States International Trade Commission and Desjardins Economic Studies

While this is a desirable practice, the baseline scenario—the one on which this analysis is based—may increasingly resemble an optimistic scenario. In particular, new demographic data released this morning now show a year-over-year decline in Quebec’s population, a drop that is occurring more quickly than anticipated. This trend heightens the downside risks to the economic outlook.

Real GDP growth of 1.1% in 2026, followed by 1.4% in 2027, appears optimistic in the current context. In this regard, the anticipated 3.4% increase in own source revenues comes as Quebec faces demographic stagnation, a slowing labour market, persistent uncertainties, and [GDP that declined in eight of the past ten months](#) (as of November) (graph 5). These factors mean that Quebec entered FY2026 with a particularly weak growth carry over. In our upcoming Economic and Financial Outlook, real GDP growth for Quebec will be revised slightly downward for the current year, especially since [last month’s job losses](#)—which we believe are likely overstated—provide an additional reason to remain cautious at the outset of 2026.

Graph 5
Quebec’s Real GDP Is at Its Summer 2024 Level

Quebec – Real GDP



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Likewise, the statements regarding the contingency reserve and the gaps that remain to be bridged have raised some eyebrows. In the first case, an amount is set aside for new commitments by the next head of government, who is soon to become premier. A contingency reserve is normally intended as a safeguard against revenue shortfalls or unforeseen one-time expenditures. In the second case, the amounts that still need to be identified to comply with the *Balanced Budget Act* in FY2029 and FY2030 are significant, especially given that spending will already be under considerable pressure and economic fundamentals will limit revenue growth. However, the budget states that “once the uncertainty, mainly related to the CUSMA review, dissipates, the economic situation should recover and allow for the gaps to be bridged.” In reality, this could almost pass as the equivalent of a negative contingency reserve—in short, a desirable outcome for Quebec’s economy, but far from guaranteed.

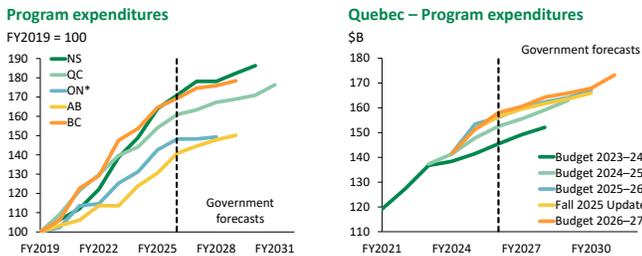
Breakdown of Spending and New Measures

The marked slowdown in spending growth will be the main driver of the return to budget balance. An average increase of 1.9% over the next five years, while economists’ inflation forecasts are not below the traditional 2% target, implies that funding for government missions will either come under pressure or require notable efficiency gains. [We recently noted](#) that spending growth has never been lower than inflation over a three-year horizon. Yet this is now what is expected for FY2028, FY2029 and FY2030.

While population stagnation or decline may help slow the growth of system wide costs, holding health care spending growth to 3% between FY2026 and FY2028 appears to assume efficiency gains greater than those seen in the past, especially given that the population aged 75 and over will increase significantly. For reference, average health care spending for individuals aged 75 to 79 is nearly 40% higher than for those aged 70 to 74. In education, growth of 2.2% over the next few years seems more plausible, although recent wage increases limit the room available for other spending categories.

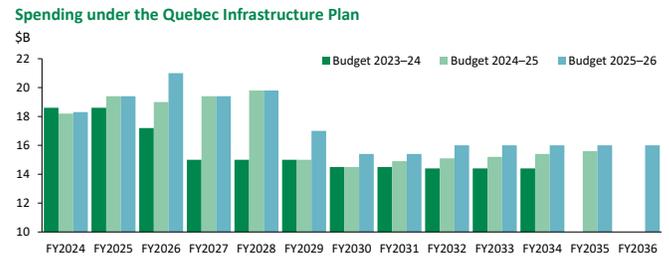
Many will point out that Quebec has experienced spending growth that exceeds that of several other provinces (graph 6 on page 5). However, among the more populous provinces, Ontario and especially Alberta do not face the same demographic challenges. Alberta, in particular, benefits from interprovincial migration that remains the highest in the country, which helps ease structural pressures on its public finances, since these newcomers—who are generally of working age—help limit the rise in the population’s average age.

Graph 6
Quebec's Program Expenditures Compared to Other Provinces



* Figures based on FY2025 mid-year update forecasts. Statistics Canada, provincial budget documents and Desjardins Economic Studies

Graph 7
Infrastructure Spending Slightly Revised Up



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New initiatives are limited, beyond what has been set aside in the contingency reserve for the individual who will become premier in April, and they overlap with the observations outlined earlier.

Over the next five fiscal years:

- ▶ \$1.7B is allocated to “accelerating Quebec’s economic transformation,” including \$693M to support businesses in adapting to changing conditions, \$581M to support SMEs, and \$429M to bolster the cultural sector.
- ▶ \$4.3B to support government missions, including \$2.2B for health and social services, \$639M for education, \$392M to support higher education training, labour market integration and research, and \$1.1B for public safety and access to legal services.
- ▶ \$3.6B for various support measures, including the conversion of 5,000 private childcare spaces into subsidized spaces, initiatives to strengthen community resilience to climate change, and measures to promote Quebec’s cultural sector.

The government has taken into account the significant infrastructure maintenance deficit and the upward revision to GDP in order to increase the amounts allocated to the PQI (graph 7). The decision to prioritize upgrades to existing infrastructure (which represent 71% of the PQI increase) rather

than high visibility projects is reasonable and desirable. However, this increase remains modest given rising project delivery costs (\$3.4B between FY2027 and FY2031, in addition to \$1.8B brought forward into the current fiscal year). As a result, the infrastructure maintenance deficit could continue to grow in real terms. The trajectory announced beginning in 2028 is also consistent with the projected decline in the net debt to GDP ratio. It is not clear that upward revisions will not be required at that time. Here again, the baseline scenario seems to lean toward the desirable scenario.

Borrowing Program and Financial Markets

The government prefinanced a significant portion of its borrowing in FY2026, totaling \$9.3B, which proved to be an opportune decision in a context of rising long-term interest rates. For FY2027, the financing program is therefore revised downward, from \$34.1B to \$26.2B (table 3). Borrowing needs are expected to continue declining over the remainder of the decade as deficits narrow and planned PQI investments decrease starting in 2028. In total, between FY2028 and FY2031, the government intends to borrow \$124.4B.

An increase in the repayment of past borrowings is expected in FY2031, consistent with the substantial financing undertaken ten years earlier during the first year of the pandemic.

Table 3
Quebec's Borrowing Program

\$B	2026–27		2027–28		2028–29		2029–30		2029–30	
	Update*	Budget	Update*	Budget	Update*	Budget	Update*	Budget	Update*	Budget
Net financial requirements	26,536	26,040	22,485	20,799	15,052	17,217	11,924	13,638	---	13,390
Repayments of borrowings	12,977	14,448	13,629	13,143	14,989	14,535	18,219	17,727	---	23,958
Use of the Generations Fund to repay borrowings	-2,500	-2,500	---	---	---	---	---	---	---	---
Retirement Plans Sinking Fund withdrawals	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	---	-2,500
Use of pre-financing	-448	-9,264	---	---	---	---	---	---	---	---
Total	34,065	26,224	33,614	31,442	27,541	29,252	27,643	28,865	---	34,848

* Fall 2025 economic and financial update. Ministère des Finances du Québec and Desjardins Economic Studies

Conclusion

The 2026–27 budget is being tabled in a particular context: the end of the government’s mandate, an imminent election campaign, tight public finances, and a global economy shaken by geopolitical turmoil. Under such conditions, major announcements were not expected, despite an election environment that typically encourages governments to be more generous.

While it is fair to say that today’s budget is indeed in line with the theme of restraint, the additional revenues generated by upward revisions to the tax base nonetheless made it possible to introduce certain targeted measures to support public service networks and businesses, particularly to stimulate investment and innovation.

Still, the underlying fundamentals remain fragile, which could jeopardize the government’s ability to return to balance within the required timeframe, despite the fiscal improvement announced today. The plan requires average annual spending growth of 1.9% over five years. This represents an unprecedented level of discipline for a comparable period, with growth even lower than what was observed during the most constrained years of the 2010s, years when inflation was roughly half of what it is today. It is worth noting that public sector staffing levels have grown by nearly 22% since 2018, roughly three times faster than the population. This trend is at the core of the current structural deficit, and the streamlining measures announced to date remain modest relative to the scale of the increase, especially with collective agreement renewals scheduled in two years.

Moreover, a residual gap of \$2B remains unfunded at the end of the forecast horizon. The government is therefore choosing to leave it to its potential successor to identify the missing levers. In addition, the dissipation of uncertainty surrounding CUSMA, which is presented as the catalyst for closing these gaps, appears to be a rather bold assumption, given that this situation is highly uncertain by the government’s own admission. Maintaining a contingency reserve at least provides some buffer in the event of an unfavorable outcome, but the identification effort would remain entirely necessary. This is all the more true given that the very tight portfolio spending growth currently projected increases the likelihood that the reserve will need to be used.

On the investment side, the increase to the PQI remains rather modest, in a context where project delivery costs continue to rise. The infrastructure maintenance deficit has kept growing in real terms despite successive increases to the PQI, and the planned investment trajectory in this area starting in 2028 raises serious questions about the future condition of the public capital stock. The good news is that funding is now more strongly directed toward maintaining existing assets rather than building new infrastructure. That said, the sharp population growth

of recent years will still require an expansion of the public infrastructure stock, which could place additional pressure on the government’s debt burden. It is worth recalling that the government expects the net debt to GDP ratio to peak as early as next year.

In sum, this budget reflects the posture of a government at the end of its mandate in a challenging environment: it maintains a trajectory toward budget balance and shows a degree of restraint but leaves unresolved structural challenges to its potential successor at a time when the sustainability of public services is under pressure. One can only hope that the election campaign set to begin in the coming months will provide an opportunity for a meaningful debate on the compromises that will be required.