

ECONOMIC VIEWPOINT

PQ Minority Government

Less Referendum Risk, Same Fiscal Constraints

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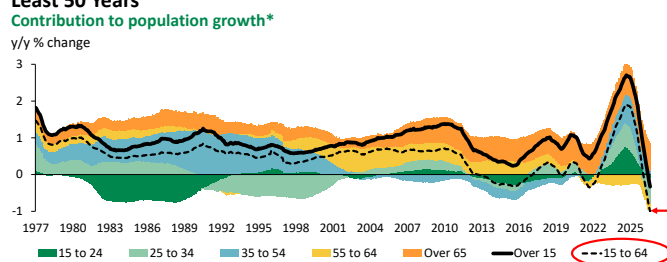
The Parti québécois (PQ) has formed a minority government, which reduces near-term referendum risk. On the economic and fiscal front, however, the result changes less than it might appear. A weak economy, a shrinking working-age population and an already very tight spending path would have imposed similar constraints on a Liberal or CAQ government. The main parties all targeted a balanced budget by 2029–30, and their fiscal frameworks also relied on savings that remain difficult to document. The issue is therefore less the direction chosen than the government's capacity to implement its plan.

A minority government, but likely support for its budgets. With 59 seats, the PQ fell short of the 64 needed for a majority and will need the support of at least one opposition party to pass its budgets and other confidence measures. The Conservative Party of Quebec's (PCQ) likely support for restrictive fiscal measures should, however, limit the risk of losing a confidence vote in the short, and possibly medium, term. Quebec's last two minority governments, in 2007–08 and 2012–14, lasted less than two years each, as the governing parties themselves triggered early elections in a bid to win a majority.

Near-term referendum risk is receding. The PQ has ruled out holding a referendum before the end of the current US president's term in January 2029. The National Assembly would also have to approve the referendum question, which would require the support of at least one opposition party. Constitutional uncertainty is therefore receding, but it is giving way to the uncertainty that comes with a minority government.

The new government takes office amid challenging economic conditions. We forecast real GDP growth of 0.3% in 2026 and 1.0% in 2027, which would place Quebec among the weakest-performing provinces in the country. The second quarter was encouraging: domestic demand rebounded and the economy nearly returned to its pre-trade-conflict peak. Constraints nonetheless remain significant. US tariffs are hitting manufacturing particularly hard, and the working-age population is experiencing its sharpest decline in at least 50 years, down roughly 1% between August 2025 and August 2026 (graph 1). Revisions could soften this decline but are unlikely to reverse it.

Graph 1
The Working-Age Population Is Seeing Its Sharpest Contraction in at Least 50 Years



* According to the Labour Force Survey, latest data: August 2026.
Statistics Canada and Desjardins Economic Studies

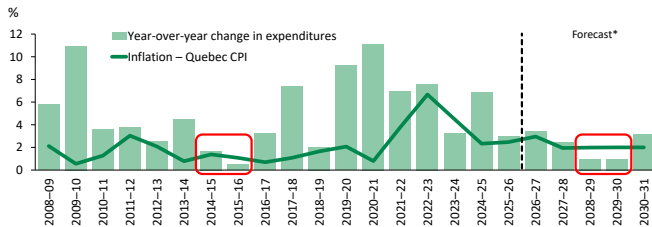
The PQ's permanent immigration target of 35,000 people per year, combined with the sharp reduction it seeks in the number of non-permanent residents, would deepen this decline in the coming years. These factors limit potential growth and, by extension, the growth of the government's own-source revenue.

The PQ's fiscal framework rests on an already very tight spending path. The PQ is aiming to balance the budget in 2028–29, one year ahead of the deadline set under the *Balanced Budget Act*. It has adopted the portfolio expenditure path from the pre-election report: average growth of about 2.2% per year, including two years at 1.0% (graph 2 on page 2). This is well below the cost of maintaining services, estimated at slightly over 3% in 2026–27, though this estimate is sensitive to population growth projections. By comparison, spending grew by 1.1% per year during the Couillard government's two years

Graph 2

Fiscal Framework: The PQ Inherits a Very Tight Spending Path

Annual change in portfolio expenditures and inflation



PQ : Parti québécois; CPI : Consumer price index
* Expenditures: pre-election report, path adopted by the PQ; Inflation: Desjardins forecasts.
Ministère des Finances du Québec and Desjardins Economic Studies

of fiscal restraint, while inflation averaged 1.2%. In real terms, the squeeze planned for 2028–29 and 2029–30 would therefore be greater than during that period: a decline of about 1.0% per year, compared with 0.1%. The shrinking population could slow growth in the cost of maintaining services, but the effect could be limited as older cohorts age and health care needs increase rapidly.

Execution is where the risks lie. To stay on this path, the PQ must fund all of its new commitments, totalling \$6.5B over five years, through efficiency gains and cuts elsewhere, notably in public administration and business subsidies. These savings are far from assured. The framework also leaves \$1.85B in unidentified measures (gaps to be bridged) in 2028–29 and assumes federal transfers \$4.4B higher than in the pre-election report through 2030–31. It also provides for a smaller contingency reserve than previously planned (\$5B versus \$8B). Net debt would reach 35.5% of GDP in 2030–31.

Several sensitive economic decisions are expected in the near term. The framework calls for a first \$500M tranche of savings from reducing bureaucracy by the end of the current fiscal year, a tight deadline for a newly sworn-in government. The planned reduction in the number of temporary workers could create pressure in the regions and among the employers who rely on them. Cost-of-living measures have also been promised as early as the fall economic update, leaving little room for other new measures such as exempting used goods from the Quebec sales tax (QST). Finally, trade relations with the United States could shift, particularly if the composition of Congress changes following the November 3 midterm elections. A Democratic Congress could not repeal the tariffs on its own, since they rest largely on presidential authority and any legislation would face a veto. It could, however, raise their political cost ahead of the 2028 presidential election. Since Quebec faces the highest effective US tariff rate in the country (11.5%, compared with 6.0% for Canada as a whole), the outcome of negotiations would directly affect its growth and, in turn, its revenue. Any agreement would require close coordination with Ottawa, as it could touch on areas of provincial jurisdiction (e.g., alcohol sales).

Tax policy will also require close coordination with

Ottawa. During the campaign, former Finance Minister Eric Girard estimated that harmonizing Quebec's tax system with the federal Productivity Mega Deduction, announced on September 15, would cost the Quebec government \$1B. Conversely, not harmonizing could put Quebec at a disadvantage relative to other provinces, notably Ontario, in attracting the targeted investments. The PQ also proposes lowering the general corporate income tax rate from 11.5% to 9.5% over four years, a reform presented as revenue-neutral through cuts to the Fonds de développement économique and business subsidies. While this measure could in theory make the tax system more efficient, the empirical evidence on its effect on investment remains mixed.

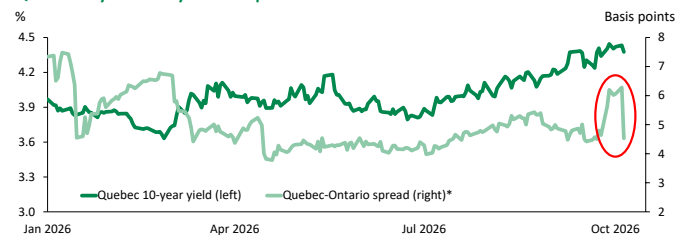
For markets, fiscal fundamentals will matter more than the

election result. The Quebec-Ontario spread widened during the campaign, then partly narrowed after the vote, likely because the minority outcome makes holding a referendum more difficult (graph 3). The next signals will come from Quebec's return to the primary market, notably investor demand and pricing relative to Ontario, followed by the economic and fiscal update, likely before the holidays, which will show whether the PQ's framework can be translated into an executable plan.

Graph 3

The Quebec-Ontario Spread Widened During the Campaign Before Partly Narrowing After the Vote

Quebec 10-year bond yield and spread with Ontario



* Spread between Quebec and Ontario 10-year bond yields. Daily data up to October 6, 2026.
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