BUDGET ANALYSIS

Quebec: Budget 2025

The Unique Challenge of Balancing a Budget During a Trade War

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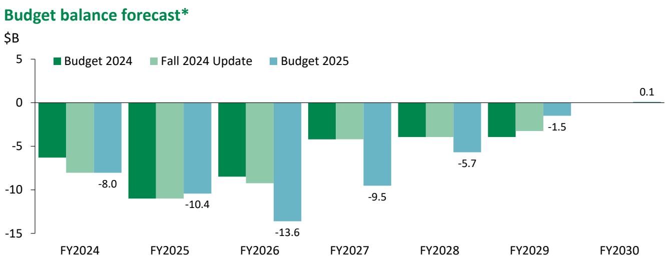
HIGHLIGHTS

- The trade dispute with the United States will contribute to a deeper deficit. It's now expected to reach $13.6B (2.2% of GDP) in 2025–2026 after being revised slightly downward to $10.4B for 2024–2025.
- As required under the *Balanced Budget Act*, the Budget Plan for 2025–2026 (fiscal year 2026 or FY2026) projects that a balanced budget will be achieved by 2029–2030 (FY2030). To meet this requirement, a further $2.5B in gaps will have to be bridged by then (graph 1).
- The government's baseline assumption is that US tariffs will average 10% and remain in place for the next two years, and that Canada will impose equivalent retaliatory measures.
- Revenue forecasts have been revised downward and are fairly conservative over the forecast horizon (with growth averaging 3.5% over the next five years). Certain tax changes will allow the government to recover a total of $3B over five years.

Graph 1
Quebec's Budgetary Balance



* After deposits in the Generations Fund.
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- To offset the private sector's tariff-induced slowdown over the two-year period, the government is adding $11B to the Quebec Infrastructure Plan (QIP) for 2025–2035, with most of the additional investments occurring over the next three years.
- Regardless of tariffs, the key to balancing the budget will be tight control over spending. The government expects average annual expenditure growth of 1.7% between now and FY2030.
- The government intends to borrow $29.7B in FY2026 (following the $9.3B in pre-financing already carried out), then $37.5B in FY2027. In the following three years, it will borrow a total of $89.5B.

Table 1
Financial Framework

$B (unless otherwise indicated)	2023–2024 Actual	2024–2025 Update	2024–2025 Budget	2025–2026 Update	2025–2026 Budget	2026–207 Update	2026–207 Budget	2027–028 Update	2027–028 Budget	2028–2029 Update	2028–2029 Budget	2029–2030 Budget
Total revenue	145.5	152.6	155.2	157.3	156.3	164.8	165.2	170.3	171.2	174.9	176.2	181.3
Own-source revenue	*114.7*	*121.6*	*124.5*	*126.6*	*125.7*	*132.5*	*132.8*	*137.8*	*138.1*	*142.7*	*143.1*	*148.2*
Federal transfers	*30.9*	*31.0*	*30.6*	*30.7*	*30.6*	*32.3*	*32.4*	*32.5*	*33.1*	*32.2*	*33.1*	*33.1*
Total expenses	151.5	160.6	163.3	163.6	165.8	166.6	170.3	171.7	173.9	175.5	176.1	179.4
Program spending	*141.6*	*150.7*	*153.4*	*153.9*	*156.1*	*156.4*	*159.9*	*160.8*	*162.3*	*164.1*	*164.1*	*167.2*
Debt service	*10.0*	*9.9*	*9.9*	*9.8*	*9.7*	*10.2*	*10.4*	*11.0*	*11.6*	*11.4*	*12.0*	*12.2*
Contingency reserve	---	0.8	---	1.5	2.0	1.5	2.0	1.5	1.5	1.5	1.5	1.5
Accounting surplus (deficit)	**-6.0**	**-8.8**	**-8.1**	**-7.8**	**-11.4**	**-3.3**	**-7.1**	**-2.9**	**-4.2**	**-2.1**	**-1.4**	**0.4**
% of GDP	*-1.0*	*-1.4*	*-1.3*	*-1.2*	*-1.8*	*-0.5*	*-1.1*	*-0.4*	*-0.6*	*-0.3*	*-0.2*	*0.1*
Generations Fund	2.0	2.2	2.4	2.2	2.2	2.4	2.4	2.5	2.5	2.6	2.6	2.8
Gap to be bridged*	---	---	---	0.8	---	1.5	---	1.5	1.0	1.5	2.5	2.5
Budget balance within the meaning of the Act	**-8.0**	**-11.0**	**-10.4**	**-9.2**	**-13.6**	**-4.2**	**-9.5**	**-3.9**	**-5.7**	**-3.2**	**-1.5**	**0.1**
% of GDP	*-1.4*	*-1.8*	*-1.7*	*-1.5*	*-2.2*	*-0.6*	*-1.5*	*-0.6*	*-0.8*	*-0.5*	*-0.2*	*0.0*
Net debt (% of GDP)	38.0	39.0	38.7	39.8	40.4	39.5	41.5	39.1	41.9	38.6	41.0	39.8
Real GDP (% change)	*0.6*	*1.2*	*1.4*	*1.5*	*1.1*	*1.6*	*1.4*	*1.6*	*1.6*	*1.7*	*1.7*	*1.7*
Nominal GDP (% change)	*5.0*	*4.6*	*5.3*	*3.6*	*4.1*	*3.6*	*3.4*	*3.6*	*3.5*	*3.6*	*3.5*	*3.6*
Financing program	---	32.5	36.7	29.2	29.7	30.1	37.5	27.9	33.3	28.5	27.3	28.9
Net financial requirements	---	26.4	25.4	22.4	29.1	18.5	25.9	17.1	22.5	16.4	15.3	13.7

Update: Fall 2024 Economic and Financial Update; * As of the 2025–2026 budget, the gap to be bridged is calculated after the accounting balance.
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Main Developments

The budget presents the government's initial projections of the impacts of the trade war initiated by the new US administration. The underlying assumption is that US tariffs will average 10% and remain in place for the next two years, and that Canada will respond proportionally with reciprocal tariffs. The government expects to avoid a recession but sees GDP growth slowing to 1.1% in 2025 before increasing to 1.4% in 2026.

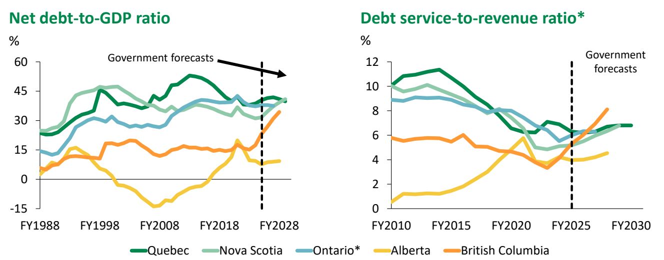
The deficit for the 2024–2025 fiscal year was reduced by $600M to $10.4B. This is partially due to a better-than-expected economic performance in the fall, which resulted in almost $1B in additional revenue generated through personal and sales taxes.

Deficits for the next three years have been revised upward. The FY2026 deficit increased from $9.2B to $13.6B, the FY2027 deficit widened from $4.2B to $9.5B, and the FY2028 deficit expanded from $3.9B to $5.7B, for a cumulative increase of nearly $11.5B.

Since the 2024 Fall Update, FY2026 revenues have been revised downward (-$705M) while expenditures were adjusted upward (+$488M). New initiatives will add $2.6B to the deficit. Efforts to improve the tax system and review budgetary expenditures will save $648M, which is roughly equivalent to the addition to the contingency reserve. Table 2 on page 3 shows the main adjustments to the financial framework since November 2024 for the subsequent fiscal year.

Because of the deteriorating economic and fiscal situation, the net debt-to-GDP ratio is expected to exceed 40% in FY2026 and peak at 41.9% in FY2028. In fact, the government is increasing its debt targets for FY2033 and FY2038 by 2.5 percentage points to 35.5% and 32.5% respectively (±2.5% of GDP). As of March 31, 2025, Quebec continues to rank second among the provinces for debt-to-GDP ratio, after Newfoundland and Labrador.

Graph 2
The Debt Burden of Quebec and Other Provinces



* Ontario figures based on FY2025 mid-year update forecasts.
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The government has revised its population growth projections sharply downward for the next few years. It now expects the population to stagnate between 2025 and 2027, following growth in excess of 2% in both 2023 and 2024 (graph 3 on page 3). While this slowdown will contribute to weak job creation for the coming years, it will also limit the increase in the unemployment rate resulting from the current trade war.

Table 2
Adjustments to the Financial Framework Since November 2024

$M (unless otherwise indicated)	2024–2025	2025–2026	2026–2027
Accounting surplus (deficit) – November 2024	**-8,755**	**-7,800**	**-3,287**
New revenues	2,555	-705	454
New spending	2,619	488	2,394
Total adjustments to the economic and budgetary situation	**-64**	**-1,193**	**-1,940**
Stimulating wealth creation	---	-1,067	-1,334
Supporting Quebecers	-9	-1,518	-1,603
Total initiatives	**-9**	**-2,585**	**-2,937**
Efforts to improve the tax system	---	32	271
Review of budgetary expenditures	---	616	1,268
Contingency reserve	750	-500	-500
Accouting surplus (deficit) – March 2025	**-8,078**	**-11,430**	**-7,126**

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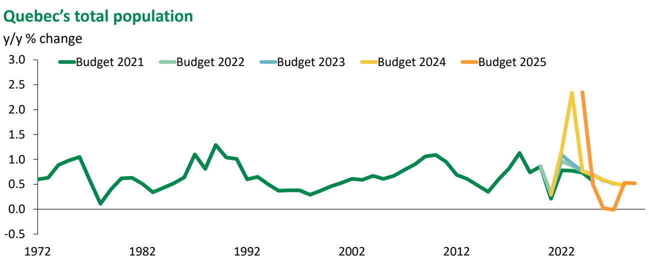
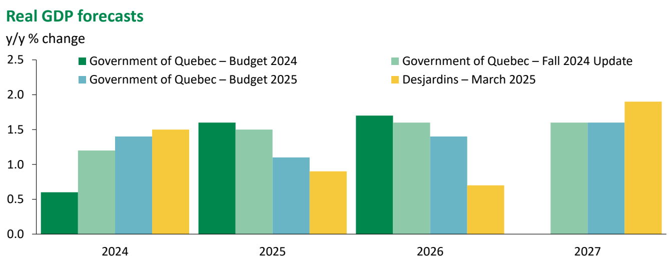
Graph 3
Population Growth to Stall in 2026 and 2027



Statistics Canada, Ministère des Finances du Québec and Desjardins Economic Studies

Graph 4
Our Economic Outlooks Aren't as Optimistic



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Economic Uncertainty Is Causing More Downside Risk than Upside Risk

No one knows what the near future holds, including but not limited to whatever happens on April 2. But in the short term, the size of the budget deficit will depend on economic conditions shaped by US trade policy.

Assuming the trade war won't extend past this decade, let's take a look at the feasibility of achieving zero deficit by 2029–2030.

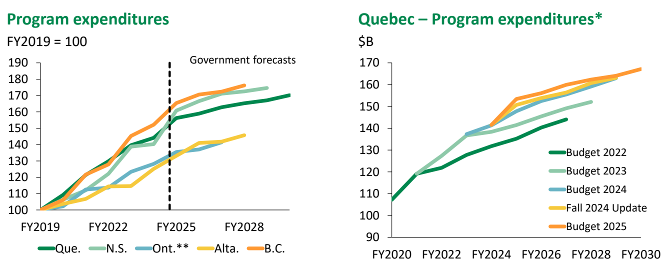
While the government's overall economic projections are more optimistic than our own (graph 4), the revenue assumptions seem conservative: a 3.5% own-source growth rate is lower than what we've seen in past years and reflects a weaker growth profile in the short term. Another rather conservative assumption is that growth in federal transfers will fall short of the rate of inflation. But this situation requires a more nuanced assessment. For instance, the budget still includes the federal government's increased capital gains inclusion rate even though the two leading candidates in the April 28 federal election seem prepared to scrap the plan. The budget also foresees significant revenue growth from government enterprises, with projections that Hydro-Québec's revenues will improve as precipitation increases in the next few years.

Ultimately, everything will hinge on spending control. Normally, 1.7% annual growth in spending over five years would seem very weak. It's lower than the inflation rate, which would mean spending levels in real terms are expected to decline over the next few years. The government claims this comes after a period of significantly higher spending following the pandemic, and efficiencies will begin to materialize from its current efforts, particularly in health and social services. However, since the salary increases resulting from the collective agreement renewals will continue to be implemented over the coming years, it's clear that there will be very limited leeway in many major expense areas by 2029–2030.

Details on Spending and New Measures

The new measures announced this year are more productivity-oriented than they've been in past budgets. The government has earmarked $4.1B over five years to support and revitalize Quebec's economy by aiding businesses affected by US tariffs; these funds will support investments and help businesses diversify their international client base. Another $1.4B over five years will be used for "increasing our capacity for innovation" and "encouraging regional contributions to wealth creation."

Graph 5
Quebec's Program Expenditures Compared to Other Provinces

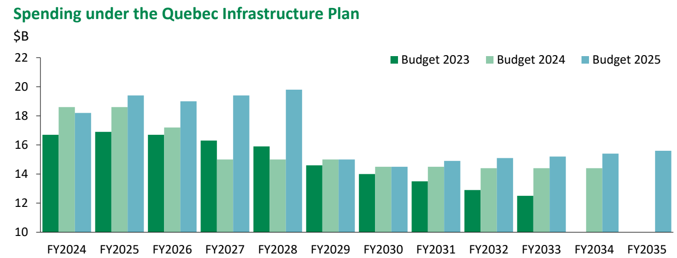


* According to the Financial Plan; ** Ontario figures based on FY2025 mid-year update forecasts.
Statistics Canada, Provincial budgets and Desjardins Economic Studies

We'd like to point out that reaching deficit targets will hinge on the success of two long-term objectives. First, the government highlighted a $6B gap that will need to be bridged between the 2027–2028 and 2029–2030 budgets to restore fiscal balance. These savings are beyond those achieved as a result of the detailed work carried out in recent years to improve the tax system and review budget expenditures.

The infrastructure spending forecasts presented in the QIP have also been revised upward, going from $153B to $164B over 10 years. The increases are largely concentrated over the next few years: between FY2026 and FY2028, investments will go from $47.2B to $58.2B. This should help shore up the private sector, which is being impacted by the export tariffs and the uncertainty that is dragging on investment.

Graph 6
Infrastructure Spending Fast Tracked



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Borrowing Program

The government expects to borrow $29.7B in FY2026 (following the $9.3B in pre-financing already carried out), $37.5B over FY2027 and a total of $89.5B for the following three fiscal years.

The FY2026, FY2027 and FY2028 numbers are up $500M, $7.4B and $5.4B respectively from the November 2024 update. Financial requirements were largely revised to reflect the investments being fast tracked under the QIP.

Our Impression: An Ambitious Budget That Will Require Very Tight Control over Spending

In the current context, where downside risks abound, it might not feel like the "right time" for the government to present a plan to balance the budget. Especially since the government expects a record deficit (in absolute terms, at least) for the upcoming fiscal year. But maybe there isn't really ever a "right time."

The Quebec government has managed to present a balanced budget that respects the *Balanced Budget Act*, but everything suggests that achieving balance will prove to be a challenge. The expenditure review has identified nearly $20B in savings over five years, but now an additional $6B will need to be found. That additional 30% will be no small feat, as all of the low-hanging fruit has already been picked. The government is banking on efficiency gains—and a helping hand from Ottawa.

The proposed budget also rests on economic assumptions that aren't entirely unrealistic but could still be easily shaken. In truth, the US administration has justified these tariffs through a laundry list of issues that often can't be easily negotiated. This is one of the reasons that our own scenario (which foresees a decline in Quebec's economic activity) is more conservative. Our assumptions fall halfway between the government's baseline scenario and its more pessimistic alternative scenarios.

The government's projections also count on revenue from the federal government's planned increase to the capital gains inclusion rate ($2.2B over five years). This effectively means that they assume the measure will indeed come into force next January as expected. But the tax change hasn't yet been adopted by Parliament, and it now looks as if it will be dropped entirely by the next government. All in all, there is a risk that the budget performance will not meet expectations. While the contingency reserve has been increased, it may struggle to fully compensate for these factors. A more pessimistic scenario, for example, could add an extra $9B to the deficit over six years.

Reaching fiscal balance within five years, largely on the back of efficiency gains, may seem like an ambitious goal. But the new measures announced in this budget will help the Quebec economy adapt to the trade shock while also addressing structural economic challenges.

Increased infrastructure spending, the extension of the accelerated depreciation measures and support measures intended to encourage R&D spending should all help the province narrow its productivity gap. Efforts to simplify the tax system and reduce interprovincial trade barriers have similar aims, making this budget one that is, on the whole, significantly focused on businesses.

While it's hard to ignore the fact that this plan for returning to a balanced budget is based on fragile assumptions, it's still important to find a path to fiscal balance. It will keep the province anchored and accountable. In the meantime, the budget deserves credit for emphasizing supply-side economic stimulus measures. The hope seems to be that this move will bear fruit, generating enough revenue growth to help mitigate the gap to be bridged. But risks do remain high. The situation could become more complicated if, for example, tariffs are higher than planned, if the United States sinks into a deep recession or if the Bank of Canada is forced to grapple with a surge in inflation.