

# BUDGET ANALYSIS

## Quebec: Fall 2024 Update

### The Projected Deficit Is Not Worse for This Year, but...

By Jimmy Jean, Vice-President, Chief Economist and Strategist

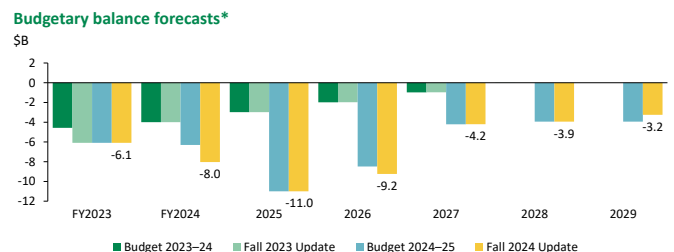
#### HIGHLIGHTS

- ▶ The deficit for 2024–25 is maintained at \$11.0B (1.8% of GDP). Revenues are expected to be \$152.6B (4.9% growth), compared to estimated expenses of \$160.6B (6.0% growth).
- ▶ While revenues were revised upwards by the \$1.6B bump in federal transfers, new spending initiatives and, to a lesser extent, higher borrowing costs, more than offset these gains. The Update includes new measures totalling \$2.1B over five years, more than half of which is dedicated to public transit.
- ▶ To make up for the shortfall, the government is counting on nearly \$1B in savings from its review of fiscal expenses and is drawing \$750M from its \$1.5B contingency allowance for 2024–25. That said, the projected deficit is revised upward for 2025–26 (from \$8.5B to \$9.2B) and remains unchanged for the next two fiscal years.
- ▶ Quebec’s real GDP growth for 2024 is revised up to 1.2% (from 0.6% in the March forecast). Growth of 1.5% is forecast for 2025. This outlook is not too far from ours and is supported by strong population growth and an improvement in household purchasing power in a context of sticky nominal wage growth and falling inflation.
- ▶ The Update takes into account possible changes under the new U.S. administration, as 70% of Québec’s international exports are linked to the United States. Risks identified include potential changes to tariffs, changes in corporate and personal tax policies, and the CUSMA review scheduled for 2026. See our [note](#) on the most exposed provinces.
- ▶ Quebec’s funding program for 2024–25 is set at \$32.5B, a reduction of \$3.9B compared to the March 2024 budget. This reduction is attributable to the use of the 2023–24 pre-funded amounts and the reduction in net financial requirements.

#### First, the Good News: The Economy Is Doing Better!

The economic improvement observed in Quebec since the beginning of the year is notable, after a trying year in 2023. Lower interest rates, combined with easing inflationary pressures, have boosted consumer and business confidence. The labour market, despite increasing challenges for new job seekers, remains relatively stable for those who are employed. Wage growth continues to be solid despite the decline in the job vacancy rate. The resilience of the labour market has notably encouraged a rebound in the real estate resale market and a gradual recovery in residential construction. The outlook for nominal GDP growth is therefore slightly more favourable than

**Graph 1**  
Quebec’s Budgetary Balance



\* After deposits in the Generations Fund  
Quebec Ministry of Finance and Desjardins Economic Studies

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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**TABLE 1**  
**Budget Arithmetic**

IN \$B (UNLESS OTHERWISE INDICATED)	2023-24		2024-25		2025-26		2026-27		2027-28		2028-29	
	Budget	Q2 FY2025	Budget	Q2 FY2025	Budget	Q2 FY2025	Budget	Q2 FY2025	Budget	Q2 FY2025	Budget	Q2 FY2025
Total Revenue	146.8	145.5	150.3	152.6	156.6	157.3	163.8	164.8	168.5	170.3	172.8	174.9
Own-Source Revenue	115.5	114.7	120.9	121.6	126.1	126.6	131.9	132.5	136.4	137.8	140.8	142.7
Federal Transfers	31.3	30.9	29.4	31.0	30.4	30.7	31.9	32.3	32.1	32.5	32.0	32.2
Total Expenses	151.0	151.5	157.6	160.6	162.1	163.6	165.6	166.6	170.1	171.7	174.6	175.5
Program Spending	141.3	141.6	147.8	150.7	152.5	153.9	155.5	156.4	159.1	160.8	163.0	164.1
Debt Service	9.7	10.0	9.8	9.9	9.6	9.8	10.1	10.2	11.0	11.0	11.6	11.4
Contingency Reserve	—	—	—	0.0	0.8	0.8	1.5	1.5	1.8	1.5	2.0	1.5
<b>Balance</b>	<b>-4.2</b>	<b>-6.0</b>	<b>-8.8</b>	<b>-8.8</b>	<b>-6.3</b>	<b>-7.1</b>	<b>-1.8</b>	<b>-1.8</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-1.3</b>	<b>-0.6</b>
% of GDP	-0.7	-1.0	-1.5	-1.4	-1.0	-1.1	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1
Generations Fund	2.1	2.0	2.2	2.2	2.2	2.2	2.4	2.4	2.6	2.5	2.7	2.6
<b>Budget balance within the meaning of the Act</b>	<b>-6.3</b>	<b>-1.0</b>	<b>-11.0</b>	<b>-11.0</b>	<b>-8.5</b>	<b>-9.2</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-3.944</b>	<b>-3.937</b>	<b>-3.940</b>	<b>-3.248</b>
% of GDP	-1.1	-0.2	-1.9	-1.8	-1.4	-1.5	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5
<b>Net Debt (% of GDP)</b>	<b>39.0</b>	<b>38.0</b>	<b>40.3</b>	<b>39.0</b>	<b>41.0</b>	<b>39.8</b>	<b>40.6</b>	<b>39.5</b>	<b>40.0</b>	<b>39.1</b>	<b>39.5</b>	<b>38.6</b>
Real GDP (% change)	0.2	0.6	0.6	1.2	1.6	1.5	1.7	1.6	1.7	1.6	1.7	1.7
Nominal GDP (% change)	3.9	5.0	4.0	4.6	3.8	3.6	3.7	3.6	3.7	3.6	3.6	3.6

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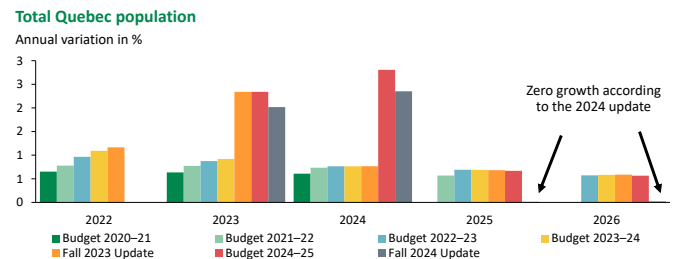
previously expected for 2024, thanks to the better performance of real GDP.

### No Dice on Revenues, with Significant Uncertainty in the Backdrop

Despite the better news on economic growth this year, own-source revenues have been revised downward by \$599M for fiscal 2025. The decrease was mainly due to lower tax revenues, particularly personal and commodity taxes. In addition, there are lower revenues from Crown corporations, notably Investissement Québec and Hydro-Québec, although these revisions were relatively modest. Fortunately, federal transfers partially offset these decreases, with a notable increase including the \$750M granted in June 2024 by the federal government for the reception of asylum seekers.

Moreover, on the issue of population, the government points to a 2.4% increase recorded in Quebec on July 1, 2024, compared to a year earlier. However, this strong growth is expected to give way to a significant slowdown in the coming years (graph 2). According to the government, the federal target for non-permanent residents will result in an average decrease of 50,000 residents per year between 2025 and 2027.

This estimate is based on demographic projections released last month by the Institut de la statistique du Québec. However, these assumptions are highly uncertain, with limited guarantees regarding the achievement of the temporary resident reduction targets. So far in 2024, population growth has been exceptionally strong, establishing a high starting point for any projected reductions in 2025 and 2026. Operationally, governments have very little experience in implementing a strategy to reduce

**Graph 2**  
**Population Growth Will Slow More Abruptly**


Statistics Canada, Quebec Ministry of Finance and Desjardins Economic Studies

the size of a segment of the population, which could pose challenges with implementation, at least initially. In addition, as the government acknowledges, the posture of the new US administration could increase the pressure on the flow of asylum seekers, who represent an additional challenge because of the complexity in managing these cases. Stronger-than-expected population growth can have an impact on both government revenues and expenditures, and the net effect would depend on the type of immigration.

With respect to the broader risks surrounding the underlying economic assumptions, the province is considering two scenarios: a recession scenario and a stronger growth scenario. The projected recession scenario for 2025 projects a contraction in real GDP of 0.3%, a difference of -1.8 percentage points from the baseline scenario. This slowdown could be exacerbated by several risk factors, including cautious behaviour by households and businesses, persistent inflation, combined with the prolonged maintenance of restrictive monetary policies and geopolitical turmoil. Conversely, the optimistic scenario assumes

**TABLE 2**  
**Adjustments to the Financial Framework Since March 2024**

IN \$M (UNLESS OTHERWISE INDICATED)	2024-25	2025-26	2025-26
Budget Balance – Budget 2024*	-10,998	-8,486	-4,209
New Revenues	1,354	132	821
New Spending	2,690	1,092	589
Reduction in Deposits in the Generations Fund	21	-25	-8
<b>Total – adjustments</b>	<b>-1,357</b>	<b>-935</b>	<b>240</b>
Fostering business investment	0	0	0
Increasing support for the forestry sector	15	22	32
Consolidating support for Quebecers	60	80	38
Fostering community development	0	325	327
Ensuring the safety of communities	290	37	34
<b>New Initiatives</b>	<b>365</b>	<b>464</b>	<b>431</b>
Reduction of the Contingency Reserve	750	0	0
<b>Budget Balance – November 2024*</b>	<b>-10,998</b>	<b>-9,245</b>	<b>-4,198</b>

\* After deposits into the Generations Fund  
Quebec Ministry of Finance and Desjardins Economic Studies

an improvement in real GDP of 1.7 percentage points. This improvement could result from stronger population growth, better performance of the US economy, and a disbursement of savings by households, thereby boosting consumption.

**The Challenge of Taming Expenses**

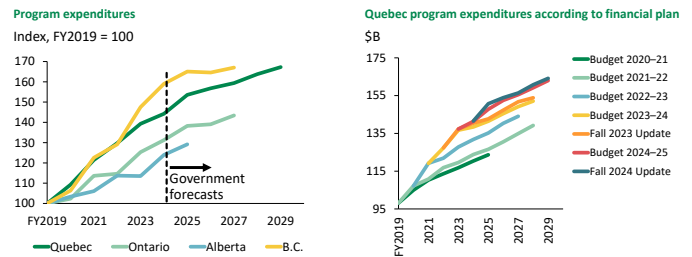
Expenditure control remains a major challenge, with growth forecast at 6.0% for the 2024–25 fiscal year. Portfolio spending for this period is revised upward by \$2.5B, mainly due to higher-than-expected costs in the health sector and delays in the delivery of infrastructure projects.

Meanwhile, new measures total \$2.1B over five years, of which \$365M will have an impact in 2024–25. Nearly half of the new measures are allocated to public transit and urban development, including \$800M for public transit agencies. Other, more modest amounts are dedicated to improving social assistance programs, the forestry sector and community safety in Northern Quebec.

The review of tax and budgetary expenditures, announced last spring, makes it possible to free up \$972M in 2024–25. This includes the effect of the harmonization of capital gains tax, following the increase in the capital gains inclusion rate enacted by the federal government in April.

These savings are just a taste of what is to come, however. The government is required to present a plan to return to a balanced budget when it tables its next budget in the spring, which could include more significant spending reduction measures.

**Graph 3**  
**Quebec's Program Expenditures Compared to Other Provinces**



\* Ontario and Alberta figures are based on FY2025 mid-year update forecasts and other figures based on forecasts from Q1 FY2025 updates. Statistics Canada, provincial budget documents and Desjardins Economic Studies

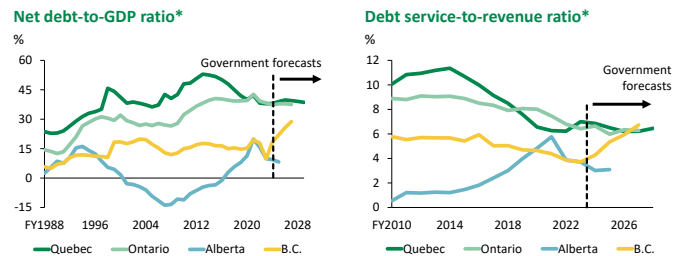
**Financing Plan**

Quebec's funding program for 2024–25 is pegged at \$32.5B, a reduction of \$3.9B compared to the March 2024 budget. The decline is explained by the use of pre-financing from 2023–24 and a slight decrease in net financial requirements. With a borrowing program already fully completed for 2024–25, the government has already pre-funded \$3.1B.

For the 2025–26 fiscal year, the funding program is estimated at \$29.2B. For the period from 2026–27 to 2028–29, programs are expected to average \$28.8B per year.

Turning to net debt, it remains below pre-pandemic levels, at 39.0% of GDP, although improvements have been slower more recently (graph 4). The target of 30.0% for 2037–2038 is nevertheless maintained. The government has begun to make payments from the Generations Fund to pay down the debt, which should help keep this target on track.

**Graph 4**  
**Debt Burden of Quebec and the Other Provinces**



\* Ontario and Alberta figures are based on FY2025 mid-year update forecasts and other figures based on forecasts from Q1 FY2025 updates. Provincial budget documents and Desjardins Economic Studies

## Market Reaction

Quebec long-term bond spreads moved slightly after the release of the Update. Investors are likely to welcome the absence of a further deterioration in the deficit this year, as well as the relatively modest new measures. Still, attention will be focused on the plan to return to a balanced budget that will be tabled next spring.

## Conclusion

After the eyebrow-raising deterioration in the 2024 Budget, it is at least reassuring to see a little more stability in this Update. However, for this to happen, the government had to use its contingency provision, despite an upward revision to nominal GDP growth. The deficit is also revised upwards next year. While this is offset by a downward revision expected in the distant 2027–28 horizon, these trends underscore the challenge ahead. That’s especially true as there are no guarantees that the economy will hold up, now that new threats are emerging, especially if the Trump administration implements its tariff ambitions, or if public sector rationalizations cut into growth, as has already been observed in the past.

Quebec’s relative debt, which had briefly fallen below the level of Ontario’s, has risen back above it. While the neighbouring province plans to return to a balanced budget as early as 2026–27, Quebec, which has distinguished itself by its great generosity

during the pandemic, will only table a plan to return to balance by 2029–30 at the latest.

To achieve this, the targeting of long-term strategic priorities in Quebec, the maintenance of rigorous discipline around them, as well as efficiency gains within the public service, are requisites. Needs will remain pressing in key areas such as financing the health system and education, maintaining and expanding public infrastructure, the energy transition, and access to affordable housing. And there is still no magic wand to significantly increase incomes, when Quebecers are already among the most taxed, not just in North America but among industrialized countries.

**TABLE 3**  
**Quebec's Borrowing Program**

IN \$B (UNLESS OTHERWISE INDICATED)	2024–25		2025–26		2026–27		2027–28		2028–29	
	Budget	Q2 FY2025	Budget	Q2 FY2025	Budget	Q2 FY2025	Budget	Q2 FY2025	Budget	Q2 FY2025
Net Financial Requirements	28,472	26,448	22,591	22,374	17,540	18,489	17,409	17,147	16,208	16,433
Repayments of Borrowings	16,904	16,815	17,155	16,886	14,025	14,082	13,086	13,292	14,254	14,523
Use of the Generations Fund to Repay Borrowings	-4,400	—	-2,500	—	—	—	—	—	—	—
Retirement Plans Sinking Fund Withdrawals	-2,500	-2,500	-2,500	-2,500	-3,500	-2,500	-4,000	-2,500	-4,000	-2,500
Withdrawal from the Accumulated Sick Leave Fund	—	-165	—	—	—	—	—	—	—	—
Use of Pre-Financing	—	-3,150	—	—	—	—	—	—	—	—
Change in Cash Position	—	—	—	—	—	—	—	—	—	—
Transactions Under the Credit Policy	—	-1,581	—	—	—	—	—	—	—	—
Pre-Financing	—	3,082	—	-3,082	—	—	—	—	—	—
Increase in the Outstanding Amount of Québec Treasury Bills	-2,000	-2,000	-2,000	-2,000	—	—	—	—	—	—
<b>Total</b>	<b>36,476</b>	<b>36,949</b>	<b>32,746</b>	<b>31,678</b>	<b>28,065</b>	<b>30,071</b>	<b>26,495</b>	<b>27,939</b>	<b>26,462</b>	<b>28,456</b>

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