ECONOMIC VIEWPOINT

Pre-budget Analysis: Can Quebec Really Return to a Balanced Budget by 2029–2030?

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Since the 2020–21 fiscal year, the Quebec government has seen spending exceed its consolidated revenue. Thanks to the stabilization reserve it had built up between 2015–16 and 2019–20, the province was able to absorb these costs and didn't officially run a deficit until the 2022–23 fiscal year.

Prior to 2023, the *Balanced Budget Act* stipulated that if the budget deficit exceeded the revenue recorded in the Generations Fund for that year, the Minister of Finance had to present a plan for returning to balance within a five-year timeframe when tabling the next budget. This requirement was relaxed in fall 2023, and the plan can now be presented "in the first or second Budget Speech after the presentation of the public accounts." Balance must be achieved within a maximum of five years, with the deficit decreasing each year and ending at 25% or less of the original recorded deficit amount.

This means that the 2025–26 budget being tabled next Tuesday should include a plan for returning to fiscal balance by no later than the 2029–30 fiscal year. But with the current economic uncertainty raising a real risk of recession, this plan may be less feasible. At time of writing, it's not clear if the five-year timeframe will be called into question, as Quebec seems poised to enter a recession for the second time in five years. (Note that our baseline scenario, as highlighted in yesterday's Economic and Financial Outlook, does call for a recession.)

In its Fall 2024 Update on Québec's Economic and Financial Situation, the government planned for a gradual reduction in deficits, calculated after deposits in the Generations Fund. The deficit was expected to decrease from $11.0B in 2024–25 to $3.2B in 2028–29 (see table 1 on page 3). To comply with the *Balanced Budget Act*, the projected deficit for 2028–29 must be 25% or less of the deficit recorded in 2022–23 ($6.1B). This would mean a deficit of no more than $1.5B, which is $1.7B less than the deficit included in the 2024 Update. A $1.5B deficit implies a public account surplus of around $1B, as Generations Fund deposits for that fiscal year are estimated at $2.6B.

This analysis will examine what's changed since the 2024 Update was released, and what it means for Quebec's revenue, spending, deficits and net debt. It's clear that economic risks have evolved, making the return to a balanced budget especially difficult under the current circumstances—especially if the province intends to maintain services in health care and education, the two largest expenditure categories. Debt servicing objectives will remain achievable over the 2032–33 horizon.

Economic Conditions Will Weigh on Tax Revenue

When the 2024 Update was released, the government estimated that its consolidated revenues would total $152.6B for 2024–25 (+4.9% from 2023–24), then $157.3B in 2025–26 (+3.1%).

Revenue for the **2024–25 fiscal year** included $1B from the proposed increase to the capital gains inclusion rate, which was meant to rise from 50% to 66.7% in June 2024. This measure has since been deferred by the federal government until January 1, 2026, and may be scrapped entirely; none of the main candidates for prime minister intend to keep it. Even so, revenue in the first half of 2024 may have been given a boost as people rushed to complete transactions before the deadline. This would partially offset the downward revision to 2024–25 revenue caused by the deferral of the measure.

This isn't the only cloud on the horizon when it comes to revenue: the projected dividend paid by Hydro-Québec to the government has been revised downward by about $500M since the 2024 Update.

On a more positive note, Quebec's labour market beat expectations in 2024–25. Higher personal income tax revenue could compensate for some of these lost revenues. The Minister of Finance has alluded to this possibility in recent media appearances.

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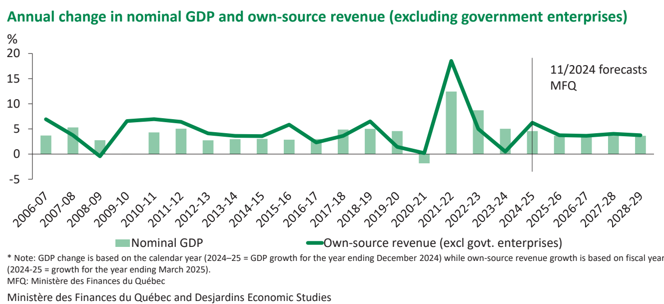
Looking at the **2025–26 fiscal** year, the anticipated revenue growth of 3.1% (to $157.3 B) will likely be revised downward. In addition to the shortfall caused by the postponement of the capital gains inclusion rate increase ($471M), we're facing a greater source of uncertainty: the trade war with the United States. We expect the government to downgrade its economic forecasts, particularly for employment and consumption, in line with our own forecasts, published this week. Graph 1 shows the change in nominal GDP and own-source revenue growth, excluding revenue from government enterprises. Own-source revenue is mainly comprised of income and sales tax revenue, and is thus directly influenced by the economic conditions.

Graph 1
Own-Source Revenue Could Be Revised Downward



* Note: GDP change is based on the calendar year (2024–25 = GDP growth for the year ending December 2024) while own-source revenue growth is based on fiscal year (2024-25 = growth for the year ending March 2025).
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Over the five-year horizon, until **2029–30**, revenue growth will depend on how long the trade war persists and what long-term impacts it has on investment. Demographic pressures—namely the federal and provincial governments' efforts to slow the influx of non-permanent residents—could limit job creation and contribute to labour shortages in a number of industries and administrative regions. At the same time, the ongoing tax credit overhaul could help increase some revenues. Overall, the figures in the 2024 Update may be revised downward over the forecast period.

Efficiency Gains Sought in the Main Expenditure Categories

According to the 2024 Update, the government expects consolidated expenditures to reach $160.6B in 2024–25 (up 6% from the previous fiscal year) and $163.6B in 2025–26 (+1.9%).

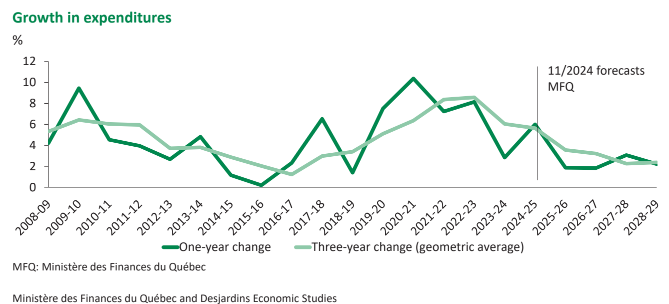
In the quarterly report released on December 6, the government estimated that expenditures in the first half of the fiscal year (April to September) stood at $75.5B, roughly 47% of the amount projected in the Update. This figure is in line with the cumulative spending calculated in previous Septembers, suggesting that the government may indeed reach its target for the **2024–25** fiscal year.

For the **2025–26 fiscal year**, growth of 1.9% as projected would be the smallest increase since 2018–19 (+1.4%). With inflation hovering around 2%, that would effectively mean a freeze in constant-dollar amounts and a reduction in real per-capita spending. However, that wouldn't necessarily translate to a reduction in services, if the government manages to uncover efficiency gains. While it has taken visible steps in this direction, gains are more likely to materialize over a longer horizon.

Given the current circumstances—an aging population and deteriorating access to care in the public system—the 1.8% increase in health and social services spending seems a bit limited. This would be the smallest increase since 2015–16. The same is true of education spending, where the projected 1.3% increase doesn't seem sufficient for a sector that is grappling with labour shortages.

Projected increases for the following years also seem rather low. The government is calling for average annual expenditure growth of 2.4% for the fiscal years 2026–27 through 2028–29 (graph 2). Average expenditure growth over three years hasn't been that low since 2015–16 and 2016–17, when the government went to great lengths to consolidate spending and rebalance the budget.

Graph 2
MFQ Forecasts Already Call for Tighter Expenditure Control



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These estimates were also calculated before the trade war began, so they don't include any of the costs that may be incurred by the government as it supports affected businesses. While many of the costs related to job losses will undoubtedly be borne by the federal government, Quebec will also be stepping in with relief measures. In February, we published an analysis that explored the best and most cost-effective ways to support Quebecers affected by the trade war. Our findings prioritized targeted support for exporters, with a focus on cash flow. The FRONTIÈRE program (in French), announced in early March, is in line with these recommendations. It offers loans of up to $50M at preferred rates to affected exporters, with a maximum term of seven years.

In short, expenditure growth over the **2029–30 horizon** will largely depend on health and education spending, which together represent nearly 60% of the portfolio expenditures. The growth rates suggested in the 2024 Update are ambitious but

Table 1
Financial Framework

In $B (unless otherwise indicated)	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total revenue	**145.5**	**152.6**	**157.3**	**164.8**	**170.3**	**174.9**
Own-source revenue	114.7	121.6	126.6	132.5	137.8	142.7
Federal transfers	30.9	31.0	30.7	32.3	32.5	32.2
Total expenses	**-151.5**	**-160.6**	**-163.6**	**-166.6**	**-171.7**	**-175.5**
Program spending	-141.6	-150.7	-153.9	-156.4	-160.8	-164.1
Debt service	-10.0	-9.9	-9.8	-10.2	-11.0	-11.4
Gap to be bridged for achieving fiscal balance in operations	0.0	0.0	0.8	1.5	1.5	1.5
Contingency reserve	0.0	-0.8	-1.5	-1.5	-1.5	-1.5
Surplus (Deficit) from operations	**-6.0**	**-8.8**	**-7.1**	**-1.8**	**-1.4**	**-0.6**
% of GDP	-1.0	-1.4	-1.1	-0.3	-0.2	-0.1
Deposits of dedicated revenues in the Generations Fund	2.0	2.2	2.2	2.4	2.5	2.6
Budgetary balance within the meaning of the Balanced Budget Act	**-8.0**	**-11.0**	**-9.2**	**-4.2**	**-3.9**	**-3.2**
% of GDP	-1.4	-1.8	-1.5	-0.6	-0.6	-0.5
Net debt (% of GDP)	**38.0**	**39.0**	**39.8**	**39.5**	**39.1**	**38.6**
Real GDP (% change)	0.6	1.2	1.5	1.6	1.6	1.7
Nominal GDP (% change)	5.0	4.6	3.6	3.6	3.6	3.6

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achievable, similar to those observed in the mid-2010s. However, if no efficiency gains are found in the short term, there could be an impact on the services rendered to the population.

Our Verdict on Returning to a Balanced Budget: Downside Risks Prevail

As with any forecast, there are upside and downside risks. However, it's clear that in the current economic climate, risks are mainly to the downside.

Since the 2024 Update last fall, the following risks to revenue have emerged:

- The economy has deteriorated significantly, which will certainly affect income tax and sales tax revenues in the years ahead.
- Hydro-Québec's dividend has been revised downward due to lower water levels and milder temperatures. These weather patterns will be more common in the future, due to climate change.
- The upcoming federal election is introducing some uncertainty about federal transfers, with the main candidates calling for a return to a balanced operating budget within their first mandate.

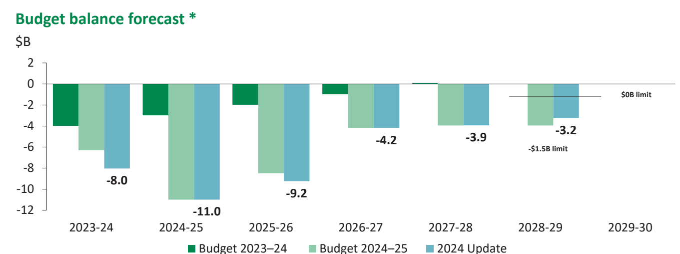
On the expenditures side, there are risks that deficits will swell:

- The government's projected growth for its biggest expenditure categories is lower than average.
- The current economic situation will require increased support from all levels of government.

Last November, when economic outlooks were less somber, returning to a balanced budget within the meaning of the *Balanced Budget Act* would have still required serious effort on the government's part. To achieve fiscal balance by 2029–30, we would have needed measures similar to those undertaken by the previous government in its early years. But now, given recent events, it seems like an especially tall order. The vast majority of the downside risks listed about would need to dissipate and at least some upside risks would need to materialize—we'd need to see substantial productivity gains by workers and meaningful efficiency gains in terms of government service delivery.

Put simply, the government may struggle to return to a balanced budget by 2029–30 or bring its deficit below $1.5B by 2028–29 without raising taxes or reducing services offered to the population (graph 3).

Graph 3
Balancing the Budget by 2029–30 Will Prove Quite Difficult



* As defined by the *Balanced Budget Act* (after deposits in the Generations Fund)
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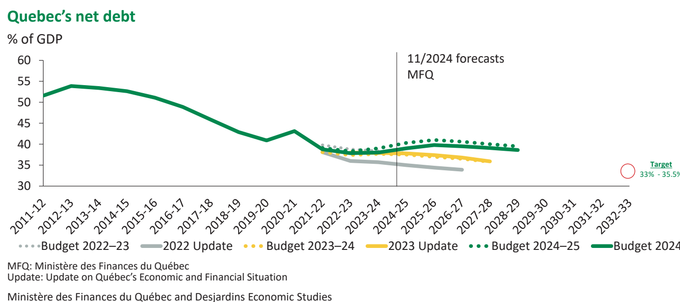
However, Debt Levels Remain Under Control

While the situation has deteriorated, the Quebec government's net debt is holding at a sustainable level. It was estimated to be $236.6 on March 31, 2025, or 39% of GDP. Exactly one decade ago, it was estimated at $198.4B, reaching 52.6% of GDP.

The net debt-to-GDP ratio has been revised upwards in almost every budget and update since the 2022 Update, and the most recent forecast is still below 40% for 2028–2029, which is comparable to the 2019–20 fiscal year (graph 4). While the risks mentioned above will probably push forecasts higher, the peaks witnessed in 2012–13 should remain out of reach. But these adjustments will make it harder to reach the 33% target net debt ratio for 2032–33 (with a maximum ratio of 35.5%), as stipulated by the *Act to reduce the debt and establish the Generations Fund*. However, this objective should remain achievable.

Graph 4
Debt Is Stable and the Target Remains Achievable



There is another type of liability that exists, but isn't included in the province's debt ratio: the asset maintenance deficit, which the Secrétariat du Conseil du trésor defines as "[the value of the] asset maintenance work that should have been performed before the inspection [of the infrastructure in question] and that stems from the observation of a defect or loss of performance." The asset maintenance deficit was estimated at $37.1B in March 2024, up $6.5B from the 2022–23 fiscal year. This amount suggests maintaining the quality and security of Quebec's infrastructures will put additional pressure on public finances.

What to Expect on Tuesday

On March 10, 2020, the government tabled a balanced budget that never stood a chance—the global economy came to a screeching halt just a few days later. Next Tuesday, just five years later, the government is tabling another budget in a time of unusually heightened uncertainty.

But we do have grounds for optimism: Despite everything that happened in 2020, Quebec's finances have improved significantly over the last decade. That's why, even though the current economic situation is far from ideal, we're not necessarily convinced that Quebec will be unable to reach its debt targets for the 2032–33 horizon. All the same, it will be very hard to return to fiscal balance. This budget will shed light on how the government intends to navigate this second wave of unprecedented turbulence in five years.