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Chart 1

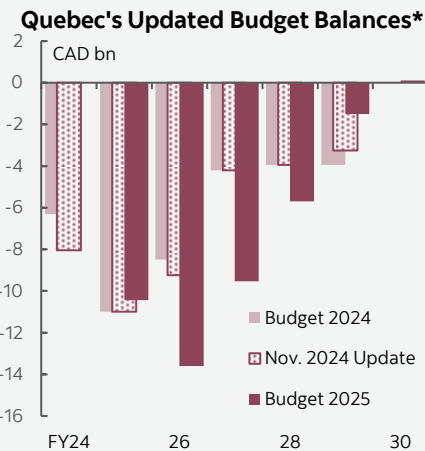
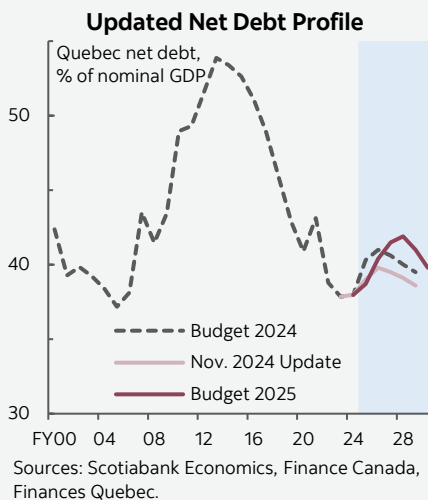


Chart 2



Quebec: 2025–26 Budget

DEFICIT TO INCREASE ON TARIFF IMPACTS, BUT SURPLUS STILL PLANNED FOR FY30

- As expected, Quebec projects that its deficit will rise to a new record of **-\$13.6 bn** in the context of a prudent assumption that US tariffs will expand next month. The government presents an ambitious plan to return to a surplus within five years (as required by provincial legislation), mainly predicated on strictly limiting expenditure growth. While the plan is feasible, it will require very strong fiscal discipline for the rest of the decade. As a result, the balance of fiscal risks is likely tilted to the downside.
- Budget balance forecasts:** the deficit is projected to expand from **-\$10.4 bn (-1.7% of nominal GDP)** in FY25 to **-\$13.6 bn (-2.2%)** in FY26, with shrinking deficits thereafter, reaching a surplus of **\$0.1 bn (0.0%)** in FY30 (chart 1).
- Economic assumptions:** baseline forecasts expect real GDP growth of **1.4%** in 2024, slowing to **1.1%** in 2025, and **1.4%** in 2026 owing to tariff and retaliatory measures averaging **10%** over the next two years, with alternative scenarios provided that assume further escalation with larger deficits versus de-escalation that sees a return to balanced budget by FY29.
- Net debt:** baseline forecast expects net debt increases from **38.7%** of nominal GDP in FY25 to a peak of **41.9%** by FY28 before declining to **39.8%** in FY30 (chart 2).
- Borrowing requirements:** **\$36.7 bn** in FY25 and **\$29.7 bn** in FY26, then average **\$31.7 bn** per year over FY27 to FY30.

OUR TAKE

Quebec's Budget 2025 projects larger deficits over most of the forecast horizon, largely owing to higher spending in response to tariff impacts, with the plan to return the budget to balance in fiscal year 2029–2030 (FY30). Revenue windfalls in excess of additional spending provide a lower deficit of **-\$10.4 bn (-1.7% of nominal GDP)** in FY25, before increasing to **-\$13.6 bn (-2.2%)** in FY26 as own-source revenue is projected to decline by **-\$0.9 bn** while program spending increases by **\$2.2 bn**. Over the FY26 through FY30 horizon, own-source revenue is projected to be **\$0.1 bn** higher than November's update. Meanwhile, the Budget adds an additional **\$8.5 bn** in total expenditure, of which **\$7.3 bn** is program spending and **\$1.2 bn** is debt servicing costs, relative to the mid-year update. A total of **\$4.1 bn** in new spending is for providing assistance to businesses affected by US tariffs, supporting investment projects, fostering market diversification, and making it easier to identify Quebec products. The deficit is expected to shrink in the outer years from FY27 to FY30, owing to total expenditure increasing by an average of **2%** annually versus total revenue growth of **3.8%** per year in order to return to balance (**\$0.1 bn, 0% of nominal GDP**) in FY30. The budget also allocates contingency reserves of **\$2.0 bn** for FY26 and FY27 respectively, with **\$1.5 bn** per year in FY28 onwards.

In the baseline scenario, economic growth is expected to slow but remain positive in the two-year outlook, with two alternative forecast scenarios. The baseline forecast expects an average **10%** tariff and retaliatory measures over the next two years. In this baseline scenario, real GDP growth for Quebec is expected to be **1.4%** in 2024, slowing to **1.1%** in 2025, before picking up to **1.4%** in 2026. Meanwhile, nominal GDP growth is projected to slow from **5.3%** in 2024 to **3.4%** in both 2025 and 2026. The first alternative scenario assumes the US imposes tariffs of **25%** on non-energy and **10%** on energy imports, with equivalent retaliation. This first alternate scenario expects real GDP to contract **0.1%** in 2025 before picking up to **0.5%** in 2026, with a deficit of **-\$14.8 bn** in FY26 that shrinks to **-\$2.1 bn** by FY30. The second scenario assumes a timely resolution

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of trade disputes in which real GDP grows 1.8% in 2025 and 2% in 2026, with a smaller deficit of -\$12.7 bn in FY26 that reaches a surplus of \$0.5 bn by FY29.

Net debt as a percent of nominal GDP is projected to increase from 38.7% in FY25 to a peak of 41.9% in FY28 before declining to 39.8% in FY30 for the baseline scenario. In the alternate scenario that assumes further escalation in tariffs with retaliation, net debt as a percent of GDP would be above 40% for much of the horizon, peaking at 43.3% in FY28, and decline to 41.8% in FY30. Meanwhile, in the alternate scenario that assumes rapid de-escalation in trade tensions, net debt would rise to 40.7% in FY28 before declining to 38.1% in FY30. The Budget also updates the debt reduction targets, increasing the midpoint of the intermediate target (2032–2033) from 33% to 35.5% of GDP, and the longer-term target (2037–2038) from 30% to 32.5%, reflecting uncertainty in the budget owing to risks around the economic outlook.

The borrowing program for FY25 is \$36.7 bn, higher than the November update estimate of \$32.5 bn but closer in line with Budget 2024 estimate of \$36.5 bn, with \$9.3 bn in pre-financing having been carried out as of March 5th. As a result, the borrowing requirements over the horizon are expected to be \$29.7 bn in FY26, \$37.5 bn in FY27, \$33.3 bn in FY28, \$27.3 bn in FY29, and \$28.9 bn in FY30.

Changes to Quebec's Fiscal Outlook \$ billions except where noted

	FY25	FY26	FY27
November 2024 Accounting Surplus (Deficit)*	-8.8	-7.8	-3.3
Own-source revenue	2.9	0.1	0.9
Government enterprises	0.1	-0.8	-0.5
Federal transfers	-0.4	-0.1	0.1
Subtotal – Revenue	2.6	-0.8	0.5
Portfolio expenditures	-2.7	-0.6	-2.2
Debt service	0.1	0.1	-0.2
Subtotal – Expenditure	-2.6	-0.5	-2.4
Changes to Economic & Fiscal Outlook	-0.1	-1.2	-1.9
Updated Balance	-8.8	-9.0	-5.2
Budget 2025 Initiatives			
Stimulating wealth creation	0.0	-1.1	-1.3
Supporting Quebecers	0.0	-1.5	-1.6
New Policy	0.0	-2.6	-2.9
Efforts to improve the tax system	—	0.0	0.3
Review of budgetary expenditures	—	0.6	1.3
Contingency Reserve	0.8	-0.5	-0.5
Accounting Surplus (Deficit)*	-8.1	-11.4	-7.1
% of GDP	-1.3	-1.8	-1.1

* Before Generations Fund deposits and Stabilization Reserve use, and has been adjusted to exclude the November 2024 gap to be bridged.

Sources: Scotiabank Economics, Finances Québec.

Long-Run Fiscal Forecast \$ millions except where noted

	FY25		FY26		FY27		FY28		FY29		FY30
	Nov. '24	Mar. '25	Nov. '24	Mar. '25	Nov. '24	Mar. '25	Nov. '24	Mar. '25	Nov. '24	Mar. '25	Mar. '25
Total Revenue	152,626	155,181	157,330	156,342	164,843	165,187	170,338	171,205	174,932	176,249	181,289
Own-Source	121,584	124,545	126,618	125,732	132,538	132,825	137,830	138,134	142,744	143,139	148,186
Fed. Transfers	31,042	30,636	30,712	30,610	32,305	32,362	32,508	33,071	32,188	33,110	33,103
Total Expenditure	160,631	163,259	163,630	165,772	166,630	170,313	171,747	173,878	175,545	176,099	179,382
Programs	150,703	153,406	153,877	156,102	156,382	159,911	160,751	162,322	164,134	164,092	167,150
Debt Service	9,928	9,853	9,753	9,670	10,248	10,402	10,996	11,556	11,411	12,007	12,242
% of Revenue	6.5	6.3	6.2	6.2	6.2	6.3	6.5	6.7	6.5	6.8	6.8
Gap to be bridged	—	—	750	—	1,500	—	1,500	1,000	1,500	2,500	2,500
Reserve	750	0	1,500	2,000	1,500	2,000	1,500	1,500	1,500	1,500	1,500
Generations Fund Deposits	2,243	2,354	2,194	2,177	2,411	2,402	2,528	2,522	2,635	2,648	2,796
Surplus/Deficit	-10,998	-10,432	-9,244	-13,607	-4,198	-9,528	-3,937	-5,695	-3,248	-1,498	111
% of GDP	-1.8	-1.7	-1.5	-2.2	-0.6	-1.5	-0.6	-0.8	-0.5	-0.2	0.0
Net Debt	236,562	235,826	249,847	255,003	256,953	270,435	263,619	282,588	269,597	286,431	288,149
% of GDP	39.0	38.7	39.8	40.4	39.5	41.5	39.1	41.9	38.6	41.0	39.8

Sources: Scotiabank Economics, Finances Québec.

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