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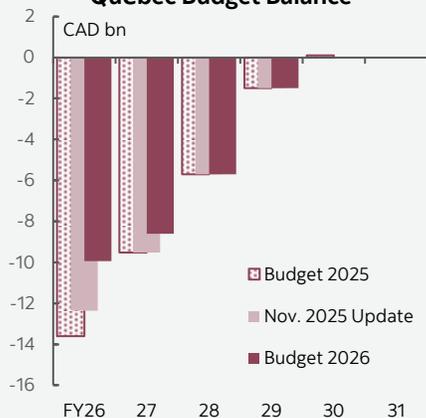
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Chart 1

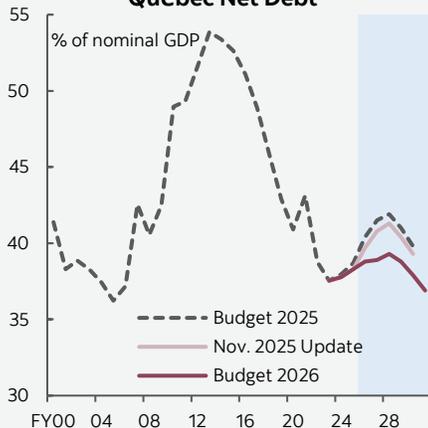
Québec Budget Balance*



* After deposits into Generations Fund.
Sources: Scotiabank Economics, Finances Quebec.

Chart 2

Québec Net Debt



Sources: Scotiabank Economics, Finance Canada, Finances Quebec.

Québec: 2026–27 Budget

IMPROVED FISCAL HANDOFF FOR NEW PREMIER DESPITE HIGHER CAPITAL SPENDING

- Bottom line:** Ahead of a change in Premier next month and a provincial election due by the Fall, Québec has released improved near-term deficit projections and a lower debt path, driven by stronger recent economic growth and limited new spending. As signalled in advance, this was largely a status-quo budget with few new measures—though some new funding for core services and infrastructure. The new Premier will want to put their mark on the government ahead of the election, and they will surely welcome this stronger fiscal handoff.
- Budget balance (chart 1):** Headline deficits of \$9.9 bn (1.5% of GDP) in FY26 and \$8.6 bn (1.3%) in FY27, with continued gradual improvements thereafter until the budget is balanced in FY30.
- Economic assumptions:** Real GDP growth of 1.1% for 2026, picking up to 1.4% in 2027.
- Debt (chart 2):** Net debt as a share of GDP is projected to rise from 38.8% in FY26 to 39.3% by FY28, before trending lower to 36.9% by FY31.
- Borrowing:** Set to fall from \$32.1 bn in 2025–26 to \$26.2 bn in the coming year due to significant pre-funding this past year, before rising back to around \$30 bn in FY28.

OUR TAKE

Québec’s budget update presents smaller near-term deficits but an unchanged timeline to return to balance.

The final estimate for 2025–26 (FY26) is a headline deficit of \$9.9 bn (1.5% of nominal GDP), down from the estimate of \$12.5 bn in the mid-year fiscal update. The overperformance has been driven by stronger tax revenue and limiting new spending to within the budgeted \$2 bn contingency envelope. Moderate revenue growth averaging 3.2% is projected for the next few years, with expense growth set to be half that at 1.6%, leading the deficit to steadily trend lower until the budget is balanced in FY30—the deadline set by provincial legislation. The fiscal framework continues to have a contingency reserve of \$2 bn in the near-term and \$1.5 bn in later years to provide some protection against new spending pressures or downside economic risks, though the later years of the deficit projection continue to include sizeable (albeit smaller than previously) annual savings to be identified later.

On an “accounting basis”, Québec’s deficit is lower.

Québec’s budget legislation requires it to present the budget balance after deposits to the Generations Fund, even though those funds are used to reduce debt. Looking at the figures before the Generations Fund deposits (i.e., on an “accounting basis”) is more comparable to the reporting of other provinces. On this basis, Québec’s deficit is falling from 1.2% this year to 0.9% in FY27, and to a mere 0.2% in FY29.

The province expects modest economic growth again this year, amid upside and downside risks.

After estimated real GDP growth of 0.8% in 2025, the province expects a modest rise to 1.1% this year before increasing to 1.4%–1.5% in future years. This is similar to the assumptions in the mid-year update and broadly in line with our expectations. This baseline assumes that the effective tariff rate the province faces on its exports will remain relatively stable in the coming years, and that the current tariffs will remain permanent. The budget also presents upside and downside economic scenarios, including a recession scenario where the deficit increases by \$2–3 bn per year over the forecast horizon, and a stronger growth scenario where the budgetary balance improves by \$0.9–2.6 bn per year. While the baseline real GDP growth forecast has remained stable, expectations for nominal GDP have increased slightly, resulting in a somewhat stronger tax revenue forecast across the horizon. No major new revenue-raising initiatives were announced.

New spending measures were limited. While pre-election budgets typically include a variety of large new spending proposals, this budget announced limited increases in operational spending, and targeted them to core services such as health care, education, and child care. The budget also announced a \$5 bn increase in infrastructure investment over five years compared to the previous plan—most of which represents accelerated projects. Overall, expense growth is projected to remain modest, helping achieve a gradually shrinking deficit.

The debt burden remains relatively high but is set for a lower path than previously expected. Thanks to higher expected nominal GDP for 2025 and lower near-term deficits, the province’s net debt as a share of GDP is no longer projected to pass 40% as expected in last year’s budget and the mid-year fiscal update—but rather now peak at 39.3% in FY28, before trending lower to 36.9% in FY31. While Québec continues to have above-average provincial debt, it is encouraging that it is not increasingly significantly and set to peak soon—and far below the level of a decade ago. In addition, the province has reinforced its aim to bring the debt burden down to 32.5% by FY38.

Borrowing is set to fall from \$32.1 bn in 2025–26 to \$26.2 bn in the coming year. The planned year-over-year decline is mainly due to the province taking advantage of favourable market conditions to pre-fund over \$9 bn in funds this year for next year. Borrowing is then slated to increase back to around \$30 bn for the next few years, reflecting continued elevated capital expenditures as well as rising refinancing requirements that are offsetting the smaller expected operational deficits.

Updated Fiscal Forecast											
\$ billions except where noted											
	FY26		FY27		FY28		FY29		FY30		FY31
	Nov.'25	Bud.'26	Nov.'25	Bud.'26	Nov.'25	Bud.'26	Nov.'25	Bud.'26	Nov.'25	Bud.'26	Bud.'26
Total Revenue	158.7	160.5	164.6	166.5	170.3	172.8	175.3	177.6	175.3	181.8	188.2
Total Expenses	166.6	168.2	169.8	170.8	173.0	175.2	175.2	177.2	177.7	179.5	185.5
Contingency	2.0	0.0	2.0	2.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Accounting Surplus (Deficit)	(9.9)	(7.7)	(7.1)	(6.3)	(4.2)	(3.9)	(1.4)	(1.1)	0.3	0.8	1.2
% of GDP	(1.5)	(1.2)	(1.1)	(0.9)	(0.6)	(0.6)	(0.2)	(0.2)	0.0	0.1	0.2
Gap to be bridged	0.0	0.0	0.0	0.0	1.0	0.8	2.5	2.3	2.5	2.0	1.8
Generations Fund Deposits	(2.5)	(2.3)	(2.4)	(2.3)	(2.5)	(2.5)	(2.6)	(2.6)	(2.8)	(2.8)	(2.9)
Budget Balance	(12.4)	(9.9)	(9.5)	(8.6)	(5.7)	(5.7)	(1.5)	(1.5)	0.0	0.0	0.0
% of GDP	(1.9)	(1.5)	(1.4)	(1.3)	(0.8)	(0.8)	(0.2)	(0.2)	0.0	0.0	0.0
Net Debt	254.5	250.3	269.8	259.5	281.8	271.1	285.7	276.8	286.9	279.3	281.3
% of GDP	39.7	38.8	40.8	38.9	41.3	39.3	40.4	38.8	39.3	37.9	36.9
Debt Service	10.2	10.2	10.3	10.3	11.3	10.9	11.6	11.3	11.7	11.6	12.3
% of Revenue	6.4	6.3	6.2	6.2	6.6	6.3	6.6	6.4	6.7	6.4	6.5

Sources: Scotiabank Economics, Finances Québec.

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