March 25, 2025

Prolonged budgetary rigour is necessary to reduce a sizeable deficit

By Matthieu Arseneau and Daren King

Highlights

The budget published today confirms the information that was circulating, according to which the budget deficit after the payment to the Generations Fund for the year that is ending will be less than anticipated ($10.4 billion, as opposed to the $11.0 billion anticipated in the update). Conversely, the deficit for 2025-2026 has been revised upwards (from $9.2 billion to $13.6 billion). There is no denying that the economic outlook has deteriorated since last fall due to the uncertainty caused by the trade conflict with the United States, and this is having an impact on economic growth and government revenues. There is also disappointment with Hydro-Québec's results, due to the decline in its exports resulting from low hydraulicity. In order to limit the size of the deficit, the government intends to exercise strict budgetary discipline by limiting expenditure growth to 1.5% in 2025-2026, the lowest level since 2018-2019, when the previous government was still in power. Finance Minister Girard also predicts that spending growth will remain low over the next five years, averaging 1.9%. This represents a drastic slowdown compared to the average growth of 7.3% recorded during the first six years of the current government. This would allow a return to a balanced budget in 2029-2030, but the government will need to create additional leeway because a gap of $2.5 billion remains to be closed ($1 billion if the contingency reserve has not already been used). Even if the purse strings are tightened over the next few years, the reduction in debt will have been very small during the decade ending in 2029-2030, falling from 40.9% to 39.8% of GDP. This therefore represents very limited progress in ten years, while the government is supposed to reach a level of indebtedness of 30% in 2037-2038, in accordance with the Act to reduce the debt and establish the Generations Fund. However, the government announced in the budget documents published today that the target is now 32.5%, which means that the law will have to be amended. Even after this change, a reduction of 7.3 percentage points will have to be achieved between 2029-2030 and 2037-2038, a colossal task in just eight years when health spending will be under great pressure in the context of an aging population.

Furthermore, we applaud Minister Girard's ambition to stimulate innovation in Quebec so that it can succeed in a world undergoing rapid technological change, particularly with regard to robotics and artificial intelligence. There is no doubt that the spectre of tariffs imposed by the United States makes the competitiveness of companies crucial in order to deal with this situation and also to diversify their export markets. For several years, the government has been aiming to catch up the standard of living of Quebecers with that of Ontarians, and this involves improving productivity in the economy. The budget therefore announces a simplification of tax credits for innovation by abolishing 8 of the 9 current measures, retaining only the deduction incentive for the commercialization of innovations (DICI). In its place, it introduces the tax credit for research, innovation and commercialization (CRIC). This reform is a step in the right direction, but productivity will need to be tackled on several other fronts, including by abolishing trade barriers between the provinces and reducing the regulatory burden on businesses. These measures could prove to be effective and inexpensive. In addition, it will probably be necessary to aim for a further reduction in the tax burden on businesses, particularly for the manufacturing sector, whose economic activity has been sluggish for two decades and is vulnerable in the context of a global trade war. In short, Minister Girard's budget confirms that a change of course is necessary if the government is to achieve a balanced budget in 2029-2030.

- **Economic outlook** — After rather weak growth in 2023, Quebec's real GDP is expected to grow by 1.4% in 2024, a growth rate similar to that observed in the country as a whole. This increase was supported by the Bank of Canada's beginning of monetary easing and by continued strong population growth. It should be noted that this is a higher growth rate than initially forecast in the 2024 budget (+0.6%) and in the fall economic update (+1.2%). With regard to the wealth gap with Ontario, an important indicator for the current government, the situation has “improved” in 2024 since real GDP per capita in Quebec only decreased by 1.0% during the year, compared to a more significant decrease of 2.0% in Ontario. Nominal GDP, which is more important for public finances, saw a marked increase of 5.3% in 2024 (Canada: 4.6%), an improvement on the previous budget (+4.0%) and the last update (+4.6%). With regard to the labor market, job creation was 1.8% in the province from February 2024 to February 2025 (Canada: 1.9%), but the higher population growth caused the unemployment rate to rise from 4.8% to 5.3% over this period. Nevertheless, the unemployment rate in the province is the lowest in the country.

  For the future, the 2025 budget is based on a baseline scenario where the impacts of the measures and uncertainty associated with the current trade war represent a tariff equivalent of 10%. The budget also presents a scenario with tariffs of 25% (see below). In its baseline scenario, real GDP growth in the province is expected to slow to +1.1% in 2025. This scenario is obviously more pessimistic than the forecasts presented in the 2024 budget (+1.6%) and in the fall update (+1.5%), but similar to our own forecasts. For subsequent years, growth should gather pace, reaching 1.4% in 2026, 1.6% in 2027 and 1.7% in 2028 and 2029. Nominal GDP growth is also expected to be lower than in 2024, with an increase of 3.4% in 2025 and 2026, followed by increases of 3.5% in 2027 and 2028, and then 3.6% in 2029. In the labor market, weaker job creation should push the average annual unemployment rate from 5.3% in 2024 to a peak of 5.8% in 2025, before gradually declining to 4.3% in 2028.

  In the event of a tariff war in which the United States imposes tariffs of 25% on all Canadian products, with the exception of a 10% tariff on energy, and Canada retaliates, the economic scenario is obviously much more pessimistic. In fact, real GDP would fall by 0.1% in 2025 and increase by only 0.5% in 2026 (compared with 1.1% and 1.4% respectively). This scenario would result in real GDP being 2.1 percentage points lower by 2026. Despite higher inflation, nominal GDP would also be lower, with increases of 2.5% in 2025 and 2026 (compared to 3.4% for these two years in the baseline scenario). The unemployment rate would rise to 6.8% in 2025 and 6.9% in 2026, with a loss of around 15,000 jobs over these two years, compared with the creation of 56,500 jobs in the reference scenario, i.e. a cumulative negative difference of 71,300 jobs.

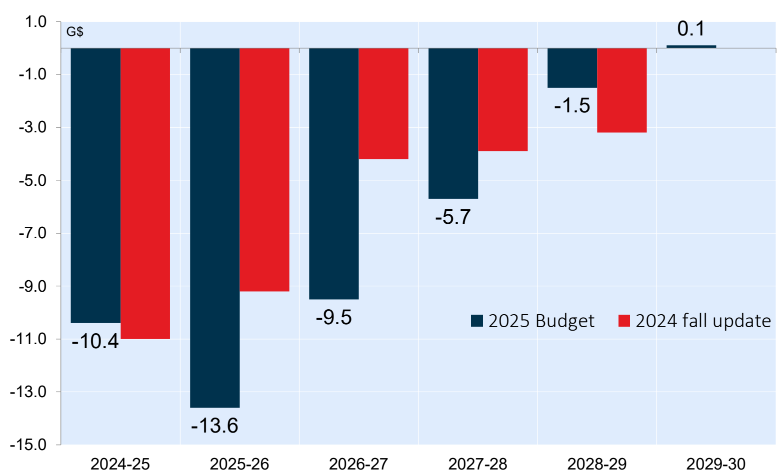
- **Budget balance for the year ending (2024-25)** — A deficit of $10.4 billion is estimated for 2024-2025 after payments to the Generations Fund, which is $566 million less than anticipated in last spring's budget and in the November budget update. Put into perspective, the deficit represents 6.7% of revenue or 1.7% of GDP. Before payment to the Generations Fund, the deficit amounted to $8.1 billion, a decrease of $698 million compared to the last budget. This difference is explained by a larger upward revision of revenues than of expenditures. In fact, the latest estimate presented today for the increase in revenues in 2024-2025 is 6.6%, compared to 2.4% in the previous budget (+4.2 percentage points). Furthermore, expenditure is expected to increase by 7.7% in 2024-2025, compared with an estimate of 4.4% last spring (+3.3 percentage points). The higher increase in revenue is mainly due to higher corporate taxes and a smaller than expected decrease in federal transfers. On the expenditure side, it should be noted that debt servicing actually decreased by 1.3%, as opposed to the 1.2% increase forecast in the previous budget.

- **Medium-term budget outlook (2025-2026 and beyond)** - Medium-term budget outlook (2025-2026 and beyond) - Quebec could therefore record a record accounting deficit in 2025-2026 at $11.4 billion, representing 1.8% of GDP. This would be significantly higher than the 1.0% of GDP recorded at the worst of the pandemic and the financial crisis of 2008-2009. According to the Balanced Budget Act, i.e. after the payment to the generational fund, it would reach 13.4 billion dollars and 2.2% of GDP. The situation would be much worse without the announced strong brake on spending, which would increase at an anemic rate of 1.5% this year, still above the anticipated income growth of 0.7%. Health spending would increase at a rate of 3.0%, education 2.2%, higher education 2.1%, while the increase for the other portfolios would not exceed 1.1%. The budget also presents the results of alternative scenarios and, assuming rates of 25%, the deficit, including the payment to the Generations Fund, would increase from $13.6 billion to $14.8 billion in 2025-2026 and from $9.5 billion to $11.4 billion in 2026-2027 (see above for details of economic variables).

  Furthermore, the government intends to comply with the Balanced Budget Act by planning to return to balance in 2029-2030, but a gap of 2.5 billion dollars still remains to be identified. To achieve this, it will be necessary to limit the increase in expenditure to 1.9% on average over five years (1.7% for portfolio expenditure), while revenues should grow by 3.2%. Since the debt could be rolled over at higher interest rates, the debt service is expected to increase at an average rate of 4.4% over five years. As a precautionary measure, the province's financial plan provides for a contingency reserve of $2.0 billion in the first two years and $1.5 billion in the following three years. Given the risks currently hanging over the economy, such a cushion is entirely justified.

Quebec: A huge deficit to be eliminated by 2029-2030

Budget balance according to the Balanced Budget Act



NBC Economics and Strategy (data via Finance Québec)

- **New initiatives** - Entitled “For a Strong Quebec”, the 2025 budget highlights the economic difficulties related to trade and geopolitical uncertainty, as well as the government's efforts to return to a balanced budget. To achieve this, the budget is structured around three lines of action: 1- stimulate wealth creation, 2- support Quebecers and 3- improve the tax system. The first two lines represent additional spending of $12.3 billion over 5 years, while the last line, relating to tax efforts, represents an improvement of $3 billion over the same period.

  The first component, aimed at stimulating wealth creation, promises investments of $5.4 billion over 5 years, including $1.1 billion as of the 2025-2026 fiscal year. Among the new measures announced, the government is planning to allocate $400 million over two years for business support programs due to the trade conflict with the United States, $196 million over five years to promote market diversification and $759 million over five years to promote the contribution of the regions to wealth creation (development of critical minerals, support for the forestry sector, support for the tourism sector, etc.). But the most important part of this axis is concentrated around two measures. The first, which has the greatest financial impact ($2.4 billion over 5 years), is the extension of the accelerated depreciation measures. These measures, initially announced in 2018, were in the process of being phased out as of January 1, 2024. In order to promote productivity, the budget provides for the extension of these measures for the next five years. The second most important measure is the simplification of tax assistance for innovation and the introduction of a new tax credit for research, innovation and commercialization (CRIC). In order to simplify the tax measures surrounding research and development, the government is eliminating 8 of the 9 existing credits, keeping only the Deduction for the Commercialization of Innovations. The eight measures eliminated will be replaced by the new CRIC, a refundable tax credit covering more expenses (salary and equipment) and generally more generous. According to the ministry's calculations, this would improve Quebec's advantage over the national average for SMEs, with the effective rate of tax assistance rising from 57.9% to 58.5% (national average at 55.9%). The difference is most notable for large companies, which is interesting insofar as they are more subject to international competition. For these, it rises from 25.4% to 30.3%, which is above the national average of 29.1%. As a result, the savings of $2.1 billion over 5 years achieved by the abolition of the old tax credits will be more than offset by an increase in spending of $2.4 billion related to the CRIC, resulting in a net increase in spending of $272 million over 5 years.

In the second area aimed at supporting Quebecers, the budget provides for $6.8 billion over 5 years, or $1.5 billion this year. To do so, the government is planning a $3.9 billion increase in spending over 5 years to ensure better delivery of health care and social services, including $1.5 billion to fund the provision of pharmaceutical treatments in hospitals, 630 million dollars to roll out new healthcare and social services facilities, 750 million dollars for youth protection, 175 million dollars for accommodation support, 288 million dollars for funding for long-term care facilities and 269 million dollars for preventive healthcare. Secondly, this part of the budget provides for 1.1 billion dollars over 5 years to encourage the education and development of young people, with 269 million dollars to promote educational success (linguistic integration, teacher training, etc.), 279 million dollars to consolidate aid to young people and students (financing of the student financial assistance program), 271 million to promote leisure and sports activities (recreational, sports and outdoor facilities) and 171 million to support access to childcare services. Other initiatives to support Quebecers include 550 million over 5 years to promote the well-being of vulnerable people (access to housing, targeted assistance to people in need), 717 million to promote Québec culture and identity (enhancing culture and heritage, promoting Québec identity) and 636 million to support communities (Québec crime-fighting strategy, assistance to municipalities for maintenance/improvement of local road networks).

Finally, the last area of the budget takes stock of the review to improve the tax system. This exercise will improve the fiscal balance by $3.0 billion over 5 years, thanks to new revenues or reduced spending. However, it should be noted that only $32 million is budgeted for 2025-2026 and that the real gains will begin in 2027-2028 with $723 million in improvements. The review presents tax improvements in four areas. First, the budget forecasts $604 million in savings over 5 years thanks to the optimization of tax assistance to companies (modification of IT tax credits to target artificial intelligence, refocusing of the tax credit relating to critical mineral resources). Secondly, savings of $1.1 billion over 5 years will be achieved through simplification of the tax system (standardization of the tax on insurance premiums with the sales tax, revisions to the flow-through share regime). Thirdly, updating the tax system (strengthening the fairness of the tax system, eliminating inefficient tax expenditures) will save $482 million. Finally, promoting the financing of public services (ending the indexation of the eligibility threshold for reduced rates of the employer's contribution to the Health Services Fund) should improve the fiscal balance by $748 million.

Financial impact of the measures of Budget 2025-2026
(millions of dollars)

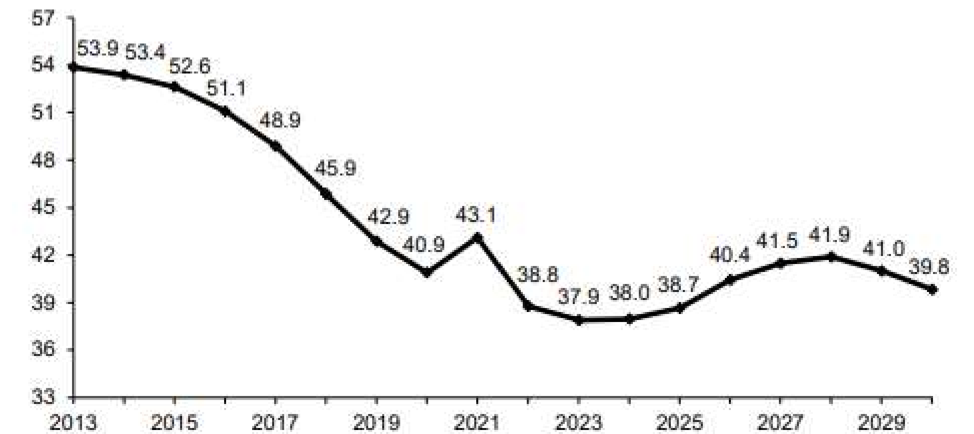
	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Stimulating wealth creation	—	−1 067.1	−1 333.5	−1 011.6	−1 057.0	−959.9	−5 429.1
Supporting Quebecers	−8.9	−1 517.5	−1 602.9	−1 278.6	−1 217.6	−1 223.7	−6 849.2
Subtotal	**−8.9**	**−2 584.6**	**−2 936.4**	**−2 290.2**	**−2 274.6**	**−2 183.6**	**−12 278.3**
Efforts to improve the tax system	—	32.1	270.6	723.0	910.7	1 037.7	2 974.1
TOTAL	**−8.9**	**−2 552.5**	**−2 665.8**	**−1 567.2**	**−1 363.9**	**−1 145.9**	**−9 304.2**

Note: Totals may not add due to rounding.

- **Debt outlook and interest expense -** As a reminder, since 2023-2024, the Québec government has been targeting the ratio of net debt to GDP under its Act to reduce the debt and establish the Generations Fund, instead of gross debt or debt representing accumulated deficits. Net debt corresponds to all government liabilities, from which financial assets are deducted. This measure allows for better comparison between provinces and internationally. The government's target is to gradually reduce the net debt-to-GDP ratio to 32.5% by 2037-2038, which is closer to the average for Canadian provinces. It should also be noted that this target has been revised upwards from the initial plan of 30% announced when the debt targets were changed in 2023. A revision of the law will have to be made.

  On March 31, 2025, the net debt is expected to reach $235.8 billion, or 38.7% of GDP, which represents an increase from 38.0% in 2024. According to the forecasts included in the budget, the target of 32.5% should be reached by 2037-2038, while an intermediate target has been set at 35.5% for 2032-2033. For the 2025-2026 financial year, the net debt as a proportion of GDP is expected to increase to 40.4%, then to 41.5% in 2026-2027 and peak at 41.9% in 2027-2028. Thereafter, this ratio is expected to decline gradually to 39.8% in 2029-2030. According to this forecast, a decline of only 1.1 percentage points would have occurred compared to the pre-pandemic level (over 10 years) and a decline of 7.3 percentage points will have to be achieved in the subsequent eight years to meet the target.

Net debt as at March 31
(percentage of GDP)



For 2024-25, the debt service amounted to $9.85 billion, a decrease of 1.3% compared to the previous year. It should then decrease by 1.9% in 2025-2026, before jumping by 7.6% in 2026-2027 and 11.1% in 2027-2028. As a proportion of income, debt service is forecast at 6.2% in 2025-2026. In the coming years, it is expected to increase to 6.3% in 2026-2027, then to 6.7% in 2027-2028, 2028-2029 and 2029-2030.

- **Borrowing program** – Borrowing activities over the course of the coming year (2024-2025) will amount to $36.7 billion, or $234 million more than anticipated in the March 2024 budget. This slight increase is explained by $9.3 billion in realized advance financing, which was only partially offset by a decrease compared to the previous budget in net financial requirements (-$3.0 billion), the use of advance borrowing (-$3.15 billion) and transactions under the credit policy (-$2.5 billion). To date, 34% of borrowing has been on foreign financial markets, the same proportion as last year, and above the average of 30% for the past ten years. The government uses a range of financial instruments to limit the risks associated with exchange rate and interest rate fluctuations. After swaps, the debt is entirely denominated in Canadian dollars. For 2025-2026, the government's financing program calls for borrowings of $29.7 billion. For subsequent years, borrowing requirements will average $31.7 billion per year.

Government's financing program from 2025-2026 to 2029-2030
(millions of dollars)

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Net financial requirements	29 084	25 882	22 456	15 280	13 737
Repayments of borrowings	16 899	14 104	13 309	14 488	17 701
Use of pre-financing	−9 322	—	—	—	—
Use of the Generations Fund to repay borrowings	−2 500	—	—	—	—
Retirement Plans Sinking Fund withdrawal	−2 500	−2 500	−2 500	−2 500	−2 500
Increase in the outstanding amount of Québec Treasury bills	−2 000	—	—	—	—
TOTAL	**29 661**	**37 486**	**33 265**	**27 268**	**28 938**

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

- **Current long-term credit ratings** — S&P: AA-, Stable | Moody's: Aa2, Stable | DBRS: AA(L), Stable

*[Refer to our **Provincial Ratings Snapshot** for additional colour on specific credit rating drivers/considerations]*

Multi-year financial framework
(millions of dollars, unless otherwise indicated)

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	AAGR[1]
Revenue							
Personal income tax	45 459	46 944	48 967	50 893	53 063	55 006	
Contributions for health services	8 958	9 242	9 551	9 819	10 176	10 477	
Corporate taxes	12 988	12 491	12 970	14 065	14 157	14 771	
School property tax	1 180	1 346	1 482	1 607	1 718	1 819	
Consumption taxes	27 969	28 922	29 933	31 044	32 045	32 983	
Duties, permits and royalties	5 920	6 220	6 833	7 040	7 313	7 634	
Miscellaneous revenue	16 665	15 299	16 047	16 544	17 318	17 966	
Government enterprises	5 406	5 268	7 042	7 122	7 349	7 530	
Own-source revenue	**124 545**	**125 732**	**132 825**	**138 134**	**143 139**	**148 186**	
% change[2]	***8.6***	***1.0***	***5.6***	***4.0***	***3.6***	***3.5***	***3.5***
Federal transfers	30 636	30 610	32 362	33 071	33 110	33 103	
% change[3]	*−0.8*	*−0.1*	*5.7*	*2.2*	*0.1*	*0.0*	*1.6*
Total revenue	**155 181**	**156 342**	**165 187**	**171 205**	**176 249**	**181 289**	
% change	***6.6***	***0.7***	***5.7***	***3.6***	***2.9***	***2.9***	***3.2***
Expenditure							
Portfolio expenditures	−153 406	−156 102	−159 911	−162 322	−164 092	−167 150	
% change[4]	*8.4*	*1.8*	*2.4*	*1.5*	*1.1*	*1.9*	*1.7*
Debt service	−9 853	−9 670	−10 402	−11 556	−12 007	−12 242	
% change[5]	*−1.3*	*−1.9*	*7.6*	*11.1*	*3.9*	*2.0*	*4.4*
Total expenditure	**−163 259**	**−165 772**	**−170 313**	**−173 878**	**−176 099**	**−179 392**	
% change	***7.7***	***1.5***	***2.7***	***2.1***	***1.3***	***1.9***	***1.9***
Contingency reserve	—	−2 000	−2 000	−1 500	−1 500	−1 500	
ACCOUNTING SURPLUS (DEFICIT)[6]	**−8 078**	**−11 430**	**−7 126**	**−4 173**	**−1 350**	**397**	
% of GDP	***1.3***	***1.8***	***1.1***	***0.6***	***0.2***	***0.1***	

Budgetary balance within the meaning of the *Balanced Budget Act*
(millions of dollars, unless otherwise indicated)

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
ACCOUNTING SURPLUS (DEFICIT)	**−8 078**	**−11 430**	**−7 126**	**−4 173**	**−1 350**	**397**
% of GDP	***1.3***	***1.8***	***1.1***	***0.6***	***0.2***	***0.1***
Gap to be bridged	—	—	—	1 000	2 500	2 500
Deposits of dedicated revenues in the Generations Fund	−2 354	−2 177	−2 402	−2 522	−2 648	−2 796
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**−10 432**	**−13 607**	**−9 528**	**−5 695**	**−1 498**	**101**
% of GDP	***1.7***	***2.2***	***1.5***	***0.8***	***0.2***	***0.0***

Note: Totals may not add due to rounding.

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