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A first step towards eliminating the structural deficit

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Highlights

Unlike last March's disclosure, the Quebec government did not announce any significant deterioration in the situation of public finances in this economic update. The anticipated deficit for the current year remains unchanged at $11 billion, after payment to the Generations Fund (deficit as defined in the Balanced Budget Act). However, we note that the deficit for 2025-26 has been revised upwards (from $8.5 billion to $9.2 billion). The government is benefiting from a stronger economic performance than expected in the 2024-25 budget (1.2% compared with 0.6%). Quebec households are showing resilience despite high interest rates, thanks in particular to a lower level of debt compared to national average. But that's not all. The stronger-than-expected strength in the rest of Canada and the solid performance of the US economy are reflected in exports, which could be higher than expected. For 2025, economic growth has been revised down by a tenth (from 1.6% to 1.5%) due to lower than previously estimated population growth, and the Ministry of Finance expects GDP to grow at a similar rate in subsequent years. We have some doubts as to whether such growth will materialize over the next three years, given the decline in the population that we anticipate, which will be particularly acute among the working-age population. That said, it is important to bear in mind that population changes have an impact on both income and expenditure from the point of view of public finances. Moreover, we must not forget that the Quebec economy is not immune to an outright recession in the next few years, which could jeopardize these long-term prospects. Given all these uncertainties, we welcome the government's determination to eliminate the structural deficit by 2029-30, as stipulated in the Balanced Budget Act. It is taking a step in the right direction with this update by eliminating $700 million of the structural deficit, which was estimated at $3.9 billion, thanks to a reduction in tax expenditures (increase in the capital gains rate and adjustment to the career extension credit), which should be stepped up when the 2025-2026 budget is presented. On the other hand, the government is announcing measures to 'respond to priority issues' (see new initiatives below) and to index Quebecers' tax system, which is one of the factors contributing to next year's deficit. In short, we encourage the government to stick to its budgetary target of eliminating the structural deficit within 5 years. Failure to do so would mean that the net debt would have fallen from 40.9% in 2019-20 to 38.6% in 2028-29, very little progress in nine years, whereas the government is aiming for a level of 30% in 2037-2038, in line with the law on reducing the debt and establishing the Generations Fund. A fall of 8.6 percentage points between 2028-2029 and 2037-2038 would be a major challenge, given that healthcare spending will be under considerable pressure as the population ages. With fewer and fewer governments concerned about the sustainability of public finances and facing higher interest rates than in the past, investors are likely to discriminate more against governments on the basis of their financial soundness. Financial prudence is therefore the order of the day, as demographic changes and the asset preservation deficit represent a challenge for Quebec's public finances over the next few years.

- **Economic outlook** — Since the start of 2024, the Quebec economy has been more robust than expected at the time of the 2024 Budget, with real GDP growing at an annualized rate of 3.6% in the first quarter and 2.7% in the second quarter, a better performance than observed in the country as a whole. As for the unemployment rate, it rose from 4.5% in January to 5.7% in October (+1.2%), a higher rise than the national average (from 5.7% to 6.5%). Despite this, the unemployment rate remains the lowest of the country's 10 provinces. Inflation, which was higher in the province than in the country as a whole, has fallen below the national average since June, and now stands at 1.6% (Canada: 2%), below the Bank of Canada's 2% target. With the economy more resilient than expected at the time of the 2024 Budget, the real GDP growth expected in 2024 at the time of the Autumn Update has doubled, from 0.6% to 1.2%, in line with our recent forecasts. This upward revision is mainly due to much stronger-than-expected household consumption, while business investment, both residential and non-residential, has been weaker than expected. For 2025, the province's economy is forecast to grow by 1.5%, a slight downward revision of one tenth compared to the Budget. Although more interest rate cuts are expected than last spring, which should help to support the economy, the anticipated economic growth in 2025 seems slightly optimistic compared with our forecast of 1.0%, in a context where the population is likely to decline slightly over the next 3 years. In subsequent years, real GDP should accelerate slightly, with growth of 1.6% in 2026 and 2027, then 1.7% in 2028. In nominal terms, which have a greater impact on public finances, GDP has also been revised upwards in 2024, from 4.0% at the time of the Budget to 4.6% today. For 2025, nominal GDP should slow to 3.6% (Budget 3.8%) under the weight of lower inflation and maintain this pace until 2028. As for the labour market, the average unemployment rate should reach 5.4% in 2024, up from the 5.2% expected at the time of the Budget. The peak initially forecast for this year should be reached in 2025, when the unemployment rate should rise to 5.8% before gradually falling to 4.4% in 2028. It should be noted, however, that the unemployment rate has been revised upwards over the entire forecast period.

- **Revised 2024-25 budgetary outlook** — The budgetary balance for 2024-2025 as defined in the Balanced Budget Act (after payment into the Generations Fund and use of the stabilization reserve) is unchanged from that anticipated in the Budget, at $10.998 billion. In fact, an upward revision of $2.325 billion in revenues and the use of half ($750 million) of the contingency reserve is offset by an increase of $3.054 billion in expenditure, mainly due to an upward revision of $2.888 billion in portfolio expenditure. Put in perspective, this deficit represents 7.2% of revenues or 1.8% of GDP. Before payment to the Generations Fund, the deficit was $8.755 billion, a reduction of $21 million compared with the last budget.

- **Future year budgetary outlook (2025-26 and 2026-27)** — The budgetary balance for 2025-2026 as defined in the Balanced Budget Act (after payment into the Generations Fund and use of the stabilization reserve) should be higher than anticipated in the Budget, rising from $8.486 billion in March to $9.244 billion today. The deficit should then fall to $4.198 billion in 2026-27 and continue to fall thereafter. The objective set out in the budget of returning to a balanced budget by 2029-30 remains intact. Given the relatively unchanged economic context, the Minister of Finance is not modifying his contingency provision. The contingency provision will therefore remain at $800 million in 2024-25, and $1.5 billion for all years from 2025-26 to 2028-29.

- Revenues in 2025-26 are expected to be $772 million higher than in the 2024 Budget, reaching $157.3 billion. This increase is due to a $282 million increase in federal transfers, while total own-source revenue should be up by $488 million. This upward revision of autonomous revenue for 2024-25 is due to an increase in tax revenue (personal income tax, corporate income tax, etc.) and other autonomous revenue excluding that from government enterprises, which more than offset a downward revision of these enterprises, due in particular to lower exports by Hydro-Québec as a result of low water levels. For 2026-27, revenues should increase by 4.8% thanks to a 4.7% rise in own-source revenues and a 5.2% increase in federal transfers.

- **New initiatives** — Since the March budget, the new measures represent $2.083 billion over five years. More than half of this amount, or $1.180 billion, will be allocated to 'community development', including $880 million over four years for public transport. The forestry sector will receive $252 million over five years, of which $100 million will be in the form of loans to businesses. The remainder will be dedicated to encouraging reforestation efforts, in conjunction with the $220 million granted by the Government of Canada. An additional $208 million will be invested in housing, in particular to speed up construction. Finally, $433 million has been earmarked to help people and infrastructure affected by the recent floods ($262 million), to support police forces in Nunavik ($155 million) and to improve cellphone coverage in Bas-Saint-Laurent, Mauricie and Saguenay-Lac-Saint-Jean ($16 million).

Financial impact of the actions to address priority issues
(millions of dollars)

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Increasing support for the forestry sector	−15	−22	−32	−92	−92	−252
Consolidating support for Quebecers	−60	−80	−38	−31	−9	−218
Fostering community development	—	−325	−327	−290	−237	−1 180
Ensuring the safety of communities	−290	−37	−34	−34	−39	−433
TOTAL	**−365**	**−463**	**−431**	**−447**	**−377**	**−2 083**

Note: Totals may not add due to rounding.

In addition, the government has announced that it is continuing to review tax expenditure. The full results should be announced in the next budget, but the fiscal update already includes two measures to modernize the tax system. The first concerns the previously announced harmonization of the tax treatment of capital gains with that of the federal government, a measure that will reduce spending by $2.475 billion over five years. The second measure aims to raise the minimum age for eligibility for the tax credit for career extension from 60 to 65, while adjusting the amount granted more progressively according to taxpayers' income. These two adjustments combined will result in savings of $3.362 billion over five years. In addition, $5.210 billion will be allocated to indexing the current tax system by 2.85%.

Measures to optimize and update the tax system
(millions of dollars)

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Continuing the review of tax expenditures	972	640	202	675	873	3 362
Indexing the tax system by 2.85% for the benefit of all Quebecers(1)	−279	−1 203	−1 224	−1 243	−1 262	−5 210

Note: Totals may not add due to rounding.
(1) The amounts are already included in the financial framework through the government's own-source revenue forecasts.

- **Debt management** — The government is staying on course with its new target of gradually reducing the net debt-to-GDP ratio to 30% by 2037-38, which is close to the average for Canadian provinces.

- As at 31 March 2025, net debt should amount to $236.6 billion, or 39.0% of GDP, unchanged from March 2024, but up compared with last autumn's economic update (37.8%). The net debt-to-GDP ratio is then expected to rise to 39.8% of GDP in 2026, then follow a downward trajectory in subsequent years, reaching 38.6% in 2029. This is lower than the path initially forecast in the 2024 Budget (39.5%).

- **Borrowing program** — The update revises the borrowing requirements for the 2024-2025 financial year, which at $32.5 billion are down from the $36.5 billion telegraphed in March. The downward revision of net borrowing requirements, the use of early borrowing in 2023-24 and transactions under the credit policy are the main factors behind this reduction. The financing program has been completed for 2024-25. Of these borrowings, 35% were made on foreign markets (23.9% in US dollars, 5.7% in euros, 3.7% in Australian dollars and 1.3% in Swiss francs), a higher proportion than that observed over the last 10 years (~30%). At the time of publishing the budget update, transactions for the 2024-2025 financial year had been carried out, on average, at a cost of 4.15% and with a maturity of 15.9 years, higher than the cost of total debt in March 2024 (3.87%) with an average maturity of 11.3 years. For subsequent years, the financing program provides for borrowings of $29.2 billion in 2025-26, $30.1 billion in 2026-27, $27.9 billion in 2027-28 and $28.5 billion in 2028-29.

Government's financing program in 2024-2025
(millions of dollars)

	March 2024	Adjustments	November 2024
Net financial requirements[(1)]	28 472	−2 024	26 448
Repayments of borrowings	16 904	−89	16 815
Use of pre-financing contracted in 2023-2024	—	−3 150	−3 150
Use of the Generations Fund to repay borrowings	−4 400	—	−4 400
Withdrawal from the Accumulated Sick Leave Fund	—	−165	−165
Retirement Plans Sinking Fund withdrawal	−2 500	—	−2 500
Increase in the outstanding amount of Québec Treasury bills	−2 000	—	−2 000
Change in cash position	—	—	—
Transactions under the credit policy[(2)]	—	−1 581	−1 581
Pre-financing contracted in 2024-2025	—	3 082	3 082
TOTAL	**36 476**	**−3 927**	**32 549**

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) The downward revision of net financial requirements is explained, in particular, by transfer revenues received at the beginning of 2024-2025 in connection with agreements with the federal government concluded at the end of 2023-2024.
(2) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives sums in response to exchange rates movements, among other things. These sums do not affect the debt.

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

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	AAGR[1]
Revenue							
Personal income tax	41 863	44 990	47 057	48 696	50 776	52 780	
Contributions for health services	8 533	8 825	9 144	9 390	9 675	9 944	
Corporate taxes	11 402	12 868	12 848	13 235	14 186	14 750	
School property tax	1 150	1 206	1 357	1 492	1 616	1 725	
Consumption taxes	27 083	27 523	28 587	29 470	30 392	31 383	
Duties, permits and royalties	5 888	6 065	6 315	6 726	6 980	7 262	
Miscellaneous revenue	13 505	14 778	15 292	15 985	16 394	17 049	
Government enterprises	5 241	5 329	6 018	7 544	7 811	7 851	
Own-source revenue	**114 665**	**121 584**	**126 618**	**132 538**	**137 830**	**142 744**	
% change[2],[3]	***−0.7***	***6.0***	***4.1***	***4.7***	***4.0***	***3.6***	***4.5***
Federal transfers	30 876	31 042	30 712	32 305	32 508	32 188	
% change[4]	*7.4*	*0.5*	*−1.1*	*5.2*	*0.6*	*−1.0*	*0.8*
Total revenue	**145 541**	**152 626**	**157 330**	**164 843**	**170 338**	**174 932**	
% change	***0.9***	***4.9***	***3.1***	***4.8***	***3.3***	***2.7***	***3.7***
Expenditure							
Portfolio expenditures	−141 553	−150 703	−153 877	−156 382	−160 751	−164 134	
% change[5]	*3.2*	*6.5*	*2.1*	*1.6*	*2.8*	*2.1*	*3.0*
Debt service	−9 982	−9 928	−9 753	−10 248	−10 996	−11 411	
% change[6]	*−2.3*	*−0.5*	*−1.8*	*5.1*	*7.3*	*3.8*	*2.7*
Total expenditure	**−151 535**	**−160 631**	**−163 630**	**−166 630**	**−171 747**	**−175 545**	
% change	***2.8***	***6.0***	***1.9***	***1.8***	***3.1***	***2.2***	***3.0***
Gap to be bridged	—	—	750	1 500	1 500	1 500	
Contingency reserve	—	−750	−1 500	−1 500	−1 500	−1 500	
ACCOUNTING SURPLUS (DEFICIT)	**−5 994**	**−8 755**	**−7 050**	**−1 787**	**−1 409**	**−613**	
% of GDP	*1.0*	*1.4*	*1.1*	*0.3*	*0.2*	*0.1*	

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

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
ACCOUNTING SURPLUS (DEFICIT)	**−5 994**	**−8 755**	**−7 050**	**−1 787**	**−1 409**	**−613**
% of GDP	***1.0***	***1.4***	***1.1***	***0.3***	***0.2***	***0.1***
Deposits of dedicated revenues in the Generations Fund	−2 047	−2 243	−2 194	−2 411	−2 528	−2 635
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**−8 041**	**−10 998**	**−9 244**	**−4 198**	**−3 937**	**−3 248**
% of GDP	***1.4***	***1.8***	***1.5***	***0.6***	***0.6***	***0.5***

Note: Totals may not add due to rounding.

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