March 2024

SUPPLEMENTARY INFORMATION

BUDGET 2024-2025

Votre gouvernement

Québec

SUPPLEMENTARY INFORMATION

1. MARGINS OF PRUDENCE, SENSITIVITY ANALYSES AND MAIN RISKS TO QUÉBEC'S FINANCIAL SITUATION

❑ Margins of prudence

The provisions included in the financial framework total $8.5 billion through 2028-2029:

— a Contingency Fund reserve amounting to $1.0 billion from 2024-2025 to 2028-2029, namely $200 million per year, to respond to an unexpected increase in expenditure;

— a contingency reserve of $7.5 billion over five years with a view to offsetting the effects of a more moderate-than-expected economic growth, should one occur, and the uncertainty that could affect longer-term economic and financial forecasts.

TABLE 1

Margins of prudence
(millions of dollars)

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Contingency Fund reserve	—	200	200	200	200	200	1 000
Contingency reserve	—	1 500	1 500	1 500	1 500	1 500	7 500
TOTAL	**—**	**1 700**	**1 700**	**1 700**	**1 700**	**1 700**	**8 500**

❑ Risks and sensitivity analyses in the context of high inflation

Economic activity in Québec, like elsewhere in the world, is evolving in an uncertain environment. Several risks, both upside and downside, could impact the economic outlook in the coming months. In particular, the persistence of high inflation is significantly increasing uncertainty about the parameters and assumptions on which the forecasts are based for the various components of the financial framework. Consequently, the sensitivity-analysis results presented in this section could be substantially different from those initially anticipated.

❑ Risks and sensitivity analysis for own-source revenue

■ Risks

The own-source revenue forecasts for 2024-2025 and subsequent years include a certain level of risk and uncertainty, and are based on assumptions tied to future events, such as controlled inflation and lower interest rates as of the second quarter of 2024. Nevertheless, there are a number of risks that could influence the anticipated developments in the economy in 2024, including different developments in monetary policy.

For example, the forecast for corporate tax revenue is marked by a considerable level of uncertainty owing to a combination of several economic, decision-making and administrative factors such as:

- the legal framework, which allows businesses to make choices regarding taxation, in particular the utilization of deferred losses;
- the possibility of adjusting instalment payments over the course of the year;
- the deadline for filing and processing tax returns, which affects the recognition of corporate taxes.

Sensitivity analysis

In general, the nominal GDP forecast is a good indicator of growth in own-source revenue[1] given the direct link between tax bases and nominal GDP.

- According to the overall sensitivity analysis, a variation of 1 percentage point in nominal GDP has an impact of about $1.0 billion on the government's own-source revenue.

This sensitivity analysis is based on an adjustment of each tax base in proportion to the adjustment of nominal GDP.

- In reality, different developments in economic growth and the geopolitical situation can have a greater impact on certain variables, affecting some tax bases more than others.

Sensitivity analyses set an average historical relationship between the change in own-source revenue and growth in nominal GDP. However, although they remain valid, these trends may not be confirmed for a specific period due to exceptional events or particular economic circumstances.

- In fact, economic fluctuations may have different impacts on revenue because of changes in the behaviour of economic agents.
- In these situations, the change in own-source revenue can be higher or lower than the change in nominal GDP.

[1] Own-source revenue excluding revenue from government enterprises.

TABLE 2

Sensitivity of own-source revenue excluding revenue from government enterprises to major economic variables

Variables	Variation forecasts for 2024	Impacts for fiscal 2024-2025
Nominal GDP	4.0%	A variation of 1 percentage point changes own-source revenue(1) by about $1.0 billion.
Wages and salaries	5.1%	A variation of 1 percentage point changes personal income tax revenue by about $445 million.
Employment insurance	20.6%	A variation of 1 percentage point changes personal income tax revenue by about $7 million.
Pension income	5.0%	A variation of 1 percentage point changes personal income tax revenue by about $65 million.
Net operating surplus of corporations	−2.5%	A variation of 1 percentage point changes corporate tax revenue by about $50 million.
Consumption excluding food expenditures and shelter	2.5%	A variation of 1 percentage point changes QST revenue by about $225 million.
Residential investment	2.6%	A variation of 1 percentage point changes QST revenue by about $40 million.

(1) Own-source revenue excluding revenue from government enterprises.

Risks and sensitivity analysis for revenue from government enterprises

Risks

The forecasts for government enterprises depend on the information available when they are produced. As a result, updating information may have an impact on forecasts.

In addition, it must also be borne in mind that certain variables, such as those concerning weather conditions, are difficult to forecast.

Sensitivity analysis

For Hydro-Québec,[2] a variation of:

— 1.0 US¢/kWh in the price of energy on foreign markets changes its annual net earnings by about $35 million;

— 1 °C in winter temperatures compared to normal temperatures changes its net earnings by about $75 million.

For Loto-Québec, a 1% variation in sales changes its net earnings by over $10 million.

For the Société des alcools du Québec, a 1% variation in sales changes its net earnings by nearly $20 million.

For Investissement Québec, a variation of 1 percentage point in interest rates changes its net earnings by nearly $5 million.

For the Société québécoise du cannabis, a 1% variation in sales changes its net earnings by more than $2 million.

Risks and sensitivity analysis for federal transfers

Risks

The primary risk associated with the equalization forecast concerns the estimation of the per capita fiscal capacity of each province, given that the federal government does not publish forecasts for equalization payments by province.

Moreover, the main risks associated with the forecast for revenue from the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) concern the estimation of the value of the special Québec abatement[3] as well as the estimation of the population of the provinces and territories.

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2 These data refer to Hydro-Québec's fiscal year from January 1 to December 31, 2024.

3 Québec's CHT and CST revenues are deducted from a portion of the value of the special Québec abatement (13.5% in the case of basic federal income tax collected in Québec, of which 62% are attributed to the CHT and 38% to the CST).

Sensitivity analysis

Equalization, CHT and CST revenue forecasts are primarily based on the following economic and demographic variables:

— Canada's nominal GDP;

— wages and salaries used in the forecast for basic federal income tax;

— the net operating surplus of corporations used in the forecast for taxable corporate income;

— Québec's share of the population among the provinces as a whole.

Sensitivity analyses may not apply for a given year because of special economic conditions or changes by the federal government to the operation of way equalization, the CHT or the CST.

Moreover, the sensitivity analysis of equalization revenue is based on an increase of 1 percentage point in the growth of Québec's economic variables, without any impact on those of the other provinces.

TABLE 3

Sensitivity of federal transfer revenue to major economic and demographic variables

Variables	Forecasts for 2024	Impacts for fiscal 2024-2025
Growth in Canada's nominal GDP	3.2%	An increase of 1 percentage point raises equalization revenue(1) by about $60 million.
		An increase of 1 percentage point raises CHT revenue(1) by about $40 million.
Growth in wages and salaries in Québec	5.1%	An increase of 1 percentage point reduces equalization revenue(2) by about $65 million.
		An increase of 1 percentage point reduces CHT and CST revenue by about $55 million.
Growth in the net operating surplus of corporations in Québec	−2.5%	An increase of 1 percentage point reduces equalization revenue(2) by about $15 million.
Québec's share of the Canadian population	22.0%	An increase of 0.1 percentage points raises equalization revenue(2) by about $110 million.
		An increase of 0.1 percentage points raises CHT and CST revenues by about $70 million.

(1) Equalization and CHT envelopes for 2024-2025 were set in December 2023 by the federal government and will not be revised. Increased growth in 2024 would have an impact as of 2025-2026.
(2) Due to the two-year lag in the equalization formula, increased growth in 2024 would have an impact as of 2026-2027. The impact of this increase for the years 2024-2025 and 2025-2026 would be nil.

❑ Risks and sensitivity analysis for portfolio expenditures

■ Risks

Several factors can affect the expenditures of a departmental portfolio. These factors include, in particular:

- a change in clientele, such as recipients of last-resort financial assistance or the student population in educational institutions;
- technological changes, which particularly affect the cost of drugs and medical equipment for performing diagnostics;
- an insufficient workforce, in the context of a shrinking labour pool, which limits the government's ability to implement its programs;
- changes in the general level of prices, which affect each of the government's portfolios differently;
- the emergence of new needs among the Québec population.

The accuracy of forecast remuneration expenditures is improved when the remuneration of government employees is governed by agreements. Agreements in principle have been reached between the government and certain unions representing the vast majority of employees in the public and parapublic sectors. However, other groups are still negotiating, implying some volatility in the forecast of portfolio expenditures over the period covered by the financial framework.

■ Sensitivity analysis

The financial framework's forecasts take into account:

- the government's budgetary choices, which stem from prioritizing certain sectors over others in allocating spending;
- socioeconomic variables, which are tied to price factors (inflation) and demographic factors (changes in population).

The following two tables show the sensitivity of portfolio expenditures according to budgetary choices and socioeconomic factors.

- It should be noted that such data are indications, and that impacts may vary depending on the nature and interaction of risk factors.

▪ Budgetary choices

Spending may vary according to the choices made by the government in allocating its available budgetary resources.

For fiscal 2024-2025, therefore, a 1% variation in expenditures in the:

- Santé et Services sociaux portfolio would lead to a variation of about $620 million;
- Éducation portfolio would lead to a variation of about $220 million;
- Enseignement supérieur portfolio would lead to a variation of about $110 million.

TABLE 4

Sensitivity of expenditures to a 1% variation for the key portfolios
(millions of dollars)

	Impacts for fiscal 2024-2025
Santé et Services sociaux	620
Éducation	220
Enseignement supérieur	110
Famille	80
Transports et Mobilité durable	70
Emploi et Solidarité sociale	60
Affaires municipales et Habitation	50
Économie, Innovation et Énergie	40
Environnement, Lutte contre les changements climatiques, Faune et Parcs	20
Other portfolios	210
TOTAL	**1 480**

Note: Totals may not add due to rounding.

- **Socioeconomic factors**

The analysis carried out also makes it possible to estimate the sensitivity of portfolio expenditures to certain socioeconomic factors.

- ***Population***

Spending is affected by changes in total population and by changes in the size of the clientele for certain services.

For example, a 1% variation in the total population would change total spending by about $1 220 million, that is, 0.8 percentage points.

A 1% variation in the number of people aged 5-16, that is, the population that affects, in particular, the demand for school services, would have a $290-million impact on total expenditure.

- ***Prices***

Public spending is influenced by the price of services offered by the government, the evolution of which is closely tied to the change in the general level of prices in the economy, that is, inflation.

Accordingly, a uniform variation in prices could lead to variations in portfolio expenditures.

The results show that a 1% variation in prices would lead to a variation of $710 million in spending, or 0.5 percentage points in total spending.

TABLE 5

Sensitivity of portfolio expenditures to a 1% variation in each economic and demographic variable

		Impacts for fiscal 2024-2025	
Socioeconomic variables		**$million**	**Percentage points**
Population			
Total population	**Total expenditure**	**1 220**	**0.8**
	Per portfolio:		
	– Santé et Services sociaux		0.9
	– Éducation		0.9
	– Enseignement supérieur		0.9
	– Famille		0.9
	– Other		0.6
0-4 years	**Total expenditure**	**90**	**0.1**
	Per portfolio:		
	– Famille		0.5
5-16 years	**Total expenditure**	**290**	**0.9**
	Per portfolio:		
	– Éducation		0.9
17-24 years	**Total expenditure**	**150**	**0.1**
	Per portfolio:		
	– Enseignement supérieur		0.9
65 years and over	**Total expenditure**	**340**	**0.2**
	Per portfolio:		
	– Santé et Services sociaux		0.4
Prices			
Inflation	**Total expenditure**	**710**	**0.5**
	Per portfolio:		
	– Santé et Services sociaux		0.3
	– Éducation		0.2
	– Enseignement supérieur		0.5
	– Famille		0.9
	– Other		0.8

❑ Risks and sensitivity analysis for debt service

■ Risks

The main risks associated with the debt service forecast are a higher-than-anticipated increase in interest rates and a lower-than-anticipated return on the Retirement Plans Sinking Fund (RPSF).[4]

The RPSF is an asset that was created for payment of the retirement benefits of public and parapublic sector employees. It is managed by the Caisse de dépôt et placement du Québec.

The income of the RPSF is deducted from debt service. Therefore, a lower-than-expected return would result in an increase in debt service.

■ Sensitivity analysis

A higher-than-anticipated rise in interest rates of 1 percentage point over a full year would increase interest expenditure by $434 million.

A return of 1 percentage point less than the anticipated return on the RPSF would result in an increase of about $30 million in debt service the following year.

Moreover, the government keeps no exposure of its debt to foreign currencies in order to neutralize the impact of variations in exchange rates on debt service.

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4 With its investment policy, which is based on a long-term horizon, the RPSF should generate an annual return of 6.35%.

❑ Main risks for the financial situation

TABLE 6

Margins of prudence and main risks for Québec's financial situation

Margins of prudence	Risks	Estimated impact
Financial framework	**Economic variables**	
Contingency reserve: – $1.5 billion per year from 2024-2025 to 2028-2029	Impact of external variables on the Québec economy:	
	– Variation of 1 percentage point in U.S. real GDP	Impact of 0.45 percentage points on Québec real GDP
	– Variation of 1 percentage point in Ontario real GDP	Impact of 0.42 percentage points on Québec real GDP
	Own-source revenue	
	Global economic slowdown:	
	– Variation of 1 percentage point in Québec nominal GDP (equivalent to a 1.0-percentage point variation in growth in the consumer price index)	Impact of $1.0 billion on own-source revenue(1)
	– Typical recession (average)(2)	Impact of $8.3 billion on own-source revenue(1)
	Government enterprises	
	Variation of 1 °C in winter temperatures compared to normal temperatures(3)	Impact of $75 million on Hydro-Québec's net earnings
	Federal transfers	
	Variation of 0.1 percentage points in Québec's share of Canada's population	Impact of $180 million on federal transfer revenues
Portfolio expenditures	**Portfolio expenditures**	
Contingency Fund reserve: – $200 million per year from 2024-2025 to 2028-2029	Unforeseen expenditures under government programs	Undetermined impact
	Variation of 1 percentage point in the total population	Impact of $1 220 million on spending
	Additional variation of 1 percentage point in technology-related health care costs	Impact of $380 million on spending
	Variation of 1 percentage point in the general level of prices	Impact of $710 million on spending
	Natural disaster	Undetermined impact
	Public capital investment completion rate for a given year (5% difference)	Impact of $301 million per year on spending (depreciation, non-government owned infrastructure grants and interest)
Debt service	**Debt service**	
	Variation of 1 percentage point in interest rates	Impact of $434 million on debt service(4)
	Variation of 1 percentage point in the return on the RPSF	Impact of $30 million on debt service(5)

(1) Own-source revenue excluding revenue from government enterprises.
(2) In Québec, analysis of historical data indicates that a medium-sized recession could result in a revision to nominal GDP of −2.8 percentage points in the first year of the shock and −0.7 percentage points the year after in comparison to a baseline scenario.
(3) These data refer to Hydro-Québec's fiscal year from January 1 to December 31, 2024.
(4) Ultimately, in the fifth year, the impact of a higher-than-anticipated rise in interest rates of 1 percentage point would increase debt service by nearly $1.7 billion.
(5) Ultimately, in the fifth year, the impact of a lower-than-anticipated return on the RPSF of 1 percentage point would increase debt service by nearly $180 million.

2. NET FINANCIAL SURPLUSES OR REQUIREMENTS

Net financial surpluses or requirements represent the difference between the government's cash inflow and disbursements. These net financial surpluses or requirements take into account:

— changes in the budgetary balance on an accrual basis;

— resources or requirements arising from, in particular, the acquisition or disposal of fixed assets, investments, loans and advances and from other activities such as collecting accounts receivable and paying accounts payable.

TABLE 7

Net financial surpluses or requirements
(millions of dollars)

	2023-2024	2024-2025	2025-2026
SURPLUS (DEFICIT) FROM OPERATIONS(1)	**−4 221**	**−8 776**	**−6 267**
Non-budgetary transactions			
Investments, loans and advances(2)	−1 145	−4 689	−2 605
Capital investments(3)	−8 536	−8 208	−7 196
Pension plans and other employee future benefits(4)	−3 400	−3 187	−3 894
Other accounts(5)	4 616	−1 390	−410
Deposits of dedicated revenues in the Generations Fund	−2 081	−2 222	−2 219
Total non-budgetary transactions	**−10 546**	**−19 696**	**−16 324**
NET FINANCIAL SURPLUSES (REQUIREMENTS)	**−14 767**	**−28 472**	**−22 591**

Note: A negative entry represents a financial requirement and a positive entry, a source of funding.
(1) Balance within the meaning of the Public Accounts.
(2) Investments, loans and advances include mainly investments made by the government in its enterprises as well as loans and advances granted to entities not included in the government reporting entity.
(3) Forecast net financial requirements associated with net capital investments result mainly from needs arising from the Québec Infrastructure Plan.
(4) Net financial requirements associated with retirement plans and other employee future benefits arise from gross employer contributions, employee contributions, benefits and administration costs, employee future benefits as well as uncollected income from the Retirement Plans Sinking Fund and other employee future benefits funds.
(5) Net financial surpluses or requirements for other accounts consist of a series of changes in assets and liabilities, such as accounts receivable and accounts payable.

TABLE 8

Net capital investments
(millions of dollars)

	2023-2024	2024-2025	2025-2026
Investments	−13 543	−13 708	−12 995
Depreciation	5 007	5 500	5 799
TOTAL	**−8 536**	**−8 208**	**−7 196**

Note: A negative entry represents a financial requirement and a positive entry, a source of funding.