

March 2026

Supplementary Information

BUDGET 2026-2027

SUPPLEMENTARY INFORMATION

1. Margins of prudence, sensitivity analyses and main risks to Québec's financial situation.....	3
2. Net financial surpluses or requirements	15

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 \$9.0 billion through 2030-2031:

- a Contingency Fund reserve of \$1.0 billion over five years, that is, \$200 million per year from 2026-2027 to 2030-2031 to respond to an unexpected increase in expenditures;
- a contingency reserve of \$8.0 billion over five years, including \$2.0 billion in 2026-2027 and \$1.5 billion per year thereafter, which could be used, in particular, to cover unforeseen expenditures or to mitigate the effects of more moderate-than-expected economic growth.

TABLE 1

Margins of prudence (millions of dollars)

	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031	Total
Contingency Fund reserve	200	200	200	200	200	1 000
Contingency reserve	2 000	1 500	1 500	1 500	1 500	8 000
TOTAL	2 200	1 700	1 700	1 700	1 700	9 000

□ Risks and sensitivity analysis in a context of uncertainty

Since spring 2025, Québec has been operating in an international economic and geopolitical context marked by significant uncertainty, linked, in particular, to geopolitical tensions in the Middle East, the unpredictability of U.S. trade policy, and the multiplication of new tariffs imposed by the United States, which are disrupting global economic growth. While the economic forecast under the Ministère des Finances baseline scenario is balanced and prudent, it is not shielded from events that could influence changes in economic activity, both on the downside and the upside.

Developments in the trade dispute with the United States constitute the main risk to the baseline scenario. Other risks could also cause Québec's economy to deviate from its expected trajectory. In particular, a shift in inflation from that expected in the baseline scenario, as a result of an escalation in tensions in the Middle East, for instance, would have effects on the parameters and assumptions underpinning the forecasts for the 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 2026-2027 and subsequent years include a high level of risk and uncertainty. Indeed, they are based on assumptions tied to future events. More specifically, these forecasts are based, among other things, on the assumption that the average effective tariff rate will remain relatively stable over the next few years and that the July 2026 review of the Canada-United States-Mexico Agreement (CUSMA) could help reduce uncertainty surrounding the economic outlook. Any significant variation in this respect, whether in terms of a revision to the scope and the extent of the tariffs or the signing of trade agreements, could influence the trajectory of the Québec economy. Similarly, inflation that deviates from forecasts, as a result of an escalation in tensions in the Middle East or population growth outstripping expectations over the next few years, for instance, could also alter the economic context and consequently have an impact on own-source revenue forecasts.

■ Sensitivity analysis

In general, the nominal GDP forecast is a good indicator of growth in own-source revenue¹ 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 \$1.1 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 context 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 this relationship remains generally reliable, it may not be confirmed for a specific period due to exceptional events or particular economic circumstances.

— Indeed, 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 compared to the change in nominal GDP.

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, which may lead to a different shift in revenue, 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;

— the evolution of the results of tax audit activities.

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 2026	Impacts for fiscal 2026-2027
Nominal GDP	3.5%	A variation of 1 percentage point changes own-source revenue ⁽¹⁾ by about \$1.1 billion.
Wages and salaries	3.0%	A variation of 1 percentage point changes personal income tax revenue by about \$490 million.
Employment insurance	-4.1%	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 \$70 million.
Net operating surplus of corporations	3.7%	A variation of 1 percentage point changes corporate tax revenue by about \$70 million.
Consumption excluding food expenditures and shelter	2.7%	A variation of 1 percentage point changes QST revenue by about \$235 million.
Residential investment	3.4%	A variation of 1 percentage point changes QST revenue by about \$50 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 be considered that certain variables, such as those concerning weather conditions, are difficult to forecast.

■ **Sensitivity analysis**

For Hydro-Québec, a variation of:

- 1.0 US¢/kWh in the price of energy on foreign markets changes its annual net earnings by \$106 million;
- 1 °C in winter temperatures compared to normal temperatures changes its net earnings by \$75 million.

For Loto-Québec, a 1% variation in sales changes its net earnings by \$15 million.

For the Société des alcools du Québec, a 1% variation in sales changes its net earnings by \$16 million.

For Investissement Québec, a variation of 1 percentage point in interest rates changes its net earnings by \$7 million.

For the Société québécoise du cannabis, a 1% variation in sales changes its net earnings by \$3 million.

□ Risks and sensitivity analysis for federal transfers

■ Risks

The primary risk associated with equalization forecasts 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 forecasts for revenue from the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) concern the estimation of the value of the special Québec abatement² as well as the estimation of the population of the provinces and territories.

■ 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 specific year because of special economic conditions or changes by the federal government to the operation of 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 growth of those variables in the other provinces.

² 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% is attributed to CHT and 38% to CST).

TABLE 3

Sensitivity of federal transfer revenue to major economic and demographic variables

Variables	Forecasts for 2026	Impacts for fiscal 2026-2027
Growth in Canada's nominal GDP	3.6%	An increase of 1 percentage point raises equalization revenue ⁽¹⁾ by about \$30 million.
Growth in wages and salaries in Québec	3.0%	An increase of 1 percentage point reduces equalization revenue ⁽²⁾ by about \$115 million. An increase of 1 percentage point reduces CHT and CST revenues by about \$60 million.
Growth in the net operating surplus of corporations in Québec	3.7%	An increase of 1 percentage point reduces equalization revenue ⁽²⁾ by about \$20 million.
Québec's share of the Canadian population	21.7%	An increase of 0.1 percentage points raises equalization revenue ⁽²⁾ by about \$180 million. An increase of 0.1 percentage points raises CHT and CST revenues by about \$75 million.

(1) The equalization envelope for 2026-2027 was determined in December 2025 by the federal government and will not be adjusted. Increased growth in 2026 would have an impact as of 2027-2028.

(2) Due to the two-year lag in the equalization formula, increased growth in 2026 would have an impact as of 2028-2029. The impact of this increase for 2026-2027 and 2027-2028 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;
- 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 have been reached with almost all government employees until 2027-2028. Some volatility remains present as other groups are still negotiating and agreements will expire in 2027-2028.

■ 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. Therefore, for fiscal 2026-2027, a 1% variation in expenditures in the:

- Santé et Services sociaux portfolio would lead to a variation of about \$690 million;
- Éducation portfolio would lead to a variation of about \$240 million;
- Enseignement supérieur portfolio would lead to a variation of about \$120 million.

TABLE 4

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

	Impacts for fiscal 2026-2027
Santé et Services sociaux	690
Éducation	240
Enseignement supérieur	120
Famille	100
Transports et Mobilité durable	80
Emploi et Solidarité sociale	60
Affaires municipales et Habitation	60
Économie, Innovation et Énergie	50
Environnement, Lutte contre les changements climatiques, Faune et Parcs	20
Other portfolios	210
TOTAL	1 610

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.

- **Demographics**

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

For example, a 1% variation in the total population would change total spending by about \$1 290 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 educational services, would have a \$300-million impact on total expenditure.

- **Prices**

Public spending is influenced by the price of services offered by the government. The change in the price of such services 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 variation of 1% in prices would lead to a variation of \$760 million in spending, or 0.5 percentage points in total spending.

TABLE 5

Sensitivity of portfolio expenditures to a 1% variation in each of the socioeconomic variables

Socioeconomic variables		Impacts for fiscal 2026-2027	
		\$million	Percentage points
Population			
Total population	Total expenditure	1 290	0.8
	Per portfolio:		
	– Santé et Services sociaux		0.9
	– Éducation		0.9
	– Enseignement supérieur		1.0
	– Famille		1.0
	– Other		0.5
0-4 years	Total expenditure	90	0.1
	Per portfolio:		
	– Famille		0.6
5-16 years	Total expenditure	300	0.1
	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	440	0.3
	Per portfolio:		
	– Santé et Services sociaux		0.6
Prices			
Inflation	Total expenditure	760	0.5
	Per portfolio:		
	– Santé et Services sociaux		0.3
	– Éducation		0.3
	– Enseignement supérieur		0.6
	– Famille		1.0
	– Other		0.6

□ **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).

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 \$654 million.

A return of 1 percentage point less than the anticipated return on the RPSF would result in an increase of about \$33 million in debt service the following year.

Moreover, to neutralize the impact of exchange rate variations on debt service, the government maintains no exposure of its debt to foreign currency on financial markets.

□ Main risks for the financial situation

TABLE 6

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

Margins of prudence	Risks	Estimated impacts
Financial framework	Economic variables	
Contingency reserve:	Impact of external variables on the Québec economy:	
– \$2.0 billion in 2026-2027	– variation of 1 percentage point in U.S. real GDP	Impact of 0.45 percentage points on Québec real GDP
– \$1.5 billion per year from 2027-2028 to 2030-2031	– variation of 1 percentage point in Ontario real GDP	Impact of 0.42 percentage points on Québec real GDP
	Own-source revenue	
	Global 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 \$1.1 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	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 \$255 million on federal transfer revenues
Portfolio expenditures	Portfolio expenditures	
Contingency Fund reserve:	Unforeseen expenditures under government programs	Undetermined impact
– \$200 million per year from 2026-2027 to 2030-2031	Variation of 1 percentage point in the total population	Impact of \$1 290 million on spending
	Variation of 1 percentage point in the general level of prices	Impact of \$760 million on spending
	Natural disaster	Undetermined impact
	Public capital investment completion rate for a given year (5% difference)	Impact of \$329 million on spending (depreciation, non-government-owned infrastructure grants and interest)
Debt service	Debt service	
	Variation of 1 percentage point in interest rates	Impact of \$654 million on debt service ⁽³⁾
	Variation of 1 percentage point in the return on the RPSF	Impact of \$33 million on debt service ⁽⁴⁾

(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 an adjustment 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) 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 \$1.8 billion.

(4) 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 \$201 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)

	2025-2026	2026-2027	2027-2028
ACCOUNTING SURPLUS (DEFICIT)^{(1),(2)}	-7 655	-6 265	-3 204
Non-budgetary transactions			
Investments, loans and advances ⁽³⁾	-2 690	-2 554	-1 791
Capital investments ⁽⁴⁾	-8 105	-8 790	-8 694
Retirement plans and other employee future benefits ⁽⁵⁾	-3 795	-4 303	-4 531
Other accounts ⁽⁶⁾	-212	51	-88
Deposits in the Generations Fund	-2 289	-4 179	-2 491
Total non-budgetary transactions	-17 091	-19 775	-17 595
NET FINANCIAL SURPLUSES (REQUIREMENTS)	-24 746	-26 040	-20 799

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

(1) Accounting surplus (deficit) refers to the surplus (deficit) from operations as presented in the public accounts.

(2) In 2027-2028, the accounting balance includes the gap to be bridged.

(3) 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.

(4) Forecast net financial requirements associated with net capital investments result mainly from needs arising from the Québec Infrastructure Plan.

(5) 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.

(6) 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)

	2025-2026	2026-2027	2027-2028
Investments	-13 956	-14 934	-15 133
Depreciation	5 851	6 144	6 439
TOTAL	-8 105	-8 790	-8 694

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