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Supplementary Information

Update on Québec's Economic and Financial Situation – Fall 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 $9.4 billion through 2029-2030:

— a provision to the Contingency Fund reserve of $850 million over five years, including $50 million in 2025-2026 and then $200 million per year from 2026-2027 to 2029-2030, in order to respond to an unexpected increase in expenditures;

— a contingency reserve of $8.5 billion over five years, including $2.0 billion in 2025-2026 and 2026-2027, and $1.5 billion per year thereafter, to limit the effects of more moderate economic growth than anticipated, should it occur.

TABLE 1

Margins of prudence
(millions of dollars)

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Contingency Fund reserve	50	200	200	200	200	850
Contingency reserve	2 000	2 000	1 500	1 500	1 500	8 500
TOTAL	**2 050**	**2 200**	**1 700**	**1 700**	**1 700**	**9 350**

❑ Risks and sensitivity analysis in a context of uncertainty

Since the spring of 2025, Québec has been facing a highly uncertain environment marked by the multiplication of new tariffs imposed by the United States, which is disrupting global economic growth, and by the unpredictability of U.S. trade policy. While the economic forecast under the Ministère des Finances baseline scenario is balanced and prudent, it is not shielded from events that could influence economic activity, both on the downside and the upside.

Developments in the trade dispute with the United States is 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 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 2025-2026 and subsequent years include a high level of risk and uncertainty. Indeed, they are based on assumptions tied to future events. In particular, these forecasts are based on the assumption that the average effective tariff rate should remain below 10%, but that certain tariff measures could be persistent, or even permanent. Any significant variation in this respect, whether in terms of higher or lower tariffs or the signing of trade agreements could influence the trajectory of the Québec economy. Similarly, inflation that deviates from forecasts, or population growth outstripping expectations over the next few years, 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 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 $1.1 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 reliable, 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 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 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 2025	Impacts for fiscal 2025-2026
Nominal GDP	4.0%	A variation of 1 percentage point changes own-source revenue(1) by about $1.1 billion.
Wages and salaries	3.6%	A variation of 1 percentage point changes personal income tax revenue by about $475 million.
Employment insurance	4.7%	A variation of 1 percentage point changes personal income tax revenue by about $7 million.
Pension income	6.0%	A variation of 1 percentage point changes personal income tax revenue by about $70 million.
Net operating surplus of corporations	2.2%	A variation of 1 percentage point changes corporate tax revenue by about $55 million.
Consumption excluding food expenditures and shelter	4.9%	A variation of 1 percentage point changes QST revenue by about $225 million.
Residential investment	16.6%	A variation of 1 percentage point changes QST revenue by about $45 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 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 $14 million;

— 1 °C in winter temperatures compared to normal temperatures changes its net earnings by about $50 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 $17 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 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[2] 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 given 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 2025	Impacts for fiscal 2025-2026
Growth in Canada's nominal GDP	3.7%	An increase of 1 percentage point raises equalization revenue(1) by about $25 million.
Growth in wages and salaries in Québec	3.6%	An increase of 1 percentage point reduces equalization revenue(2) by about $140 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	2.2%	An increase of 1 percentage point reduces equalization revenue(2) by about $25 million.
Québec's share of the Canadian population	21.7%	An increase of 0.1 percentage points raises equalization revenue(2) by about $215 million.
		An increase of 0.1 percentage points raises CHT and CST revenues by about $70 million.

(1) The equalization envelope for 2025-2026 was determined in December 2024 by the federal government and will not be adjusted. Increased growth in 2025 would have an impact as of 2026-2027.
(2) Due to the two-year lag in the equalization formula, increased growth in 2025 would have an impact as of 2027-2028. The impact of this increase for 2025-2026 and 2026-2027 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;
- 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. For fiscal 2025-2026, therefore, a 1% variation in expenditures in the:

- Santé et Services sociaux portfolio would lead to a variation of about $660 million;
- Éducation portfolio would lead to a variation of about $230 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 2025-2026
Santé et Services sociaux	660
Éducation	230
Enseignement supérieur	110
Famille	100
Transports et Mobilité durable	80
Emploi et Solidarité sociale	60
Affaires municipales et Habitation	60
Économie, Innovation et Énergie	40
Environnement, Lutte contre les changements climatiques, Faune et Parcs	20
Other portfolios	210
TOTAL	**1 560**

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, in particular.

For example, a 1% variation in the total population would change total spending by about $1 260 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 $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 variation of 1% in prices would lead to a variation of $770 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 2025-2026 $million	Impacts for fiscal 2025-2026 Percentage points
Population			
Total population	**Total expenditure**	**1 250**	**0.8**
	Per portfolio:		
	– Santé et Services sociaux		0.9
	– Éducation		0.9
	– Enseignement supérieur		0.9
	– Famille		0.9
	– Other		0.5
0-4 years	**Total expenditure**	**90**	**0.1**
	Per portfolio:		
	– Famille		0.6
5-16 years	**Total expenditure**	**290**	**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**	**410**	**0.3**
	Per portfolio:		
	– Santé et Services sociaux		0.5
Prices			
Inflation	**Total expenditure**	**770**	**0.5**
	Per portfolio:		
	– Santé et Services sociaux		0.4
	– Éducation		0.3
	– Enseignement supérieur		0.6
	– Famille		0.9
	– 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 $669 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, 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.

❑ 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: – $2.0 billion in 2025-2026 and 2026-2027 – $1.5 billion per year from 2027-2028 to 2029-2030	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 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 $50 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 $285 million on federal transfer revenues
Portfolio expenditures	**Portfolio expenditures**	
Contingency Fund reserve: – $50 million in 2025-2026 – $200 million per year from 2026-2027 to 2029-2030	Unforeseen expenditures under government programs	Undetermined impact
	Variation of 1 percentage point in the total population	Impact of $1 260 million on spending
	Additional variation of 1 percentage point in technology-related health care costs	Impact of $430 million on spending
	Variation of 1 percentage point in the general level of prices	Impact of $770 million on spending
	Natural disaster	Undetermined impact
	Public capital investment completion rate for a given year (5% difference)	Impact of $348 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 $669 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)]	**−9 898**	**−7 149**	**−3 185**
Non-budgetary transactions			
Investments, loans and advances[(3)]	−2 481	−2 566	−2 525
Capital investments[(4)]	−8 799	−8 507	−9 195
Retirement plans and other employee future benefits[(5)]	−3 787	−4 354	−4 616
Other accounts[(6)]	−869	252	−454
Deposits in the Generations Fund	−2 461	−4 212	−2 510
Total non-budgetary transactions	**−18 397**	**−19 387**	**−19 300**
NET FINANCIAL SURPLUSES (REQUIREMENTS)	**−28 295**	**−26 536**	**−22 485**

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	−14 656	−14 652	−15 645
Depreciation	5 857	6 145	6 450
TOTAL	**−8 799**	**−8 507**	**−9 195**

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