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Alberta: Deficit and debt burden little changed vs. Q1

By Warren Lovely and Ethan Currie

Selected highlights

- **Economic backdrop:** *Alberta remains resilient despite headwinds of trade uncertainty*

  Alberta's economy expanded at a healthy clip of 3% (real terms) in 2024, the province experiencing the largest population growth of any Canadian province. Calendar 2025, meanwhile, has been defined by a whipsawing of global trade dynamics, and, despite the persistent uncertainty, economic activity in Alberta has held up considerably well. While the Economic Update concedes that momentum is slowing, Alberta's real GDP is now expected to rise by 2.1% this year, an improvement from first quarter and Budget expectations, while 2026 growth is expected to moderate further to 1.8%. That projected moderation stems from slower population growth, which is expected to temper consumer spending and residential construction activity. At the same time, lingering uncertainty is set to weigh on business investment. Labour market conditions in Alberta remain soft, with private sector hiring lagging this year. The unemployment rate is forecast to average 7.4% in calendar 2025, unchanged from the projection in February, before moderating (in part due to population slowdown) to 6.9% the following year, a three-tick improvement from Budget 2025 assumptions.

- **Energy price assumptions & related sensitivities:** *Diffs offering partial offset to a muted crude price*

  For resource-levered provinces like Alberta, material adjustments to commodity prices can lean an imprint on the government's finances. Crude oil price assumptions are eyed most carefully here. And to some extent, things cut both ways. When Alberta's budget was released in February, WTI was assumed to average US$68/bbl in the baseline projection scenario. That was lowered to US$63.75/bbl in August Q1's update and, as fully expected, there's another downgrade here. WTI is now assumed to average US$61.50/bbl, with the prompt contract currently trading ~US$59/bbl. Notably, however, the light-heavy differential has tightened, which gets reflected in the meaningful adjustment to the 2025-26 average: US$11.3/bbl in Q2 vs. US$17.10/bbl in budget. Vitally, this narrower differential limits oil royalty fallout, as will be apparent in the following section. The province's latest official guidance suggests that a US$1/bbl change in the price of WTI could have an annualized impact of $750 million, with a US$1/bbl change in the differential worth almost nearly as much ($740 million). The Canadian dollar is another important consideration when translating U.S. oil proceeds back to loonies. Official sensitivities (from budget) saw each one cent move in the currency as worth $560 million.

- **Fiscal outlook:** *Larger deficit vs. budget plan but little change vs. Q1 update despite downgrade to oil prices*

  Back in August's Q1 update, an initial downgrade to the oil price outlook meant less revenue (at the margin) and a larger-than-planned shortfall. With today's Q2 or mid-year update, the average WTI price has been marked down further. But as noted, a tight differential provides an important offset. All things considered, the net change to the province's fiscal bottom line is quite muted here, relative to the last official forecast in August. If anything, the $6.44 billion deficit now projected for 2025-26 is a snick better than the $6.48 billion shortfall identified in Q1. Yes, there's still a net deterioration relative to February's budget—owing to reduced non-renewable resource royalties (NRR)—but at 1.3% of GDP, Alberta's deficit still is lower than the weighted provincial average. (Not for nothing, the deficit in Alberta and for the provincial sector as a whole is materially lighter than what the federal government recently outlined.) As noted, resource royalties have slipped below the budget plan, but the province has generally held the line on spending. Total outlays are more-or-less unchanged vs. budget. NRR receipts are slated to account for 21% of total revenue, a more significant source of revenue than federal transfers, since Alberta receives proportionately fewer transfer dollars from Ottawa. True, Alberta's resource-intensive economy can add volatility to the province's finances, but we'd note that of an initial $4 billion contingency for 2025-26, some $2.3 billion (or more than one half) remains unallocated.

- **New measures:** *Pipeline promises are promising, for a province (and country) ready to 'build strong'*

  In the spring, Alberta's Budget 2025 was aimed at 'Meeting the Challenge', and keyed in on strengthening healthcare, primary education, and the province's economic footing. Earlier today, and consistent with bolstering the province's global competitiveness, Alberta announced a new agreement with the federal government which addressed investment uncertainty and pledged a new bitumen pipeline to the West Coast. That MOU is presented with a view to more-than-double oil exports to Asian markets, and tap into Canada's potential as an 'energy superpower'. Major projects aside, the second quarter update reveals that total expense forecasts for the current fiscal year are largely unchanged relative to Budget, or $1.7 billion higher when adjusting for contingency allocation. Notable changes include an $881MM increase for 'compensation pressures' across various ministries, and additional funding of ~$164MM towards healthcare-related initiatives, such as increased surgical capacity and the addition of temporary care beds. Spending increases have been partially offset by decreases in AIMCo service costs, the TIER program (due to updated data / modelling), and lower-than-expected oil selling costs.

- **Debt burden & borrowing:** *Net debt burden same as Q1, direct borrowing requirement marked down*

  After paying down debt in each of the prior four fiscal years, roughly $7.7 billion is to be added to Alberta's net debt in 2025-26. Broadly consistent with the larger-than-planned deficit, the outright level of net debt at the end of 2025-26 has been set $1.2 billion higher than in budget. Nonetheless, net financial liabilities are now tracking better (which is to say lower) than the more recent Q1 update. And Alberta remains relatively well-endowed financially speaking, with sustained growth in the Heritage Fund a strategic priority. At 8.7% of GDP, Alberta's net debt burden is comfortably the lowest in the provincial sector, where the weighted average debt burden is more like 30% of GDP. Not surprisingly then, interest costs are relatively limited; as per the latest update, consolidated debt servicing costs (only partially taxpayer-supported) consume barely 4% of the province's revenue dollar. The "interest bite" should remain very manageable going forward. Also noteworthy, the Q2 update signals a smaller direct borrowing requirement than last time out: $7.7 billion in Q2 vs. $9.1 billion in Q1. Alberta, like its large provincial peers, benefits from exceptional access to debt capital markets. The name has been well received by domestic and foreign investors alike, with international markets having so far accounted for a majority of fiscal YTD borrowing. All told, the province's borrowing requirement is relatively low by provincial standards, with the funding program comfortably positioned for this time of the fiscal year.

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

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

Fiscal Plan Summary

(millions of dollars)

	Fiscal Year			Change from Budget
	2024-25 Actual	2025-26 Budget	2025-26 Forecast	
Revenue				
Tax revenue	30,356	28,837	**28,640**	(197)
Non-renewable resource revenue	21,986	17,067	**15,416**	(1,652)
Federal transfers	12,618	13,305	**13,527**	222
Investment income	4,803	2,883	**3,397**	514
Other revenue	12,706	12,045	**11,984**	(61)
Total Revenue	**82,469**	**74,138**	**72,964**	**(1,174)**
Expense				
Operating expense	62,025	64,311	**65,264**	953
Capital grants	2,934	3,452	**3,501**	48
Amortization / inventory consumption / loss on disposals	4,446	4,993	**4,999**	6
Debt servicing costs	3,215	2,968	**2,971**	3
Pension provisions	(403)	(375)	**(375)**	-
Disaster and emergency assistance	1,932	-	**711**	711
Expense before contingency	**74,149**	**75,349**	**77,070**	**1,722**
Contingency (forecast un-allocated)	-	4,000	**2,330**	(1,670)
Total Expense	**74,149**	**79,349**	**79,401**	**52**
Surplus / (Deficit)	**8,320**	**(5,211)**	**(6,437)**	**(1,226)**
Capital Plan				
Capital grants	2,934	3,452	**3,501**	48
Capital investment	4,309	5,187	**5,293**	106
Total Capital Plan	**7,243**	**8,639**	**8,793**	**154**

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