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Alberta: Using fiscal room to confront challenging environment

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Highlights

After swinging into a tariff-induced deficit in the outgoing fiscal year (which was marginally better than anticipated), more red ink will accumulate in 2026-27, as Alberta is projecting a $9.4 billion (1.9% of GDP) shortfall. A considerable drop in expected bitumen royalties and increased spending in health care and education are the largest drivers of fiscal deterioration. Further out the plan, deficits remain but moderate to 1.4% of GDP by 2028-29, violating a component outlined in Alberta's fiscal framework (which requires shortfall consolidation within three years). Deficit consolidation out the projection horizon is aided by improving WTI prices and light-heavy differentials that, despite widening, remain tighter than previously anticipated. The Budget sees WTI averaging US$60.50/bbl in the coming fiscal year, before rising to US$67.50/bbl by 2028-29, with official sensitivity analysis suggesting that a US$1.00 change in crude prices carries a fiscal impact of $680 million. Global trade policy uncertainty and subdued energy prices will continue to weigh on the provincial economy, but Alberta aims to keep investment propped up where it matters. That's why Budget 2026 is allocating nearly $5 billion towards health infrastructure and $3.3 billion in K-12 education—both sectors receiving increased (and record) funding. Alongside other capital projects, the province is focusing on supporting trade-exposed sectors while looking for ways to enhance/diversify the economy. After outright declines in the prior four fiscal years, Alberta's net debt is expected to end 2025-26 higher (albeit, by a smaller-than-expected amount). Notwithstanding a better ground zero, the province's indebtedness is on a steeper path, with a cumulative $30 billion of net debt added over the next three years. Still, a relatively lean balance sheet means that Alberta's 'interest bite' will remain manageable, while the Heritage Fund continues to contribute positively to fiscal health. Consistent with a rising debt load, gross borrowing was higher-than-anticipated in the outgoing fiscal year and will increase further (from $15.9 billion to $20.9 billion) in 2026-27. Bond issuance is set to peak in 2027-28 at $18.1 billion, before moderating out the projection, while gross issuance per capita is set to remain comfortably below the provincial average.

- **Economic outlook** — As seen elsewhere in the country, Alberta's economy was impacted by trade uncertainty and slower population growth in 2025. As a result, it is estimated that the province's real GDP grew by 2.2% in 2025 compared to 3.0% in 2024. Still, growth was stronger than the 1.7% estimated at the national level and above the 1.8% expected in last year's budget. More important for public finances, nominal GDP grew by a modest 1.5% (Canada: 4.3%) as lower oil prices weighted on nominal growth. After experiencing record population growth of 4.7% in 2024, the province saw an increase of only 2.5% in 2025. As for the labour market, it was particularly volatile in Alberta last year. Although job creation at 2.8% was similar to the 2.9% rate in 2024, the province's unemployment rate fluctuated significantly, rising from 6.8% in January 2025 to 8.2% in August before falling back to 6.4% in January 2026. On an annual average basis, the unemployment rate stood at 7.2% in 2025, compared to 7.1% in 2024. Looking ahead, uncertainty and slower population growth are likely to continue to weigh on Alberta's economy. In this context, the budget is based on a lower real growth rate of 1.8% in 2026. That's cautious compared to the 2.1% expected by the private-sector consensus. The budget forecasts that real GDP should increase at a stronger pace of 2.3% in 2027 (in line with the consensus) and 2.2% in 2028 and 2029. As for nominal GDP, growth of 1.9% has been forecast for 2026 (consensus at 3.4%), followed by 6.0% in 2027 (consensus at 4.4%), and 4.4% in 2028 and 2029. As for the labour market, the average unemployment rate is expected to fall to 6.6% in 2026, 6.0% in 2027, 5.8% in 2028, and 5.7% in 2029. Job creation is expected to slow down but to remain robust at 1.9% in 2026. Population growth is expected to be less than half of 2025, with an increase of 1.1% in 2026 and 2027.

- **Energy price assumptions & related sensitivities** – Crude oil prices in 2025-26 were lower than previously anticipated, averaging an estimated US$61.50/bbl for the fiscal year (down from US$68.00/bbl in Budget 2025, but in line estimates from the Q2 update). In the baseline scenario, WTI prices are set to remain subdued in 2026-27, averaging US$60.50/bbl, before rising to US$67.00 and US$67.50 in the following two fiscal years. For context, the prompt WTI contract closed at a little over US$65.20/bbl on the day Budget 2026 was tabled. After tightening in the prior two fiscal years, the light-heavy differential is set to average a slightly wider level in 2026-27 (US$13.00/bbl, up from US$11.20/bbl estimated in the outgoing fiscal year). Differentials are then expected to widen further, averaging US$14.30/bbl by 2028-29. Natural gas prices are another key fiscal input for the province. Alberta sees the benchmark price on natural gas averaging C$3.00/GJ in 2026-27, a large improvement after a difficult 2025. The government is constructive of the outlook from here, as the price is expected to average C$3.20/GJ in 2028-29, up from an especially weak C$1.70/GJ estimated in the outgoing fiscal year. In total, non-renewable resource revenue in 2026-27 is estimated at $13.2 billion, making up 18% of total revenue. These revenues are then set to pick up out the projection horizon, on rising oil prices.

  Budget 2026 continues to stress that Alberta's resource-intensive economy makes it uniquely sensitive to global economic and market conditions. As such, extensive sensitivity analysis is conducted as usual. The province suggests that a US$1/bbl change in the price of WTI could have an annualized fiscal impact of $680 million, down from the $750 million figure posted in the prior budget. A US$1/bbl change in the light-heavy differential could impact the fiscal standing about as much ($670 million). While higher USD oil prices boost the royalty outlook, each one cent appreciation in the loonie might result in an annual fiscal/translational hit of $440 million, all else equal. A 10-cent drop in the average natural gas price is assumed to have a $15 million price tag attached to it, a comparatively modest impact relative to WTI. Lastly, with all other Budget 2026 assumptions intact, the WTI price required to balance the provincial budget ranges from US$74.00/bbl in 2026-27 to US$77.00/bbl in 2027-28.

- **Outgoing year budget balance (2025-26)** — The latest, but not-yet-final estimate of the 2025-26 shortfall now stands at $4.1 billion (0.9% of GDP), which is improved from the Budget 2025 estimate of $5.2 billion. (It's also an improvement from the mid-year update's $6.4 billion estimate). The beat can be attributed to the considerable prudence built into last year's fiscal plan, as Alberta set aside—and subsequently used—$4 billion in

contingencies. Excluding contingencies, spending came in $4.1 billion (5.4%) above the budget plan. Of this, $1.5 billion can be attributed to agriculture indemnity payments (associated with wildfires and drought conditions) and the remainder stems from higher operating expenses. Revenues also came in above plan, by $1.2 billion (+1.6%). That's due to greater investment income, which was partially offset by lower personal income taxes and non-renewable resource revenues. The outgoing year's deficit is the first for Alberta since 2020-21.

- **Medium-term fiscal outlook (2026-27 & beyond)** — The outgoing year's deficit will give way to another in 2026-27 as Alberta is planning to spill $9.4 billion (1.9% of GDP) of red ink. Contributing to the larger fiscal gap are both falling revenues (-$0.7 billion, -1.0%) and higher spending (+$2.5 billion or +3.1%, excluding contingencies). On the revenue side, a $3.1 billion drop in bitumen royalties is the largest source of downward pressure and will be partially offset by firmer personal income tax receipts. When it comes to spending, pressures are most acute in health and education. In its 2026-27 fiscal plan, the province has incorporated a contingency of $2 billion to address unanticipated spending, including disasters and emergencies (for reference, Alberta spent $1.5 billion on disaster assistance in 2025-26). Note also that the 2026-27 contingency is half of what was incorporated into Budget 2025. However, significantly lower uncertainty versus last year warrants a smaller budgetary cushion. Underlying the budget plan is an assumption that oil prices average $60.50/bbl next fiscal year. With the prompt WTI contract trading at ~$65/bbl, there's some potential upside here if prices can hold steady. See more on fiscal sensitivities above.

  Further out the horizon of the fiscal plan, deficits remain but they are seen moderating. Specifically, the $9.4 billion deficit penciled in for 2026-27 is expected to shrink to $7.6 billion (1.6% of GDP) in 2027-28 and to $6.9 billion (1.4% of GDP) in 2028-29. For these two outer years, the province has also incorporated a $2 billion contingency. A moderating deficit over this time is more a function of revenue growth (+4.6%/year). Higher oil prices are expected to increase bitumen royalties while personal tax receipts will also climb at a healthy pace. Spending will rise too (+2.7%/year, excluding contingencies) with increases mostly focused on healthcare (though debt servicing costs will also rise materially). In total, the combined deficit over the three overlapping years of Budget 2025 and Budget 2026 (i.e., 2025-26 to 2027-28) has risen from $9.7 billion to $21.1 billion.

  One component of Alberta's fiscal framework states that once a deficit has been recorded, the government has three years to return to balance. This fiscal plan is not consistent with that due to "an unprecedented combination of challenges". The government intends to review the fiscal framework to "assess what measures are appropriate to support sustainable fiscal planning".

- **New initiatives** — Sweeping revisions to global trade policy last year will continue to impact government finances in the coming fiscal year. Trade uncertainty and lower energy prices will weigh especially on the oil-levered province, which vows to 'Focus on what matters' to ensure that turbulent times are followed by sound, forward-looking investments. Budget 2026 delivers record investment in both the healthcare and education sectors, while continuing to provide support for key and trade-linked industries. Just shy of $2 billion in new funding will address waiting times for emergency services, surgeries, and cancer care and over $0.5 billion will be used to improve operating room capacity. Among other initiatives, over $200 million of new funding will be used to expand Cancer Care Alberta's workforce and clinical capacity (where spaces will also be increased at the Cross Cancer Institute). Nearly $150 million in new funding will go towards the Diagnostic Imaging Enhancement Program, which aims to modernize Alberta's diagnostic and cancer care capacity. To meet the needs of growing communities in the province, Budget 2026 provides $722 million in new funding to support education capacity, teacher compensation and the development/modernization of school infrastructure (a 7% increase from the prior plan). Additional investments will also be made to support students with specialized learning needs, and to address issues related to class size. Alberta also continues to invest in post-secondary education, with $1.3 billion allocated to student loans, scholarships, and grants. To support industry and trade diversification efforts, Alberta will make strategic investments in a number of existing plans, including the allocation of funds to support engagement with Albertans and Aboriginal business communities. They will also support a pre-feasibility study of a bitumen pipeline to the west coast of British Columbia. Over $130 million will be invested in workforce strategies and economic immigration programs, while numerous allocations are set to meet challenges faced by families and communities. These include efforts to increase the affordability of licensed childcare, housing, and senior care, while funds will also be provided to operate homeless shelters and other support centres across the province. In sum, Budget 2026's Capital Plan includes $28.3 billion over the next three fiscal years, representing an eight percent increase from Budget 2025. Of this, $3.3 billion will go towards educational (K-12) infrastructure, while $4.9 billion is pledged for infrastructure in the health care system. Increased allocations are also penciled in for transportation infrastructure. Alberta will also continue to grow the Heritage Fund, which is expected to rise to approximately $34 billion by the end of the coming fiscal year, up from the $31.5 billion estimated in the 2025-26 second quarter fiscal update.

- **Debt outlook & interest bite** — After outright declines in each of preceding four fiscal years, net debt increased in 2025-26, albeit by a smaller-than-planned amount. The $39.7 billion in net debt now estimated for March 2026 is below the level planned for one year ago (in Budget 2025), capturing positive budget balance adjustments (to the prior and outgoing fiscal years). Notwithstanding this stronger-than-anticipated (i.e., lower-than-projected) starting point, larger budget deficits and planned capital investments will place Alberta's debt curve on a steeper trajectory. Fully $30 billion of net debt is to be added in the coming three fiscal years, the biggest annual increase slated for 2026-27 (+$11.7 billion). Scaled to GDP, Alberta's net debt burden looks to end 2025-26 at 8.3%, which is better than originally planned for and easily the lowest in the provincial government sector. (Note: Based on the latest official estimates, the weighted average provincial net debt-to-GDP ratio is roughly 30% for 2025-26.) While Alberta's debt ratio is expected to increase, rising to 10.5% in the coming fiscal year and en route to 12.9% by the end of financial planning horizon in 2028-29, the province is expected to retain a sizeable balance sheet advantage vs. peers. Consistent with the incremental leverage being taken on, total debt servicing costs are slated to increase, growing at a compound average annual rate of more than 18% over the coming three fiscal years (from $2.92 billion in 2025-26 to $4.86 billion by 2028-29). But given the relatively advantageous/lean balance sheet position, the total interest bite—currently minimal at 3.9% of total revenue—would remain quite manageable, only getting to 6.0% of revenue by 2028-29.

  Note that Alberta's endowment funds, most significantly the Heritage Fund, are important contributors to the province's balance sheet health. Collectively, the value of these endowment funds has grown smartly in recent years, surpassing $36 billion in 2025-26 (up a sizzling +18.6% year-over-year). In aggregate, endowment funds are expected to reach $43.3 billion in three years time, the growth these financial assets a partial mitigant to accumulating liabilities. On the Heritage Fund specifically, existing legislation allows for full net earnings retention and inflation proofing. As per the Budget, the Heritage Fund is on track to reach $35 billion by 2027, with a longer-term goal of $250 billion having been earlier set out.

- **Borrowing requirement** — Alberta's 2025-26 borrowing requirement ended up being larger than originally planned for ($15.9 billion vs. $11.4 billion in Budget 2025). Given the larger deficit projected for the coming fiscal year, gross funding needs will step up to $20.9 billion in 2026-27. As was the case in the outgoing fiscal year, an increased in short-term outstandings should help address some of the anticipated cash requirement, leaving $15.7 billion in gross long-term debt to issue in 2026-27 (vs. $12.0 billion in 2025-26). The financing plan would see bond issuance increase further to $18.1 billion in 2027-28 before receding to $14.9 billion in 2028-29. While Alberta is flagging a larger bond crop, gross issuance per capita would remain comfortably below the provincial average.
- **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]*

Alberta

(millions of dollars)
CONSOLIDATED FINANCIAL STATEMENT BASIS

	Budget 2025-26	Estimate 2025-26	Budget 2026-27	Target 2027-28	Target 2028-29
Revenue	**74,138**	**75,292**	**74,550**	**78,914**	**81,518**
Personal income tax	15,510	14,771	15,933	16,612	17,741
Corporate income tax	6,764	7,420	7,300	7,472	7,615
Other taxes	6,563	6,603	7,237	7,562	7,821
Resource revenue - Bitumen royalties	12,830	12,669	9,688	12,102	12,765
Resource revenue - other	4,237	3,617	3,525	4,132	4,126
Transfers from the Government of Canada	13,305	13,566	13,715	13,826	13,839
Investment income	2,883	4,568	4,358	4,071	4,052
Net Income from Government Business Enterprises	2,016	2,194	2,621	2,709	2,759
Premiums, Fees and Licences	5,756	5,640	6,000	6,170	6,424
Other	4,273	4,245	4,173	4,259	4,376
Expenses	**79,349**	**79,426**	**83,922**	**86,495**	**88,422**
Operating expense	64,311	67,016	70,398	72,360	74,053
Capital grants	3,452	3,347	3,672	3,384	2,923
Amortization / inventory consumption / loss on disposals	4,993	4,830	4,853	4,944	5,005
Debt servicing costs	2,968	2,922	3,407	4,222	4,863
Pension provisions	(375)	(196)	(408)	(415)	(423)
Surplus (Deficit) before contingency / disaster assistance	75,349	77,919	81,922	84,495	86,421
Contingency / disaster and emergency assistance	4,000	1,506	2,000	2,000	2,000
Surplus (Deficit)	**(5,211)**	**(4,134)**	**(9,373)**	**(7,581)**	**(6,904)**
Borrowing requirements	**11,407**	**15,933**	**20,935**	**22,573**	**18,642**
Government	9,651	13,674	18,721	21,273	17,919
Provincial corporations	270	150	416	385	543
Government business enterprises	1,486	2,109	1,798	915	180
Borrowing sources					
Money market (net change)	2,281	3,886	5,234	4,515	3,728
Term debt	9,126	12,047	15,701	18,058	14,914

Source: Government of Alberta

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