

Economics

PROVINCIAL BUDGET BRIEFS

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Alberta budget 2025

The Province of Alberta is on target to achieve a notably larger surplus than initially expected in fiscal 2024/25 at \$5.8bn, as higher resource revenue more than offset greater spending on operating expenses. However, for fiscal 2025/26, the province will return to red ink, running a deficit for the first time since 2020/21, with the \$5.2bn shortfall amounting to 1% of GDP. That reflects a \$1.2bn tax cut that will dent revenues, along with a doubling of the contingency fund in the face of tariff threats, and dim growth prospects due to tariff assumptions. Total borrowing is projected to be \$11.4bn which is essentially unchanged from the outgoing year. However, the composition is altering as LT borrowing is estimated to decrease to \$9.1bn from \$11.3bn, while ST debt is increasing by \$2.3bn. Over the time horizon, total borrowing requirements are increasing in each subsequent year, reaching \$13.9bn in 2026/27 and \$20.8bn in 2027/28.

Table 1: Summary of fiscal position: (C\$billions)

Fiscal measure	2023/24 Actual	2024/25 24 Budget	2024/25 25 Budget	2024/25 Change	2025/26 25 Budget	2026/27 25 Budget	2027/28 25 Budget
Revenue							
• Resource revenue	19.287	17.315	21.509	4.194	17.067	17.620	17.815
• Income and other taxes	26.747	28.645	29.466	0.820	28.837	30.151	31.390
• Federal transfers	12.336	12.640	12.958	0.319	13.287	13.753	14.228
• Other revenue	16.363	14.748	16.759	2.011	14.946	15.867	16.536
Total revenue	74.732	73.537	80.692	7.154	74.138	77.390	79.969
Expense							
• Operating expense	58.143	60.124	62.098	1.974	64.311	64.831	66.464
• % change	4.6	3.0	6.8	3.8	3.6	0.8	2.5
• Contingency/disaster	3.025	2.000	2.017	0.017	4.000	3.300	3.700
• Debt servicing costs	3.149	3.389	3.199	-0.190	2.968	3.258	3.629
• Other	6.130	7.669	7.619	-0.050	8.070	8.429	8.224
• Capital grants	2.103	3.469	3.294	-0.175	3.452	3.686	3.476
• Amortization / loss on disposals / inventory consumption	4.399	4.564	4.688	0.124	4.993	5.127	5.137
• Pension provisions	-0.372	-0.364	-0.363	0.001	-0.375	-0.384	-0.389
Total Expense	70.447	73.182	74.932	1.750	79.349	79.818	82.016
Surplus / (deficit)	4.285	0.355	5.760	5.404	-5.211	-2.428	-2.047
• Reference:							
• Heritage fund balance	20.9	23.8	23.4	-0.4	24.4	25.7	27.1

Tariffs troubles on the horizon

Alberta's economy will be dented by tariff uncertainty, and the province's economic outlook assumes that Canada will face a 10% tariff on energy products and an average tariff of 15% on all other goods, in addition to the implementation of retaliatory tariffs. That lies behind the forecast for real GDP growth to slow from 3% in 2024 to 1.8% in 2025 and 1.7% in 2026. Also limiting growth will be slower population gains, with net international migration in 2025 expected to be roughly half of the prior year's level. That should see population growth slow sharply to average 2.0% y/y over the next two years,

down from a record 4.4% pace in 2024. Given the tariff assumptions, the province's forecasts are lower than the private sector averages for both real and nominal GDP for the next few years.

The budget also lays out high and low scenarios, with the low scenario assuming a 25% tariff on non-energy goods and 10% on energy goods, in which case the province would expect real GDP growth to slow to 0.5% in 2025. In the high scenario, tariffs are not enacted and real GDP growth still slows but is a more respectable 2.6% in 2025.

Oil prices are expected to average lower at US\$68/bbl in 2025/26, down from US\$74/bbl in the current fiscal year, and below the current spot price. The discount between WTI and WCS is expected to widen as producers partially absorb costs associated with US tariffs. A US\$1/bbl increase in the light-heavy oil differential has a net impact of -\$740mn on the budget, and a US\$1/bbl drop in the price of WTI has a net impact of -\$750mn. The latter sensitivity has increased from the prior year's budget where a US\$1/bbl change in WTI had a net impact of \$630mn on the budget.

Working as an offset to the wider differential are the lack of substitutes available for Alberta's heavy oil in the US, and spot capacity in TMX. Indeed, US refineries have been stockpiling oil in the face of tariff uncertainty, helping oil production reach record high levels along with the additional export capacity from the Trans Mountain Pipeline expansion. Lower commodity prices are expected to be the main driver of the 9% y/y drop in corporate profits anticipated in 2025.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2024	2025	2026	2027	2028
Real GDP	3.0	1.8	1.7	2.1	2.2
• Private sector average	2.1	2.2	2.2	2.2	2.1
Nominal GDP	5.3	1.2	3.0	3.5	4.3
• Private sector average	4.9	3.7	4.1	4.3	3.8
Employment	3.1	1.9	1.6	1.9	2.0
Unemployment rate (%)	7.0	7.4	7.2	6.9	6.6
Primary household income	7.1	4.8	4.2	4.3	4.3
Housing starts (k)	47.8	43.0	40.8	38.3	37.8
Net corporate operating surplus	0.0	-9.0	1.2	3.0	3.5
CPI	2.9	2.6	2.4	2.2	2.2
Population	4.4	2.5	1.4	1.4	1.6

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2024/25	2025/26	2026/27	2027/28
3-month T-Bills (%)	3.70	2.30	2.30	2.30
10-year GoC Bonds (%)	3.30	3.10	3.10	3.10
Exchange rate (US¢/C\$)	71.7	69.6	71.9	73.8
WTI (US\$/bbl)	74.00	68.00	71.00	71.50
WCS @ Hardisty (C\$/bbl)	84.70	73.10	75.80	75.80
Natural gas (C\$/GJ)	1.20	2.50	3.10	2.90

Returning to red ink

Putting it all together, for the outgoing fiscal year, a surplus of \$5.8bn (1.2% of GDP) is expected, much higher than the \$0.4bn surplus anticipated in the prior year's budget, with the upside attributable to lofty resource revenue growth, helped by increased pipeline capacity. That more than offset slightly higher operating expenses than anticipated in last year's budget.

However, after achieving a surplus for several consecutive years, the province is expected to run a deficit of \$5.2bn in 2025/26 (1% of GDP), with the shortfall expected to drop to a modest 0.4% of GDP by 2027/28. On the revenue side, a tax cut in the form of the introduction of a new 8% income tax bracket, which is starting two years ahead of schedule, is a key factor behind the 8% drop in revenues anticipated in the upcoming fiscal year, as it will cost \$1.2bn and begin on July 1st. That will be compounded by lower WTI prices and slower growth. Personal income tax revenue is expected to return to moderate growth in 2026/27, along with resource revenue as oil prices increase modestly. Population growth should have a floor under it starting in 2026, supporting tax receipts due to the province's expectation for solid interprovincial migration, with the 1.4% population growth expected in 2026 and 2027 still robust by historical standards.

On the expense side, a 5.9% increase is expected in the upcoming fiscal year, with 1.7% increases in the following two years. Funds are being allocated to supporting healthcare, education and infrastructure development, with \$28bn earmarked for health services, and \$9.9bn to support the education sector. Operating expenses are expected to increase much slower than nominal GDP growth starting in 2026/27. A contingency of \$4bn is also being set aside given increased economic uncertainty from tariff threats, up from \$2bn in the current fiscal year.

Under the province's low scenario, the budget deficit could increase to \$8.7bn, but under the high scenario the shortfall could be lower at \$2.9bn, as tax and resource revenue will swing dramatically based on the tariff outcome.

Overall borrowing flat y/y before increasing in subsequent years

For the current fiscal year ending next month, the province has borrowed approximately C\$11.3bn through 10 transactions which includes four international deals. Note, due to the timing of cash, the three deals completed in 2024 prior to the start of this current fiscal year were included in 2024/25's borrowing figures. At the same time, ST borrowing was unchanged year-over-year. When compared to the budget that was tabled a year ago, projections called for \$17.7bn of LT funding for this year, while ST debt was to increase by \$2.0bn. Meanwhile, this year's overall borrowing is lower when compared to the prior year's funding (i.e. 2023/24) which saw \$5.3bn of LT and \$8.2bn of ST debt borrowed.

Recall, the \$19.8bn projected borrowing program for 2024/25 was a result of approximately \$19.2bn of bonds maturing between fiscal years 2024/25 and 2025/26. A big portion of that debt was issued in the early days of the pandemic when funding for longer-dated maturities was challenging for all issuers. Therefore, the province developed a refinancing plan to borrow in advance of its cash needs, while smoothing out their maturity profile. However, the province only borrowed \$4.8bn towards future debt requirements whereas the 2024 Budget called for \$11.6bn. That lower amount was a result of achieving a larger surplus in this outgoing year. In today's budget, it was highlighted that due to uncertainty in the economy, it is anticipated that after the 2024/25 fiscal year, there will be no surplus cash available to direct to debt repayment.

As for this upcoming fiscal year, total borrowing is projected to be \$11.4bn which is essentially unchanged from the outgoing year. However, the composition is altering as LT borrowing is estimated to decrease to \$9.1bn, while ST debt is increasing by \$2.3bn. That compares to last year's estimate for 2025/26 which projected an increase of \$1.5bn in ST and an increase of \$2.9bn in LT funding (total of \$4.4bn vs. \$11.4bn now). The main reason for the large change is the swing to a \$5.2bn deficit as opposed to a \$1.4bn surplus before.

Over the time horizon, total borrowing requirements are increasing in each subsequent year, reaching \$13.9bn in 2026/27 and \$20.8bn in 2027/28. The plan currently calls for an increase in ST funding of \$2.8bn and \$4.2bn, respectively, while LT funding increases by \$11.1bn and \$16.6bn. When compared to last year's forecast horizon, overall funding is up by almost \$13bn through 2026/27.

Table 4: Borrowing requirement (C\$millions)

Borrowing requirements	2024/25 Estimate	2025/26 Target	2026/27 Target	2027/28 Target
Taxpayer-supported debt	5,293	9,651	12,380	19,574
Self-supported debt	120	270	366	310
Government business enterprises	1,150	1,486	1,184	922
Borrowing for future debt repayment	4,752	-	-	-
Total	11,315	11,407	13,930	20,806

Table 5 Sources of funding (C\$millions)

Funding requirements	2024/25 Estimate	2025/26 Target	2026/27 Target	2027/28 Target
Money market (net change)	-	2,281	2,786	4,161
Long-term debt	11,315	9,126	11,144	16,645
Total	11,315	11,407	13,930	20,806

Net debt-to-GDP is expected to increase throughout horizon

For this outgoing year, net debt is projected to be \$36.6bn as at March 31, 2025, lower when compared to the budget estimate of \$42.1bn a year ago. However, due to the forecasted deficit for this upcoming year, coupled with the increase in capital spending, net debt is projected to rise to \$43.0bn by March 31, 2026. Overall, net debt is projected to increase to \$49.9bn by 2027/28 as a result of anticipated deficits and increased capital spending.

The improvement in net debt from prior forecasts sees the net debt-to-GDP ratio dropping to 7.6% this outgoing year as opposed to 8.8% previously. That outgoing ratio is expected to be the lowest point throughout the forecast horizon as the upcoming year's estimate calls for an increase to 8.7%, before increasing again to 9.0% in 2026/27 and 9.3% by 2027/28. Despite the increased projections, the province still has the lowest ratio amongst its provincial peers. In fact, over the last five years the province has averaged 15.34%, which has been the lowest and slightly above Saskatchewan's 15.72%.

Three-year capital plan earmarks \$26.1bn in spending

The 2025 Capital Plan calls for investments of \$26.1bn, an increase of \$1.1bn from 2024's plan. That equates to roughly \$8.3bn per year, with the largest spending in areas such as municipal infrastructure (\$7.5bn), health (\$3.6bn), as well as capital maintenance and renewal (\$3.8bn). The plan addresses current pressures from population growth, supports future economic growth and creates additional opportunities for private sector participation. Overall, the plan is projected to support an average of 26,500 direct and 12,000 indirect jobs annually through 2027/28.

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