BUDGET ANALYSIS

Alberta: Budget 2025

Crude Realities

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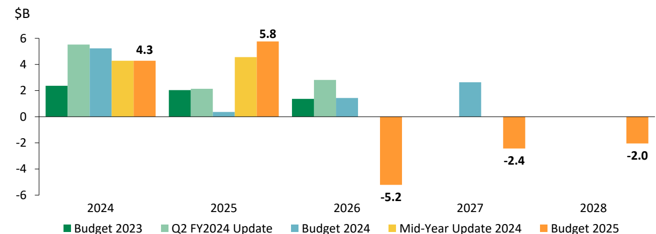
HIGHLIGHTS

- In light of looming US tariffs and volatile oil prices, the Government of Alberta has reversed course and is now projecting a series of deficits over the next three years (graph 1). Table 1 on page 2 summarizes the province's updated projections.
- A notable decline in revenue projections is the main story of the updated plan, partly explained by lower oil prices. The Budget's signature policy—an income tax cut costing $1.2B annually—also weighs on the bottom line.
- That said, the plan features prudence in two areas: a beefed-up contingency fund and conservative oil price assumptions. With fiscal sensitivity to crude values reaching historic highs, natural resource revenues have contributed to the bulk of the deterioration in the bottom line. However, this could also be a blessing in disguise. Conservative oil price assumptions, particularly the WCS-WTI differential which is assumed to widen to 17.1 US$/barrel in FY2025–26, provide a sizable buffer to the outlook.
- Spending increases have been kept incremental and well below updated population forecasts as the province continues its program review to find efficiencies.
- A return to deficits has put the province's net debt burden on an upward trajectory. But with the net debt-to-GDP ratio projected to reach 9.3% by the end of the forecasting horizon, it remains manageable and well below most of its peers. Borrowing requirements have been raised to $11.4B in FY26, $13.9B in FY27, and $20.8B in FY28.
- With all provinces' public finances coming under pressure from the potentially significant economic impact of looming US tariffs, Alberta sets an example of prudent planning, positioning the province well to weather the tremendous uncertainty ahead.

Graph 1
Alberta's Surpluses Turned to Deficits

Alberta budget balance projections



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A Prudent Plan in Light of an Uncertain Reality

Facing economic uncertainty from impending US tariffs and volatile oil prices, Wild Rose Country now sees its once-substantial budget surplus reversing course, dipping into deficits over the next three years. The FY2024–25 (FY25) surplus is expected to come in at a hefty $5.8B (1.2% of nominal GDP). However, FY26 through FY28 will see a string of shrinking deficits at -$5.2B, -$2.4B and -$2.0B, respectively. According to the province's fiscal framework, the government has three years to return to balance after a deficit is reported at year-end.

The sizable built-in prudence accounts for some of the deterioration—well warranted given heightened uncertainty.

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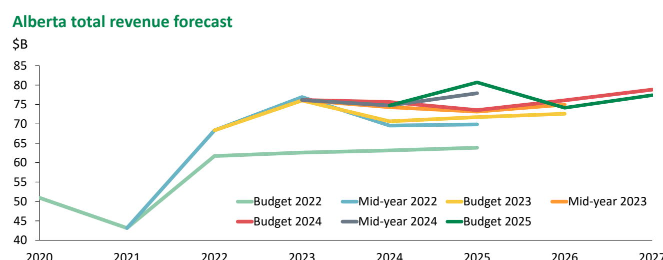
Budget 2025 increased contingencies from $2B each year in FY26 and FY27 in the last budget to $4B in FY26, $3.3B in FY27 and $3.7B in FY28. These funds can be used to cover unexpected costs arising from increased economic uncertainty, as well as to absorb compensation expenses due to ongoing collective bargaining.

Oil Price Forecasts Revised Down with a Buffer Included

Alberta's Budget 2025 features a notable drop in revenues (graph 2), the bulk of which are attributable to a sharper-than-anticipated drop in bitumen royalties (-22.5% in FY26). Natural resource revenues have been revised downward from previous projections, a change largely expected due to softer crude prices in an oversupplied market. This aligns with our latest energy forecast, which anticipated reduced oil demand resulting from a decline in economic activity, particularly in Europe, and uncertainties caused by the impending trade war between the US and its key trading partners. We also noted that the Trump administration's efforts to boost domestic oil production through regulatory rollbacks and the opening of more federal land for drilling are likely to be hindered by anticipated low oil prices, which may deter producers from significantly increasing output. Meanwhile, caution is warranted as, despite expected exemptions for energy imports to the US under the Trump administration, the looming threat of tariffs could further hinder the sector's outlook.

Graph 2
Lower Oil Price and Tax Cuts Drive Revenue Forecast Downward

Alberta total revenue forecast



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The Western Canada Select (WCS)-WTI discount has remained largely unphased by the tariff threat, despite temporarily widening to over 16 US$/barrel in late January. It has since narrowed and continues to average below 14 US$/barrel for FY25. In our view, the spread is likely to fluctuate around 13 US$/barrel over the next two years, supporting producer profitability and government revenues in a soft crude price environment, but

TABLE 1
Alberta's Updated Fiscal and Economic Forecasts

$M (UNLESS OTHERWISE INDICATED)	2023–2024	2024–2025		2025–2026		2026-2027		2027-2028
	Actual	**Q2 FY2025**	**Bud. 2025**	**Bud. 2024**	**Bud. 2025**	**Bud. 2024**	**Bud. 2025**	**Bud. 2025**
Total revenues	74,732	77,887	80,692	76,051	74,138	78,816	77,390	79,969
% change	*-1.8*	*4.2*	*8.0*	*-2.4*	*-8.1*	*3.6*	*4.4*	*3.3*
Bitumen and crude oil royalties	17,490	18,585	19,805	15,554	15,340	15,577	15,668	16,194
% change	*-16.1*	*6.3*	*13.2*	*-16.3*	*-22.5*	*0.1*	*2.1*	*3.4*
Total expense*	70,447	73,045	74,932	72,614	75,349	74,176	76,518	78,316
% change	*9.3*	*3.7*	*6.4*	*-0.6*	*0.6*	*2.2*	*1.6*	*2.3*
Operating expense	58,143	61,292	62,098	61,595	64,311	62,798	64,831	66,464
% change	*6.2*	*5.4*	*6.8*	*0.5*	*3.6*	*2.0*	*0.8*	*2.5*
Debt charges	3,149	3,173	3,199	3,121	2,968	3,174	3,258	3,629
% of total revenues	*4.2*	*4.1*	*4.0*	*4.1*	*4.0*	*4.0*	*4.2*	*4.5*
Contingency	0	279	0	2,000	4,000	2,000	3,300	3,700
Budget balance	**4,285**	**4,563**	**5,760**	**1,437**	**-5,211**	**2,640**	**-2,428**	**-2,047**
Net Debt, % of GDP	*9.4*	*8.2*	*7.6*	*8.5*	*8.7*	*7.7*	*9.0*	*9.3*
Alberta Capital Plan	6,300	8,265	7,665	8,376	8,639	8,363	8,676	8,831
Total borrowing requirements	**13,428**	**19,800**	**11,315**	**4,376**	**11,407**	**8,012**	**13,930**	**20,806**
Real GDP, % change	*3.0*	*2.7*	*1.8*	*2.8*	*1.7*	*2.6*	*2.1*	*2.2*
Nominal GDP, % change	*5.3*	*4.9*	*1.2*	*5.5*	*3.0*	*4.9*	*3.5*	*4.3*
Population, % change	*4.4*	*2.5*	*2.5*	*2.0*	*1.4*	*1.6*	*1.4*	*1.6*
Alberta CPI inflation, % change	*2.9*	*2.0*	*2.6*	*2.2*	*2.4*	*2.2*	*2.2*	*2.2*

* Not including contingency.
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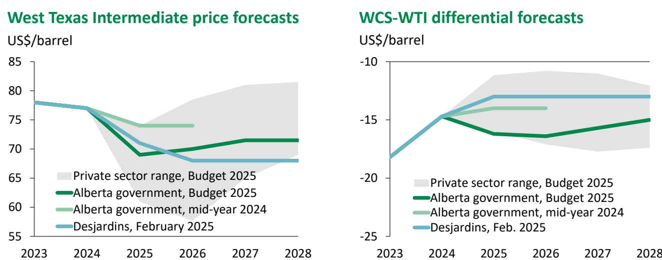
could widen by 2 US$/barrel if the US implements the delayed 10% tariff previously announced for February 1.

The government has ample prudence built into its plans, for both WTI and the light-heavy price differential. Alberta's revenue projections are based on WTI prices below the private sector average and align closely with our current cautious forecast (graph 3). The WCS-WTI discount has also been revised wider for the coming years, at 17.1 US$/barrel in FY26, 16.5 US$/barrel in FY27, and 15.6 US$/barrel in FY28—2 to 4 US$/barrel wider than our baseline forecast without tariffs on Canadian oil exports to the US.

Graph 3
Oil Price Forecasts Revised Down



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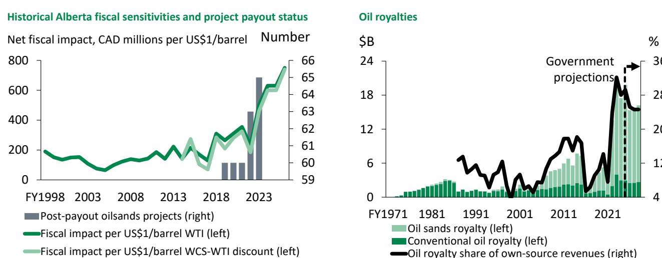
Given the province's historically high sensitivity to crude oil values (graph 4), the conservative assumptions provide a sizable buffer to the current revenue outlook. The province's revenues are heavily dependent on oil prices, with fiscal sensitivity reaching all-time highs of $750M per 1 US$/barrel change in WTI price and $740M per 1 US$/barrel change in the light-heavy differential. If no tariff is imposed on Canadian oil and the demand-supply dynamics remain within our current forecast range, this would imply a $3–4 billion buffer in the FY26 revenue forecast.

Graph 4
Historically High Fiscal Sensitivity to Oil Prices



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Falling Tax Revenues Lead to Further Revenue Shortfall

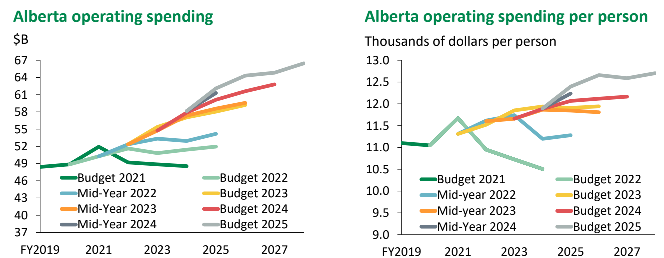
The remainder of the revenue shortfall in FY26 relative to FY25 comes from personal and corporate income taxes (down by -3.8% and -8.0% in FY26, respectively). The decline reflects the negative impacts associated with the potential implementation of US tariffs, with the province projecting real GDP growth to slow to 1.8% in 2025, slightly below our current forecast of 2.0%, which accounts for a partial imposition of tariffs with exemptions on energy products.

Further weighing on revenues is the signature policy of this budget—an income tax cut introducing a new tax bracket for incomes under $60k per year, as promised during the 2023 provincial election campaign. This tax cut, set to begin in July 2025, comes with an annual cost of $1.2B. The tax cut provides much-needed relief to lower-income households, enhancing their disposable income and potentially boosting consumer demand. However, its effectiveness in stimulating long-term economic growth might be limited, since higher-income earners, who are more likely to save rather than spend, stand to gain significantly. The timing of this tax cut, amidst heightened economic headwinds and tariff uncertainty, poses challenges to the province's path back to balance.

Expense Growth Is Balanced with Restraint

Despite a lifted expense profile, spending restraint remains in place (graph 5). The government continues to cap spending growth below the rate of population growth, leading to a decline in per capita spending over the forecast period. Achieving this spending restraint could be challenging and the government continues its program review to identify savings and refocus resources.

Graph 5
Spending Plans Increased Incrementally



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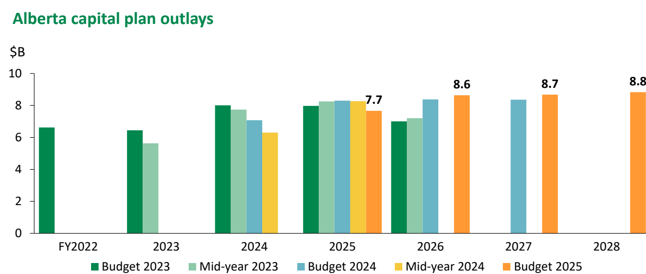
Additional outlays are dedicated to health (+$122M in FY26) and education (+$426M). Social services expenses are also boosted (+$784M) through additional short-term funding to address potential needs arising from possible US tariffs.

Alberta's Capital Plan Remains Elevated

Relative to the 2024 Budget plans, capital expenditures have been increased by $1.1B to a total of $26.1B over three years (graph 6). After reprofiling projects due to timeline delays, which led to lower capital spending in FY25, outlays under the updated Capital Plan are set to rise by 11.7% to $8.6B in FY26 and remain elevated through FY28. The province's Capital Plan targets projects including the healthcare system, education facilities and municipal infrastructure. Elevated infrastructure spending is expected to support the province's growth and diversification, estimated to create an average of 26.5k direct and 12k indirect jobs annually.

Graph 6
Capital Spending Remains Elevated



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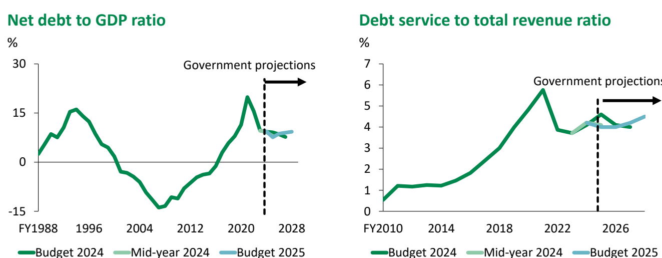
Debt and Borrowing Have Been Raised

A return to deficits sends the province's net debt forecast on a higher trajectory as a share of nominal output, despite a lower starting point of 7.6% of GDP in FY25 compared to 8.2% projected in the mid-year update (graph 7). While net debt is projected to rise to 9.3% of GDP by FY28, it is expected to remain the lowest among the provinces.

Graph 7
Debt Load Edges Higher, Yet Stays Manageable



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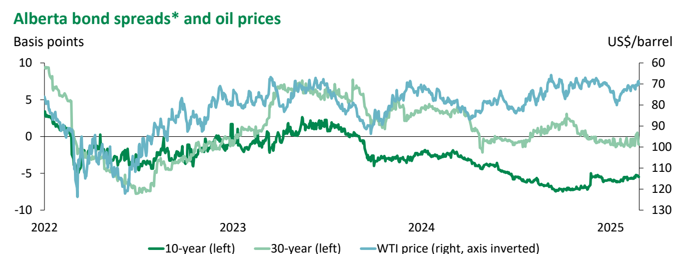
With a commitment to grow the Heritage Fund—which focuses on sustainable growth and revenue stability—to $250B or more by 2050, the government plans to deposit $2B in FY25, the largest contribution in decades, followed by $1.1B in FY26. The fair value of Heritage Fund investments stood at $25B as of the end of 2024.

The province now expects to borrow $11.3B in FY25—an $8.5B improvement compared to Budget 2024 plans, thanks to a larger surplus and reduced pre-borrowing. The borrowing program is projected to total $11.4B in FY26, $13.9B in FY27 and $20.8B in FY28. For FY26 and FY27, the updated borrowing requirements represent a total increase of over $13B from last year's budget due to deeper deficits projected.

Final Words

Despite persistently weak crude prices, the interest rates that Alberta pays to service its debt have moved closer to Ontario since late last year, particularly at longer maturities (graph 8). The heightened sensitivity of the province's finances to the WCS-WTI differential may have been a factor, as the differential remained relatively low and stable in spite of the tariff threats. A change in the province's fiscal course and high sensitivity to resource revenue could put upward pressure on borrowing costs, but the conservative assumptions underpinning the current plan provide a buffer against that risk.

Graph 8
Alberta Spreads Remained Tight Despite Sluggish Oil Prices



* Spreads to Government of Ontario bonds
Bloomberg and Desjardins Economic Studies

Nevertheless, we expect all provinces to face challenges from revenue headwinds and economic uncertainties. Alberta sets an example in its Budget 2025 of prudent planning, positioning the province well to weather the challenges posed by volatile oil prices and potential US tariffs.