



Alberta

Budget 2025



Alberta Budget 2025—Tax Relief, Spending Increases, and Tariff-Driven Deficits

The Alberta budget provides detailed numbers on the fiscal implications of a plausible U.S. tariff shock. The incorporation of U.S. tariffs, a large buffer tied to U.S. trade policy risk and a tax cut for income earners ultimately bring down the budgetary balance in deficit territory. After running large surpluses of \$4.3B in FY2023–24 and \$5.8B in FY2024–25, Budget 2025 projects a shortfall of \$5.2B in FY2025–26, a large net deterioration of \$11B versus FY2024–25. Smaller deficits of \$2.4B and \$2B are planned for the following two years.

Precisely, the base case scenario incorporates permanent 10% of U.S. tariffs on Canadian energy products and 15% on Canadian non-energy exports. Under such circumstances, the Alberta unemployment rate edges up to stay north of 7% in 2025, real GDP advances at its slowest pace since 2019 excluding the pandemic (1.8%) and nominal GDP grows very softly (1.2%) due to the adverse impact on energy prices. Under the alternative scenario of no tariffs, the FY2025–26 deficit would be cut by about half, to \$3B. If sweeping U.S. tariffs of 25% are imposed on non-energy products, the deficit is projected at \$8.7B—close to the shortfall recorded during the 2016 global oil shock.

In response to U.S. trade policy uncertainty, Finance Minister Nate Horner doubles the annual contingency from \$2B in FY2024–25 to \$4B in FY2025–26. This very big cushion represents 5% of total revenues. Although it is not the best comparison due to the volatile nature of Alberta's oil revenues, Nova Scotia's budget released in mid-February contains a smaller buffer representing 1.2% of revenues.

In addition to the \$4B FY2025–26 buffer, annual cushions of \$3.3B and \$3.7B are built-in for the following years; FY2026–27 and FY2027–28. Beside a larger-than-expected trade war, these amounts could be used to pay for additional charges tied to the eventual outcome of current wage negotiations between the UCP government and public sector employees. These buffers could also limit upward pressures on costs in case of challenging wildfire seasons ahead.

The tariff shock is assumed to weigh down on multiple sources of revenues, including non-renewable resource revenues. The prudent budgeting approach is illustrated in oil assumptions. WTI prices averaging U.S.\$68 per barrel in FY2025–26, or U.S.\$6 less than FY2024–25, are projected to trigger a slump in revenues (a US\$1 variation on WTI changes the budgetary balance by about \$750M over the course of one year). The inclusion of a tariff shock in the base case scenario also led the government to widen the light-heavy WTI-WCS spread to US\$17 per barrel, versus the tight \$13 spread recorded on average the prior year. The past improvement of this spread was driven by the Trans Mountain pipeline expansion leading to record high production. Market participants will also pay attention to developments on the FX market given the 69.6 U.S. cents loonie assumption for FY2025–26 (1 cent appreciation = \$560M drag on the budgetary balance).

Furthermore, the government fulfills its 2023 electoral promise by offering the largest tax cut to income earners since the days of Ralph Klein. The rate of the lowest income tax bracket, for income up to \$60K, falls from 10% to 8%, retroactive to January 2025. This measure will cost the government slightly more than \$1B annually in foregone revenues.



The combination of the large individual income tax relief and tariff shock leads the government to project an 8%, or \$6.6B, drop in total revenues in FY2025–26 relative to the previous year. At the same time, total expenses are projected to advance at a rate of 3.3%. It represents a slight increase on a per capita basis based on the 2025 population growth projection of 2.5% but it undershoots the 4% demographic jump recorded in each of the last two years. The population boom also led the government to lift the capital spending plan by \$1.1B over three years to \$26.1B.

The surplus cash of FY2024–25 will be allocated equally between the Heritage Fund and to offset new borrowing requirements in FY2025–26. Speaking of, FY2025–26 borrowing requirements are projected at \$11.4B, followed by a similar amount in FY2026–27 (\$13.9B) and higher-than-usual issuance in FY2027–28 (\$20.8B).

In summary, Alberta enters a possible tariff shock with a solid fiscal position including a net debt-to-GDP ratio slightly under 9% and a consistently growing Heritage Fund (of \$24.4B as of March 2025). Even though the Alberta economy could be hit by a relatively lower effective tariff rate than other Canadian provinces because of lower tariffs on energy, the implications on fiscal metrics will be material nonetheless. Given the unusually elevated U.S. trade policy uncertainty and possible swift turnaround of events, quarterly fiscal reports over the course of FY2025–26 could bring materially different numbers than those exposed in Budget 2025.