Alberta
2025–26 First Quarter Finances

Manageable Short-Term Deterioration, Solid Long-Term Fiscal Position

Alberta's government now expects a **deficit of $6.5 billion** for fiscal year 2025–26, a $1.3 billion deterioration from the budget. This shortfall equals 1.3% of the province's nominal GDP, which is **considered manageable**.

Lower Oil Prices and Stronger Canadian Dollar Reduce Revenue

The First Quarter Fiscal Update revealed a larger deficit, mainly driven by a **downward revision in non-renewable resource revenue**, now projected at $15.7 billion. This decline is unsurprising. As Moody's noted in its May credit review, oil prices and the Canadian-dollar value of oil revenues have been very volatile.

WTI oil prices averaged US$64 during the first three months of FY2025–2026, US$4 below the budget forecast. The full-year estimate has been lowered to US$63.75. At the same time, the **Canadian dollar strengthened** more than expected, driven by the largest USD year-to-date devaluation in 50 years. It's now forecast to average 72.5 cents US, up from 69.6 cents. This means **lower oil royalties**, when converted to Canadian dollars. A **narrower light-heavy oil price differential**—now expected to average US$11 per barrel instead of US$17—helped offset some of the impact. Softer natural gas prices also contributed slightly to the revenue drop.

Despite temporary shutdowns due to wildfires in the spring, **oil production rose 2.8%** year-to-date due to increased pipeline capacity from TMX. S&P Global Commodity Insights expects Alberta to hit record oil production this year.

Other Revenue Adjustments

Personal income tax revenue was revised down by $600 million. Employment growth has stalled, and **unemployment is slightly above 7%**, which the government aptly describes as high. On the positive side, **investment income is up** by $500 million due to strong global equity markets.

Higher Expenses Driven by Wage Increases and Wildfires

Expenses increased by $1.6 billion versus budget, mainly due to **compensation pressures**. Several public sector groups, including healthcare workers, reached tentative agreements The wage increases offered were not originally incorporated in the 2025 budget. Over half of these agreements have been ratified, and funding has been set aside for remaining negotiations, notably for teachers.

Wildfire-related emergency spending also added to costs. The government will use $1.5 billion from its $4 billion annual contingency fund to cover these increases. Overall, operating expenses are expected to rise by 4.8% compared to last year. Such growth fits the long-standing reputation of fiscal control given Alberta's population growth forecast of 2.4% and CPI inflation forecast of 2.2% for 2025.

Borrowing Requirements Unchanged

Despite the larger deficit, Alberta does not plan to issue more bonds. It will use $2.3 billion from its opening cash balance to meet borrowing needs. The province had also planned ahead for this year's larger-than-usual debt maturities of $17.4 billion, setting aside funds in its debt retirement account.

Key Takeaways

Alberta's economy remains strong, even as global trade tensions affect energy markets. Growth is supported by **increased oil drilling**, **record-high housing starts** expected to exceed 50,000 units this year, and a moderate **appreciation in home prices** that boosts household wealth.

Alberta's **export tariffs imposed by the U.S. and China are lower than in other provinces**. With rising tensions between Canada and China and the U.S., the recent reporting in the media of Alberta's interest in **investing in Japanese oil refining** capacity makes sense from a risk management standpoint. Our recent report on critical minerals also highlights **promising projects** in the province.

The First Quarter Fiscal Update does not change Alberta's solid fiscal performance. All three major credit agencies reaffirmed the province's **strong rating** earlier this summer. While the $6.5 billion deficit will push the cash balance into negative territory, the $2.8 billion added to the **Heritage Fund** this year strengthens Alberta's long-term financial position. The fund is projected to reach $27 billion, equal to 5.6% of GDP or nearly one-third of annual expenses.