

Contributors

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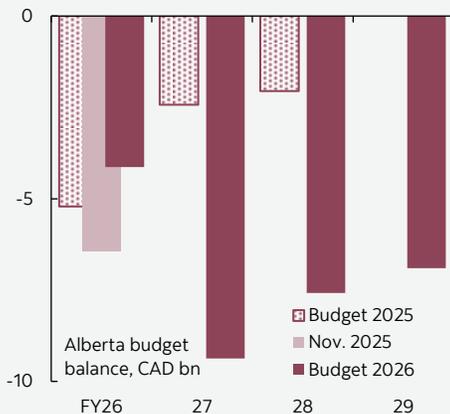
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Chart 1

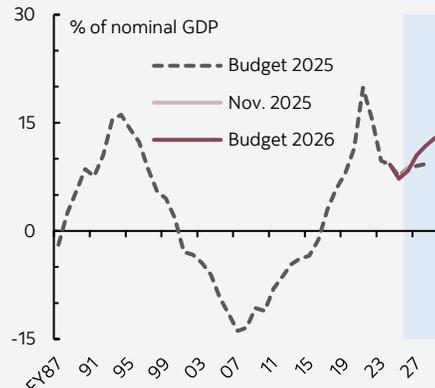
Updated Budget Balance Projections



Sources: Scotiabank Economics, AB Treasury Board & Finance.

Chart 2

Alberta Net Debt



Sources: Scotiabank Economics, Finance Canada, AB Treasury Board & Finance.

Alberta: 2026–27 Budget

HIGHER DEFICITS ON LOWER OIL PRICES AND INCREASED CORE SPENDING

- **Bottom line:** Alberta is forecasting much larger deficits for the next three years than previously projected, driven by a lower oil forecast and robust health and education spending growth—and despite decreasing the contingency buffers. However, the province has a recent pattern of beating fiscal projections, and oil prices are currently higher than the budget assumes for the coming year. Even if the deficits come in as large as this budget projects, the province will maintain a low debt burden—thanks to its very low starting point.
- **Budget balance:** deficit of \$5.2 bn (-1.1% of nominal GDP) in FY26, growing to \$9.4 bn (-1.9%) in FY27, before gradually declining to \$6.9 bn (-1.3%) in FY29 (chart 1).
- **Economic assumptions:** real GDP growth is expected to slow from an estimated 2.2% in 2025 to 1.8% in 2026 before accelerating to 2.3% in 2027. WTI oil price assumptions were revised down to 60.50 (USD/bbl) in 2026 that recover to 67 (USD/bbl) in FY28.
- **Net debt:** expected to increase each year of the outlook from \$39.7 bn (8.3% of nominal GDP) in FY26 to \$69.8 bn (12.9%) by the end of FY29 (chart 2).
- **Borrowing requirements:** increase to \$20.9 bn in FY27 and \$22.6 bn in FY28 before declining to \$18.6 bn in FY29.

OUR TAKE

Alberta’s Budget 2026 sees the balance falling further into the red for longer over the next three years of the outlook. The deficit for fiscal year 2025–26 (FY26) is expected to be \$4.1 bn (-0.9% of nominal GDP), down from the \$5.2 bn projected in last year’s budget and the \$6.4 bn from the second quarter fiscal update published in December, owing to higher-than-expected revenues. The deficit is projected to grow to \$9.4 bn (-1.9% of nominal GDP) in FY27, up from \$2.4 bn projected a year ago, as the outlook revised down revenues amid softer oil prices and combined with higher spending primarily towards health and education. The deficit is expected to gradually decline to \$6.9 bn (-1.3% of nominal GDP) in FY29 as total revenues increase faster than expenses. The Budget also lowered the amount for contingencies to \$2 bn each year of the outlook, down from last year’s contingency plan of \$3.3 bn in FY27 and \$3.7 bn in FY28 that was set aside for potential impacts from tariffs and compensation pressures.

The outlook for economic activity has marginally improved from last year with real GDP expected to grow 1.8% in 2026 and 2.3% in 2027, up from last year’s forecast of 1.7% and 2.1% in 2026 and 2027 respectively. Despite the upgrade, the projections remains somewhat conservative compared to our latest outlook of 2.6% in 2026 and 2.7% in 2027. In addition, the economic forecast is based on U.S. tariffs in place as of mid-January, and we estimate that U.S. tariffs have slightly decreased through the changes over the past week.

Revenue was revised down over the budget planning period primarily owing to a weaker outlook for oil prices. Total revenue is projected to shrink 1% year-over-year to \$74.6 bn in FY27, led by a \$3 bn decline in revenue from bitumen royalties. Assumptions for oil prices were revised down amid an increase in global supply, with an average WTI oil price of \$60.50 (USD/bbl) in FY27 that rises to \$67 in FY28. While oil prices are volatile, prices have increased in recent weeks to \$65, which if sustained would boost revenues by around \$3 bn. The softer oil price outlook is partially offset by a higher production and narrower light-heavy differential forecast that is assumed to average \$13 (USD/bbl) in FY27 and \$14.10 in

FY28. Also contributing a slight counterweight to the lower oil price outlook is new revenues from various small tax and fee increases, including the creation of a 6% vehicle car tax, which is projected to raise \$36 mn annually, and an increase of the tourism levy on hotel accommodations from 4% to 6%. Revenues are projected to rebound by 5.9% in FY27, driven mainly by higher bitumen royalties.

Provincial spending was revised higher in the latest outlook, adding further pressures to the province’s bottom line. The latest budget adds \$15.7 bn in new planned expenditure across FY26–FY28 compared to last year’s budget. Total expenses before contingencies is projected to be \$81.9 bn in FY27, up 3.1% year-over-year, led by a 6% increase in operating spending on health and 8% for K-12 education. Health spending is projected to continue to grow strongly in future years, though spending in other areas is projected to be limited—and capital grants are projected to decline after FY27.

The province’s legislated fiscal rules should require the next budget to have a plan to return to balance by FY29, and new measures to find savings are likely. Alberta’s legislated fiscal framework limits the government to run a deficit no more than three years in a row. As a result, after the figures for FY26 are finalized making clear that there was a deficit in the year just ending, next year’s budget should have a plan to return to balance in FY29—unless the rules are changed. That said, the government has committed in this budget to “assess what additional measures could be considered to help address Alberta’s fiscal planning challenges.” This could involve some of the ideas planned for the October referendum, including limiting access to the health system for temporary residents.

The province’s estimated net debt was lowered for the current fiscal year but revised higher over the outlook. Net debt levels for FY26 were revised to \$39.7 bn, down from \$43.0 bn projected in last year’s budget, and when combined with upward revisions to GDP slow the rise in the province’s debt burden to 8.3% of nominal GDP, compared to 8.7% projected one year ago. Larger deficits and capital spending contribute to the province’s outlook for net debt that is expected to grow to \$69.8 bn (12.9% of nominal GDP) by the end of FY29. Meanwhile, debt servicing costs are projected to increase from \$2.9 bn (3.9% of total revenue) in FY26 to \$4.9 bn (6% of revenue) in FY29.

Total borrowing is expected to increase to \$20.9 bn in FY27, \$22.6 bn in FY28, and \$18.6 bn in FY29, of which 75–80% being long term debt with the remainder in money market. The province’s borrowing required in FY26 is expected to be \$15.9 bn, up from the \$11.4 bn planned in last year’s budget. Government business enterprises are planned to account for \$1.8 bn of borrowing in FY27, \$0.9 bn in FY28, and \$0.2 bn in FY29.

| Updated Fiscal Forecast | | | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ billions except where noted | | | | | | | |
| | FY26 | | FY27 | | FY28 | | FY29 |
| | Bud.'25 | Bud.'26 | Bud.'25 | Bud.'26 | Bud.'25 | Bud.'26 | Bud.'26 |
| Total Revenue | 74.1 | 75.3 | 77.4 | 74.6 | 80.0 | 78.9 | 81.5 |
| Total Expenses | 75.3 | 79.4 | 76.5 | 81.9 | 78.3 | 84.5 | 86.4 |
| Contingency | 4.0 | 0.0 | 3.3 | 2.0 | 3.7 | 2.0 | 2.0 |
| Budget Balance | (5.2) | (4.1) | (2.4) | (9.4) | (2.0) | (7.6) | (6.9) |
| <i>% of GDP</i> | <i>(1.1)</i> | <i>(0.9)</i> | <i>(0.5)</i> | <i>(1.9)</i> | <i>(0.4)</i> | <i>(1.5)</i> | <i>(1.3)</i> |
| Net Debt | 43.0 | 39.7 | 46.5 | 51.4 | 49.9 | 61.4 | 69.8 |
| <i>% of GDP</i> | <i>8.7</i> | <i>8.3</i> | <i>9.0</i> | <i>10.5</i> | <i>9.3</i> | <i>11.8</i> | <i>12.9</i> |
| Debt Service | 3.0 | 2.9 | 3.3 | 3.4 | 3.6 | 4.2 | 4.9 |
| <i>% of Revenue</i> | <i>4.0</i> | <i>3.9</i> | <i>4.2</i> | <i>4.6</i> | <i>4.5</i> | <i>5.4</i> | <i>6.0</i> |

Sources: Scotiabank Economics, AB Treasury Board & Finance.

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