

BUDGET ANALYSIS

Alberta: Budget 2026

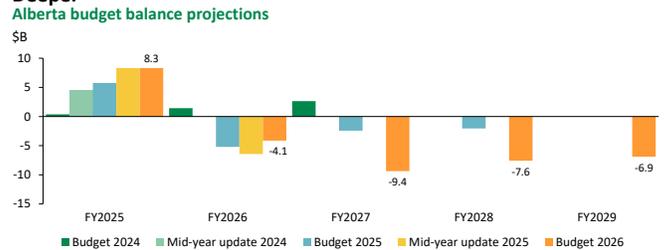
Lower Crude Prices Are Only Partly to Blame for Larger Deficits

By Randall Bartlett, Deputy Chief Economist, Kari Norman, Senior Economist, and LJ Valencia, Economist

HIGHLIGHTS

- ▶ As was well telegraphed by the Government of Alberta, the province's fiscal outlook has deteriorated from this time last year. The deficit is now projected to reach \$9.4B in the 2026–27 fiscal year (FY27), up from an anticipated \$2.4B deficit in Budget 2025 (graph 1). Deficits should shrink thereafter but remain noteworthy. The provincial government no longer expects to return to budget balance by FY29.
- ▶ Lower revenue on the back of declining oil and gas royalties is part of the story. The increased fiscal sensitivity to commodity price swings in recent years has left the province's finances more vulnerable than ever to global forces. Last year's personal income tax cut also reduced that typically steadier source of revenues. But modest increases in some fees and levies, income retention in the Heritage Fund, and the build out of the Heritage Fund Opportunities Corp should provide a slight boost and buffer.
- ▶ Just as notable as the revenue hit is the increase in spending. Operating expenses are expected to rise by 8.0% in FY26 and 5.0% in FY27, largely on the back of increased funding for healthcare and education. While details on possible savings are scant, the provincial government has said it will explore reducing services to non-permanent residents to cut costs.
- ▶ With larger deficits tends to come higher debt, and Alberta's Budget 2026 is no exception. The debt-to-GDP ratio is expected to gradually rise from 8.3% in FY26 to 12.9% at the end of the outlook. That said, Alberta entered this challenging fiscal time from a position of strength, with the lowest net debt-to-GDP ratio and debt service costs in the country.

Graph 1
Alberta's Modest Planned Deficits Are Now Expected to be Much Deeper



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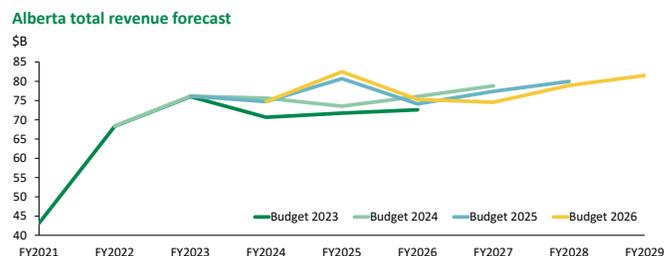
The Government of Alberta didn't mince words about the likelihood of deficits in the run up to Budget 2026. And it ultimately delivered on what had been signalled. Budget 2026 includes deficits of \$9.4B, \$7.6B and \$6.9B over the next three fiscal years. Lower oil prices are partly to blame, but higher spending also plays a big role. While sustained deficits fall short of the commitment to return to budget balance by FY29, "the government is committed to assessing what additional measures could be considered to help address Alberta's fiscal planning challenges." As a result of these planned deficits, the debt-to-GDP ratio is expected to gradually rise from 8.3% in FY26 to 12.9% at the end of the outlook. That said, Alberta entered this challenging fiscal time from a position of strength, with the lowest net debt-to-GDP ratio and debt service cost in the country. But while the province retains significant fiscal capacity relative to peers, that wobble room is gradually narrowing. This leaves the fiscal outlook vulnerable to downside risks, such as those arising from the [outcome of the CUSMA joint review](#) process. (See table 1 for more details on Alberta's Budget 2026 fiscal forecast.)

As Go Oil Prices, So Go Revenues

At the start of 2026, [we flagged](#) the risk that a lower price of West Texas Intermediate (WTI) and larger relative discount paid for Western Canadian Select (WCS) could put material downward pressure on Government of Alberta royalty revenues. And that's exactly what we see in

Budget 2026. Revenues from bitumen and crude oil royalties are now expected to be lower by \$0.4B in FY26, \$3.9B in FY27 and \$1.5B in FY28 than in Budget 2025. That explains the drop in revenues anticipated over the projection relative to the prior budget forecast, as the outlook for own-source revenues was revised higher (graph 2).

Graph 2
Lower Oil Prices Drive Down Alberta's Revenue Forecast



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There are two factors that prompted the steep drag on Alberta's budget balance outlook from reduced crude oil royalties—the lower oil price forecast and greater sensitivity to swings in oil prices. First, the outlook for the price of WTI has come down substantially from this time last year

Table 1
Alberta's Fiscal and Economic Forecasts

\$M (unless otherwise indicated)	2024–2025	2025–2026		2026–2027		2027–2028		2028–2029
	Actual	Q2 FY26	Bud 2026	Bud 2025	Bud 2026	Bud 2025	Bud 2026	Bud 2026
Total revenues	82,469	72,964	75,292	77,390	74,550	79,969	78,914	81,518
% change	10.4	-11.5	-8.7	6.1	-1.0	3.3	5.9	3.3
Bitumen and crude oil royalties	20,204	14,208	14,986	15,668	11,808	16,194	14,723	15,346
% change	15.5	-29.7	-25.8	10.3	-21.2	3.4	24.7	4.2
Total expenses*	74,149	77,070	79,426	76,518	81,922	78,316	84,495	86,422
% change	5.3	3.9	7.1	-0.7	3.1	2.3	3.1	2.3
Operating expenses	62,025	65,264	67,016	64,831	70,398	66,464	72,360	74,053
% change	6.7	5.2	8.0	-0.7	5.0	2.5	2.8	2.3
Debt charges	3,215	2,971	2,922	3,258	3,407	3,629	4,222	4,863
% of total revenues	3.9	4.1	3.9	4.2	4.6	4.5	5.4	6.0
Contingency	0	2,330	0	3,300	2,000	3,700	2,000	2,000
Budget balance	8,320	-6,436	-4,134	-2,428	-9,372	-2,047	-7,581	-6,904
Net debt (% of GDP)	7.2	8.7	8.3	9.0	10.5	9.3	11.8	12.9
Alberta Capital Plan	7,243	8,793	8,687	8,676	9,969	8,831	9,998	8,349
Total borrowing requirements**	8,355	11,407	15,933	13,930	20,935	20,806	22,573	18,642
Real GDP (% change)	2.2	1.8	1.8	2.1	2.3	2.2	2.2	2.2
Nominal GDP (% change)	2.0	2.2	1.9	3.5	6.0	4.3	4.4	4.4
Population (% change)	2.5	1.1	1.1	1.4	1.1	1.6	1.4	1.4
Alberta CPI inflation (% change)	2.0	2.3	2.1	2.2	2.1	2.2	2.1	2.1

Bud: Budget; CPI: Consumer price index; * Not including contingency; ** Total borrowing requirements for the 2025–2026 fiscal year were last published in Budget 2025.

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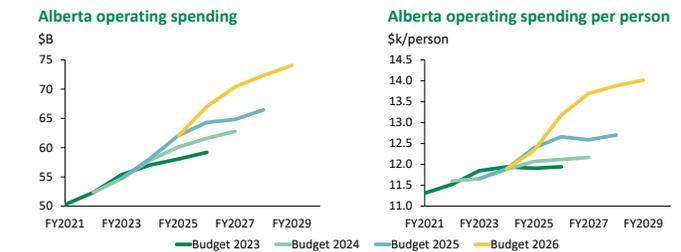
(graph 3). Meanwhile, [concerns](#) around possible heavy crude oil coming to the US Gulf Coast from Venezuela in the future have caused the discount paid to Canadian heavy oil producers to widen since December 2025. That said, the projected haircut received by Alberta oil producers is smaller relative to the Budget 2025 forecast. In that context, the province erred on the side of prudence in adopting a more conservative WCS–WTI discount forecast than the private sector average. However, some of that potential upside may be offset by a relatively more optimistic forecast for the price of WTI in the outer years of the outlook, albeit in line without ours.

government is projecting a nominal GDP growth of 6.0% in 2027—well above [our recently published projection](#) of 4.1%. Higher insurance tax revenue, tourism levy revenue and land titles registration activity are expected to also play a part. And while the income tax cut introduced in [Budget 2025](#) likely exacerbated the Budget 2026 revenue shortfall, the provincial government has committed to not reversing it.

Spending Rises Faster than Revenues Fall

But Alberta’s fiscal woes aren’t just a story of lower revenues on the back of falling oil prices. Operating spending is now expected to be \$14.2B higher over three years than projected in Budget 2025. This despite a slower population growth projection as compared to this time last year. Just mechanically, that leads to the unavoidable conclusion that operating spending per person is anticipated to rise much more quickly than in past projections (graph 5).

Graph 5
Alberta’s Spending Plans Increased Substantially in Budget 2026



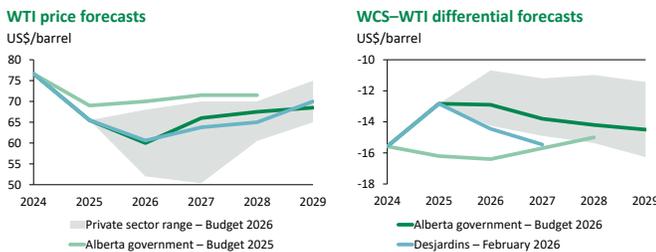
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Additional funding for healthcare explains a big chunk of the spending increase. Hospital and Surgical Health Services is estimated at \$13.8B in FY27, an increase of \$830M from the latest FY26 forecast, and then grows another \$1.3B to \$15.1B by FY29, for an average increase of 5.1% per year. That’s well in excess of growth in population plus inflation. Funding has been increased in other health care areas as well.

Not to be forgotten, education and childcare spending is also set to rise materially. Total expense in FY27 is forecast to be \$13.5B, an increase of \$963M or 7.7% from FY26. The education system operating expense is \$10.8B in FY27, an increase of \$722M or 7.2% from the FY26 forecast, and then increases by \$768M, for an average of 3.5% per year, to \$11.5B by FY29.

Details on savings were scant in Budget 2026. Ongoing continuous improvement and program reviews to evaluate the efficiency and effectiveness of programs will play a role. This will complement the assessment of additional measures that could be

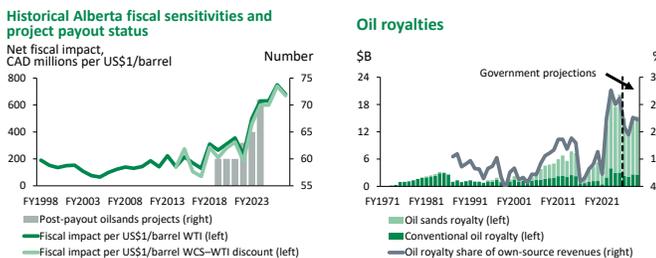
Graph 3
WTI Price Forecast Has Been Revised Lower; WCS Discount Is Smaller



WTI: West Texas Intermediate; WCS: Western Canadian Select
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The second factor driving lower royalty revenues is the increased sensitivity of revenues to changes in oil prices. As energy projects have matured, royalty rates have increased sharply (graph 4). As a result, oil-related royalties recently topped 10% of own-source revenues, roughly triple the pre-pandemic average.

Graph 4
High Fiscal Sensitivity to Oil Prices Is Hitting Royalty Revenue Hard



WTI: West Texas Intermediate; WCS: Western Canadian Select
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Looking to revenues more broadly, the solid rebound in own-source revenues in the outer years can in part be explained by outsized growth in nominal GDP—the broadest measure of the tax base. For instance, the provincial

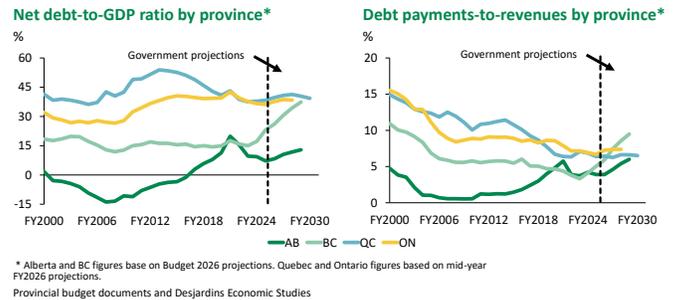
considered to help address Alberta’s fiscal planning challenges. The Government of Alberta intends to seek greater authority to restrict the service offering to non-permanent residents in the province, thereby further constraining expenditures.

Borrowing Program Moves Further Out the Forecast

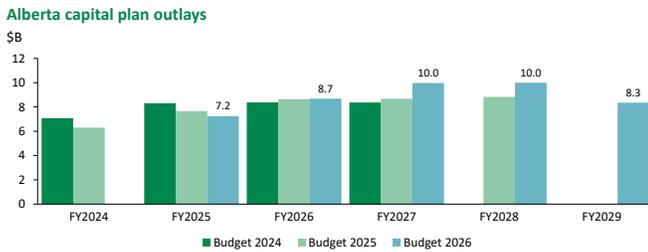
Relative to Budget 2025 plans, capital expenditures have been increased by \$2.2B, bringing the three-year total to \$28.3B (graph 6). Under the updated Capital Plan, outlays are expected to rise by nearly 15% to \$10B in FY27 and stay elevated through FY28, before moderating in FY29. The province’s Capital Plan focusses on major investments across the healthcare system, education facilities and municipal infrastructure. The heightened infrastructure program is expected to support Alberta’s growth and diversification, generating an estimated 31k direct and 14.5k indirect jobs each year.

underscoring that the Government of Alberta enters this phase of softer oil prices and large deficits with the strongest fiscal position and lowest debt service burden in the Federation (graph 8).

**Graph 8
Alberta’s Debt Indicators Remain Best in Class Among the Provinces**



**Graph 6
Capital Spending Plans Shift Higher**

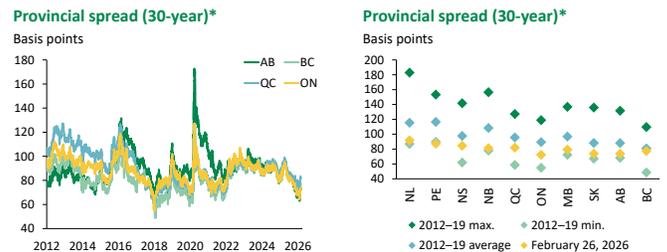


Alberta’s Budget 2026 was released after markets closed. But it’s worth mentioning that the province ended the trading day with the yield on its 30-year bonds at the highest level since November 2025 relative to Government of Canada bonds of the same maturity (graph 9). That said, Alberta’s yield spreads aren’t much higher than those of Government of Ontario bonds, which has the smallest spreads of any province. That reflects Alberta’s solid fiscal position, echoed in the strong credit ratings with stable outlooks unanimously issued by credit rating agencies coming into Budget 2026.

Debt Will be Higher but Still Lower Than Other Provinces

Alberta’s larger deficits than previously planned have pushed the province’s projected debt-to-GDP ratio higher (graph 7). It’s now expected to edge up to 12.9% by FY29. Debt servicing costs are also set to rise, reaching an estimated 6% by the end of the outlook—a new high-water mark. Even so, it’s worth

**Graph 9
Alberta Spreads to GoCs Are the Tightest in Canada, After Ontario**



**Graph 7
Debt Burden Should Remain Below Pandemic Peak, But Debt Service Costs Expected to Reach New Heights**

