ECONOMIC VIEWPOINT

Canadian Economic and Fiscal Implications of Venezuela's Regime Shift

By Randall Bartlett, Deputy Chief Economist

HIGHLIGHTS

- Building on our prior analysis of the global economic and oil market implications of Venezuela's regime shift, here we drill down into the possible economic and fiscal impacts for Canada.
- Capital spending in Canada's energy sector remains an important driver of overall business investment. But this time should be different than in 2014. While the newfound uncertainty around the oil price outlook will likely further discourage planned investment, the broader economic impact of lower oil prices is expected to be more of a medium-term risk.
- So, with the Venezuelan regime shift likely leading to more gradual and regionally focused oil price implications than in the past, the Canadian economic impact is also likely to be modest. Nominal GDP could be as much as 1% lower in 2027 in the worst-case scenario than in our December 2025 Economic and Financial Outlook (EFO). However, the impact of a lower price for Western Canadian Select (WCS) should be felt more in Alberta than nationally.
- Sticking with Alberta, the news on the fiscal front is suggestive of some headwinds. The deficit could deteriorate by $6.7B in the 2026–27 fiscal year (FY27) and $5.2B in FY28 relative to Alberta's 2025 budget if our new WCS baseline price forecast proves correct. If the lowest WCS price scenario comes to fruition, the deficit could widen by $9.2B and $10B in FY27 and FY28, respectively. That said, Alberta started FY26 in the strongest fiscal position of Canadian provinces, with among the smallest expected deficits and unquestionably the lowest net debt as a share of GDP of the group.
- The federal fiscal story is a little more complicated. Historical data revisions and a better economic outlook improved its fiscal position even before any upcoming deterioration in oil prices weigh on the economic and financial outlook. As such, even under the worst-case oil price scenario, the Government of Canada's deficits over the next couple of years may come in smaller than those presented in Budget 2025.

Note that minor text changes were introduced following the original release to improve clarity and address typographical errors.

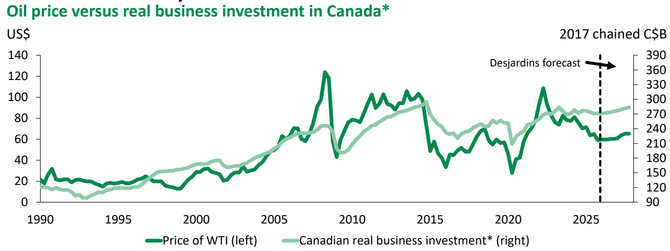
Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

Building on our prior analysis of the global economic and oil market implications of Venezuela's regime shift, here we drill down into the possible economic and fiscal impacts for Canada. This includes not only consequences for the national economy and federal finances, but also for Alberta—Canada's most exposed province.

Economic Impacts

Turning first to the economic implications, capital spending in Canada's energy sector remains an important driver of overall business investment. This is true for investment directly in the oil sands and conventional oil and gas, but also transportation infrastructure and manufacturing and equipment for components used in energy extraction. As a result, real business investment has been closely linked to swings in oil prices, albeit less so following the drop in energy prices in 2014 (graph 1). When oil prices fell at that time, not only did investment take a hit but so did consumption and income, particularly in energy-producing provinces.

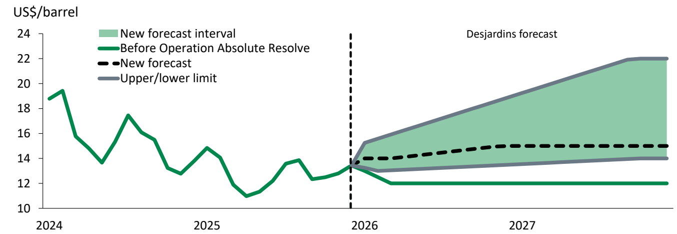
Graph 1
Business Investment in Canada Is Likely to Be Soft on Lower Oil Prices and US Trade Policy
Oil price versus real business investment in Canada*



WTI: West Texas Intermediate; * Forecasts published in Desjardins Economic Studies December 2025 Economic and Financial Outlook.
Bloomberg, Statistics Canada and Desjardins Economic Studies

This time should be different than in 2014. While the newfound uncertainty around the oil price outlook will likely further discourage planned investment, the broader economic impact of lower oil prices is expected to be more of a medium-term risk. That's because unlike when the glut of shale oil pushed prices lower in 2014, this time we expect the price of WCS—Canada's heavy crude benchmark—to bear the brunt as opposed to the entire crude complex. In contrast, we anticipate the price of West Texas Intermediate (WTI)—North America's light crude benchmark—to remain broadly unchanged from our December 2025 EFO. Further, increased North American supply of heavy crude from Venezuela will take time to be produced, shipped and processed. And even then, our base case is for only a modest widening in the discount Canadian producers receive relative to their US counterparts (graph 2). While risks of a more significant drop in the price of WCS remain, we believe they are less likely.

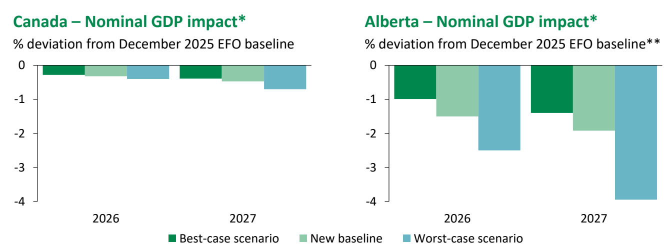
Graph 2
An Incremental Venezuelan Presence in the US Will Likely Widen the WTI–WCS Spread over Time
WTI–WCS spread



WTI: West Texas Intermediate; WCS: Western Canadian Select
Bloomberg and Desjardins Economic Studies

So, with the Venezuelan regime shift likely leading to more gradual and regionally focused oil price implications than in the past, the Canadian economic impact is also likely to be modest. While lower oil prices and uncertainty are likely to limit investment, we are not expecting a lower price for WCS than previously believed to cause a national recession in Canada. Using the upper bound of our revised forecast in graph 2, we estimate the level of real GDP in 2027 would be 0.5% lower than in the December 2025 EFO. Real GDP is closer to 0.4% lower with our new baseline WCS discount forecast and less than 0.3% lower at the lower bound of the new forecast range. At the same time, the level of nominal GDP—the broadest measure of the tax base—is projected to be 0.4%, 0.5% and 0.7% lower than in the December 2025 EFO in the respective WCS forecast scenarios. The impact on nominal GDP is greater than on real GDP because the lower price of oil exports weighs on the terms of trade and, hence, GDP deflator. But all in all, these results suggest the impact on the Canadian economy will be modest (graph 3).

Graph 3
Lower WCS Prices Will Disproportionately Impact Alberta's Economy



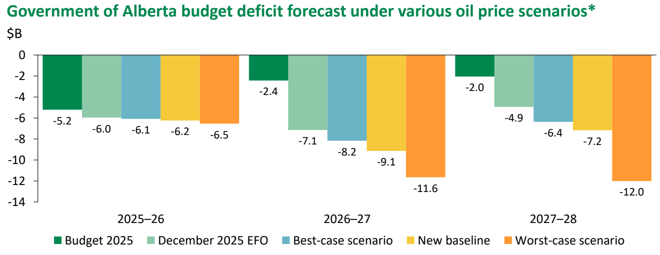
WCS: Western Canadian Select; EFO: Economic and Financial Outlook; * Impact estimates don't include judgment on exchange rate movements, but sensitivity analysis suggests that the offset would be small; ** The Alberta nominal GDP forecast based on the December 2025 EFO has not yet been published.
Desjardins Economic Studies

The impact of a lower price for WCS should be felt more in Alberta than nationally. That said, it is unlikely to lead to a recession in Alberta either, even if the discount paid on WCS relative to WTI reached over US$20 per barrel, which is not our base case. Our December 2025 EFO baseline forecast points to Alberta leading Canada in growth over the next two years. This was supported by energy exports to the US being largely Canada–United States–Mexico Agreement (CUSMA) compliant and the Trans Mountain Expansion (TMX) pipeline supporting an increased flow of fossil fuels to Asia. But with Alberta energy producers likely to get paid less than planned moving forward, investment, incomes, real GDP and nominal GDP in the Wild Rose Province could be affected (graph 3 on page 2).

Fiscal Impacts

Sticking with Alberta, the news on the fiscal front is suggestive of some headwinds. This was already the case for the current fiscal year due to lower-than-expected WTI and despite a smaller-than-planned discount paid to Canadian producers of heavy oil. Using the sensitivity of the provincial deficit to changes in the WTI–WCS spread to estimate the fiscal implications, the deficit could deteriorate by $6.7B in the 2026–27 fiscal year (FY27) and $5.2B in FY28 relative to Alberta's 2025 budget if our new WCS baseline price forecast proves correct (graph 4). If the upper limit of the WTI–WCS spread comes to fruition, the deficit could widen by $9.2B and $10B in FY27 and FY28, respectively. That said, Alberta started FY26 in the strongest fiscal position among Canadian provinces, with among the smallest expected deficits and unquestionably the lowest net debt as a share of GDP of the group. The province's debt reduction strategy further helped to solidify this advantage. Alberta also has greater fiscal capacity than other jurisdictions, with lower personal and corporate income taxes and no sales tax.

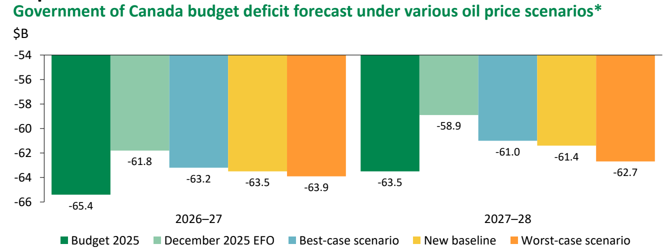
Graph 4
Lower Prices for WCS Are Likely to Exacerbate an Already Weakened Fiscal Outlook for Alberta
Government of Alberta budget deficit forecast under various oil price scenarios*



WTI: West Texas Intermediate; WCS: Western Canadian Select; EFO: Economic and Financial Outlook
* All Desjardins deficit forecasts use the December 2025 EFO forecast for WTI.
Government of Alberta and Desjardins Economic Studies

The federal fiscal story is a little more complicated, as historical data revisions and a better economic outlook have improved its fiscal position even before any upcoming deterioration in oil prices weigh on the economic and financial outlook. As such, even under the worst-case oil price scenario, the Government of Canada's deficits over the next couple of years may come in smaller than those presented in Budget 2025 (graph 5). That said, with the level of nominal GDP likely to be lower over the next couple of years than we projected in December, lower oil prices going forward should chew into some of that federal fiscal windfall. Using the fiscal sensitivities for real GDP growth and GDP inflation published in Budget 2025, the impact of lower nominal GDP outlined above could lead the deficit to be $1.7B larger in FY27 and $2.5B in FY28 in our new baseline WCS price scenario (graph 5). In the worst-case scenario, the fiscal hit to the federal government's bottom line rises only modestly to $2.1B and $3.8B in FY27 and FY28, respectively. (Note we excluded analysis for FY26 as Budget 2025 was released so close to the end of the fiscal year.)

Graph 5
Falling Prices for WCS Should Have a Minimal Impact on the Already Improved Federal Fiscal Outlook
Government of Canada budget deficit forecast under various oil price scenarios*



WTI: West Texas Intermediate; WCS: Western Canadian Select; EFO: Economic and Financial Outlook
* All Desjardins deficit forecasts use the December 2025 EFO forecast for WTI.
Government of Alberta and Desjardins Economic Studies