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Uncertainty: Alberta Braces for Choppy Economic Waters

Budget 2025
February 2025

Budget 2025: Meeting the Challenge

February 27, 2025

The Top Line

The first two months of 2025 have seen a shift in the global economic context, and governments have been forced to adapt. Last year was about responsibly building the province, this year it's about confronting new challenges head-on.

Alberta remains one of the fastest-growing provinces in Canada, and that growth continues to put pressure on the services Albertans count on every day. New this year are the ongoing trade conflicts with the U.S., which threaten to put significant downward economic pressure on not just Alberta but the entire global economy.

The fiscal framework introduced in 2023 was meant to keep Alberta's financial situation in check and the province's spending within its means. Those guardrails allow for deviation in the event of extraordinary circumstances—and these are extraordinary circumstances.

For the first time in Premier Smith's tenure, the Government of Alberta is forecasting a $5.2 billion deficit, which will be reduced over the next three years. The deficit results from a doubling of the Government's fiscal contingency in response to global volatility, as well as a significant increase in government spending while revenue remains stagnant. Almost every department will see an increase in their budget, and spending on new capital projects has increased by more than $1 billion.

Budget 2025 is unchartered waters for a UCP government, but as Minister Horner said in his address, "we are in a difficult time."

“We are in times that will require us to strive to new levels of courage and tenacity.”

-Minister of Finance and President of the Treasury Board Nate Horner

Key Financial Metrics

Provincial revenue is estimated at $74.1 billion, roughly $600 million higher than what was budgeted in 2024. The more significant development is the considerable increase in provincial expenditure, which rises from $73.2 billion in 2024 to $79.3 billion in 2025. This results in a fiscal deficit of $5.2 billion which is expected to decrease over the next three years.

Increased provincial outflows come from a doubling of the provincial contingency fund from $2 billion to $4 billion, and a $2.2 billion increase in operating expenses.

Alberta's real gross domestic product (GDP) is expected to fall 1.8 per cent in 2025, with an additional decrease of 1.7 per cent in 2026. Population growth is also expected to slow.

The Government of Alberta has based revenue forecasts around a WTI price of $68 per barrel, an estimated decrease of $6 per barrel.

$79.3 Billion
Expenditure

$5.2 Billion
Deficit

Insights – Tariffs

Budget 2025 reflects Alberta's history of overcoming challenges. Drawing parallels to the province's 1973 response to U.S. tariffs under President Nixon, it outlines a roadmap to navigate ongoing uncertainties in Alberta's trade relationship with the U.S. 52 years later.

While the government favours diplomacy in addressing U.S. trade barriers, it recognizes the need for financial preparedness. Unlike other provinces considering multiple budget scenarios based on the potential for U.S. tariffs, Alberta has opted for a single approach, assuming "moderate trade conflicts and retaliatory measures." As a result, it has doubled its expense contingency to $4 billion, ensuring compliance with its own fiscal rules that cap in-year spending increases to the voted contingency. This pre-approved buffer is designed to provide flexibility in how the government could respond to an evolving trade landscape

Budget 2025 allocates $55 million for Alberta-U.S. border security, a key priority for the new U.S. administration, funding the new Interdiction Patrol Team and border facility development. It also introduces enhanced trade diversification incentives to expand market access for Alberta businesses and provides an additional $833 million for various social support programs.

Insights – Energy and Environment

Alberta’s 2025 budget underscores a strategic balancing act, navigating the province's reliance on non-renewable resources while cautiously advancing clean energy technologies amid global uncertainty. Non-renewable resource revenue is forecast to drop by $4.4 billion to $17.1 billion in 2025-26, driven by lower oil prices and economic volatility, reflecting the province’s ongoing exposure to market fluctuations.

While the budget continues to support the oil and gas sector, it also allocates $646 million over three years from the Technology Innovation and Emissions Reduction (TIER) fund for emissions reduction and clean technology development, including carbon capture, utilization, and storage. The budget also mentions potential development in critical minerals yet lacks specific funding details or financial commitments.

The government’s strategy is heavily influenced by geopolitical dynamics, including U.S. trade tensions, and domestic pressures to maintain the "Alberta Advantage." In keeping with the Premier’s stated goal of doubling oil output, the 2025 budget remains steadfast in prioritizing stability in traditional energy sectors.

Insights – Cost of Living

Budget 2025 acknowledges that cost-of-living challenges remain a daily reality for many Albertans. The budget will implement a new eight per cent personal income tax bracket for income up to $60,000. Most taxpayers will see the benefit of the cut on paycheques as soon as July 1. The tax cut was originally meant to come into effect over three years; however, in the face of a deteriorating macroeconomic outlook, the government has compressed the timeline.

Recognizing the need for affordable housing, the province has increased expenses for the Alberta Social Housing Corporation by $245 million. Capital funding will support 6,300 new affordable housing units over the next three years.

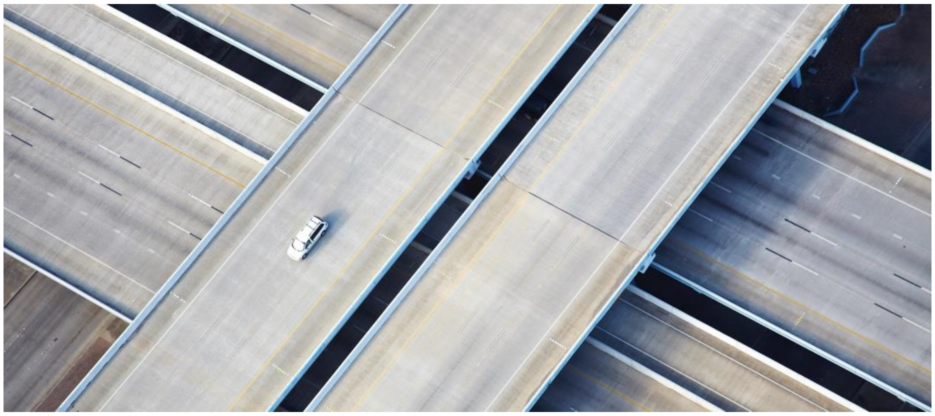
Headline population growth, which has contributed significantly to rising costs in Alberta, is set to decrease by 2.5 per cent in 2025; however, the government anticipates that it will rebound again in the coming years. Increased population growth in previous years has influenced Budget 2025 to implement an overall $2 billion funding increase in sectors such as health care, education and social programs, as well as changes in mortgage requirements for first-time home buyers. Ongoing labour negotiations, particularly in the education sector, will lead to increased uncertainty in provincial ledgers.

Insights – Skills and Jobs

The UCP government continues to promote diverse pathways in post-secondary education through Budget 2025.

Institutions specializing in skills training such as the University of Alberta, SAIT, Keyano College, as well as the Trades and Apprenticeship Promotional Plan program, will receive resources to modernize and expand facilities, thereby opening spots in science, health care, and trades-based programs. The total funding supporting skills for jobs is $1.5 billion over three years.

On the job-creation side of the equation, the Ministry of Jobs, Economy and Trade's operating expenses have increased by $87 million year-over-year. Budget 2025 anticipates that the province will continue to create jobs albeit at a slower rate, reflective of the slowdown of overall provincial economic activity. To combat the anticipated softening of the labour market, the Government of Alberta is looking closer to home, focusing on supporting childcare to allow more Albertans to participate in the workforce and post-secondary education. The initial investment in childcare also aims to reduce future spending in the sector, in preparation to negotiate the existing funding agreement with the federal government.



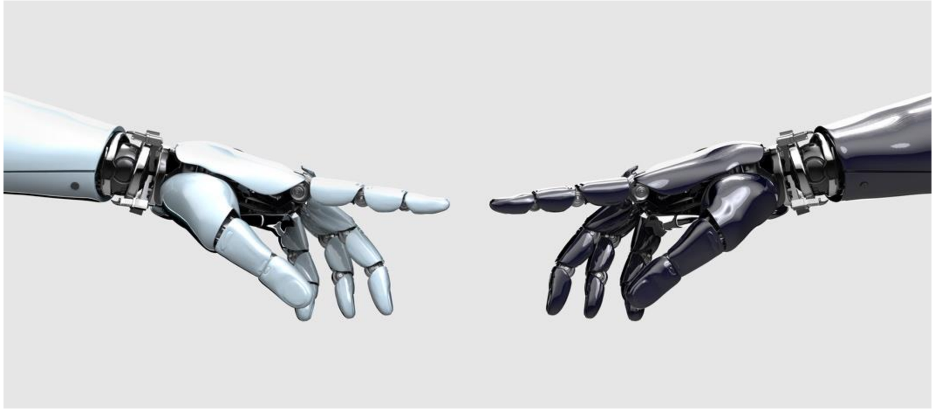
Insights – Transportation and Infrastructure

Infrastructure investment continues to be substantial despite turbulent economic headwinds and uncertainties in international trade.

The Ministry of Municipal Affairs will continue distributing grants through the Local Government Fiscal Framework (LGFF) to fund local infrastructure after transitioning from the Municipal Sustainability Initiative (MSI) last year, with a $96 million increase in capital grants under the LGFF.

Budget 2025 includes $7.5 billion supporting projects and initiatives in Alberta's municipalities over three years, which accounts for 29 per cent of the total Capital Plan. A total of $2.9 billion in provincial funding has been allocated to the Calgary and Edmonton LRT projects, including $5 million for a connector to the Calgary International Airport. Another $2.5 billion has been allocated for the construction and maintenance of the province's highway network.

Transportation will operate with $2.79 billion in 2025-2026, a decrease of $38 million from the 2024-25 third-quarter forecast, reflecting changes in scope for the LRT projects. K-12 educational infrastructure saw an increase of $505 million, or 23.9 per cent, with plans to deliver approximately 150,000 new student spaces across the province.



Insights – High Tech

Perhaps recognizing the budgetary volatility of Alberta's resource-based economy, Budget 2025 sustains the government's commitment to the technology and innovation sector. The Ministry of Technology and Innovation sees an $80 million boost, including $48 million in reprofiled grants for the province's Broadband Strategy, $42 million for government technology modernization, and $3 million for the Innovation and Employment Grant (IEG). Further underscoring the importance of technology investment, the budget emphasizes a focus on high-growth sectors like technology through strategic investments by the Heritage Fund Opportunities Corporation.

Beyond strategic investments in innovation, the government is focusing on modernizing its own technology. Budget 2025 allocates $54 million to enhance cyber security, maintain existing applications, improve digital service delivery for Albertans, and meet the rising demand for cloud-based platforms.

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