

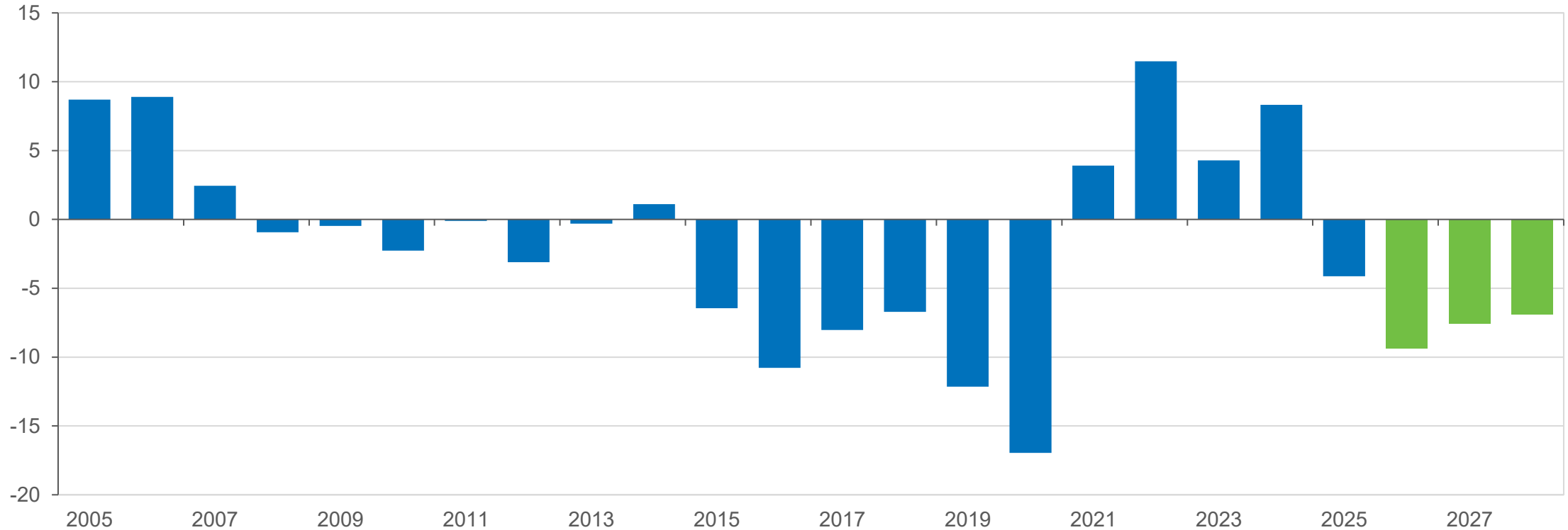


2026 Alberta Budget Post-Mortem

 servus credit union®

Deficits are the norm over the past 20 years, not the exception

Fiscal balance (C\$bn)



- There were 13 fiscal deficits over the past 20 years.

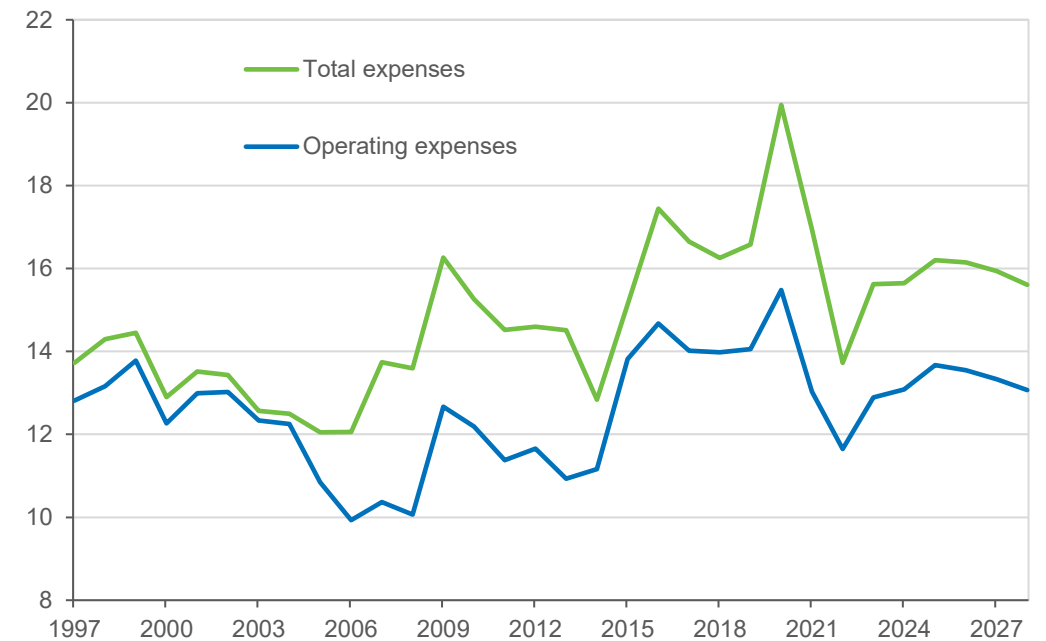


Expenses have been stable over the past decade

Expenses per capita adjusted for inflation



Expenses as % of GDP

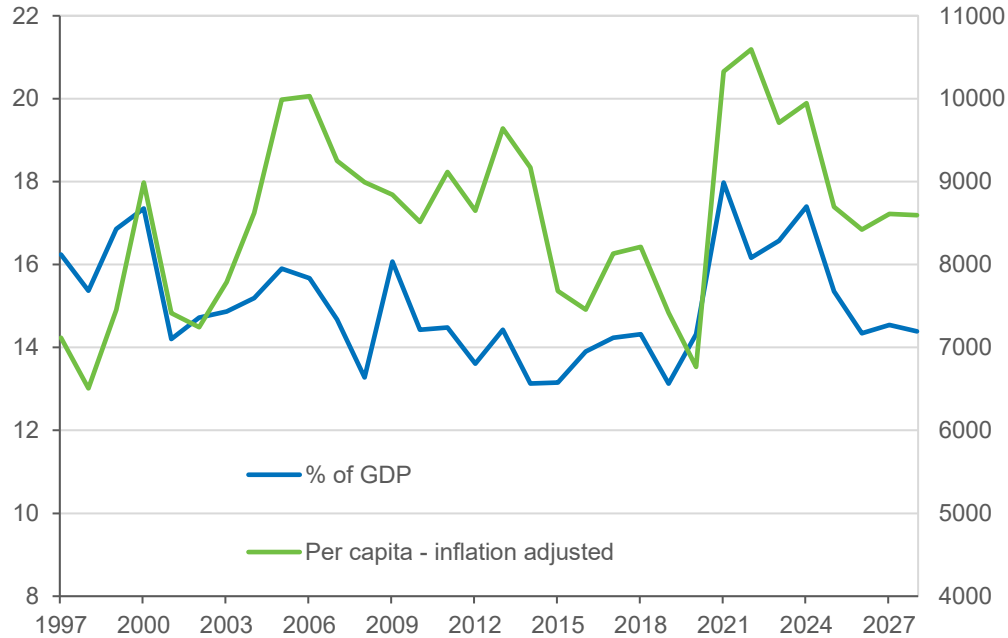


- Expenses increased rapidly during the boom years, but have been relatively stable over the past 10 years.
- Legacy spending from the boom years could be the issue

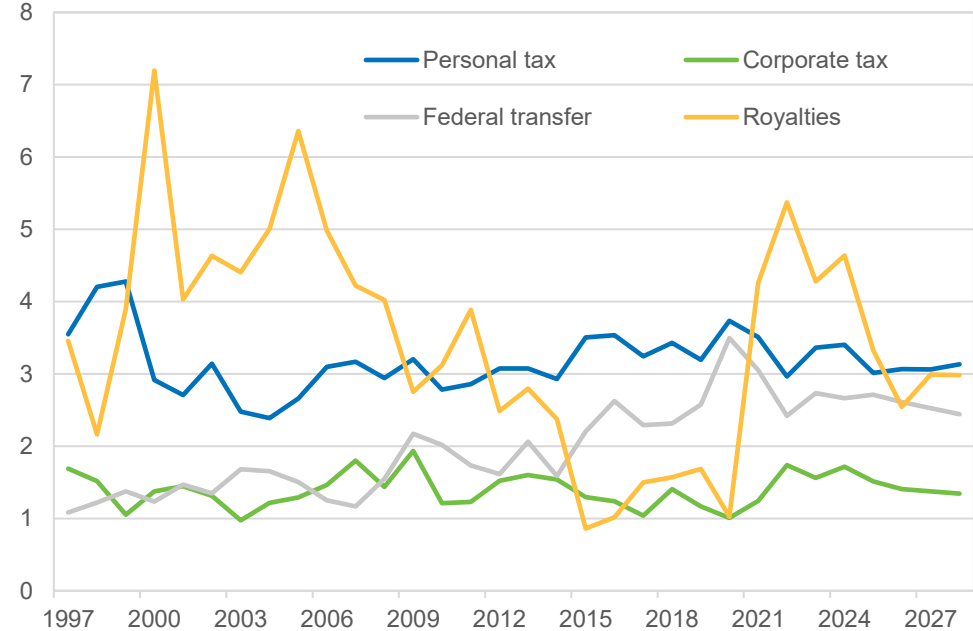


The issue is volatile revenues

Total revenues



Revenues as % of GDP

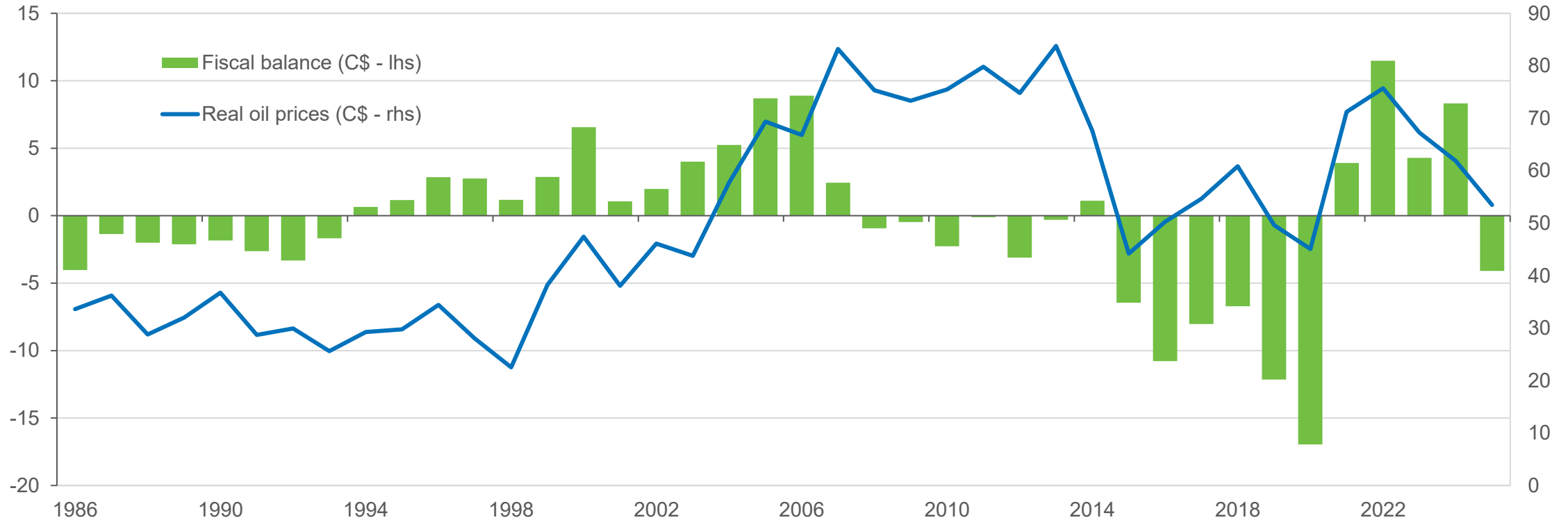


- Revenues are extremely volatile, but this is the result of royalty revenues



Low oil prices is part of the problem, but not everything

Fiscal balance (C\$bn)

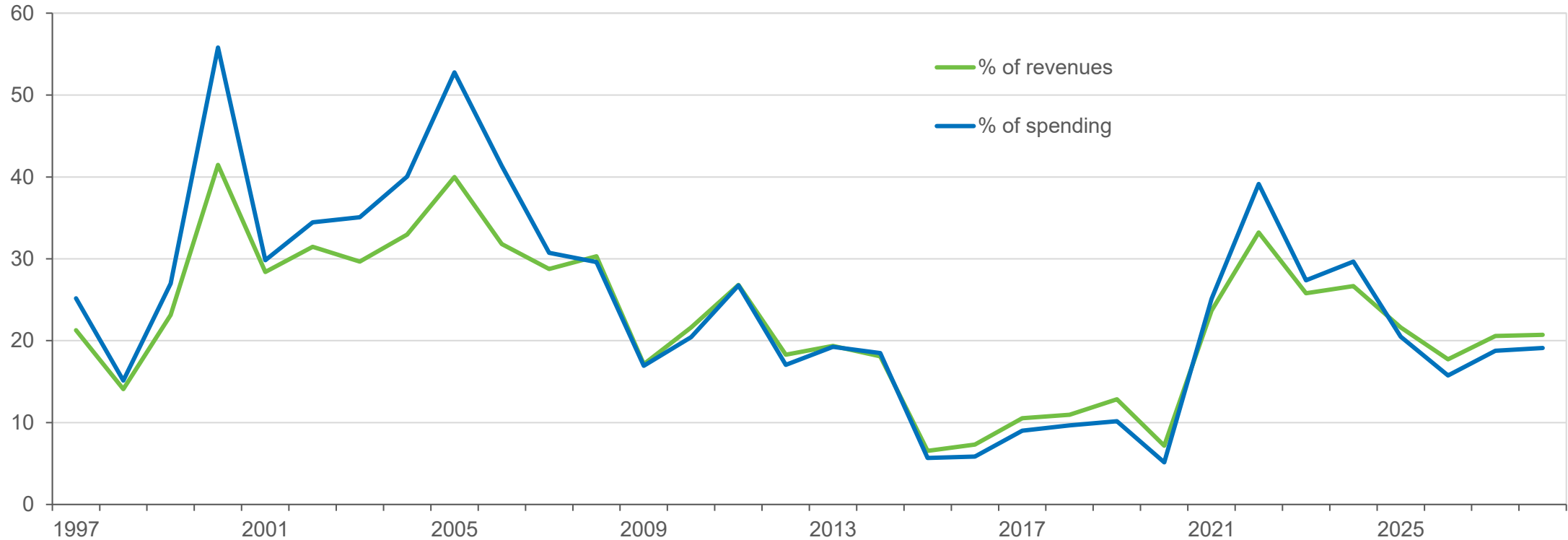


- Alberta has seen deficits even in time when oil prices were elevated



Not more dependent on royalties than before

% of budget



- Royalty revenues are about 20% of the Budget
- This is much lower than in the early 2000s, when it was more than 30%

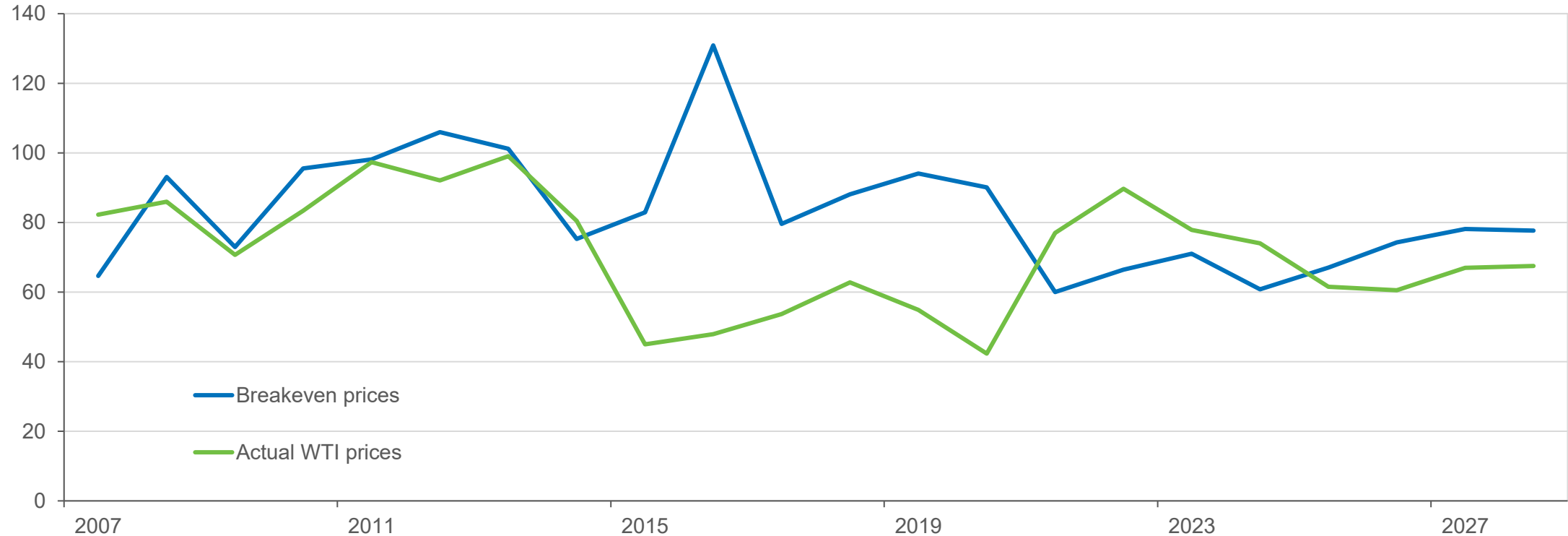


Source: Treasury Board and Finance, Servus Credit Union



Is the breakeven price too optimistic?

Equivalent WTI prices

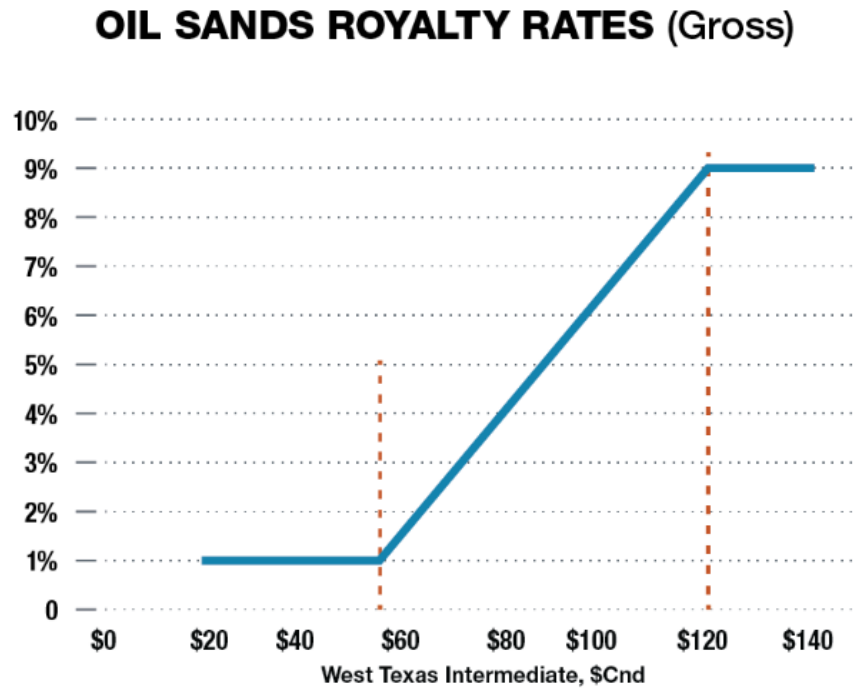


- As issue is the price of oil required to balance the Budget; currently at \$74, while oil prices have averaged \$63 since 2015.

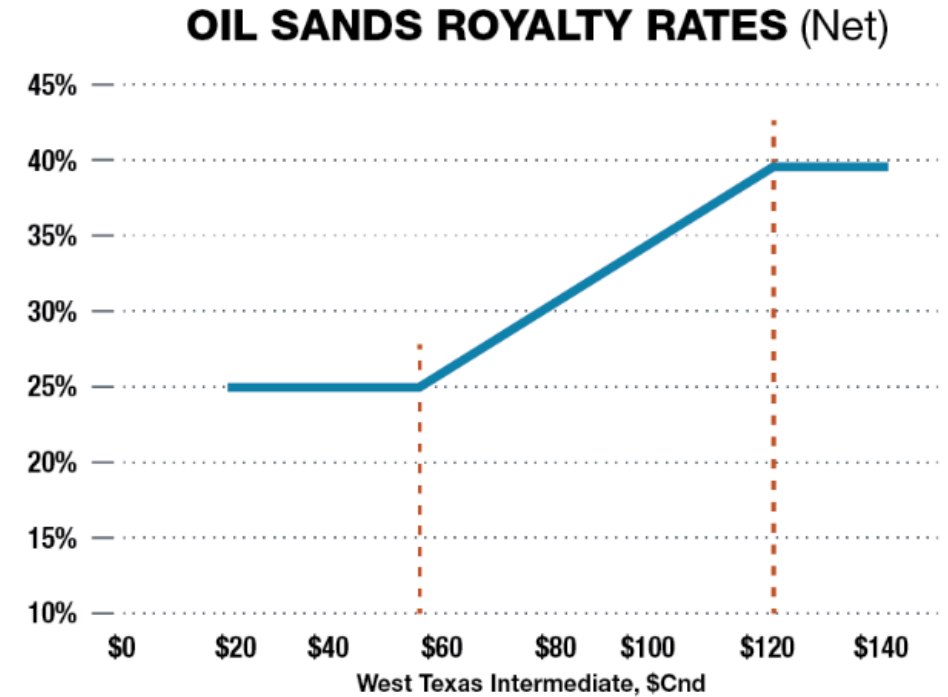


Pre vs post-payout royalty rates

Pre-payout rate



Post-payout rate

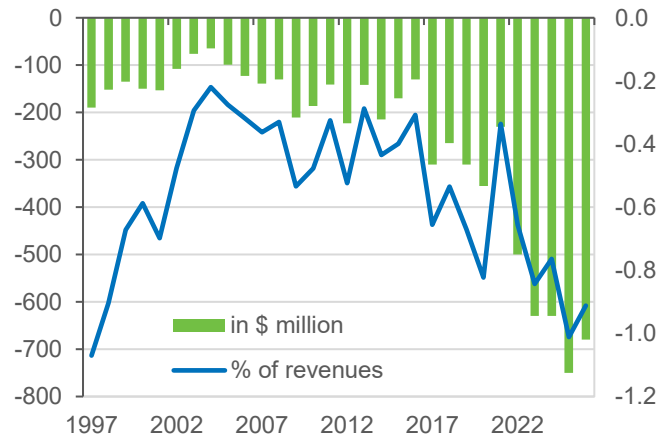


- Many oil producing projects are now in post-payout period meaning that they pay a higher royalty rate.

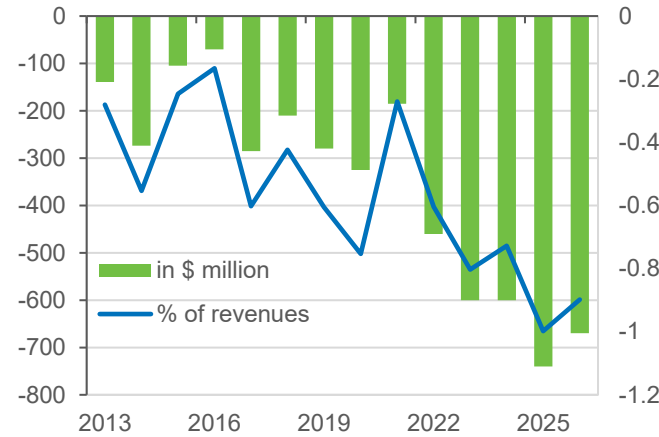


Increased volatility in royalty revenues

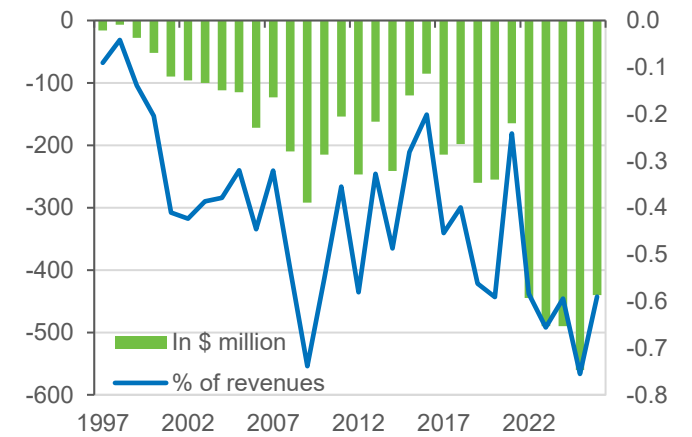
Elasticity to \$1 WTI change



Elasticity to WCS-WTI spread



Elasticity to FX change



$$\text{Royalties} = \text{Production} * \text{rate} * \text{price}$$

- The elasticities of fiscal revenues to change in oil prices, price differential and exchange rate are elevated.
- Increasing production will only make the volatility greater.



Narrower spread offset lower oil prices

Alberta's fiscal deficit for FY2025

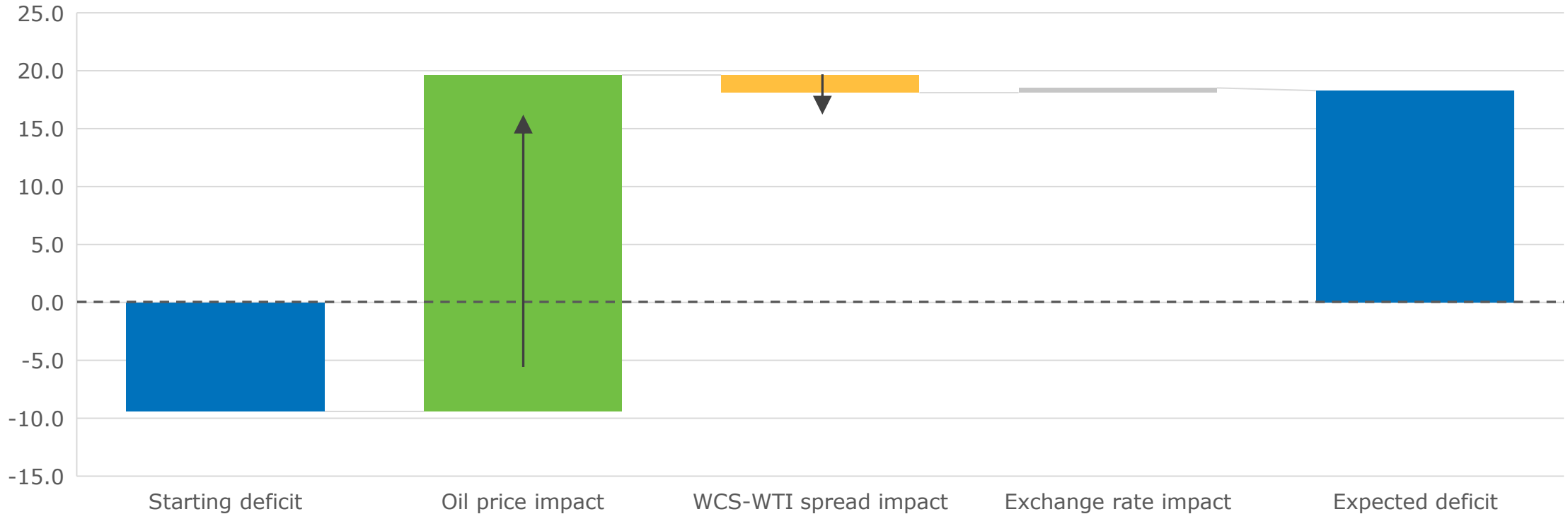


- While lower WTI oil prices are negative, the narrowing of the WCS-WTI spread almost fully compensates. A stronger Canadian dollar is also reducing revenues. Deficit of about C\$2.6bn (C\$4.1bn in Budget 2026)



What about FY2026-27?

Alberta's fiscal deficit for FY2026



- Higher oil prices will completely reverse Alberta's fiscal fortune; from a \$9.4bn deficit to an \$18bn surplus, if oil remains at the level seen so far this fiscal year of \$103.



Choose your own adventure

Alberta's fiscal deficit for FY2026

		Exchange rate (USD per CAD in cent)						
		69.0	70.0	71.0	72.0	73.0	74.0	75.0
WTI oil prices (US\$)	50	-14.8	-15.2	-15.7	-16.1	-16.5	-17.0	-17.4
	60	-8.0	-8.4	-8.9	-9.3	-9.7	-10.2	-10.6
	70	-1.2	-1.6	-2.1	-2.5	-2.9	-3.4	-3.8
	80	5.6	5.2	4.7	4.3	3.9	3.4	3.0
	90	12.4	12.0	11.5	11.1	10.7	10.2	9.8
	100	19.2	18.8	18.3	17.9	17.5	17.0	16.6
	110	26.0	25.6	25.1	24.7	24.3	23.8	23.4
120	32.8	32.4	31.9	31.5	31.1	30.6	30.2	

		Oil price differential (WCS-WTI, US\$)						
		12.0	13.0	14.0	15.0	16.0	17.0	18.0
WTI oil prices (US\$)	50	-15.9	-16.5	-17.2	-17.9	-18.6	-19.2	-19.9
	60	-9.1	-9.7	-10.4	-11.1	-11.8	-12.4	-13.1
	70	-2.3	-2.9	-3.6	-4.3	-5.0	-5.6	-6.3
	80	4.5	3.9	3.2	2.5	1.9	1.2	0.5
	90	11.3	10.7	10.0	9.3	8.7	8.0	7.3
	100	18.1	17.5	16.8	16.1	15.5	14.8	14.1
	110	24.9	24.3	23.6	22.9	22.3	21.6	20.9
120	31.7	31.1	30.4	29.7	29.1	28.4	27.7	

- Depending of where oil prices settle this FY, Alberta could see a record-breaking surplus, a balanced budget or a deficit.



What are Alberta's fiscal problems?

Spending is not necessarily the issue

The share of revenues coming from royalties is not the main issue

- But is 20% of spending sustainable in the long-term?

The real problems are:

1. The level of oil prices required to balance the budget is too high
2. The royalty revenues are too volatile, and it's going to get worse



Reducing revenues volatility: hedging

Mexico currently hedge its oil revenue by buying Put on oil

- A Put gives the owner the right to sell the underlying asset at a set price

- Acts like an insurance policy by guaranteeing a minimum price
- Ensure a floor on its oil revenues

The cost of this can be high



Reducing revenues volatility: hedging

Hedging Budget 2025:

	\$58	\$60	\$62.5	\$65	\$68.00	\$70	\$75.00
Premium	3.515	4.279	5.161	6.182	7.616	8.707	11.906
Total cost (250 mn barrels)	0.9	1.1	1.3	1.5	1.9	2.2	3.0
Net budget impact with put	-8.8	-7.1	-5.4	-3.8	-1.9	-0.7	2.3
Net budget impact without put	-7.9	-6.0	-4.1	-2.3	0.0	1.5	5.3

Net Budget impact if with a Put at \$65



Average oil prices in FY2025-26: \$65

Oil price assumption in Budget: \$68



Reducing revenues volatility: hedging

What about 2026: the cost of hedging is still quite high

	\$60	\$65	\$70.0	\$75	\$80.00	\$85	\$90.00
Premium	4.035	5.897	8.305	11.27	14.747	18.65	22.876
Total cost (250 mn barrels)	1.0	1.5	2.1	2.8	3.7	4.7	5.7

- Oil future curve is in backwardation: spot is \$100, but futures for Mar27 are \$73.75
- Volatility is up by about 20% (31.8% vs 26.2%)

The cost of hedging could be reduced by selling a Call, but then you cap the upside



Reducing revenues volatility: increase stable revenues

Introducing a sales tax

- Each 1 percentage points of HST rate brings about \$1.5bn in revenues

What rate is required?

1. 5% rate would bring in \$6.5bn
2. 11% rate to offset royalty revenues in 2025
3. 13% rate to offset royalty revenues and deficit in 2025

Can we make sure that the surplus are not spent in good years?



Reducing revenues volatility: increase stable revenues

Investment income : Heritage Fund

The current fund size of \$31.9bn

AIMCo return: 7.4% in 2025
 7.2% over the past 10 years
 5.7% over the past 4 years

Norway Fund: 6.64% since 1998



Reducing revenues volatility: increase stable revenues

Growing the fund to \$250bn by 2050 requires a rate of return of 8.6% every year

- If rate is 7%, it would require yearly contributions of \$1.2bn

A \$250bn fund would return:

\$20bn per year at 8%
\$17.5bn per year at 7%

But what will this return pay in 2050? And beyond?



Reducing revenues volatility: increase stable revenues

What revenues do we need to generate?

		Revenues to replace in 2050	Size of the fund needed by 2050			Annual contribution needed		
			8% return	7% return	6% return	8% return	7% return	6% return
Scenario 1	Return of \$20bn a year in 2050	20.0	250	286	333	1.0	2.4	4.4
Scenario 2	Same \$20bn - adjusted for inflation	32.8	410	469	547	3.4	5.6	8.6
Scenario 3	Replace 25% of expenses	44.7	559	639	745	5.6	8.5	12.5
Scenario 4	Replace 20% of expenses, like Norway	35.8	447	511	596	3.1	5.3	8.4
Scenario 5	Same as #4, forever	35.8	761	966	1324	7.4	12.5	21.6



Conclusion

There is a high risk that the current revenue windfall will stall any structural adjustments

Volatility of revenues is the main issue, and it will get worse

A sales tax would provide a stable source of revenues

Even better, a sales tax + contribution to the Heritage Fund would be superior



Q&A

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