FitchRatings

Public Finance
Local and Regional Governments
Canada

Province of Alberta

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency	
Long-Term IDR	AA
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA

Rating Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable
Debt Ratings	
Senior Unsecured Debt Long-Term Rating	AA

Issuer Profile Summary

One of the 10 Canadian provinces, Alberta's GDP is third largest and was also the wealthiest by GDP per capita in 2022. Economic performance is closely tied to its large, but cyclical, energy sector.

Financial Data Summary

(CAD Mil.)	FY 2023	FY 2028rc
Economic liability burden (%)	56.1	60.5
Payback ratio (x)	3.3	4.6
Synthetic coverage (x)	3.7	2.6
Fiscal debt burden (%)	83.0	78.0
Net adjusted debt	62,600	61,507
Operating balance	18,950	13,500
Operating revenue	75,438	78,822
Debt service	15,428	10,627
Mortgage-style debt annuity	5,108	5,250

FY: Fiscal year ending March 31. rc: Fitch's rating-case scenario
Source: Fitch Ratings, Fitch Solutions, Province of Alberta

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Global Economic Outlook - June 2024 (June 2024)

Fitch Affirms Canada at 'AA+'; Outlook Stable (December 2023)

Supranationals, Subnationals and Agencies Handbook (September 2023)

Analysts

Douglas Offerman
+1 212 908-0889
douglas.offerman@fitchratings.com

Karen Krop
+1 212 908-0661
karen.krop@fitchratings.com

Rating Derivation Summary: The 'AA' Long-Term IDR is based on Province of Alberta's 'high midrange' risk profile and debt sustainability, assessed at 'aa', up from 'a' as of Fitch Ratings' last review. Together, these factors result in a standalone credit profile (SCP) at 'aa–'. The final 'AA' IDR reflects an additional notch of uplift based on Fitch's expectation of temporary, ad hoc federal support for market access during debt market disruptions. Each factor also considers a comparison with other Canadian and global peers. No other factors affect the rating.

Alberta used its recent economic rebound to accelerate fiscal improvements and lower its debt, bringing net adjusted debt to an estimated CAD57.5 billion in fiscal 2024 (ended March 31) from CAD74.6 billion in fiscal 2022. The rapid decline in debt and adherence to spending restraint in recent budgets have been complemented with last year's introduction of a fiscal framework requiring balanced budgets and annual contingencies and using surpluses for debt repayment, savings or one-time investment, and are likely to bolster future resilience despite Alberta's continuing vulnerability to oil price shocks and budgetary cyclicality.

Key Rating Drivers

Risk Profile — 'High Midrange': The assessment reflects a low risk relative to international peers that Alberta's ability to cover debt service from operating balances may weaken unexpectedly over the forecast horizon (through fiscal 2028) because of lower-than-expected revenues, above-expectation expenditures or an unanticipated rise in liabilities or debt service.

The 'high midrange' risk profile is based on four 'stronger' sub-assessments (for revenue adjustability, expenditure adjustability, liabilities and liquidity robustness, and liabilities and liquidity adjustability) and two 'midrange' sub-assessments (revenue robustness and expenditure sustainability).

Debt Sustainability — 'aa' Category: Fitch assesses Alberta's debt sustainability at the low end of the 'aa' category. The assessment relies on a rating case that uses the province's 'low scenario' economic and revenue sensitivity in Budget 2024, tabled last March, and incorporates additional stresses in operating expenditure, capex and borrowing rates.

Under its International Local and Regional Government (LRG) Rating Criteria, Fitch designates Alberta and other Canadian provinces as type A entities, with extensive fiscal powers including the ability to accumulate deficits. For type A entities, the primary metric for assessing debt sustainability is the economic liability burden (ELB – net adjusted debt plus a pro-rata share of central government debt to GDP). Three secondary metrics are also considered, the payback ratio (net adjusted debt to operating balance), synthetic debt service coverage (operating balance to debt service assuming a mortgage-like 15-year repayment) and fiscal debt burden (net adjusted debt to operating revenue).

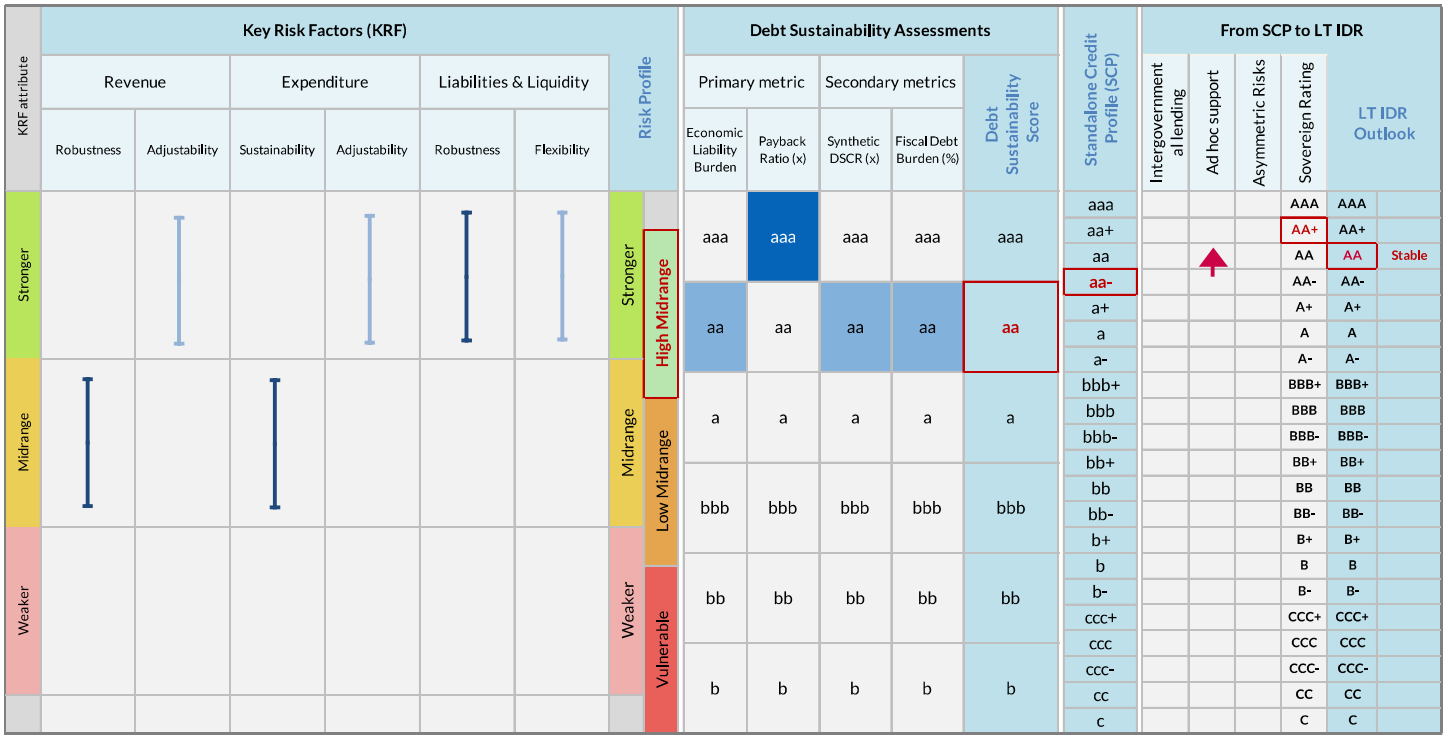
Under the rating case scenario, Alberta's ELB metric is 60.5% in fiscal 2028, well within the 'aa' category and above the 55.9% level in fiscal 2023. Secondary metrics are at or near the 'aa' category, with the payback ratio at 4.6x, synthetic debt service coverage ratio (DSCR) at 2.6x and fiscal debt burden at 78%.

Factors Beyond the SCP: A single notch of uplift for ad hoc support reflects the likelihood of federal support for market access by provinces and territories during periods of turbulence. The uplift only applies to provinces with a standalone credit profile (SCP) below Canada's 'AA+' IDR.

ESG Considerations: Alberta has an ESG Relevance Score of '4' for Biodiversity and Natural Resource Management due to its exposure to the impact of natural resources management on the economy and governmental operations, which, in combination with other factors, has a negative effect on the credit profile. All other ESG Relevance Scores, at 3, reflect their limited effects on the rating.

Rating Synopsis

Province of Alberta LT IDR Derivation Summary



Source: Fitch Ratings

The six key risk factors (KRFs), combined according to their relative importance, collectively represent the risk profile of the entity under Fitch's International Local and Regional Governments Rating Criteria. Risk profile and debt sustainability assessments, which measure the LRG's debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined into the SCP. The SCP, together with additional factors not captured in the SCP, such as extraordinary support or a rating cap, produce the IDR.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade

Strengthening of the ELB metric to a level consistently below 60% of GDP could lead to positive rating action, resulting from either provincial economic and fiscal performance exceeding the current outlook and supporting steady liquidity, or from stronger national economic and fiscal trends that lead to a lower pro-rata share of federal debt attributable to Alberta.

Factors that could, individually or collectively, lead to negative rating action/downgrade

Erosion of the ELB to a level in excess of 70% of GDP could lead to negative rating action resulting from severe economic and budgetary shocks in Alberta that reverse recent fiscal and debt burden trends and render fiscal sustainability policy targets untenable, or, at the federal level, weaker national economic and fiscal trends that raise the pro-rata share of federal debt attributable to Alberta.

Issuer Profile

Canada Subnational Framework: Canada has a decentralized federal system of government, with powers divided between or shared among the federal government and 10 provinces. With broad powers devolved to the provinces, negotiation and consensus among the provinces and federal government are necessary to initiate most changes. The powers and responsibilities of provinces limit the ability of Canada's government to unilaterally impose changes, notably on matters that fall exclusively to the provinces. The federal government's revenue powers and national economic footprint allow for a robust system of vertical transfers intended to enhance the ability of provinces and territories to provide relatively similar services.

The constitution bestows responsibility for most public services on the provinces and provides them with virtually unlimited revenue and borrowing powers to support their spending responsibilities. These include responsibility for municipal governments, education, healthcare, property and civil rights, transportation, civil law, labor relations and liquor sales. Federal responsibilities include defense, trade and commerce, although the federal government operates a Canada-wide unemployment system.

Alberta Economic Profile: As of 2022, Alberta's GDP constituted almost 15% of Canada's, and GDP per capita measured 127% of Canada's, the highest among provinces. Alberta's 2023 population of 4.7 million was 12% of Canada's. Alberta has long attracted newcomers, with the fastest average population growth rate among provinces in recent decades. In 2023, its population growth was 4.1%, well above the 3% national rate, driven by immigration. Although the housing market has tightened in Alberta, as it has in the rest of Canada, housing in Calgary and Edmonton remain considerably more affordable than in Greater Toronto and Vancouver.

Alberta's large, globally important oil sector supports high wealth metrics but results in higher economic and fiscal cyclicality than in other Fitch-rated provinces. Alberta produces crude oil both through conventional drilling and oil sands mining, as well as natural gas, condensates and other related products; oil sands mining is the largest and fastest growing share of the oil sector.

The province suffered a prolonged period of energy market weakness during the second half of the past decade. The price shock in 2014-2015 led to a severe regional recession and challenging fiscal conditions, compounded by severe pipeline capacity limits, which hindered exports. Pipeline capacity has improved since the 2021 completion of the Enbridge Line 3 Expansion project to Superior, Wisconsin in the U.S. and the 2024 completion of the Trans Mountain Pipeline Expansion project (TMX) to Burnaby, British Columbia. Most production is exported to refineries in the U.S.

Global decarbonization efforts represent a notable long-term risk to Alberta, since they may dampen appetite for energy and weigh on the province's long-term growth. Fitch assumes that diversification is likely given continued rapid population growth, and recent governments have emphasized economic development to attract energy-related manufacturing and technology.

Socioeconomic Indicators

	Alberta	Canada
Population, 2023 (mil.)	4.7	40.1
GDP per capita, 2022 (CAD)	76,145	59,748
GDP growth, 2022 (%)	5.0	3.8
Inflation, 2023 (%)	3.3	3.9
Unemployment rate, 2023 (%)	5.9	5.4

Source: Fitch Ratings, Statistics Canada, Province of Alberta

Risk Profile Assessment

Risk Profile: High Midrange

Fitch assesses Alberta's risk profile at 'high midrange', reflecting the combination of the following assessments:

Risk Profile Assessment

Risk Profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & Liquidity robustness	Liabilities & liquidity flexibility
High Midrange	Midrange	Stronger	Midrange	Stronger	Stronger	Stronger

Source: Fitch Ratings

Revenue Robustness: Midrange

Alberta's revenue base is less diverse than that of other Canadian provinces and highly sensitive to the cyclical energy sector, supporting the 'midrange' assessment. A range of taxes and fees is levied both on general activity and on non-renewable resources. However, there is no general sales tax, a major revenue source for provincial peers, and non-renewable resources are highly volatile. Economic growth prospects remain solid, supported by above-average population gains.

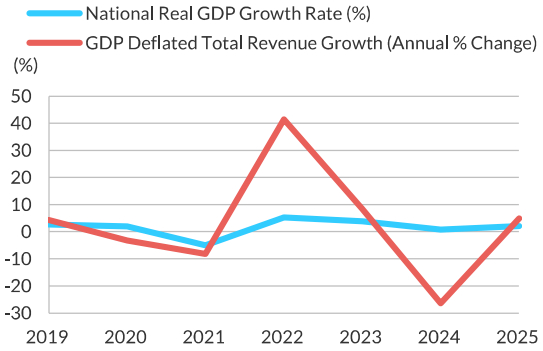
Tax revenues, derived mainly from personal and corporate income taxes, generated 35% of Alberta's operating revenue in fiscal 2023. Natural resources, including royalties on oil, bitumen and natural gas, provided another 33% of operating revenue. The West Texas Intermediate (WTI) oil price benchmark averaged USD89.69/bbl, compared with a budget of USD70/bbl, up from USD74.05/bbl in fiscal 2022. Budget 2024 forecasts WTI at USD76.50/bbl in fiscal 2024, down modestly from last year's forecast. For fiscals 2025-2027, Alberta assumes WTI at USD74/bbl.

The energy sector outlook has improved since completion of the Enbridge Line 3 and TMX projects, which have eased export bottlenecks and reduced the price differential between TMX and the Western Canadian Select, the regional price benchmark. Additionally, several oil sands projects have depleted credits on initial capital investments in recent years and transitioned to higher royalty payments.

Federal transfers, mostly the formula-based Canada Health Transfer (CHT) and Canada Social Transfer, account for more than 14% of revenue. Alberta receives no equalization transfers, given its relatively high fiscal capacity. A separate transfer triggered by revenue volatility, the fiscal stabilization program, is generating a CAD577 million one-time payment in fiscal 2024, reflecting revenue volatility in fiscal 2021. The major federal transfer programs are unconditional.

In response to healthcare delivery challenges nationwide, federal changes to CHT announced in February 2023 will provide a minimum of 5% CHT growth over the five fiscal years beginning in fiscal 2024, along with additional amounts for healthcare under a bilateral provincial-federal agreement. CHT, including the minimum guarantee, is expected to provide Alberta with CAD24.2 billion over 10 years beginning in fiscal 2024, and the province is receiving CAD2.9 billion for specific provincial needs under the bilateral agreement.

Real Total Revenue and GDP Growth



Fiscal year ending March 31.
Source: Fitch Ratings, Province of Alberta

Revenue Breakdown, Fiscal 2023

	Operating revenue (%)	Total revenue (%)
Personal income tax	18.5	18.3
Corporate income tax	10.7	10.6
Other taxes	6.0	5.9
Transfers	14.3	14.2
Other operating revenue	50.5	50.1
Operating revenue	**100.0**	**99.1**
Interest revenue	—	0.0
Capital revenue	—	0.9
Total revenue	—	**100.0**

Source: Fitch Ratings, Fitch Solutions, Province of Alberta

Revenue Adjustability: Stronger

All Canadian provinces have constitutionally unlimited power to raise revenues, supporting the 'stronger' assessment. Alberta's comparatively favorable tax burden suggests ample revenue adjustability, despite a historical reluctance to raise taxes. A robust and stable system of federal transfers further diversifies revenues; major transfers are unconditional. Provincial forecasting is typically conservative and transparent, with benchmarking to federal and private forecasters.

Fitch views Alberta as having ample tax-raising capacity. Based on fiscal 2022 revenue and 2021 nominal GDP, own-source revenues were equal to about 15.1% of GDP, compared with a 16.6% provincial median, while other measures, such as disposable income by household, suggest solid flexibility to sustain higher taxation if necessary.

Ample tax-raising capacity in Alberta is tempered by the political sensitivity of tax increases generally and imposition of a general sales tax in particular. Natural resource revenue volatility frequently sparks policy discussions about instituting a sales tax, although recent governments have opposed such a move. Proposals to require a popular vote to raise tax rates, or to study imposition of a sales tax or otherwise reduce revenue volatility, have periodically arisen but have not resulted in policy changes.

Nonetheless, modifications to tax rates and credits have been common and influence revenue growth trends. As it responded to lingering weakness from oil prices in 2019, the government repealed a consumer carbon tax imposed by a previous government while leaving it in place for large industrial emitters, and announced a phased-in corporate income tax cut, to 8% from 12%, between 2019 and 2022. Phase-in of the final scheduled cuts was accelerated to 2020 to support economic activity after the onset of the pandemic. The province also introduced a child and family

benefit tax credit, but increased tobacco taxes and implemented a pause to PIT indexation to support fiscal needs. In 2022, in response to inflation, indexation for personal income taxes resumed and fuel taxes were suspended.

Expenditure Sustainability: Midrange

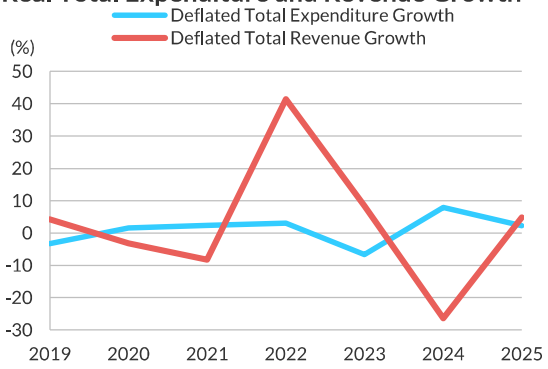
Provinces deliver most public services under Canada's system of federalism, from relatively stable categories such as education to fast-growing healthcare and more countercyclical social services spending, along with most capital outlays. Alberta's 'midrange' assessment, consistent with that of other provinces, reflects its broad spending mandate and Fitch's expectation that during economic downturns provinces will maintain robust operating spending, elevating the risk of deficits over time.

The 'midrange' assessment assumes that deficits are followed by periods of budgetary consolidation, during which policy adjustments and economic recovery support a return to balance and allow for a reduction of accumulated deficits. Political pressure to avoid deficits and borrowing varies over time and across provinces, whose effectiveness in addressing deficits and elevated debt burdens varies as well. Federal transfer formulas support stability, and the federal government is responsible specifically for unemployment insurance, reducing countercyclical spending needs.

Alberta long carried sizable balances and a solid net asset position (total liabilities minus financial assets under Canadian accounting). However, a lengthy period of annual operating deficits after the 2008-2009 Global Financial Crisis and 2014 energy price shock steadily eroded the balance sheet. Since fiscal 2017 the province has reported a net debt position, which rose to 20% of nominal GDP in fiscal 2021 before falling to 10% of nominal GDP in fiscal 2023.

Healthcare and education, including higher education, are the province's largest spending responsibilities, at 45% and 27% of operating expenditure, respectively, in fiscal 2023. Rising healthcare costs are a notable long-term concern across Canadian provinces, including Alberta, due to population aging, utilization, pharmaceutical costs, technology shifts and, more recently, gaps in care exposed by the pandemic. Recent federal CHT changes, detailed earlier, are not likely to meaningfully shield provinces from long-term healthcare spending pressures.

Real Total Expenditure and Revenue Growth



Fiscal year ending March 31.
Source: Fitch Ratings, Province of Alberta

Expenditure Breakdown, Fiscal 2023

	Operating expenditure (%)	Total expenditure (%)
Healthcare	43.7	38.3
Education	24.6	21.6
Social Services	13.0	11.4
Other operating expenditure	18.7	16.4
Operating expenditure	**100.0**	**87.7**
Interest expenditure	—	3.4
Capital expenditure	—	8.9
Total expenditure	—	**100.0**

Source: Fitch Ratings, Fitch Solutions, Province of Alberta

Expenditure Adjustability: Stronger

High service levels, including those funded via transfers to other entities, and a broad ability to modify spending support the 'stronger' assessment. Alberta has actively managed spending in recent years with a goal of lowering per-capita spending to the average of large Canadian provinces, while a fiscal framework announced last year limits spending growth to population plus inflation and requires annual contingencies. Capex planning is sophisticated and supports flexibility. Interest on debt is a small share of expenses, given Alberta's comparatively low debt burden. Federal spending mandates are not a constraint.

Canadian provinces are not limited by constitutional or federal requirements to balance their budgets. While a track record of carrying operating deficits forward could warrant a 'weaker' assessment under this key rating factor, the ability to sustain deficits temporarily does not necessarily lead to fiscal distress given the breadth of provincial powers.

Alberta undertook significant efforts to address a structural budget imbalance revealed during the 2015-2021 oil price slump and to maintain structural balance going forward. Under the 2019 Mackinnon Panel Report, Alberta set a goal to reduce per-capita spending to the average for large Canadian provinces, which it achieved largely by limiting compensation growth. In Budget 2023, Alberta introduced a fiscal framework policy, which in part requires annual balanced budgets, restrains annual spending to population plus inflation and limits unplanned in-year expense growth to the contingency cushion mandated under the plan.

Despite spending pressures and ambitious capital spending targets, the province forecasts maintaining balance through fiscal 2027, consistent with its fiscal framework. With the recent surge in inflation, rapid population growth and post-pandemic staffing challenges, Budget 2024 assumes sizable compensation growth, averaging 4% between fiscals 2023 and 2027. Overall program spending rises 3.7% in fiscal 2023-2027, compared to revenue growth of 0.8%.

Capital spending in Alberta, as in all provinces, is a notable source of flexibility. Projected spending, both direct and via grants to other entities, was CAD5.7 billion in fiscal 2023 and rises 9.8% annually through fiscal 2027, to CAD8.4 billion, a high level but still below the CAD9 billion reached in fiscal 2018. The province's targets may be difficult to reach given labor shortages across Canada.

Liabilities and Liquidity Robustness: Stronger

Alberta has unlimited provincial borrowing powers and comprehensively manages liquidity and debt across most of the public sector. Market access is ample both within Canada and internationally. Treasury management is sophisticated, with financing needs driven by operations, net capex and the refinancing of debt maturities. Strong debt management is attested by a long weighted average maturity of 12 years as of fiscal 2024, hedging of interest rate and foreign-currency risks, and large internal balances to offset risks from bullet maturities.

Alberta reported debt at CAD97.1 billion in fiscal 2023. It has used excess cash to pay off rather than refinance maturing debt in both fiscal 2023 and fiscal 2024, lowering debt balances by CAD13.3 billion and CAD3.2 billion, respectively. The newly announced fiscal sustainability policy includes a requirement that surplus cash be directed to debt repayment, savings or one-time spending.

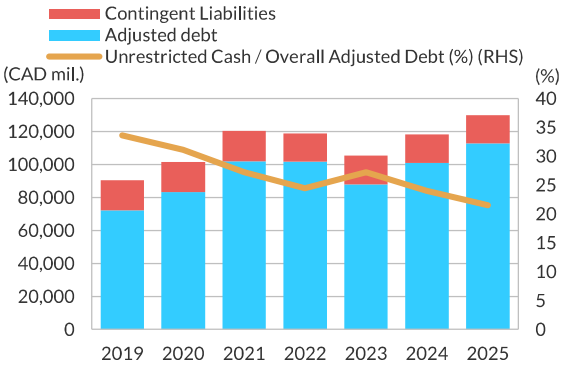
About CAD17.5 billion of reported debt has been lent to other public entities, including schools, universities, hospitals and local governments, and is netted by Fitch. Debt reporting is transparent and comprehensive and includes direct debt, public-private partnerships, government enterprises and guaranteed debt. Borrowing by government enterprises is distinguished by whether it is paid by the province directly or is self-supporting. Alberta has no debt obligations with concessionary terms to other tiers of government.

Interest rate risk is mitigated by the long weighted average maturity. Debt matures as bullet maturities rather than amortizing over time. Longer-term domestic debt is issued at five-, 10- and 30-year benchmark maturities to enhance liquidity, and upcoming maturities are managed by targeted buybacks.

Pension liabilities of CAD8.3 billion are included in Fitch's liability calculations, but Fitch views pension burdens to be a manageable long-term liability. Alberta has five open plans, including for general employees and teachers hired after 1992, and closed plans, including for pre-1992 teachers; the latter accounts for CAD7 billion of the total. Most plans have funding policies, joint governance with employee groups, share contribution responsibility with employees and have their assets managed by Alberta Investment Management Corporation (AIMCO), the province's asset management arm. The teachers' pre-1992 plan is unfunded and is supported by the province.

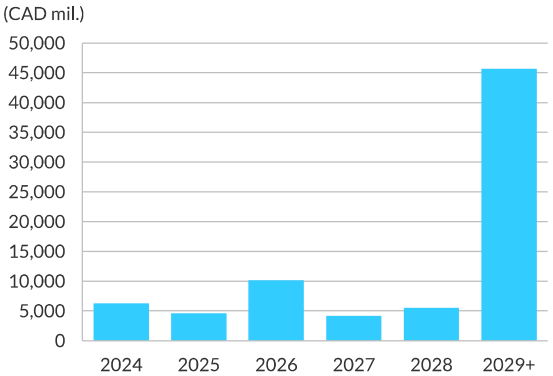
Contingent liabilities are primarily associated with debt issued for municipal entities, for which Alberta borrows in markets and then lends the proceeds. Municipal governments are tightly regulated and cannot budget for deficits. Most municipal borrowing was through the Alberta Capital Finance Authority, which formally merged with the province in 2020. Contingent debt also includes debt of the Agricultural Financial Services Corporation, which lends to farmers.

Overall Adjusted Debt Structure



Fiscal year ending March 31.
Source: Fitch Ratings, Province of Alberta

Debt Maturity Profile



Source: Fitch Ratings, Province of Alberta

Liabilities and Liquidity Flexibility: Stronger

As with all provinces, Alberta has extensive powers under Canada's federal system to manage its internal liquidity and mobilize external resources as needed. The province does not set aside sinking funds, but held a sizable liquid or near-liquid balance of CAD25.2 billion in fiscal 2023, including CAD9.8 billion in cash and equivalents, as well as the CAD19 billion book value of the Alberta Heritage Savings Trust (AHST), which Fitch views as unrestricted. Liquidity is supported by diverse borrowing programs including a USD12 billion CP program and unlimited domestic note and T-bill programs; CAD2.4 billion in domestic notes and T-bills was outstanding at the end of fiscal 2023.

Liquidity management policies include issuing to benchmark maturities and maintaining sufficient cash to cover at least four weeks' needs without refinancing, and two months' needs with refinancing of short-term debt. In addition to unlimited domestic borrowing, the province has a USD25.5 billion U.S. SEC-registered program, a USD30 billion global multicurrency medium-term note (MTN) program and an AUD3 billion MTN program. The effective interest rate across Alberta's direct debt portfolio was 3.2% as of fiscal 2024, per Fitch calculations. Alberta maintains a CAD4 billion reserve to support liquidity, including in the event of market disruptions.

In Budget 2024 Alberta also established a debt retirement account to manage sizable upcoming maturities from the pandemic era; its balance of CAD5.2 billion in fiscal 2024 will rise to CAD10.9 billion in fiscal 2025, before being depleted with a June 2025 maturity. Along with last year's fiscal framework, the province announced a plan to retain and reinvest 100% of net income in the AHST instead of just inflation-proofing the fund, which, in Fitch's, view will further support internal unrestricted balances. As a result, Budget 2024 anticipates it will reach CAD26.5 billion in fiscal 2027. The AHST market value was CAD22.9 billion as of March 31, 2024.

Debt Analysis

	Fiscal 2023
Fixed rate (% of direct debt)	100
Debt in foreign currency (% of direct debt)	0
Apparent cost of debt (%)	3
Weighted average life of debt (years)	4.8

Source: Fitch Ratings, Province of Alberta

Liquidity

(CAD Mil.)	Fiscal 2023
Total cash, liquid deposits and sinking funds	25,192
Restricted cash	0
Cash available for debt service	25,192
Undrawn committed credit lines	0

Source: Fitch Ratings, Province of Alberta

Debt Sustainability Assessment

Debt Sustainability: aa category

Debt Sustainability Metrics Summary

	Primary Metric		Secondary Metrics	
	Economic Liability Burden (%)	Payback Ratio (x)	Coverage (x)	Fiscal Debt Burden (%)
aaa	X ≤ 40	**X ≤ 5**	X ≥ 4	X ≤ 50
aa	**40 < X ≤ 70**	5 < X ≤ 9	**2 ≤ X < 4**	**50 < X ≤ 100**
a	70 < X ≤ 100	9 < X ≤ 13	1.5 ≤ X < 2	100 < X ≤ 150
bbb	100 < X ≤ 140	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	140 < X ≤ 180	18 < X ≤ 25	1 ≤ X < 1.2	200 < X ≤ 250
b	X > 180	X > 25	X < 1	X > 250

Note: Yellow highlights show metric ranges applicable to Province of Alberta.
Source: Fitch Ratings

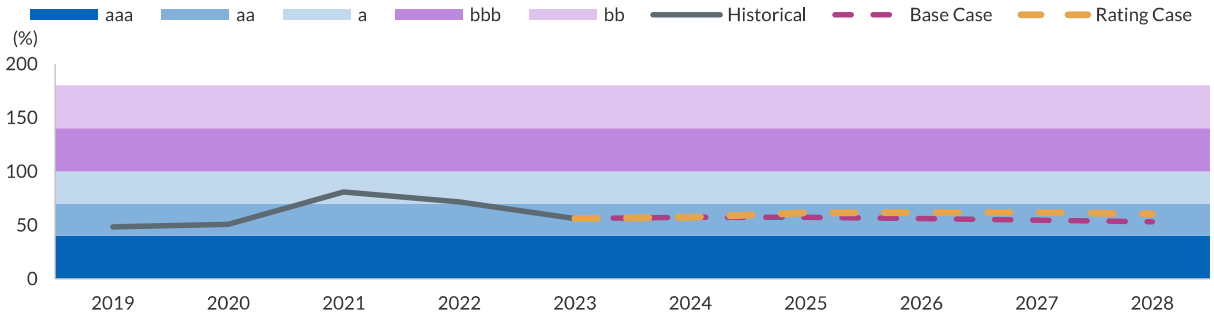
Fitch assesses Alberta's debt sustainability at the low end of the 'aa' category. The rating case, which relies on the 'low scenario' economic and revenue stress in Budget 2024, tabled last March, incorporates additional stresses on operating expenditure, capex and borrowing rates. The ELB metric is 60.5% in fiscal 2028, well within the 'aa' category and above the 55.9% level in fiscal 2023.

Secondary metrics include the payback ratio, at 4.6x (in the 'aaa' category), the fiscal debt burden at 78% ('aa') and synthetic debt service coverage, at 2.6x ('aa'). The strength of secondary metrics in the current review reflect fiscal gains in the post-pandemic years, plus a steady recovery from fiscal slowing assumed in fiscals 2024-2025, although these metrics historically have been highly variable, reflecting volatile operating balances.

The ultimate assessment, at the low end of the 'aa' category, primarily reflects the solid position of the ELB metric. Alberta, like all Canadian provinces, can incur structural deficits and thus is designated as a type A entity under the

International LRG Rating Criteria. As a result, the rating also incorporates projected federal debt in the ELB metric. Federal debt outstanding as calculated by Fitch rose to CAD1.35 trillion in fiscal 2021 from CAD906 billion in fiscal 2020 due to pandemic response and economic stimulus needs. Growth in federal debt since then has slowed, although Fitch projects it will rise to CAD1.8 trillion by fiscal 2028.

Economic Liability Burden - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Province of Alberta

Scenario Summary

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses through which the rating would be expected to remain stable. Starting with a base case that approximates the province's Budget 2024 assumptions through fiscal 2028, Fitch's rating case stresses provincial and federal nominal GDP, adjusts operating revenues to reflect weaker natural resource collections and raises operating expenditures, consistent with our assumption that provinces will maintain spending during periods of economic weakness.

The cumulative impact on operating balance is added to projected long-term debt. Otherwise, capex is modestly higher in the rating case, and the cost of borrowing is also elevated, although the impact of the latter is limited by the long maturity profile of provincial debt. Several variables, such as population growth and federal transfers, are not stressed. Federal transfers over the rating case period are not stressed on the assumption that factors including the February 2023 CHT modifications will largely delink from near-term growth from economic trends.

Scenario Assumptions Summary

		2024 - 2028 Average	
Assumptions	**Five-Year Historical Average**	**Base Case**	**Rating Case**
Operating revenue growth (%)	10.6	1.6	0.9
Tax revenue growth (%)	5.0	4.4	3.8
Current transfers received growth (%)	8.8	4.0	4.0
Operating expenditure growth (%)	3.5	2.6	2.9
Net capital expenditure (average per year; m)	-5,407	-6,402	-5,101
Apparent cost of debt (%)	2.6	3.1	3.2

		2028	
Outcomes	**2023**	**Base Case**	**Rating Case**
Economic liability burden (%)	56.1	53.1	60.5
Payback ratio (x)	3.3	2.0	4.6
Overall payback ratio (x)	4.2	3.0	5.9
Synthetic coverage ratio (x)	3.7	5.9	2.6
Fiscal debt burden (%)	83.0	42.1	78.0

Source: Fitch Ratings, Province of Alberta

Debt calculated under the International LRG Rating Criteria differs from the comprehensive "net debt" calculation reported under Canadian accounting standards. For Alberta, net adjusted debt totaled CAD62.6 billion in fiscal 2023, including direct debt of CAD76.3 billion (after netting CAD17.6 billion in self-supported borrowing) plus CAD11.5 billion in public-private partnership debt, capital leases and pension liabilities, offset by CAD25.2 billion in cash, temporary investments and other investments. The latter includes the AHST accumulated surplus, which Fitch treats

as unrestricted and available to support provincial liquidity if needed. Unrestricted cash is adjusted downward to account for net payables.

SCP Positioning and Peer Comparison

SCP Positioning Table

Risk profile	Debt sustainability					
Stronger	aaa or aa	a	bbb	bb	b	
High midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome (SCP)	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Source: Fitch Ratings

Alberta's peers include other Canadian LRGs and LRGs in similar federal structures globally, including those with significant commodities exposure. The most directly comparable Canadian peers are type A provinces Saskatchewan and British Columbia, which like Alberta experience stronger growth than Canadian averages and have important commodities sectors. However, British Columbia's forestry, energy and mining sectors are far smaller relative to its economy and revenues, supporting steadier fiscal performance, while Saskatchewan's diverse commodities sector, which includes oil, mining and agriculture, are each volatile but not necessarily synchronized.

Australian states are also type A LRGs and have large agriculture and mining activities, such as iron ore, copper and coal. Both South Australia and Queensland benefit from 'stronger' risk profiles, including 'stronger' revenue robustness assessments, and Queensland has a somewhat lower ELB, reflecting its lower debt. German Länder such as Lower Saxony have 'stronger' risk profiles and somewhat lower debt, in part reflecting a national debt brake mechanism that is expected to reduce debt burdens over time.

Peer Comparison

Canadian provinces	Risk profile	Primary metric (%)	SCP	IDR	Outlook/Watch
Alberta	High midrange	60.5	aa–	AA	Stable
Saskatchewan	High midrange	68.9	aa–	AA	Stable
British Columbia	Stronger	72.8	aa+	AA+	Stable
Quebec	Stronger	98.7	a+	AA–	Stable
International peers					
South Australia, Australia	Stronger	62.3	aa+	AA+	Stable
Queensland, Australia	Stronger	50.2	aa+	AA+	Stable
Lower Saxony, Germany	Stronger	53.3	aa+	AAA	Stable

[a] Primary metric is economic liability burden for all type A entities.
Source: Fitch Ratings

Long-Term Rating Derivation

From SCP to LT IDR: Factors Beyond the SCP

SCP	Sovereign Long-Term Local Currency IDR	Support: Intergovernmental financing	Support: Ad hoc support	Support: Floor	Asymmetric risks	Rating cap	Leeway above sovereign (notches)	Long-Term Local Currency IDR
aa-	AA+	—	1	—	—	—	—	—

Source: Fitch Ratings, Province of Alberta

Alberta's Long-Term 'AA' IDR is driven by its SCP, at 'aa–', with a one-notch uplift applied to reflect the likelihood of ad hoc federal support during periods of debt market turbulence. The ratings of Canadian provinces are not limited by Canada's 'AA+' Long-Term IDR, although factors affecting the sovereign rating may also affect the provinces' ratings.

Short Term Rating Derivation

The 'F1+' Short-Term IDR corresponds with the 'AA' Long-Term IDR under Fitch's International LRG Rating Criteria.

ESG Considerations

Alberta has an ESG Relevance Score of 4 for Biodiversity and Natural Resource Management due to the exposure it has to the impact of natural resources management on the economy and governmental operations, which, in combination with other factors, has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

The highest level of ESG credit relevance for other factors is a score of '3', meaning that ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix A: Financial Data

Province of Alberta

Fiscal year ending March 31	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance (CAD Mil.)										
Taxes	23,578	21,098	19,578	23,506	26,524	26,913	25,778	27,328	29,100	31,941
Transfers received	7,616	8,338	9,874	10,787	10,783	11,864	11,800	12,423	12,604	13,107
Fees, fines and other operating revenues	17,561	18,408	14,806	30,511	38,131	36,239	26,699	28,042	29,452	33,774
Operating revenue	48,755	47,844	44,258	64,804	75,438	75,016	64,277	67,793	71,156	78,822
Operating expenditure	-49,669	-51,887	-51,441	-55,964	-56,488	-61,803	-62,569	-63,803	-64,838	-65,322
Operating balance	-914	-4,043	-7,183	8,840	18,950	13,213	1,708	3,990	6,318	13,500
Interest revenue	0	0	0	0	0	0	0	0	0	0
Interest expenditure	-1,407	-1,665	-2,211	-2,150	-2,197	-2,183	-2,809	-2,897	-3,167	-3,307
Current balance	-2,321	-5,708	-9,394	6,690	16,753	11,030	-1,101	1,093	3,151	10,193
Capital revenue	517	759	696	880	650	862	910	808	1,110	1,153
Capital expenditure	-5,789	-5,355	-7,090	-6,548	-5,755	-7,077	-5,341	-5,682	-5,984	-6,265
Capital balance	-5,272	-4,596	-6,394	-5,668	-5,105	-6,215	-4,431	-4,874	-4,874	-5,112
Total revenue	49,272	48,603	44,954	65,684	76,088	75,878	65,187	68,601	72,266	79,975
Total expenditure	-56,865	-58,907	-60,742	-64,662	-64,440	-71,063	-70,719	-72,382	-73,989	-74,894
Surplus (deficit) before net financing	-7,593	-10,304	-15,788	1,022	11,648	4,815	-5,532	-3,781	-1,723	5,081
New direct debt borrowing	14,510	15,641	21,895	4,836	0	10,692	14,548	19,311	13,650	10,979
Direct debt repayment	-500	-4,299	-3,071	-3,679	-13,231	-9,886	-5,971	-13,199	-5,825	-7,320
Net direct debt movement	14,010	11,342	18,824	1,157	-13,231	806	8,577	6,112	7,825	3,659
Overall results	6,417	1,038	3,036	2,179	-1,583	5,621	3,045	2,331	6,102	8,740
Debt and liquidity										
Short-term debt	9,523	9,140	15,390	11,531	9,887	10,792	11,992	12,848	13,944	14,456
Long-term debt	50,188	61,964	74,559	78,546	66,391	66,292	73,668	78,925	85,654	88,801
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	59,711	71,104	89,949	90,077	76,278	77,084	85,660	91,773	99,598	103,257
Other Fitch-classified debt	12,426	12,186	11,991	11,581	11,514	11,137	10,676	10,200	9,714	9,283
Adjusted debt	72,137	83,290	101,940	101,658	87,792	88,221	96,336	101,973	109,312	112,540
Guarantees issued (excluding adjusted debt portion)	87	82	87	93	108	108	108	108	108	108
Majority-owned GRE debt and other contingent liabilities	18,134	18,066	18,398	17,028	17,596	17,596	17,596	17,596	17,596	17,596
Overall adjusted debt	90,358	101,438	120,425	118,779	105,496	105,925	114,040	119,677	127,016	130,244
Total cash, liquid deposits, and sinking funds	24,993	26,424	27,684	27,029	25,192	30,813	33,859	36,190	42,292	51,033
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	24,993	26,424	27,684	27,029	25,192	30,813	33,859	36,190	42,292	51,033
Net adjusted debt	47,144	56,866	74,256	74,629	62,600	57,408	62,477	65,783	67,020	61,507
Net overall debt	65,365	75,014	92,741	91,750	80,304	75,112	80,181	83,487	84,724	79,211
Enhanced net adjusted debt	47,144	56,866	74,256	74,629	62,600	57,408	62,477	65,783	67,020	61,507
Enhanced net overall debt	65,365	75,014	92,741	91,750	80,304	75,112	80,181	83,487	84,724	79,211
Memo:										
Debt in foreign currency/direct debt (%)	0	0	0	0	0	—	—	—	—	—
Issued debt/direct debt (%)	100	100	100	100	100	—	—	—	—	—
Floating interest rate debt/direct debt (%)	0	0	0	0	0	—	—	—	—	—

rc - rating case
Source: Fitch Ratings, Province of Alberta

Appendix B: Financial Ratios

Province of Alberta

Fiscal year ending March 31	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance ratios										
Operating balance/operating revenue (%)	-1.9	-8.5	-16.2	13.6	25.1	17.6	2.7	5.9	8.9	17.1
Current balance/current revenue (%)	-4.8	-11.9	-21.2	10.3	22.2	14.7	-1.7	1.6	4.4	12.9
Operating revenue annual growth (%)	6.9	-1.9	-7.5	46.4	16.4	-0.6	-14.3	5.5	5.0	10.8
Operating expenditure annual growth (%)	4.2	4.5	-0.9	8.8	0.9	9.4	1.2	2.0	1.6	0.8
Surplus (deficit) before net financing/total revenue (%)	-15.4	-21.2	-35.1	1.6	15.3	6.4	-8.5	-5.5	-2.4	6.4
Surplus (deficit) before net financing/GDP (%)	-2.2	-2.9	-5.2	0.3	2.5	1.1	-1.3	-0.8	-0.4	1.0
Total revenue annual growth (%)	6.7	-1.4	-7.5	46.1	15.8	-0.3	-14.1	5.2	5.3	10.7
Total expenditure annual growth (%)	-1.0	3.6	3.1	6.5	-0.3	10.3	-0.5	2.4	2.2	1.2
Debt ratios										
Primary metrics										
Economic liability burden (%)	48.3	50.6	80.9	71.5	56.1	57.2	61.5	61.9	61.6	60.5
Enhanced economic liability burden (%)	48.3	50.6	80.9	71.5	56.1	57.2	61.5	61.9	61.6	60.5
Payback ratio (x) (net adjusted debt to operating balance)	-51.6	-14.1	-10.3	8.4	3.3	4.3	36.6	16.5	10.6	4.6
Secondary metrics										
Fiscal debt burden (%) (net debt-to-operating revenue)	96.7	118.9	167.8	115.2	83.0	76.5	97.2	97.0	94.2	78.0
Synthetic debt service coverage ratio (x)	-0.2	-0.9	-1.2	1.5	3.7	2.8	0.3	0.7	1.1	2.6
Actual debt service coverage ratio (x)	-0.5	-0.7	-1.4	1.5	1.2	1.1	0.2	0.2	0.7	1.3
Other debt ratios										
Liquidity coverage ratio (x)	14.2	3.5	3.6	6.3	3.0	3.2	3.7	2.4	4.7	5.3
Direct debt maturing in one year/total direct debt (%)	32.7	34.3	32.5	28.2	23.1	14.0	14.0	14.0	14.0	14.0
Direct debt (annual % change)	30.7	19.1	26.5	0.1	-15.3	1.1	11.1	7.1	8.5	3.7
Apparent cost of direct debt (interest paid/direct debt) (%)	2.7	2.6	2.8	2.4	2.6	2.9	3.5	3.3	3.3	3.3
Revenue ratios										
Tax revenue/total revenue (%)	47.9	43.4	43.6	35.8	34.9	35.5	39.5	39.8	40.3	39.9
Current transfers received/total revenue (%)	15.5	17.2	22.0	16.4	14.2	15.6	18.1	18.1	17.4	16.4
Interest revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue/total revenue (%)	1.1	1.6	1.6	1.3	0.9	1.1	1.4	1.2	1.5	1.4
Expenditure ratios										
Staff expenditure/total expenditure (%)	39.0	38.0	36.5	35.0	35.4	0.0	0.0	0.0	0.0	0.0
Current transfers made/total expenditure (%)	23.1	22.6	23.2	21.8	23.4	0.0	0.0	0.0	0.0	0.0
Interest expenditure/total expenditure (%)	2.5	2.8	3.6	3.3	3.4	3.1	4.0	4.0	4.3	4.4
Capital expenditure/total expenditure (%)	10.2	9.1	11.7	10.1	8.9	10.0	7.6	7.9	8.1	8.4

rc - rating case
Source: Fitch Ratings, Province of Alberta

Appendix C: Data Adjustments

Specific Adjustments

Minor adjustments have been made to Alberta's financial statement and budget data to calculate historical, base and rating case metrics under Fitch's International LRG Rating Criteria and to facilitate comparisons across Canadian and international LRGs. Adjustments to calculating the operating balance include netting federal infrastructure transfer revenue, replacing historical government business enterprise net income with dividends and netting interest on debt, capital grants and depreciation expenses. The debt data reflect calculations of direct debt and unrestricted liquidity as defined in Fitch's criteria and detailed above.

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