



## **Rating Action: Moody's Ratings affirms Alberta's and ATB's Aa2 ratings, revises outlook to stable from positive**

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14 May 2025

Toronto, May 14, 2025 -- Moody's Ratings (Moody's) today revised the outlook on the Province of Alberta's (Alberta) ratings to stable from positive. We also affirmed the aa3 Baseline Credit Assessment (BCA) and Aa2 / (P)Aa2 long-term debt and program ratings and P-1 short-term issuer and commercial paper ratings.

Concurrently, we affirmed ATB Financial's Aa2 long-term and P-1 short-term issuer ratings, and revised the outlook on the ratings to stable from positive.

### **RATINGS RATIONALE**

#### **RATIONALE FOR REVISING THE OUTLOOK TO STABLE FROM POSITIVE**

The revised outlook to stable from positive reflects our view that the main assumptions that supported the positive outlook are now unlikely to materialize. These assumptions included oil prices which would have supported revenues at high levels, a limited rise in the debt burden, and robust liquidity growth supported by fiscal surpluses. We now expect the West Texas Intermediate (WTI) crude oil price to be at the lower end of our medium-term outlook of \$55-75 per barrel, below the average price of approximately \$75 per barrel in 2024 and below the province's budget projection of \$68 per barrel for fiscal year 2025-26 and gradually rising over the subsequent two years.

The fiscal path has also materially been revised down, shifting from our previous forecast of continued surpluses to deficits of around 14% of revenue in 2025-26 before easing to 6% in 2027-28. We expect that the province will exert effort to mitigate fiscal shortfalls and debt growth through ongoing expense management. A CAD4 billion contingency for fiscal uncertainty and climate risks in the 2025-26 budget would mitigate although potentially not fully offset the impact of shocks to the province's fiscal position. We project the province's debt burden to reach 160-170% of revenue which remains in line with similarly rated global peers.

#### **RATIONALE FOR THE RATING AFFIRMATION**

The affirmation of the aa3 BCA and Aa2 long-term debt ratings reflects our view that despite notable fiscal headwinds, credit fundamentals remain aligned with Aa2-rated peers. Alberta has a competitive economy, high liquidity and wealth from cash and investments and an institutional framework that provides for considerable fiscal policy flexibility. The rating also incorporates pressures from exposure to volatility in oil prices which lead to fluctuations in fiscal results, and the current environment of heightened trade uncertainty, leading to deficits in the medium term and a controlled rise in debt levels.

Alberta maintains significant economic advantages relative to other provinces, including a young population, high per capita income, and lower cost of living than many peers. Alberta's tax regime is highly competitive, and while keeping tax rates low constrains future tax revenue, it provides the province with greater fiscal capacity and an attractive location for individuals and businesses seeking a tax advantage. Similar to other Canadian provinces, Alberta also has a high degree of fiscal policy flexibility than global regional peers that is more akin to that of sovereign governments.

The province's credit profile also reflects very strong total wealth metrics relative to global peers, with nearly CAD52 billion in cash and investments at March 31, 2024 and covering around 75% of expenses and 55% of net debt. Much of the wealth is in the Alberta Heritage Savings Trust Fund (\$25 billion fair value in Dec 2024), the largest Canadian provincial savings fund, which benefits from recent legislative changes that will ensure ongoing contributions when a surplus is achieved, and now reinvests income earned by the fund rather than using it for the province's operations.

The credit profile is challenged by the high share of provincial revenue derived directly and indirectly from oil production and by the volatility tied to the global price of oil. Volatility in oil prices and the Canadian-dollar revenue received by the province has been historically high, which creates significant uncertainty for forecasts and has a disproportionately larger fiscal impact on Alberta than on other provinces.

The P-1 short-term issuer and commercial paper ratings reflect the above credit factors as well as the very high level of provincial savings and liquidity and Alberta's very strong access to capital markets and strong investor demand.

Alberta's Aa2 rating incorporates the BCA of aa3 and our assumption of a high likelihood of extraordinary support from the Government of Canada (Aaa stable) should Alberta face acute liquidity stress.

The affirmation of the Aa2 long-term issuer rating of ATB, with a stable outlook, and the affirmation of its P-1 short-term issuer rating reflects its status as agent of Alberta and the provincial guarantee of ATB's liabilities. As a result its credit quality is captured through its relationship with the province rather than through standalone credit considerations.

#### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

The CIS-3 Credit Impact Score for Alberta reflects that ESG considerations have limited impact on the rating, with potential for greater negative impact over time.

The E-4 issuer profile score (IPS) reflects exposure to carbon transition risk and elevated exposure to physical climate risks. Alberta is the nation's biggest oil producer which contributes to a significant portion of GDP and revenues, and therefore Alberta is more susceptible to carbon transition risk than most other provinces and global regional peers as decarbonization efforts and the transition towards cleaner energy continues. At the same time, exposure to physical climate risks is elevated given unpredictable weather events including periodic droughts and wildfires which can cause significant economic damage.

The S-2 IPS indicates strong health and safety measures and access to infrastructure in the province, along with high housing affordability relative to several other provinces. Alberta has the youngest overall provincial population, which mitigates healthcare spending pressures while increasing education spending relative to other Canadian provinces, although rapid population growth will maintain upward pressure on social and infrastructure spending. Reduced job opportunities in the oil sector and still elevated unemployment rates evidence additional social pressures.

The G-2 IPS reflects the strong institutional and governance framework inherent to all Canadian provinces, with transparent reporting and disclosure. The province's efforts to prioritize debt reduction supports strong debt management. Public accounts and long-term budgets are prepared on a timely basis, although the continued reliance on oil as a key revenue driver exposes the province to significant swings in its fiscal results and considerable forecast uncertainty.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating could be upgraded if a significant economic recovery that coincides with rising resource prices – especially oil – lead to multi-year forecast surpluses. A meaningful deceleration of debt growth that is coupled with rising revenue, leading to a declining debt burden, would also

put upward pressure on the rating.

The rating could be downgraded if the province were unable to successfully mitigate cost pressures, or if low oil prices sustained for a longer than expected period, leading to weakened fiscal results including larger or more prolonged deficits than we currently forecast. A material rise in the debt burden due to operating or capital needs leading to deteriorating debt affordability would also put downward pressure on the rating.

#### LIST OF AFFECTED RATINGS

Issuer: Alberta, Province of

##### ..Affirmations:

- .... Baseline Credit Assessment, Affirmed aa3
- .... ST Issuer Rating, Affirmed P-1
- .... Commercial Paper, Affirmed P-1
- .... Senior Unsecured Medium-Term Note Program, Affirmed (P)Aa2
- .... Senior Unsecured, Affirmed Aa2
- .... Senior Unsecured Shelf, Affirmed (P)Aa2

##### ..Outlook Actions:

- ....Outlook, Changed To Stable From Positive

Issuer: ATB Financial

##### ..Affirmations:

- .... LT Issuer Rating, Affirmed Aa2
- .... ST Issuer Rating, Affirmed P-1

##### ..Outlook Actions:

- ....Outlook, Changed To Stable From Positive

The principal methodology used in rating Province of Alberta was Regional and Local Governments published in May 2024 and available at <https://ratings.moodys.com/rmc-documents/421891>. The principal methodology used in rating ATB Financial was Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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