Date of Release: September 14, 2023

DBRS Morningstar Upgrades the Province of Alberta to AA from AA (low), Stable Trend

Industry Group: Governments
Subindustry: Sub-Sovereign Governments
Region: Canada

DBRS Limited (DBRS Morningstar) upgraded the Issuer Rating and Long-Term Debt rating of the Province of Alberta (Alberta or the Province) to AA from AA (low) and upgraded the Short-Term Debt rating to R-1 (high) from R-1 (middle). Concurrently, DBRS Morningstar changed the trends on all ratings to Stable from Positive.

At the time of the last review in September 2022, DBRS Morningstar indicated that the ratings could be upgraded by one notch, provided the adjusted debt-to-GDP ratio remained close to or below 20.0% and the adjusted surplus/deficit was near balanced or better on a sustained basis. Following the May 2023 general election, which saw the United Conservative Party reelected albeit with a smaller majority, the government is moving forward with a new fiscal framework. The first quarter results indicate that fiscal and debt metrics are consistent with the targets described above and support the improved credit ratings. Although Alberta faces continued economic volatility, DBRS Morningstar has increased confidence that the Province's fiscal performance can be maintained in the coming years, supported by the new fiscal framework.

The Province recently released its first quarter update, which forecasts a surplus of $2.4 billion in 2023–24, unchanged from the February 2023 budget. On a DBRS Morningstar-adjusted basis, this equates to a balanced result (0.0% of GDP) and, if achieved, would represent the third consecutive year of balanced or surplus results. The Province has not updated its multiyear forecast, but the original 2023 budget pointed to ongoing surpluses of $2.0 billion and $1.4 billion for 2024–25 and 2025–26, respectively. On a DBRS Morningstar-adjusted basis, this equates to a roughly balanced position.

Alberta's debt-to-GDP ratio (DBRS Morningstar-adjusted) is expected to remain stable at 18.1% in 2023–24, based on the Q1 2023–24 update, a marked improvement from 34.6% in 2020–21. Meanwhile, the original budget forecast points to the adjusted debt-to-GDP ratio falling to 16.4% by 2025–26. DBRS Morningstar expects that a slowing global economy will present headwinds to improving provincial debt metrics, although this is likely to be partly mitigated by anticipated underspending on capital programs, thereby reducing debt needs.

Supported by strength in the energy sector, Alberta experienced real GDP growth of 5.1% in 2022, among the fastest in the country. For 2023, this momentum is expected to fade, although the Province has increased its forecast for real GDP growth to 3.0% from 2.8% at the time of the budget. Based on the current private sector consensus, this appears somewhat optimistic as recent forecasts have been revised downward in response to persistently high inflation, rising interest rates, and slowing global growth.

CREDIT RATING DRIVERS

A negative rating action could arise from a material decline in energy prices, leading to materially weaker-than-expected financial risk metrics on a sustained basis. Following the latest ratings upgrade, a subsequent positive rating action is unlikely in the near term. However, Alberta's ratings could be upgraded through a combination of material improvements in economic diversification and a significant strengthening of the government's balance sheet.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Environmental (E) Factors

DBRS Morningstar considers emissions, effluents, and waste to have a relevant effect on the credit analysis and applied a negative overlay to reflect Alberta's high greenhouse gas (GHG) emissions. Alberta is the largest emitter of GHGs among all provinces, including on a per capita basis. In 2021, GHG emissions were 256.1 megatonnes of carbon dioxide—a 55% increase from 1990, according to Environment and Climate Change Canada. Alberta regulates industry emissions and imposes an industrial carbon tax on heavy emitters. According to the Province, this tax has resulted in a decline in the intensity of emissions in the oil and gas sector.

There were no Social/Governance factors that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/416784 (July 4, 2023).

Notes:
All figures are in Canadian dollars unless otherwise noted.

DBRS Morningstar applied the following principal methodology:
-- Rating Canadian Provincial and Territorial Governments (https://www.dbrsmorningstar.com/research/413265; April 28, 2023).

The credit rating methodologies used in the analysis of this transaction can be found at: https://www.dbrsmorningstar.com/about/methodologies.

A description of how DBRS Morningstar analyzes corporate finance transactions and how the methodologies are collectively applied can be found at: https://www.dbrsmorningstar.com/research/397223.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The credit rating was not initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

DBRS Morningstar had access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar trends and credit ratings are under regular surveillance.

Information regarding DBRS Morningstar credit ratings, including definitions, policies, and methodologies, is available on www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

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Issuer	Debt Rated	Credit Rating Action	Credit Rating	Trend
Province of Alberta	Issuer Rating	Upgraded, Trend Change	AA	Stable
Province of Alberta	Long-Term Debt	Upgraded, Trend Change	AA	Stable
Province of Alberta	Short-Term Debt	Upgraded, Trend Change	R-1 (high)	Stable

Contacts

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