

Standard & Poor's downgrades Alberta credit

Globe and Mail 27 May 2017

CALGARY, ALBERTA

Ratings agency Standard & Poor's downgraded the Canadian crude-producing province of Alberta two notches to A+ from AA on Friday, citing high budget deficits and growing levels of debt as the province struggles with depressed global oil prices.

Alberta is home to Canada's vast oil sands but has been hammered by the 50-per-cent drop in crude prices since mid-2014 as government revenue shrank and the budget deficit ballooned to \$10.3-billion.

In recent months international oil majors have sold off around \$22.5-billion in oil sands assets to domestic producers, adding to underlying concerns about the province's energy industry, which makes up a fifth of the economy.

The Alberta government is trying to stimulate economic growth through infrastructure spending, a move that is expected to result in a rapidly growing debt burden, S&P said in a statement.

"It appears to us that the government is partly looking to a recovery in oil prices to improve its fiscal position," the ratings agency wrote.



S&P downgraded Alberta's credit rating on Friday, citing high budget deficits and increasing debt. TODD KOROL/REUTERS

Oil prices have been trading around \$50 (U.S.) a barrel for much of this year and are not expected to rise significantly because of resurgent U.S. shale production that is offsetting output cuts from producer-group OPEC.

S&P expects Alberta capital spending will result in budget deficits exceeding 26 per cent of its total revenues for the next two years. That, in turn, will boost government borrowing to around \$94-billion (Canadian), more than 180 per cent of fore-

cast operating revenue, by the end of the 2020 fiscal year.

"Alberta's financial results are more volatile than those of other Canadian provinces because of the strong correlation of provincial revenues, especially non-renewable resource revenues, with oil and natural gas prices," S&P added.

The downgrade takes the agency's assessment of Alberta's capacity to repay debt from "very strong" to "strong."

Reuters