Economics

# PROVINCIAL BUDGET BRIEFS

February 28, 2023

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## Alberta budget 2023

The Province of Alberta is still projecting a sizeable surplus for the outgoing 2022/23 fiscal year, although the $10.4bn windfall is slightly below the mid-year update thanks to recent spending announcements. However, for fiscal 2023/24 and beyond, spending growth is fairly muted reflecting the long-standing commitment of the current government to bring per-capita spending in line with the average of other large provinces. A new framework that requires balanced budgets except under certain exemptions also highlights a conservative fiscal approach. The projected slimming of budget surpluses to $2.4bn in 2023/24 and $1.4bn by 2025/26 is largely a reflection of oil price assumptions. Note that Alberta has an election this spring, with recent polls suggesting a fairly tight race between the UCP and the opposition NDP, which could change the fiscal trajectory if there is a change in government. Borrowing requirements are expected to rise from $3.3bn in 2022/23 to $6.7bn in 2023/24, largely due to debt maturities and funding for the capital plan.

Table 1: Summary of fiscal position: (C$billions)

| Fiscal measure | 2021/22 Actual | 2022/23 22 Budget | 2022/23 23 Budget | 2022/23 Change | 2023/24 23 Budget | 2024/25 23 Budget | 2025/26 23 Budget |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| • Resource revenue | 16.170 | 13.840 | 27.544 | 13.704 | 18.361 | 17.284 | 15.742 |
| • Income and other taxes | 23.506 | 23.034 | 24.580 | 1.546 | 24.992 | 27.055 | 28.609 |
| • Federal transfers | 11.595 | 12.054 | 11.765 | -0.289 | 12.552 | 12.475 | 13.113 |
| • Other revenue | 17.051 | 13.679 | 12.136 | -1.543 | 14.748 | 14.910 | 15.144 |
| **Total revenue** | 68.322 | 62.607 | 76.025 | 13.418 | 70.653 | 71.724 | 72.608 |
| **Expense** | | | | | | | |
| • Operating expense | 52.343 | 51.487 | 55.384 | 3.897 | 57.038 | 58.049 | 59.200 |
| • % change | 3.2 | 2.3 | 5.8 | 3.5 | 3.0 | 1.8 | 2.0 |
| • Contingency/disaster/Covid-19 | 3.076 | 1.750 | 1.322 | -0.428 | 1.500 | 1.500 | 1.500 |
| • Debt servicing costs | 2.641 | 2.662 | 2.715 | 0.053 | 2.848 | 2.805 | 3.103 |
| • Other | 6.322 | 5.916 | 6.215 | 0.299 | 6.896 | 7.333 | 7.436 |
| • Capital grants | 2.503 | 2.148 | 1.845 | -0.303 | 2.821 | 3.209 | 3.274 |
| • Amortization / loss on disposals / inventory consumption | 4.184 | 4.057 | 4.480 | 0.423 | 4.397 | 4.460 | 4.509 |
| • Pension provisions | -0.365 | -0.289 | -0.110 | 0.179 | -0.322 | -0.336 | -0.347 |
| **Total Expense** | 64.382 | 59.378 | 65.635 | 6.257 | 68.282 | 69.687 | 71.239 |
| **Surplus / (deficit)** | 3.944 | 0.511 | 10.390 | 9.879 | 2.371 | 2.037 | 1.369 |
| • *Reference:* | | | | | | | |
| • Heritage fund balance | 17.094 | 17.522 | 18.907 | 1.385 | 20.003 | 21.327 | 22.821 |

## Alberta GDP growth to ease modestly

The Alberta economy enjoyed the benefits of high commodity prices in 2022, with real GDP projected to have risen by 4.8% and nominal GDP surging by 24.0%. While lower oil prices in 2023 are anticipated to see nominal GDP contract modestly (-2.2%), real GDP growth is still expected to be solid as the previous boost to household and corporate incomes supports spending. Drilling activity, production and investment in the oil sector is expected to be positive for 2023 real

GDP growth, while the province's population is expected to grow at the quickest pace since 2006. That population growth is expected to outpace employment growth in the near-term, seeing the unemployment rate rise slightly.

The province's projections for real GDP growth are, on average, around 1% higher than the private sector average. However, with the projection for nominal GDP in 2023 actually well below the private sector consensus (-2.2% vs +0.7%), the stronger real GDP forecasts don’t necessarily signal downside risk to revenue projections. The forecasts for WTI oil prices see an average of $79/bbl in fiscal 2023/24, easing slightly to $73.5/bbl by 2025/26. Those projections are fair given the current spot price ($76.6/bbl), albeit not conservative assumptions as we have seen in the recent past.

Table 2: Key assumptions (Y/Y % chg)

| Economic assumptions | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Real GDP | 4.8 | 2.8 | 3.0 | 2.9 | 2.8 |
| • Private sector average | 4.7 | 1.9 | 1.8 | 2.0 | 2.0 |
| Nominal GDP | 24.0 | -2.2 | 3.5 | 3.6 | 4.2 |
| Employment | 5.2 | 2.3 | 2.7 | 2.5 | 2.3 |
| Unemployment rate (%) | 5.8 | 6.4 | 6.3 | 6.1 | 5.7 |
| Primary household income | 8.8 | 5.9 | 6.7 | 6.4 | 6.1 |
| Housing starts (k) | 36.5 | 38.1 | 37.7 | 36.4 | 36.7 |
| Net corporate operating surplus | 54.9 | -13.9 | 7.9 | 6.9 | 4.4 |
| CPI | 6.4 | 3.3 | 2.2 | 2.2 | 2.2 |
| Population | 2.2 | 2.9 | 2.2 | 2.1 | 1.7 |

Table 3: Key financial assumptions

| Financial assumptions (fiscal yr) | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|
| 3-month T-Bills (%) | 3.20 | 4.20 | 2.90 | 2.80 |
| 10-year GoC Bonds (%) | 3.10 | 3.60 | 3.40 | 3.40 |
| Exchange rate (US¢/C$) | 75.7 | 76.2 | 78.2 | 79.5 |
| WTI (US$/bbl) | 90.50 | 79.00 | 76.00 | 73.50 |
| WCS @ Hardisty (C$/bbl) | 92.60 | 78.00 | 75.90 | 72.10 |
| Natural gas (C$/GJ) | 5.10 | 4.10 | 3.60 | 3.80 |

## Slimmer surpluses anticipated

For the outgoing 2022/23 fiscal year, the $10.4bn surplus now anticipated is well above what was expected in Budget 2022 ($0.5bn) albeit slightly below the mid-year update projection. Spending growth has been raised somewhat (+5.8% y/y), linked to policies designed to help households with the cost of living. However, going forward spending growth is set to be fairly modest (3% in 2023/24 and even lower thereafter) as the government seeks to fulfil its prior commitment to bring per-capita spending in line with the average of the other three largest provinces in Canada (Ontario, British Columbia, Quebec).

For fiscal 2023/24 and beyond, the smaller surpluses are mainly a reflection of weaker resource revenue. Resource revenues are expected to be roughly $9.0bn lower in 2023/24, with two-thirds of that linked to oil royalties. Income and other tax revenues are anticipated to rise modestly. The $2.4bn surplus for fiscal 2023/24 is expected to slim further to $2.0bn in 2024/25 and then $1.4bn in 2025/26, reflecting a continued weakening in resource revenues linked to lower price assumptions for those years. Sensitivity analysis shows that a $1/bbl change in oil prices can impact revenues by $630mn over a fiscal year.

Debt financing costs are expected to rise only modestly over the forecast horizon, thanks largely to the government's use of surplus cash to pay down debt. The budget projections for fiscal 2023/24 through 2025/26 include a $1.5bn contingency to allow for unforeseen expenses.

Within today's budget, the government detailed a new fiscal framework to ensure the sustainability of spending growth. This will require that the government runs a balanced budget, with exemptions only for sudden and unforeseen changes in fiscal projections. Even under these exemptions, deficits would need to be returned to balance within two years. The government also made a change to allow the Heritage Fund to retain 100% of its net income, contributing to a projected increase in its balance from $17.1bn as of March 2022 to $20bn by March 2024.

## Long-term borrowing jumping vs. prior estimates

Due to the slightly lower surplus forecast for this outgoing year, as well as debt incurred with lending to Agriculture Financial Services Corporation and debt incurred to make loans to local authorities, term debt borrowing is increasing to $2.4bn. That is up from the forecasted $1.3bn in the mid-year update, which was already completed in two domestic transactions (a $800mn 10yr deal and a $500mn 30yr deal). That means the province still has $1.1bn of long-term debt remaining to be funded this fiscal year.

For this upcoming fiscal year, long-term debt is projected to increase to $6.7bn, which is a significant increase from the $488mn estimated in the mid-year update. Almost all of that increase is coming from capital spending, however, part of it is related to the province having to re-finance more maturities. For fiscal year 2024/25, term debt is estimated to be $6.1bn, up from $3.2bn in the mid-year update, while 2025/26 sees term debt projections jump to $11.0bn.

Of note, the net change in money market borrowing is now back at the original budget estimate of $782mn for this outgoing year, whereas that was reduced to $0 in the mid-year update. For the next two fiscal years, the net change is forecasted to remain unchanged, while 2025/26 sees an increase of $4.0bn in money market funding.

Table 4: Borrowing requirement (C$millions)

| Borrowing requirements | 2022/23 Estimate | 2023/24 Target | 2024/25 Target | 2025/26 Target |
|---|---|---|---|---|
| Taxpayer-supported debt | 0 | 5,464 | 5,776 | 14,443 |
| Self-supported debt | 2,251 | 469 | 250 | 250 |
| Government business enterprises | 1,003 | 733 | 39 | 350 |
| **Total** | 3,254 | 6,666 | 6,065 | 15,043 |

Table 5 Sources of funding (C$millions)

| Funding requirements | 2022/23 Estimate | 2023/24 Target | 2024/25 Target | 2025/26 Target |
|---|---|---|---|---|
| Money market (net change) | 782 | 0 | 0 | 4,000 |
| P3's | 56 | 64 | 1 | 0 |
| Long-term debt | 2,416 | 6,602 | 6,064 | 11,043 |
| **Total** | 3,254 | 6,666 | 6,065 | 15,043 |

## Debt repayment and maturities

The government repaid $13.4bn of debt during 2022/23, taking advantage of the spike in energy prices and revenue, which resulted in an estimated reduction in debt servicing costs of $260mn in 2022/23. For the upcoming two fiscal years, the province originally estimated repayment of debt in the amount of $2.314bn and $1.440bn, respectively. However, in today's budget, that was reduced to $1.442bn for 2023/24 and $0 for 2024/25.

In the province's new fiscal framework, there is an emphasis on debt repayment by requiring at least 50% of surplus cash be used to retire maturing debt, alleviating re-financing risk and creating future fiscal flexibility. That will be key for the province as long-term debt maturities are increasing to $7.5bn in 2023/24, up from $5.3bn this outgoing year. Meanwhile, 2024/25 sees maturities slightly lower at $6.0bn, before a big jump to $13.2bn for 2025/26. That big jump helps explain why term debt borrowing is projected to be $11.0bn in that fiscal year.

## Three-year capital plan earmarks $23bn in spending

The three-year capital plan averages roughly $7.7bn per year of spending, with $8.0bn planned in the upcoming year. The plan will focus on infrastructure projects that build and diversify the economy, support core government services, and support jobs. Overall, the plan will help create opportunities for private sector participation and support an average of over 20,000 direct and 12,000 indirect jobs per year through to 2025/26.

## Net debt peaked in 2020/21

If the forecasts play out as projected, net debt will have peaked at March 31, 2021 at $59.5bn with a debt-to-GDP ratio of 20.2%. For this fiscal year ending next month, net debt is projected to be $47.4bn (ratio of 10.2%), which is down significantly from the budget estimate of $65.1bn (ratio of 16.7%). Over the forecast horizon, net debt is projected to drop to $44.1bn by 2025/26, while that sees the net debt-to-GDP ratio falling to single digits (9.1%). That ratio would be the lowest amongst all provinces.



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