

Economics

PROVINCIAL BUDGET BRIEFS

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Alberta budget 2024

The Province of Alberta is on target to achieve a larger surplus than initially expected in fiscal 2023/24, as higher resource revenue, personal income tax receipts and investment income more than offset greater spending related to last year's drought and wildfires. For fiscal 2024/25 a broadly balanced budget is expected, with revenue estimates that are based on slightly conservative forecasts for oil compared to the current spot price. The province is also allocating a larger contingency than in prior years for disaster relief. Despite tabling a balanced budget again, long-term borrowing requirements will rise significantly in fiscal 2024/25 to \$17.7bn, from \$4.5bn in the outgoing year. This is due to an increase in borrowing for future debt repayment, as the province looks to position itself ahead of some large maturities in the first half of calendar 2025 stemming from the borrowing undertaken during the pandemic.

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

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget
Revenue							
• Resource revenue	25.242	18.361	19.416	1.055	17.315	17.839	17.939
• Income and other taxes	26.524	24.992	26.913	1.921	28.645	29.895	31.367
• Federal transfers	11.363	12.552	12.656	0.104	12.640	13.161	13.644
• Other revenue	12.991	14.748	16.643	1.895	14.937	15.156	15.866
Total revenue	76.120	70.653	75.628	4.975	73.537	76.051	78.816
Expense							
• Operating expense	54.737	57.038	57.876	0.838	60.124	61.595	62.798
• % change	4.6	3.0	5.7	2.7	3.9	2.4	2.0
• Contingency/disaster	1.319	1.500	2.946	1.446	2.000	2.000	2.000
• Debt servicing costs	2.829	2.848	3.136	0.288	3.365	3.121	3.174
• Other	5.594	6.896	6.436	-0.460	7.681	7.898	8.205
• Capital grants	1.525	2.821	2.375	-0.446	3.469	3.576	3.863
• Amortization / loss on disposals / inventory consumption	4.090	4.418	4.419	0.001	4.576	4.695	4.720
• Pension provisions	-0.021	-0.322	-0.358	-0.036	-0.364	-0.373	-0.378
Total Expense	64.479	68.303	70.394	2.112	73.170	74.614	76.176
Surplus / (deficit)	11.641	2.350	5.234	2.863	0.367	1.437	2.640
• Reference:							
• Heritage fund balance	18.980	20.003	20.901	0.898	23.808	25.028	26.503

Alberta GDP expected to accelerate

Alberta's economy is expected to buck the trend of slowing growth elsewhere in the country, with business investment, increased export capacity and strong population growth driving an acceleration in real GDP in the near term. The province projects that activity will rise by 2.9% this year, and then 3.3% in 2025. While these projections for real GDP growth are higher than the private sector consensus, the province's forecasts for nominal GDP (which is more closely correlated with revenues) are closer to the private sector average.

Oil prices are estimated to average \$74/bbl in the upcoming fiscal year and beyond, which is a slightly conservative estimate based on the current spot price. A \$1/bbl difference in average oil price has a roughly \$630mn impact on the provincial budget. The differential between WTI and WCS prices is expected to be narrower going forward, benefiting from increased pipeline capacity.

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

Economic assumptions	2023	2024	2025	2026	2027
Real GDP	2.5	2.9	3.3	2.8	2.6
• Private sector average	2.1	1.3	2.4	2.7	2.8
Nominal GDP	-4.1	3.5	6.1	5.5	4.9
• Private sector average	-1.3	3.6	4.6	5.6	5.2
Employment	3.6	3.0	3.1	2.5	2.0
Unemployment rate (%)	5.9	6.5	6.0	5.8	5.6
Primary household income	7.7	6.7	5.6	5.6	5.4
Housing starts (k)	36.0	38.8	39.9	37.2	37.0
Net corporate operating surplus	-14.5	0.0	4.9	4.5	3.8
CPI	3.3	2.5	2.2	2.2	2.2
Population	4.1	3.7	2.3	2.0	1.6

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2023/24	2024/25	2025/26	2026/27
3-month T-Bills (%)	4.90	4.10	2.90	2.80
10-year GoC Bonds (%)	3.50	3.70	3.60	3.40
Exchange rate (US\$/C\$)	74.1	75.9	78.1	79.7
WTI (US\$/bbl)	76.50	74.00	74.00	74.00
WCS @ Hardisty (C\$/bbl)	80.20	76.80	75.60	75.80
Natural gas (C\$/GJ)	2.20	2.90	3.70	3.80

Surplus to turn to balance in 2024/25

For the outgoing 2023/24 fiscal year, the surplus is expected to be \$5.2bn (1.2% of nominal GDP). That is more than double the surplus anticipated in Budget 2023, but slightly narrower than the mid-year update. Revenues are running \$5.0bn higher than originally anticipated, with only \$1.0bn of that due to resource revenue. Larger positive contributions have come from higher personal income tax receipts, and increased investment income. Partly offsetting improvement on the revenue side, spending is now projected to be \$2.0bn higher than originally budgeted for. Much of that is due to increased spending on disaster relief due to last year's drought and wildfires, with ordinary operating expenses only \$0.8bn above budget.

For the upcoming 2024/25 fiscal year, the budget is expected to be finely balanced with a narrow \$367mn surplus. Revenues are expected to be lower than in the outgoing year, due to declines in resource revenue and investment income. Operating spending will see a 3.9% increase relative to the prior year, broadly matching the expected increase in nominal GDP. The province is allocating \$2.0bn contingency for disaster relief in 2024/25, which is higher than the amount previously set aside but lower than actual spending in fiscal 2023/24.

Looking ahead, operating spending is expected to be kept below the pace of nominal GDP and in-line with the rate of population growth in fiscal 2025/26 and 2026/27. The more modest increases in spending would be below the expected increases in revenues, seeing surpluses grow again to \$1.4bn in 2025/26 and \$2.6bn in 2026/27.

The expected surplus in fiscal 2023/24 will see additional funds added to the province's Alberta Fund, which can be used to repay debt, make additional deposits to the long-standing Heritage Fund, or fund one-time initiatives that do not lead to a permanent increase in spending. Of the \$5.1bn available cash in the Alberta Fund in fiscal 2023/24, \$2.0bn will be deposited to the Heritage Fund. The balance of that fund is expected to be \$23.8bn at the end of fiscal 2024/25, up from \$20.9bn. The province also stated that it will be releasing a plan later this year to grow this fund substantially by 2050.

Long-term borrowing jumps almost four-fold on debt repayment plan

For this fiscal year, the province has borrowed approximately C\$4.5bn through six transactions which includes both a €100mn and a US\$1.25bn deal. Meanwhile, the budget a year ago had penciled in \$6.6bn of long-term funding for this year. Overall, the amount borrowed this year is up from the \$1.3bn that was issued through two domestic transactions back in fiscal year 2022/23. The large windfall from resource revenues significantly reduced borrowing needs that year. When it comes to short-term funding for this year, the province increased borrowing by \$9.3bn, which was originally planned to be unchanged as per last year's budget.

From June 2024 until June 2025, the province has approximately \$16.5bn of bonds maturing. Meanwhile, the total combined amount maturing for fiscal year 2024/25 and 2025/26 comes to \$19.2bn. A big portion of that debt was issued in the early days of the pandemic when funding for longer-dated maturities was challenging for all issuers.

As a result, the province has developed a refinancing plan which explains the large change in short-term funding this year. Of the \$13.8bn completed between short- and long-term funding this year, \$3.0bn of it is for future debt requirements. Starting this year, the province commenced borrowing in advance of its immediate cash needs. The funds raised in advance will be held in a designated debt retirement account where the cash will be invested in high quality bonds to the maturity dates of the existing debt. The province said that this will position them to repay bonds as they come due while allowing them to select maturity dates for the refinanced debt to be spread further apart so that future debt maturities will be more easily managed.

For this upcoming year, the province plans to borrow a total of \$19.8bn split between \$2.0bn in short-term debt and \$17.7bn in long-term debt. That compares to last year's estimate which projected no change in short-term funding for this upcoming year, and an increase of \$6.1bn in long-term funding. The main reason for the large change is the province is borrowing an extra \$11.6bn as part of their refinancing plan.

The province expects to issue that \$11.6bn at a pace of approximately \$2.9bn per quarter. The debt retirement fund balances are expected to be \$5.2bn at March 31, 2024 and \$10.9bn at March 31, 2025. The fund will be fully depleted with the repayment of bonds coming due in June 2025.

Although this will temporarily cause a net increase in debt outstanding in 2023/24 and 2024/25, the debt will be largely offset by assets held in the debt retirement account. Meanwhile, increases to debt servicing costs will likewise be largely offset by investment income earned on the assets held in the debt retirement account.

Over the time horizon, total borrowing requirements then decrease to \$4.4bn in 2025/26 and \$8.0bn in 2026/27. The plan calls for an increase in short-term funding of \$1.5bn in both years, while long-term funding increases by \$2.9bn and \$6.5bn, respectively.

Table 4: Borrowing requirement (C\$millions)

Borrowing requirements	2023/24 Estimate	2024/25 Target	2025/26 Target	2026/27 Target
Taxpayer-supported debt	7,330	7,289	3,571	6,853
Self-supported debt	525	503	455	459
Government business enterprises	2,913	408	350	700
Borrowing for future debt repayment	3,000	11,600		
Total	13,768	19,800	4,376	8,012

Table 5 Sources of funding (C\$millions)

Funding requirements	2023/24 Estimate	2024/25 Target	2025/26 Target	2026/27 Target
Money market (net change)	9,279	2,000	1,500	1,500
P3's		120		
Long-term debt	4,489	17,680	2,876	6,512
Total	13,768	19,800	4,376	8,012

Three-year capital plan earmarks \$25bn in spending

The three-year capital plan averages roughly \$8.3bn per year of spending for a total of \$25.0bn. That sees an increase in capital investments of \$2.0bn more than last year's plan. Overall, the plan will focus on infrastructure projects that build and diversify the economy, support core government services such as strengthening the healthcare system, and support jobs. The investments are projected to create opportunities for private sector participation and support an average of over 24,000 direct jobs and 13,000 indirect jobs annually through 2026/27

Net debt-to-GDP is expected to peaked this outgoing year

For this outgoing year, net debt is projected to be \$40.9bn as at March 31, 2024. That is a decrease from the budget estimate of \$44.8bn a year ago, which places the net debt-to-GDP ratio at 9.3% as opposed to 9.9% previously. This ratio of 9.3% is expected to be the peak over the horizon as the upcoming year's forecast calls for a decrease to 9.1%. That's even despite net debt increasing to \$41.6bn for next year, as nominal GDP growth is projected to outpace that proportionately. Meanwhile, the ratio is projected to drop the following two years to 8.5% by 2025/26 and 7.7% by 2026/27. That ratio would be the lowest amongst all provincial peers.

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