

# BUDGET ANALYSIS

## Alberta: Budget 2023

### Surpluses Intact, but Plenty of Risk Remains

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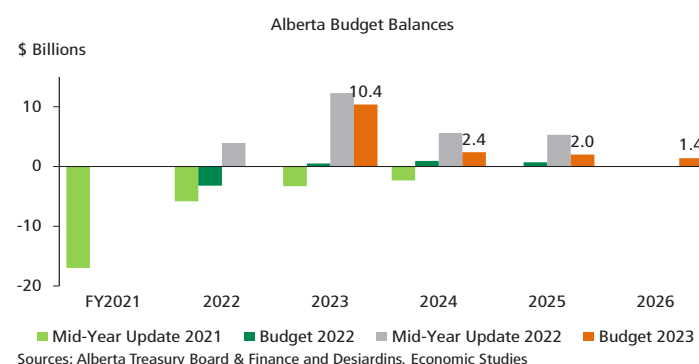
#### HIGHLIGHTS

- ▶ Alberta's fiscal year 2023–24 (FY2024) budget maintained surpluses for the next four fiscal years, but significantly reduced them. It now expects black ink of just \$2.4B (0.5% of nominal GDP) in FY2024 and \$2B in FY2025, reductions of more than \$3B versus the prior plan in both years. A \$1.4B surplus follows in FY2026 (graph 1).
- ▶ Borrowing requirement forecasts were revised higher. Alberta expects to borrow \$6.7B in FY2024 versus the \$825M forecast in the Q2 FY2023 update. In FY2025 and FY2026, the province expects to borrow \$6.1B and \$15B, respectively.
- ▶ Economic forecasts are strong for the next several years, given strong crude price expectations, hefty population gains, and major project activity. Downside risk is real given global uncertainty and record high revenue sensitivity to WTI values, and contingencies were increased to \$1.5B per year from FY2024 to FY2026.
- ▶ Alberta's net debt-to-GDP ratio is forecast to ease gradually from about 10% in FY2023 to 9% in FY2026. That's still the smallest net debt burden of any province, though it is about 1.5% higher than forecast in the Q2 FY2023 update for the outer years of the plan.
- ▶ Program spending was increased versus the midyear plan throughout the forecast period. The province still expects its program spending per person to align with the average for Quebec, Ontario, and BC during the forecast period.
- ▶ New policy measures included additional health care funding and cost of living assistance.

#### Our Takeaways

Today's budget keeps Alberta's strong fiscal position versus other jurisdictions intact. Surpluses are set to persist, the province is on track to maintain the lowest net debt burden in Canada, and commodity price projections are prudent. Efforts to repay outstanding debt and control spending over the longer-term remain wise. Expected contributions from non-oil and gas industries are encouraging for a province that has long sought to diversify its economy.

**GRAPH 1**  
Surpluses Maintained, but Reduced



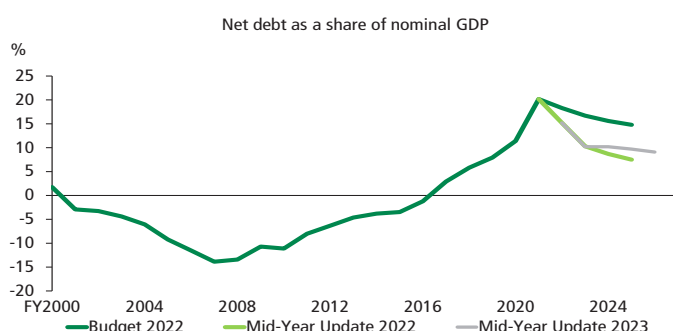
Still, more than ever, achieving fiscal targets rests on where oil prices go. The most likely outcome is that crude values remain high enough to support strong surpluses for the next several years. And new fiscal planning rules should provide some assistance in keeping provincial finances on a sustainable track. But Alberta's fiscal sensitivities—for WTI and WCS—will climb to a new all-time high in FY2024. As such, it may not take much to trigger large revenue losses. Even with Alberta's strong domestic economy, with the possibility of a global recession looming, the margin for fiscal error looks small.

## Surpluses Reduced, Debt and Borrowing Raised

Alberta forecasts still-strong but diminished surpluses of \$10.4B, \$2.4B, and \$2B in FY2023, FY2024, and FY2025, respectively, with another surplus of \$1.4B in FY2026. Net debt forecasts remain on a declining path as a share of provincial output, but end FY2025 about 1.5ppts higher than in the November 2022 mid-year update (graph 2). Among the provinces, this anticipated net debt burden is the lowest projected so far.

**GRAPH 2**

**Alberta's Debt Load Nudged Higher in Outer Years**



Sources: Alberta Treasury Board & Finance and Desjardins Economic Studies

Alberta increased borrowing requirement projections more substantially, presumably in respect of smaller surpluses and higher capital spending. The province now expects to borrow \$3.3B in FY2023, \$6.7B in FY2024, and \$6.1B in FY2025. It will follow that up with \$15B in FY2026 (table 1), a jump that coincides with a large rise in long-term debt maturities. Alberta anticipates infrastructure expenditures of \$8B in both FY2024 and FY2025 under its Capital Plan. Those represent respective boosts of \$1.3B in FY2024, and \$1.4B in FY2025 versus the midyear update. The Capital Plan focuses on building new schools and transportation infrastructure.

**TABLE 1**

**Updated Alberta Projections**

\$ MILLIONS (UNLESS INDICATED)	2022-23	2023-24	2024-25	2025-26
<b>Borrowing Requirements</b>				
Q2 FY2023 Update*	1,381	825	3,750	—
<b>Budget 2023</b>	<b>3,254</b>	<b>6,666</b>	<b>6,065</b>	<b>15,043</b>
<b>Alberta Capital Plan Outlays</b>				
Q2 FY2023 Update	7,614	6,742	6,610	—
<b>Budget 2023</b>	<b>6,446</b>	<b>8,005</b>	<b>7,976</b>	<b>7,008</b>
<b>WCS-WTI Discount (US\$/barrel)</b>				
Q2 FY2023 Update	19.80	18.10	16.10	—
<b>Budget 2023</b>	<b>20.00</b>	<b>19.50</b>	<b>16.80</b>	<b>16.40</b>
<b>Real GDP Growth (%)</b>				
Q2 FY2023 Update	4.8	2.7	2.9	2.8
<b>Budget 2023</b>	<b>4.8</b>	<b>2.8</b>	<b>3.0</b>	<b>2.9</b>
<b>Nominal GDP Growth (%)</b>				
Q2 FY2023 Update	24.1	1.7	2.2	2.6
<b>Budget 2023</b>	<b>24.0</b>	<b>-2.2</b>	<b>3.5</b>	<b>3.6</b>

Sources: Alberta Treasury Board & Finance and Desjardins Economic Studies

Going forward, a new set of fiscal rules will guide financial planning. The province must run balanced budgets except in

cases of exceptional unexpected revenue declines. The pace of annual operating spending gains cannot exceed the rate of inflation plus population growth. And 50% of any surplus cash will be allocated to debt repayment. The rest will be dedicated to a combination of deposits into the Heritage Fund or one-time initiatives that do not permanently raise spending.

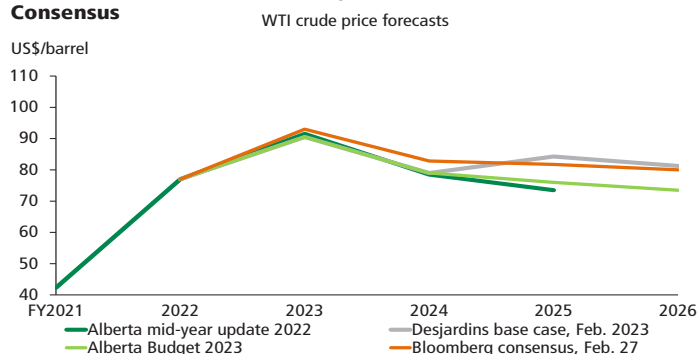
## Robust Growth, Record Fiscal Sensitivity to Oil Prices

Alberta anticipates that real economic growth will come in at a robust pace near 3% over the next two years, even as higher interest rates bite and housing activity slows. This is consistent with our house view that the province is well-insulated against the coming recession. But the government is more optimistic than we are, and its forecast growth rates are about 1ppt stronger than the private-sector average through 2026. That presents downside risk to revenue to the extent that our projections come to fruition.

Per standard practice, the fiscal plan is based on WTI prices below the private-sector forecast mean (graph 3). We noted in [A Pivotal Budget for Alberta](#) that prudence is important this year.

**GRAPH 3**

**The Latest Alberta Oil Price Projections Are Still in Line with the Consensus**



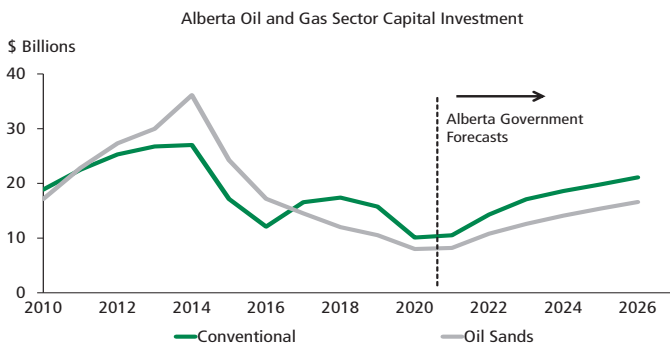
Sources: Bloomberg, Alberta Treasury Board & Finance and Desjardins Economic Studies

The fiscal sensitivity to WTI for FY2024 is an all-time high of \$630M per US\$1/barrel. That is largely because even more oil sands projects have recouped initial capital costs this year than last year and are now subject to higher royalty rates. It means a potentially outsized hit to the bottom line if crude value forecasts prove too optimistic. Back-of-the-envelope calculations suggest that WTI would only have to fall to about US\$75/barrel in FY2024 to eliminate the \$2.4B surplus. We think slightly weaker economic activity or barely higher crude production could be sufficient to push oil prices to that level.

The WCS discount to WTI was also revised wider for the coming year, and its fiscal sensitivity similarly reached an all-time high of \$600M per 1US\$/barrel.

The oil and gas sector will certainly contribute to the expansion, but even amid higher prices, capital outlays are only expected to hit about 60% of their 2014 peak by 2026 (graph 4).

**GRAPH 4**  
**Oil and Gas Investment Still Not Expected to Return to 2014 Peak**



The province still anticipates strong non-oil and gas activity. It again forecasted that sectoral capital outlays will outpace those of the energy sector over the forecast period, with support from projects in renewable energy, transportation, petrochemicals, and telecommunications. The housing market is also performing well, and the province is projecting 2.9% population growth this calendar year, the strongest gain since 2006.

### Spending Lifted as Expected

In line with ministerial mandate letters released late last year, Alberta introduced more spending. That includes over \$4B more in FY2024 program expenditures than forecast in the mid-year fiscal update, or about a 4% rise versus the prior 1% decline. Program spending growth rates over FY2025 and FY2026 are set at about 2% per year, higher than the 1.3% previously assumed for FY2025 in November 2022.

Health care expenditures will be increased relative to midyear update plans in an effort to address ongoing capacity pressures in the sector. The potential deficit impacts will be at least partially offset by higher federal transfers via the recent federal-provincial health accord.

Spending was also increased incrementally across other departments. New measures included additional funding for early childhood education, and top-ups for ongoing efforts to align workforce training with future labour market needs.

Those spending figures do not include sizeable contingencies of \$1.5B in each year from FY2024 to FY2026, double the prior allocation. This provides a larger-than-usual buffer against adverse economic and fiscal shocks.

Despite additional spending, Alberta expects per-person program expenditures to come in below the average for the other three large provinces in the coming years. Recall that this has been used as a fiscal anchor since 2019 on the grounds that spending control was essential to the province's long-run financial sustainability. That is good news as multiple rating agencies have lauded Alberta's success on this front.

Additional affordability relief continued to figure into the fiscal plan, and is expected to result in foregone revenues over FY2023 and FY2024. This includes extensions of previously announced fuel tax and electricity rate rebates. We argued against introducing new affordability measures that might spur consumer demand and further inflation in [Spending Serenity Now Can Help Prevent Deficit Insanity Later](#). But these at least eat into a key driver of recent increases in the cost of living, did look to have [contributed to lower energy prices in January](#).

### Spreads Unlikely to Move Markedly in Short Run

The budget was released after market close, but we suspect that investors have already anticipated somewhat less buoyant surpluses. Alberta's 30-year bond yields have traded back of those of Ontario since mid-January—the first time since before Russia invaded Ukraine—and 10-year bond spreads have also widened versus Ontario in recent weeks. That suggests that markets seem to be pricing in some downside risk related to Alberta's finances.

Of course, some of the recent spread movement surely reflects the downward trend in WTI observed in the past few months. Much like Alberta's fiscal position, spreads should continue to follow crude value movements in the coming months.

**TABLE 2**  
**Summary of Fiscal Forecasts**

	2021–2022	2022–2023		2023–2024		2024–2025	2025–2026
IN \$B (EXCEPT IF INDICATED)	Actual	Q2 FY2023	Budget 2023	Q2 FY2023	Budget 2023	Budget 2023	Budget 2023
Total Revenues	68.3	76.9	76.0	69.6	70.7	71.7	72.6
% change	58.4	12.6	11.3	-9.6	-7.1	1.5	1.2
Non-Renewable Resource Revenues	16.2	28.1	27.5	19.2	18.4	17.3	15.7
% change	423.1	73.9	70.3	-31.8	-33.3	-5.9	-8.9
Other Own-Source Revenues	40.6	36.3	36.7	38.8	39.7	42.0	43.8
% change	37.4	-10.5	-9.5	7.0	8.2	5.6	4.2
Federal Transfers	11.6	12.5	11.8	11.5	12.6	12.5	13.1
Total Expense	64.4	64.6	65.6	63.9	68.3	69.7	71.2
% change	-4.8	0.4	2.0	-1.0	4.0	2.1	2.2
Program Spending*	61.7	61.9	62.9	61.2	65.4	66.9	68.1
% change	7.2	0.3	1.9	-1.2	4.0	2.2	1.9
Debt Charges	2.6	2.7	2.7	2.8	2.8	2.8	3.1
% of total revenues	3.9	3.5	3.6	4.0	4.0	3.9	4.3
<b>Budget Balance</b>	<b>3.9</b>	<b>12.3</b>	<b>10.4</b>	<b>5.6</b>	<b>2.4</b>	<b>2.0</b>	<b>1.4</b>
% of GDP	1.1	2.6	2.2	1.2	0.5	0.4	0.3
Net Debt, % of GDP	15.2	9.9	10.2	8.7	10.2	9.7	9.1

\* Includes contingency

Sources: Alberta Treasury Board & Finance and Desjardins Economic Studies