2024 Alberta Budget
Protecting the Surplus

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Highlights

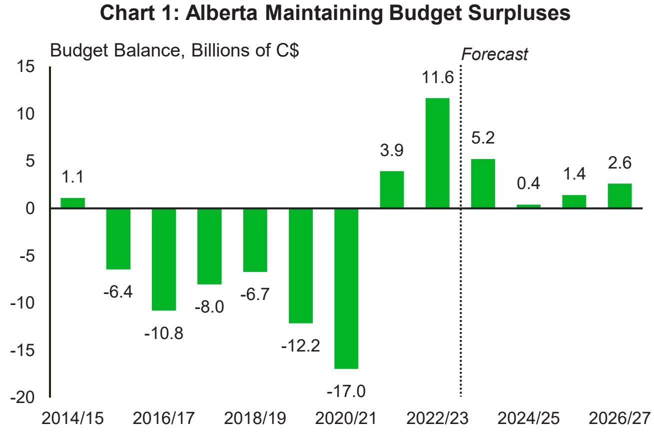
- The Alberta government is projecting a fourth straight surplus, albeit a narrow one of $367 million in FY 2024/2025. Continued and growing surpluses are expected beyond next year in line with the government's fiscal framework.
- Net debt-to-GDP continues its downward ascent. Alberta's debt ratio is expected to reach 9.1% in FY 2024/25 before moving even lower by FY 2026/27.
- After last year's $750 million deposit in into the Heritage Savings Trust Fund, the government is committing a sizeable $2 billion this year bringing the fund's total size to over $25 billion.
- Contingencies over the forecast horizon were raised to $2 billion annually to provide a buffer against disasters, emergencies, and unforeseen spending.

The Alberta government has tabled a generally restrained budget that focuses on ensuring long-term sustainability of their financial position while also attempting to balance growing funding pressure in areas such as health care, education, and to address labour shortages. With in-year revenues expected to be negatively impacted by moderating oil prices, the projected budget surplus is expected to narrow to $367 million in FY 2024/25. While this is slim compared to last year's estimated tally, Alberta will be among the few provincial jurisdictions to target black ink in this spring's budget season. Persistent surpluses and annual debt repayments will help meaningfully lower Alberta's debt burden as a share of GDP. On its current trajectory, Alberta will not only retain its status as Canada's least indebted province but also widen its advantage.

Last Year's Surplus Downgraded Slightly

Alberta's FY 2023/24 surplus was revised lower to $5.2 billion (1.2% of GDP) from the $5.5 billion estimated in the fall update. The narrower surplus largely reflects a pullback in resource revenues due to lower-than-forecast oil prices and an upward adjustment to operating expenses. Small but rising surpluses are forecast over the following two years.

Chart 1: Alberta Maintaining Budget Surpluses



Source: Alberta Budget 2024, TD Economics.

Population Growth Supporting Revenues

Partly reflecting the weaker starting point, total revenues in the year ahead were marked down by around 3% compared to the fall update.

Alberta Economic Assumptions [Percent Change Unless Otherwise Noted]						
Budget 2024						
Calendar Year	**2022**	**2023E**	**2024F**	**2025F**	**2026F**	**2027F**
Nominal GDP Growth	22.0	-4.1	3.5	6.1	5.5	4.9
Real GDP Growth	5.0	2.5	2.9	3.3	2.8	2.6
CPI Inflation	6.5	3.3	2.5	2.2	2.2	2.2
Employment Growth	5.2	3.6	3.0	3.1	2.5	2.0
Population Growth	1.8	4.1	3.7	2.3	2.0	1.6
Fiscal Year	**22-23**	**23-24E**	**24-25F**	**25-26F**	**26-27F**	-
WTI Oil (US$/Barrel)	89.7	76.5	74.0	74.0	74.0	-
WTI-WCS Differential (US$/Barrel)	20.8	17.3	16.0	14.9	13.6	-
Natural Gas (C$/GJ)	4.6	2.2	2.9	3.7	3.8	-
Canadian Dollar (US Cents)	75.6	74.1	75.9	78.1	79.7	-

Note: "E" indicates estimate, "F" indicates forecast. Source: Alberta Budget 2024, TD Economics.

The outlook for population growth for 2024 remains robust at 3.7%, slightly slower than last year's record pace, but faster than other provinces. The rising headcount goes a long way in bolstering economic growth and contributing to income tax revenues that are on track to grow by a healthy $2.3 billion over the next 3 years. The durability of population growth is reasonable given the province's relatively affordable housing market and prospects for continued economic outperformance.

In the 2023 provincial election, the UCP pledged to cut taxes by way of a new 8% bracket on income under $60,000. The government is not moving forward with the tax cut in this Budget but has outlined a path for getting there. A two-year implementation schedule has been put in place such that the 8% bracket will be effective in 2027 contingent on the government's fiscal capacity and ability to maintain a balanced budget.

Other tax measures include a $200 annual tax on EVs effective January 1st, 2025, a land titles registration levy, and the freezing of education property tax rates.

Conservative Oil Forecasts Provides Revenue Upside

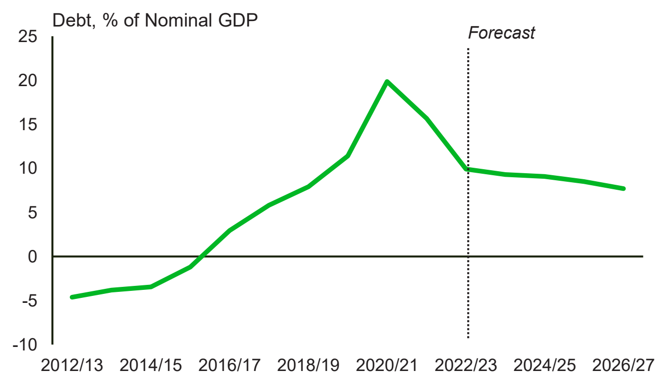
For the upcoming fiscal year, the government dropped their WTI price forecast to US$74/bbl. At these prices, bitumen and crude oil royalties would be pulled lower by approximately $2.1 billion in FY 2024/25. This forecast is conservative relative to our $80/bbl projection for 2024. Applying the usual budget sensitivity of $630 million for every $1 gain in WTI would yield an upside revenue surprise of up to $3.7 billion. What may be a greater focus this upcoming year is the extent to which the Trans Mountain Pipeline start-up, slated for next quarter, boosts Canadian WCS prices. With virtually the same revenue sensitivities as WTI, the expected narrowing of the differential between WCS and WTI prices could prove fruitful.

The province expects real GDP to rise by 2.9% in 2024 and 3.3% in 2025 on the back of accelerating business investment, a rebound in consumer spending, and still-favourable oil prices. These estimates are more optimistic than our own for the same periods, owing to a weaker outlook on the Canadian economy. Given our view of a higher deflator, nominal GDP growth estimates in the budget for 2024 (3.5%) and 2025 (6.1%) are reasonable and in line with our projections.

Targeted Spending

Operating expenses are expected to increase by 3.9% in FY 2024/25 and include the government's bumped up contingency funds (to $2.0 billion per year from $1.5 billion). Expenses are slated to grow by roughly 2.2% a year for the rest of the planning horizon, below the population growth plus rate of inflation spending ceiling prescribed in the last year's fiscal management plan. Taken together, spending per capita (excluding debt service charges) will effectively flatline. By comparison, Ontario, Quebec and British Columbia are now, on average, spending more on a per person basis than Alberta after lagging the province for many years.

Chart 2: Budget Balances and Debt Repayments Shrinking Alberta's Debt Burden



Note: Debt = Financial Debt. Source: Alberta Budget 2024, TD Economics.

The healthcare sector is the primary beneficiary of new funding, with $1.1 billion earmarked for the sector. Education spending also gets a 4.4% boost this fiscal year to fund enrolment growth, support specialized needs, and strengthening post-secondary programs. Other measures include a $5,000 refundable tax credit to eligible workers who move to the province after April 2024, which will support job growth and skills diversification.

Weening Off Resource Revenue Dependency

Non-renewable resource revenue as a percentage of total revenue is estimated to total 24% this year. This is down from a peak of 33.2% in FY 2022/23, but still elevated. This means that Alberta's bottom line remains susceptible to volatile energy markets. This Budget adheres to last year's implemented fiscal framework to combat against revenue volatility and create financial stability. Notably, the government plans to deposit an additional $2 billion into the Heritage Fund this year. Growing the Fund to at least $250 million by 2050 is the government's ultimate goal.

Net Debt Burden to Continue Falling

The net debt-to-GDP ratio is projected to hit 9.1% in FY 2024-25, the lowest of all provinces. While the capital spending profile has been raised in this budget, ongoing surpluses combined with debt repayment plans will allow net debt-to-GDP levels to fall an additional 1.4 ppts to 7.7% by the FY 2026/27. A large proportion of the prior year's surplus–$3.2 billion–had been committed to debt repayment in the 2023-24 fiscal year. For this year, $1.2 billion has been earmarked for debt repayment.

Alberta's FY 2024/25 $8.3 billion capital plan will invest primarily in municipal infrastructure, health facilities, roads and bridges, and schools. Over the three year forecast horizon, the government tacked on $2 billion to capital plans relative to last Budget, now totaling $25 billion.

Borrowing requirements total $19.8 billion in FY 2024/25 – a sizeable increase from the 13.8 million figure last year. Most of this borrowing is set to be completed with long-term debt issuances. Borrowing will ramp down to an average of $6.2 billion by over the next two years.

The Bottom Line

Overall, Alberta remains the envy of Canada's provinces on the fiscal front. In light of its fiscal framework, the government should comfortably retain this advantage moving forward

Alberta Government Fiscal Position
[Millions of C$ Unless Otherwise Noted]

Fiscal Year	2023-24 Forecast	2024-25 Estimate	2025-26 Target	2026-27 Target
Revenue	**75,628**	**73,537**	**76,051**	**78,816**
% Change	(0.6)	(2.8)	3.4	3.6
Resource Revenue	19,416	17,315	17,839	17,939
% Change	(23.1)	(10.8)	3.0	0.6
All Other Revenue	56,212	56,222	58,212	60,877
% Change	10.5	0.0	3.5	4.6
Expense	**70,394**	**73,170**	**74,614**	**76,176**
% Change	9.2	3.9	2.0	2.1
Operating Expense	57,876	60,124	61,595	62,798
% Change	5.7	3.9	2.4	2.0
Contingency / Disaster Assistance	2,946	2,000	2,000	2,000
Surplus (+) / Deficit (-)	**5,234**	**367**	**1,437**	**2,640**
% of Nominal GDP	1.2	0.1	0.3	0.5
Net Financial Debt	**40,899**	**41,616**	**41,198**	**39,218**
% of Nominal GDP	9.3	9.1	8.5	7.7

Source: Alberta Budget 2024, TD Economics.