2023 Alberta Budget
The Surplus is Here to Stay

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Highlights

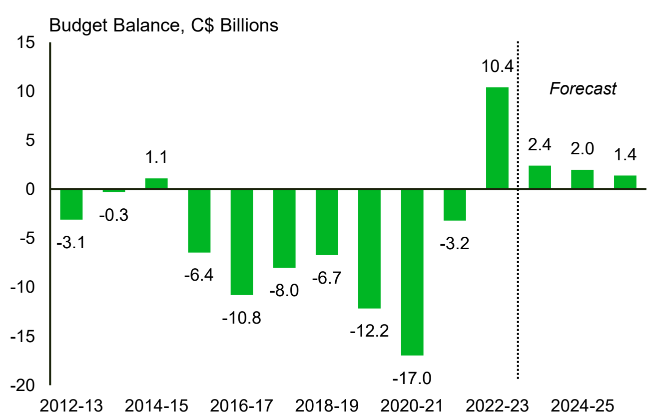
- The Alberta government is projecting a $2.4 billion surplus in FY 2023/2024. This would mark the third straight year of surpluses, with expectations of remaining in the black until FY 2025-26.
- Net debt-to-GDP continues its downward ascent. Alberta's debt ratio is expected to reach 10.2% this fiscal year and fall below 10% the following year for the first time since 2018-2019.
- A new fiscal framework has been introduced that encourages sustainable spending and management of future revenue windfalls to achieve balanced budgets and debt repayment.

Albertans have found themselves in an enviable fiscal position. From a modest surplus of $0.5 billion expected in last year's budget for the current fiscal year, the Province now sits on a sizeable $10.4 billion in black ink thanks to a whopping $27.5 billion generated from non-renewable resource revenues. This budget introduces a new fiscal framework that implements rules for long-term sustainability of their financial position while also balancing key short-term spending measures intended to strengthen health care and education, support the economy and job creation, and address broad affordability issues. For the year ahead, a $3.5 billion increase in total spending (or around 4% y/y) relative to last year is expected to weigh on the fiscal position. Still, Alberta is looking at a healthy $2.4 billion surplus and 10.2% net debt-to-GDP for FY 2023/24.

Last Year's Surplus Downgraded Slightly

Alberta's FY 2022/23 surplus was revised $1.9 billion lower to $10.4 billion (2.2% of GDP) from the $12.3 billion estimated in the fall update. The surplus revision was driven by a 1.1% dip in revenues since the mid-year update, and expenses that increased 1.6% over the same period.

Chart 1: Alberta's Back in Black Ink



Source: Statistics Canada, Alberta Ministry of Finance, TD Economics.

Revenues Are Well Supported

Despite mounting headwinds to economic growth, Alberta expects to be in surplus territory over the remainder of the planning horizon ($1.4 billion by FY2025/26).

For the year ahead, total revenues are expected to moderate to $70.6 billion, down from the record $76 billion estimated for FY 2022/23–a 7% drop in year-on-year revenues. The decrease in revenue is attributed to the revised WTI projections, down to US$79/bbl this fiscal year from US$90.5/bbl last year, which

Alberta Economic Assumptions [Year/Year percentage growth, unless otherwise noted]						
Calendar Year	**2021**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Real GDP Growth	4.8	4.8	2.8	3.0	2.9	2.8
Nominal GDP Growth	26.2	24.0	-2.2	3.5	3.6	4.2
CPI Inflation	3.2	6.4	3.3	2.2	2.2	2.2
Employment Growth	5.4	5.2	2.3	2.7	2.5	2.3
Population Growth	0.6	2.2	2.9	2.2	2.1	1.7
Fiscal Year	**21-22**	**22-23**	**23-24**	**24-25**	**25-26**	**-**
WTI Oil (US$/barrel)	77.0	90.5	79.0	76.0	73.5	-
WTI-WCS Differential (US$/barrel)	13.6	20.0	19.5	16.8	16.4	-
Natural Gas (C$/GJ)	3.5	5.1	4.1	3.6	3.8	-
Canadian Dollar (US cents)	79.8	75.7	76.2	78.2	79.5	-
Source: 2023 Alberta Budget, TD Economics.						

pulls bitumen and crude oil royalties lower by approximately $7.3 billion. For context, and to get an idea around Alberta's revenue sensitivities to oil, the latest estimates show that every $1 drop in WTI equates to approximately $630 million in lost revenues. Compared to our $86/bbl crude oil forecast for 2023, Alberta's fiscal position could benefit from another upside revenue surprise of around $4 billion given current sensitivities. Oil prices have indeed softened over the back half of 2022, but the outlook remains well supported in the short-run, and thus, assumptions around resource revenues could undershoot expectations. Nominal GDP growth estimates by the Province reflect this moderation in energy prices, averaging 0.6% over the next two years, softer than our 1.9% over the same period. Alberta however is well positioned against its provincial peers to weather uncertainties facing the broader economic outlook. The province expects real GDP to rise by 2.8% in 2023 and 3.0% in 2024 on the back of accelerating business investment, a rebound in consumer spending, and an uptick in global growth relative to the mid-year update. These estimates are a more optimistic than our 1.9% and 0.9% GDP estimates for the same periods, owing to a weaker outlook on the Canadian economy–Alberta should nonetheless lead provinces in economic growth this year. Meanwhile, tax revenues, which account for around 35% of Alberta's total intake, are expected to register a slight 1.7% increase in FY 2023-24 before averaging 7% over the following two years.

Mindful Spending

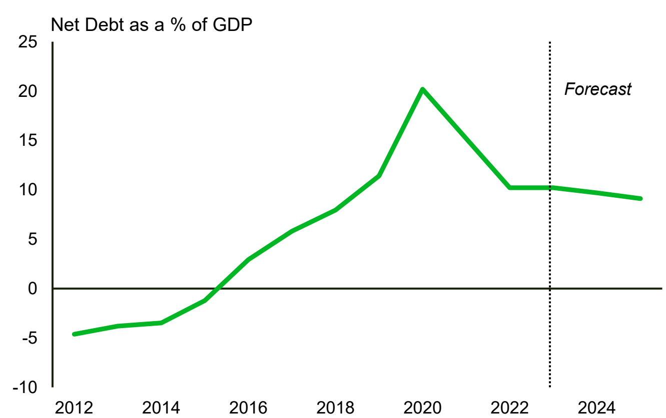
Budget 2023 expenses are expected to increase by 4% in FY 2023/24, up to $68.2 billion in FY 2023/24 and includes the government's $2.3 billion in inflation affordability measures and contingency funds at $1.5 billion/year. Expenses will grow by roughly 2% a year for the rest of the planning horizon, well below the 2022 8.7% population growth plus rate of inflation spending ceiling prescribed in the new fiscal management plan (see discussion below). The healthcare sector is a primary spending priority and the government plans to dole out nearly $1 billion towards a Healthcare Action Plan, which represents a 4.1% increase from FY 2022/23. To attract more business investment, nearly $3 billion in spending has been budgeted over the next three years. Alberta also plans to spend another $1.8 billion in the education sector, with a focus on new schools and post-secondary projects.

Shades of the 70s? A Future-Oriented Mindset

Non-renewable resource revenue as a percentage of total revenue is estimated to total an impressive 36% in FY 2022/23, the highest over the last decade. While this figure is around only half of the oil and gas revenue share in the late 1970s, it is the reason that current government is flush with cash. Like the 70s, when the Alberta Heritage Savings Trust Fund was established, the government has introduced a new fiscal framework to address longer-term challenges with their short-term fortunes– similar to "protect-the-future" initiatives implemented over 40 years ago.

The newly introduced fiscal framework establishes that at least 50% of available surplus cash be allocated towards

Chart 2: Debt Burden to Fall Back to Pre-pandemic Levels



Source: Statistics Canada, Alberta Ministry of Finance, TD Economics.

the repayment of debt during that fiscal year with the remainder to be allocated to the new Alberta Fund. This fund requires remaining cash be dedicated to either debt repayment, additional Heritage Fund deposits or other one-time initiatives that do not lead to an increase in government spending. Additional criteria for the new framework include limiting year-over-year increases in operating expenses such that they are in line with population growth and inflation, and restraining in-year expense increases to a budgeted and voted contingency (with certain exceptions). An immediate investment of $1.8 billion has also been made in the Heritage Savings Trust Fund.

A Promising Debt Trajectory

The net debt-to-GDP ratio is projected to hit 10.2% in FY 2023-24, the lowest of all provinces, and below the 2019 pre-pandemic level of 11.4%. While the capital spending profile has been bumped up in this budget, on-going surpluses combined with debt repayment plans will allow net debt-to-GDP levels to fall below the 10% mark (9.7% by the next fiscal year), for the first time since 2018-19. A large proportion of the prior year's surplus–$13.4 billion–had been committed to debt repayment in the 2022-23 fiscal year. For the upcoming fiscal year, $1.4 billion has been earmarked for debt repayment.

Borrowing requirements total $6.6 billion in FY 2023/24 – a sizeable increase from the $825 million figure seen at the time of the mid-year update. Most of this borrowing is set to be completed with long-term debt issuances.

The Bottom Line

Overall, fiscal responsibility appears to be front-and-center in the government's plan to provide short-term affordability relief and build economic prosperity while also planning for longer-term stability. This is likely a prudent stance given Alberta's dependence on resource revenues and a fiscal position that remains susceptible to volatile swings in energy markets. Our most recent forecasts have Alberta leading the provinces in 2023 real GDP growth as they disproportionally reap positive upside from firm commodities markets, and a more stable housing market. This will be the final tabled budget before the May 29 general election.

Alberta Government Fiscal Position
[C$ billions unless otherwise indicated]

Fiscal Year	2022-23 Estimate	2023-24 Target	2024-25 Target	2025-26 Target
Revenue	**76.0**	**70.7**	**71.7**	**72.6**
% Change	11.3	(7.0)	1.4	1.3
Resource Revenue	**27.5**	**18.4**	**17.3**	**15.7**
% Change	70.3	(33.3)	(5.9)	(8.9)
All Other Revenue	**48.5**	**52.3**	**54.4**	**56.9**
% Change	(7.0)	8.0	4.0	4.5
Total Expense (incl. recovery plan)	**65.6**	**68.3**	**69.7**	**71.2**
% Change	2.0	4.1	2.0	2.2
Operating Expense	**55.4**	**57.0**	**58.0**	**59.2**
% change	5.8	3.0	1.8	2.0
COVID-19 Recovery Plan	0.7	2.0	0.0	0.0
Contigency - Disaster Assistance / Covid-19	1.3	1.5	1.5	1.5
Surplus (Deficit)	**10.4**	**2.4**	**2.0**	**1.4**
% of GDP	2.2	0.5	0.4	0.3
Net Financial Debt	**47.4**	**46.5**	**45.6**	**44.1**
% GDP	10.2	10.2	9.7	9.1

Source: 2023 Alberta Budget.