2021 Alberta Budget

Continued Deficits on the Horizon

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February 26, 2021

Highlights

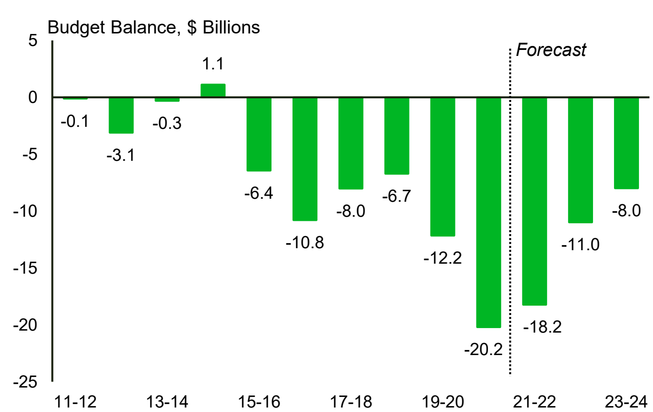
- Alberta kicked off the 2021 provincial spring budget season, unveiling a sizeable $18.2 billion deficit (around 5.4% of GDP) for the 2021-22 fiscal year. This is down slightly from the past year's $20.2 billion estimate.
- Total revenues are anticipated to rise by 3.3% this year, driven by a rebound in resource revenues, income tax receipts, and income from government business enterprises. Meanwhile, total spending is expected to drop by 4.7%. This drop is predominantly driven by a tapering of the government's COVID-19 recovery plan.
- The Province's medium-term fiscal plan has the deficit reaching $8 billion (2.1%) of GDP by FY 2023-2024 . The budget did not include a plan to balance the books. Instead, the government reaffirmed its commitment to keep the net debt to GDP ratio below 30% and to align per capita spending levels with other large provinces.
- The net debt to GDP ratio is anticipated to rise to 24.5% this year, before creeping up further to 26.6% by FY 2023-2024. Gross borrowing requirements are set to decline to a still-high $24 billion this year.

Alberta's budget offered a first glimpse of what to expect for the 2021 provincial budget season. The long-awaited budget unveiled an $18.2 billion deficit (5.4 % of GDP) for FY 2021-22. This is only a modest drop from the prior year's $20.2 billion deficit (6.6% of GDP).

Revenues are forecast to increase 3.3%, in tandem with rising oil prices and an expectation of a continued recovery in labour markets and income tax receipts. Meanwhile, total spending (excluding contigencies and provisions) will drop 4.7% this year, but this decline is fully driven by a reduction in COVID-19-related expenses. The budget contained no notable changes in taxation or policy initiatives. The budget shortfall is expected to last until at least FY 2023-24. The government did not outline plans to balance the budget in its forecast horizon or elsewhere in the budget document. Instead, previously-communicated fiscal anchors were reiterated.

The pandemic has sent Alberta's net debt spiraling upwards. Net debt in FY 2021-22 is estimated to rise to $82.2 billion (up from $40.1 billion in FY 2019-20). This will lift the Province's net debt to GDP ratio to 24.5% this fiscal year. Thereafter, the debt burden is expected to climb to 26.6% by FY 2023-24. This year's still-sizeable deficit will keep borrowing requirements elevated at $24 billion (down from $27.9 billion last year)

Chart 1: Continued Sizeable Deficits on the Horizon



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

FY 2021-22 Budget Comes on the Heels of a Historic Year for Budget Finances

Alberta's estimated deficit for the fiscal year ending in March was revised down modestly to $20.2 billion (6.6% of GDP). This follows estimates of $24.3 billion (7.2% of GDP) and $21.3 (6.9% of GDP) billion in the first and second quarter fiscal updates, respectively. Downward revisions to the deficit were largely driven by better-than-expected resource revenues and federal transfers.

Even with the improvement, Alberta remains on track to record the highest deficit (as a share of GDP) among the provinces. The Province was also confronting an oil price shock in early 2020 that put a severe damper on revenues. A portion of this initial price-driven hit to revenues was recorded in FY 2019-20, leading to a spike in its deficit from $6.7 billion to $12.2 billion in that year.

Economic Backdrop Has Improved, Projections are Mostly Prudent

With the recovery still tentative and resting on shaky grounds, the government's conservative economic and financial assumptions will provide protection against any unforeseen events. For instance, the government is forecasting a WTI oil price of US$46 for the current year. This compares to a current market price of US$62. Consensus estimates for prices continue to creep upward, and we will likely be revising up our latest forecast of US$52 for the year on the back of a further tightening in global oil markets. On the flip side, the government's forecast for the Canadian dollar (77.4 cents) is slightly below ours (near 80 cents).

As in previous budgets, the government provided revenue sensitivities to its commodity price and financial assumptions. The net impact from a $1 increase in oil prices amounts to a windfall of $230 million, all else equal. Meanwhile, an increase of 1 cent in the exchange rate subtracts $165 million from revenues. Still, on net, the government's conservative oil price forecast is likely to provide some upside to its revenue forecast this fiscal year. The heavy oil price differential is expected to remain within the US$14-US$15.3 range. This reflects an assumption that the Line 3 pipeline will come online later this year, and that the Trans-Mountain pipeline will be completed by late 2022. Both of these pipelines should provide substantial additional capacity to account for any near or medium term increases in production. The estimated exposure to the Alberta government from the cancellation of the Keystone XL pipeline is around $1.3 billion. The cost is not accounted for in the current budget, with government citing that it will continue to explore options and alternatives to maintain the project or reclaim its direct investment.

Elsewhere, most of the government's economic growth projections appear prudent. Real GDP is anticipated to decline by 7.8% in 2020, followed by a rebound of 4.8% this year. That said, the government's assumption of 3% trend growth in the long-term may be on the optimistic side in light of uncertainty around investment in the oil and gas sector, as well as population growth.

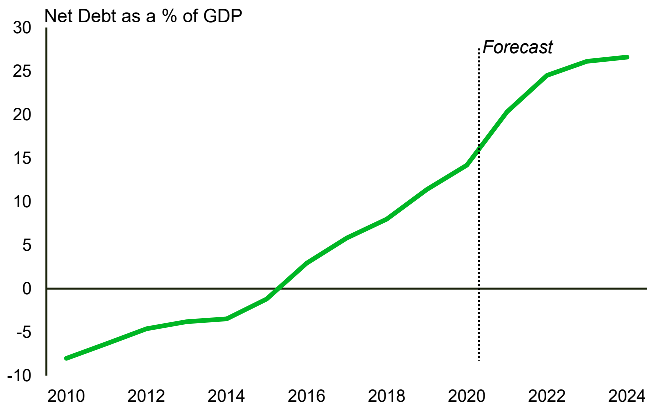
Additionally, the government has earmarked around $2.5 billion in contigencies for the current fiscal year. These include $1.3 billion in COVID-19 contigencies, a $0.5 bil-

Alberta Economic Assumptions
[Year/Year percentage growth, unless otherwise noted]

Calendar Year	2019	2020F	2021F	2022F	2023F	2024F
Real GDP growth	0.1	-7.8	4.8	3.7	3.3	3.1
Nominal GDP growth	2.7	-12.8	8.4	7.5	6.6	6.8
CPI inflation	1.8	1.1	1.4	1.8	2.0	2.0
Employment growth	0.7	-6.6	4.2	2.9	2.5	2.4
Population Growth	1.5	1.4	0.6	1.0	1.4	1.4
Fiscal Year	**19-20**	**20-21**	**21-22**	**22-23**	**23-24**	**-**
WTI Oil (US$/barrel)	54.9	39.3	46.0	55.0	56.5	-
WTI-WCS Differential (US$/barrel)	14.8	11.0	14.6	14.7	15.3	-
Natural Gas (C$/GJ)	1.4	2.1	2.6	2.5	2.4	-
Canadian Dollar (US cents)	75.2	75.5	77.4	77.8	78.2	-

Source: 2021 Alberta Budget, TD Economics.

Chart 2: A Steep Increase in Alberta's Net Debt to GDP Ratio



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

lion contingency for the COVID-19 recovery plan, and a $0.75 billion disaster assistance contingency.

Continued Deficits Over the Horizon

COVID-19 threw Alberta's prior plans to balance its budget by FY 2022-23 off-course. For the upcoming fiscal year, the deficit target of $18.2 billion represents an upward adjustment from the $15.5 billion previously projected in the fall fiscal update. This upward revision was driven by the expense side of the ledger, namely increased outlays to the COVID-19 recovery plan and a slower adjustment in operating spending this year.

Revenues are expected to grow by 3.3% this year, led by resource revenues (+44%), personal income tax revenues (+6.5%), and net income from government businesses enterprises (+53%). Providing some offset are lower corporate tax revenues (-15.6%) and federal transfers (-10.5%). Recall that the government had reduced the corporate tax rate to 8% (from 10%) in July of 2020 in response to COVID-19. Federal transfers also surged in the previous fiscal year due to temporary emergency pandemic supports and the Safe Restart Agreement. Revenue growth is then expected to average 7.8% in the following two years, led largely by a rebound in resource revenues.

The spending side of the ledger for this year is coming in slightly higher than anticipated in the fall fiscal update. Total expenses decline by 4.7% this year. This is predominantly driven by a reduction in COVID-19 recovery plan expenses, which are set to drop from $5.8 billion to $1.1 billion. Operating expenses increase modestly this year, before flatlining over the rest of the forecast horizon.

The deficit is expected to decline to $11 billion (3.3% of GDP) in FY 2022-23, followed by $8 billion (2.1% of GDP) in FY 2023-24. The government did not outline plans to balance the budget, but continues to emphasize its commitments to maintain the net debt to GDP ratio below 30% and to bring per capita spending down to levels recorded in other provinces. This is being achieved through holding operating spending flat starting next year. A plan to balance the budget will be outlined once the recovery from the pandemic is complete.

Net Debt to GDP Ratio to Keep Rising

The sizeable hit from the pandemic sent Alberta's net debt up by nearly double between FY 2019-20 and FY 2021-22. The increase in net debt to $82 billion this year will lift Alberta's net debt to GDP ratio to 24.5%. Continued deficits and higher capital spending (Relative to Budget 2020) throughout the horizon will push the net debt to GDP ratio to 26.6% by FY 2023-2024. As a result of the pandemic, Alberta has likely been supplanted by Saskatchewan and B.C. as the provincial jurisdiction with the lowest debt burden (although this is yet to be confirmed in their budgets later this spring). The increase in net debt will keep borrowing requirements high at $24 billion, down from $27.9 billion in the previous year. The government's capital plan for this year ($8.1 billion) is around $1.7 billion above its pre-pandemic estimates, dropping only modestly from last year ($8.2 billion).

Bottom Line

Deficit reduction in the year ahead may have fallen short of what some observers had expected, especially in light of guidance provided in the mid-year update. However, one can chalk this up partly to additional pandemic-related outlays and relatively cautious oil price assumptions underlying the revenue estimates. Given the uncertainty that persists in the global oil market and broader economy, erring on the side of caution is probably not a bad strategy. Prudent contingencies and economic assumptions, particularly around oil prices, could set the stage for deficit and net debt to come in lower than projected. In any event, today's budget served as a reminder of the long road back to recovery confronting Alberta.

Alberta Government Fiscal Position [C$ billions unless otherwise indicated]				
Fiscal Year	**2020-21 Estimate**	**2021-22 Esimate**	**2022-23 Target**	**2023-43 Target**
Revenue	**42.3**	**43.7**	**47.4**	**50.9**
% Change	(8.4)	3.3	8.5	7.4
Resource Revenue	**2.0**	**2.9**	**4.7**	**5.9**
% Change	(66.7)	44.4	65.2	24.4
All Other Revenue	**40.3**	**40.8**	**42.7**	**45.0**
% Change	(8.7)	1.3	4.5	5.5
Total Expense (incl. recovery plan)	**61.3**	**58.4**	**57.7**	**58.1**
% Change	9.7	(4.7)	(1.2)	0.7
Operating Expense	**47.3**	**48.3**	**48.4**	**48.4**
% change	(2.3)	2.1	0.2	0.0
COVID-10 Recovery Plan	5.8	1.1	0.6	0.1
Contigency - Disaster Assistance	0.8	0.8	0.8	0.8
Contingency - COVID-19	-	1.3	-	-
Contigency - Recovery Plan	**-**	0.50	**-**	**-**
Crude-by-rail Provision	0.4	1.0	**-**	**-**
Surplus (Deficit)	**(20.2)**	**(18.2)**	**(11.0)**	**(8.0)**
% of GDP	(6.6)	(5.4)	(3.1)	(2.1)
Net Financial Debt	**62.5**	**82.2**	**94.0**	**102.1**
% GDP	20.3	24.5	26.1	26.6
Source: 2021 Alberta Budget.				

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