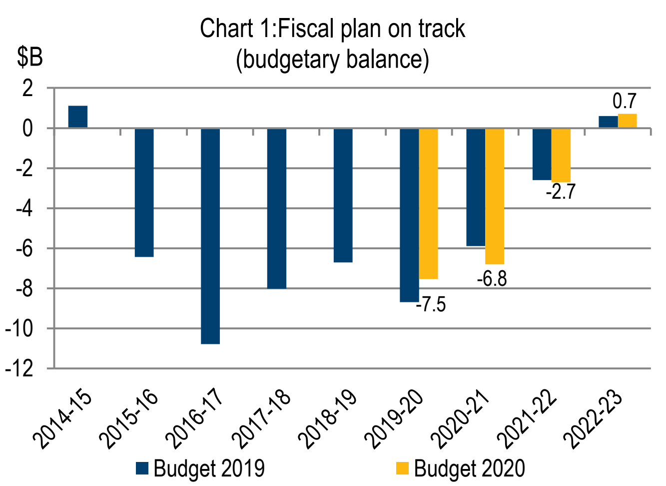
The 2020 Alberta Budget: Keeping in Sight 2022-23

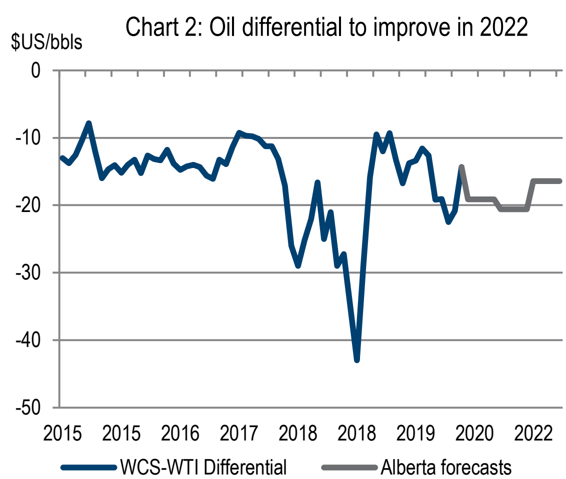
Fiscal track intact

The UCP government tabled its 2020 Budget on February 27th, four months after the release of its first Budget in October 2019. As it starts with a better fiscal performance in FY 2019-20, the government's goal to balance the budget in FY 2022-23 remains intact. Thanks to stronger-than-expected market returns last year in the Heritage and endowment funds, investment income revenues are up by $940M relative to the Budget 2019 forecast. Total revenues excluding investment income were unchanged. This is partly offset by an upward revision to post-secondary education and healthcare expenses. Overall, the deficit for FY 2019-20 is revised down to $7.5B (2.2% of GDP) from $8.7B (chart 1).

In FY 2020-21, the partial reversal of last year's investment income gains and a wider WCS-WTI differential entail a moderate drop in revenue and thus an upward revision to the deficit relative to Budget 2019 forecast: from $5.9B to $6.8B (1.9% of GDP, chart 1). Critically, the budget plan for FY 2020-21 relies on a 2.0% contraction in total expenditure. The government still forecasts a balanced budget in FY 2022-23. It expects the coming online of the Enbridge Line 3 (early 2021), Trans Mountain (late 2022) and Keystone XL (early 2023) pipelines to come online gradually and improve the WTI-WCS differential by FY 2022-23 (chart 2). At the same time, lower corporate income taxes (announced in Budget 2019) are expected to boost investment in the chemical and petrochemical industries, among others, thereby feeding into corporate income tax revenue.



Source: Alberta Government and LBS Econ. Res. and Strategy.

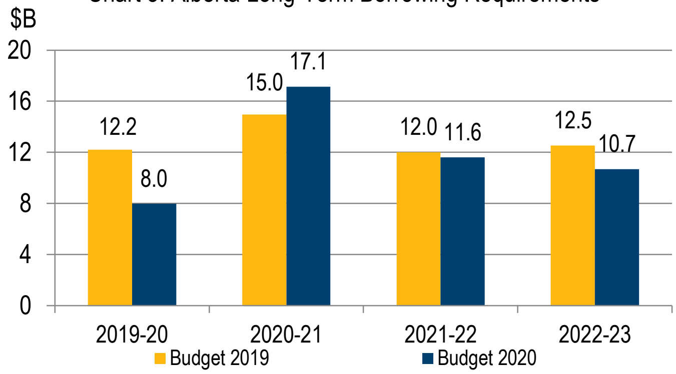


Source: Bloomberg Finance L.P., Alberta Government.

Higher borrowing requirements in FY 2020-21

No major changes are expected to Alberta's debt profile. The net debt-to-GDP is expected to increase to 12.1% in FY 2020-21, before diminishing to 11.5% in FY 2022-23 as the government returns to balance. However, since the FY 2019-20 borrowing program was revised higher and delayed due to the 2019 elections, some of the province's borrowing needs were pushed to FY 2020-21. Overall, long-term debt borrowing in FY 2020-21 is pegged at $17.1B, up from a $15.0B forecast in Budget 2019. Financing needs are expected to fall down to $11.6B and $10.7B in FY 2021-22 and 2022-23, respectively (chart 3).

Chart 3: Alberta Long-Term Borrowing Requirements



.Source: Alberta Government.

Coronavirus and GHG intensity reduction

Economic forecasts used in this budget were finalized on January 21st. We would have said that Alberta's fiscal plan relies on modest economic growth scenarios and prudent assumptions regarding commodity prices if it wasn't for the COVID-19 outbreak.

First, the Albertan economy is not directly dependent on China the same way coastal provinces like Nova Scotia and British Columbia are. Only 4% of its international exports were sent to China in 2019. However, the deep economic slowdown in China caused by the coronavirus outbreak has weighed down on commodity prices, particularly crude oil prices. As of writing, WTI prices traded at around US$47, 19% lower than the FY 2020-21 average price expected in Budget 2020 (US$58). Assuming that prices stabilize around US$50 and using fiscal sensitivities provided by the government, Alberta's revenues would be $2.8B lower than expected in FY 2020-21. This would be partly offset by the lower value of the Canadian dollar. If the loonie stabilizes around the current value of US$74, Alberta's revenues would be around $510M higher than expected. Lower levels of interest rates could also provide a cushion through lower interest on debt, assuming that the Alberta-federal interest rate spread is stable.

Second, the Canadian economy is currently experiencing severe disruptions due to the blockage of a number of railway segments. As was experienced during the strike at the CN railway in November 2019, crude oil and primary metal shipments and exports are likely to be highly affected in the first half of the year, another threat to Alberta's 2020 nominal (2.8%) and real (2.5%) GDP growth forecasts.

Third, the global demand for ESG investments is growing. The financial markets' perception of Canada and the outlook for the oil and gas sector increasingly depend on the ability of companies to adapt to a lower-carbon global economy. In this context, the recently-introduced Alberta's Technology Innovation and Emissions Reduction regulation, a carbon-tax for large emitters at $30 per tonne, is a step in the right direction. Similarly, the recent commitment of energy producers to reach net-zero emissions in the coming decades with new GHG-reducing technological investments is a positive development.

Dominique Lapointe, CFA | Senior Economist
514 350-2924 | lapointed@vmbl.ca

Alberta Budget and Fiscal Projections (millions of dollars)	2018-19	2019-20	2020-21	2021-22	2022-23
Total revenue	**49,607**	**50,948**	**49,979**	**54,036**	**58,061**
% change		2.7	-1.9	8.1	7.4
Total Expenditure	**56,312**	**57,208**	**56,039**	**55,991**	**56,155**
% change		1.6	-2.0	-0.1	0.3
Operating Expense	48,417	48,605	47,792	47,506	47,413
% change	4.0	0.4	-1.7	-0.6	-0.2
Disaster assistance	507	1,202			
Capital grants	1,952	1,800	2,302	2,124	2,093
Amortization / disposal loss / inventory consumption	3,651	3,833	3,856	3,933	3,954
Debt servicing costs	1,971	2,078	2,505	2,780	2,970
Pension provisions	(190)	(310)	(415)	(354)	(272)
Surplus / (deficit) before provisions and allowances	**(6,705)**	**(6,260)**	**(6,060)**	**(1,955)**	**(1,906)**
crude-by-rail provisions	6	1,280	0	0	0
contingency / unallocated disaster assistance	0	0	750	750	750
Revenue forecast allowance	0	0	0	0	450
Surplus / (deficit)	**(6,711)**	**(7,540)**	**(6,810)**	**(2,705)**	**706**
As a % of Nominal GDP	-1.9	-2.2	-1.9	-0.7	0.2
Long-Term Borrowing Requirements ($B)	**19.6**	**8.0**	**17.1**	**11.6**	**10.7**

Source: Alberta Budget 2020 and LBS Economic Research & Strategy calculations.

Fiscal Sensitivities (FY 2020-21)	Change	Annual Fiscal Impact $M
Oil price (WTI US$/bbl)	-$1	-355
Light-heavy oil price dfferential	$1	-325
Natural gas price (Cdn$/GJ)	-10 ¢	-10
Exchange rate (US¢/Cdn$)	+1¢	-255
Interest rates	+1%	-235
Primary household income	-1%	-220

Source : Alberta Budget 2020.