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Alberta Budget 2023 — Aiming for Steadier, Smaller Surpluses after an Exceptional Year

Finance Minister Travis Toews presented the 2023 Budget three months before the May 29th general election.

First, the 3rd fiscal update reveals a gargantuan $10B surplus for FY 2022-23, nonetheless a large deterioration from the 2nd update estimate of $12B. The main factors behind this downward shift are the gasoline tax exemption effective since the beginning of 2023, lower oil revenues, and additional financial assistance to agricultural producers affected by climate disasters.

Second, the Alberta government essentially proposes tighter fiscal discipline in respect to spending and sees a flatline for total revenues over next three years. These two dynamics result in modest surplus projections of $2.4B in FY 2023-24 (0.5% of the NGDP), $2B in 2024-25, and $1.4B in 2025-26. These surplus estimates include $1.5B in annual contingencies to cover for unanticipated events.

Total revenues are projected to stay at a high level during the next three years following the outsized 21% gain of FY 2022-23. Notably, a small pullback in nominal GDP during 2023 shapes a retreat in total revenues in FY 2023-24 versus FY 2022-23. The Ministry of Finance forecasts WTI prices to average US$79 per barrel in FY 2023-24, compared to US$91 in FY 2022-23. OPEC and the International Energy Agency recently revised up global oil demand estimates due to China's resurgence. Alberta's WTI projection of US$79 stands significantly lower than the private sector forecast average close to US$86. If the private sector average turns out to materialize, Alberta would receive close to $4B in additional revenues in FY 2023-24. A US$1 variation in WTI prices translates to a $630M change in FY 2023-24 revenues on an annual basis, compared to approximately $300M. This larger fiscal sensitivity reflects the energy global security challenge inflating crude oil prices, and thus projects moving into the viable post-payout status where revenues surpass expenses. Also, the WTI sensitivity got bigger due to the mild increase in oil production close to 3.8M barrels per day now. All in all, the projected decline in WTI prices should more than compensate for a tighter light-heavy WTI-WCS spread moving down and away from US$20, ultimately bringing down non-renewable resource revenues from a record high of $27B last year to $18B in FY 2023-24. The fiscal outlook is also based on a mild Canadian dollar appreciation versus the USD over time, including an average USDCAD of 75.5 in 2023 (a 1 cent appreciation drags down revenues by almost $0.5B on an annual basis).

With such swings in non-renewable resource revenues poised to represent a quarter of total revenues in FY 2023-24, the UCP government proposes a new framework to reinforce fiscal discipline and increase the odds of a favourable path for the debt-to-GDP ratio. Among the main proposals, annual balanced budgets will be required when revenue drops by at least $1B or is anticipated to fall below the prior year's total spending prediction penciled in the 3rd quarter update, with particular exceptions. Another core element relates to the 50% allocation of surpluses to the new Alberta Fund. This fund will be used to debt reduction, additional deposits to the existing Heritage Fund, and/or finance one-time spending initiatives. Speaking of, the Heritage Fund stands at $19B, expected to grow to $23B in FY 2025-26 due to the proposal of retaining 100% of the Fund's net investment income going forward. For the moment, only a certain amount of investment income must be retained to protect the Fund against inflation. Furthermore, the government also proposes to cap annual spending increases to population growth and inflation. Thus, the 3-year outlook shows a mild uptrend in total expenses before provisions and allowances, from $64B in FY 2022-23 to $$70B in FY 2025-26. Most of the spending increase is expected to occur in FY 2023-24, reflecting the election context.

Budget 2023 allocates $23B in capital expenditures over the next three years, including a massive 24% surge between FY 2022-23 and FY 2023-24 alone. Overall, the combination of hefty capital expenditures, small operating surpluses and planned dedication to the Heritage Fund translates into a favorable debt burden path. Net debt is projected at $47B or 10% of NGDP at the end of FY 2023-24, a remarkable $18B improvement relative to the 2022 budget projection. Finally, the Province's borrowing needs are unsurprisingly smaller than during or before the pandemic hit, reflecting the tight global oil market conditions. Overall, reflecting mostly long-term bonds refinancing, issuance will total $27.7B over the next three years, including $6.6B in FY 2023-24. The $27.7B 3-year issuance program includes the addition of $4B in money market during FY 2025-26. Alberta plans to borrow $1.3B before the end of this month to complete its revised long-term needs of $2.4B for FY 2022-23.

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