

## Alberta's Fiscal 2017–18 Mid-Year Update ... Economic Growth Returns in 2017

Alberta's Q2 *Update* presents some positive economic and fiscal developments within the overall challenge of stabilizing its net debt as oil prices edge higher.

- Emerging from a two-year, 7.2% downturn in Alberta's real GDP, the government now looks for a 4.0% expansion in 2017, up from its 2.6% *Budget* assumption. For 2018, a 2.5% rise in output replaces the initial 2.2% estimate.
- The deficit for fiscal 2017–18 (FY18) is trimmed from \$10.5 billion to \$10.3 billion (-3.0% of GDP, top chart). The WTI oil price assumed for FY18, revised from US\$55.0/barrel to US\$49 in Alberta's Q1 *Update*, still appears reasonable.
- Alberta's net financial liabilities during FY18 are expected to increase by \$12.8 billion to \$21.7 billion (6.4% of GDP), but this increase is \$0.9 billion smaller than the *Budget* forecast (bottom chart).
- Relative to FY17 borrowing of \$17.3 billion, revised FY18 financing requirements of \$14.9 billion are significantly lower, after a \$2.5 billion decrease in Q1 and a further \$1.2 billion drop in this *Update*. The FY18 reduction in required funding primarily reflects substantial additional cash from the final FY17 results and a \$0.9 billion decrease in this year's *Capital Plan* from *Budget*. As of November 22<sup>nd</sup>, \$9.7 billion (65%) of the FY18 program is completed.

Further details outlined below, some negative as well as positive, set the stage for Alberta's spring *Budget*, and a revised three-year outlook to FY21. The recovery in WTI oil prices is more gradual than forecasters anticipated entering 2017. Alberta's *Budget* last spring assumed WTI oil prices averaging US\$68/barrel for FY20. Scotiabank Economics now looks for WTI oil prices to average US\$56/barrel in calendar 2019 and for Alberta's real GDP growth to slow from 4.1% this year to 2.3% in 2018 and 1¾% in 2019.

### REVENUE DETAILS

**Revenues in FY18** are expected to be \$247 million less than *Budget*, lowering y/y growth to 5.6% (p.2, side table). Expenditures, however, are revised \$180 million lower, trimming the y/y increase to 3.1%. The risk adjustment, halved in Q1 to \$250 million, is retained.

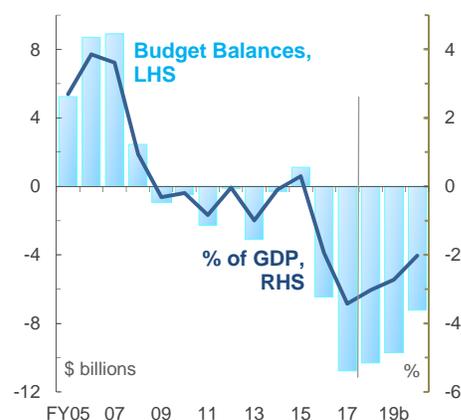
**Resource receipts** are projected to climb 24% in FY18 to \$3.9 billion, \$96 million above *Budget*. Propelling the in-year increase is a \$399 million gain in crude oil and natural gas and by-products royalties, mirroring lower costs and higher natural gas production. Land lease sales revenue is \$345 million ahead of *Budget* given more hectares offered and higher bid prices. The Province expects conventional oil & natural gas investment to climb a hefty 40% in 2017 with significant industry interest in liquids-rich conventional reserves, and drilling activity for much of this year has been double 2016 levels. Projected bitumen royalties are expected to climb 26% in FY18 to \$1.9 billion, but this is \$0.7 billion below *Budget*.

### CONTACTS

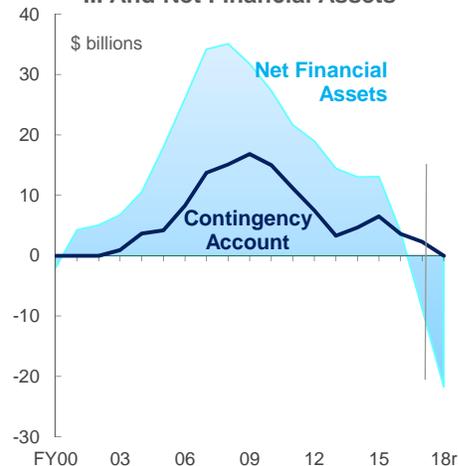
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### Alberta's Consolidated Budget Balances ...



### ... And Net Financial Assets



Sources: Alberta Finance; Statistics Canada; nom. GDP forecasts: Scotiabank Economics.

**Estimated personal income tax receipts** for FY18 are reduced by \$0.3 billion, limiting the y/y rise to 0.7%. Similar to several other Provinces' updates, Alberta reports lower-than-anticipated 2016 income tax assessments, but it has some offset from improved employment in 2017 and a positive \$40 million prior-years' adjustment.

**Investment income** continues to anchor Alberta's revenues, with a \$287 million in-year increase to \$2½ billion, assisted by a 3.2% six-month return on equities reported by the Heritage Fund. Following the *Alberta Growth Mandate* from *Budget 2015* directing investments of up to 3% of the Heritage Fund to support Alberta's business sector, investments totaling \$345 million are reported across 18 different firms. The Carbon Levy, introduced last January, is on track to raise \$1.1 billion in FY18.

## EXPENDITURE AND FINANCING DETAILS

**Restraining the FY18 expenditure increase** are estimated in-year savings of \$300 million, approaching the \$400 million target that was doubled in Q1. The government cites savings from consolidating common functions across government such as IT; assessing "best practices" to gain new efficiencies in areas such as drug costs for health care; limiting discretionary outlays; constraining hiring; and, trimming expenses related to agencies, boards and commissions. Ongoing spending pressures are acknowledged, notably in Social Service caseloads and Health.

**Disaster assistance** for FY18, though raised from \$0.2 million to \$0.3 million for FY18, is a fraction of last year's \$1.2 billion expense pushed up by the Fort McMurray wildfires.

**The FY18 Capital Plan** is trimmed from \$9.2 billion to \$8.3 billion, with the \$0.4 billion Q1 decrease followed by a \$0.5 billion reduction in Q2. In addition to savings on some projects, a range of school, post-secondary, continuing care, and other health and municipal projects are re-profiled, in part due to slower progress on projects undertaken with the federal government.

**Direct borrowing** for capital purposes in FY18 is scaled back by \$1.3 billion to \$4.7 billion, and is now equal to the FY17 financing for capital (p.3, bottom table). Cash received for capital purposes in FY18 is slightly higher and the *Capital Plan* financing account withdrawal is a sizeable \$1.4 billion.

**Mindful of the financing requirements of \$18.5 billion for FY19 and \$19.1 billion for FY20** outlined in last spring's *Budget*, Alberta is targeting 30%–40% of total issuance outside of domestic markets.

## Alberta's Budget Arithmetic

\$ millions except where noted

	FY17	FY18	
	Final	Budget	Q2
Personal Income Tax	10,763	11,177	10,838
Corporate Income Tax	3,769	3,918	3,875
Carbon Levy	250	1,038	1,053
Other Taxes	5,399	5,629	5,493
<b>Total Tax Revenues</b>	<b>20,181</b>	<b>21,762</b>	<b>21,259</b>
Non-Renewable Resource Revenue	3,097	3,754	3,850
Investment Income	3,701	2,193	2,480
Other Own-Source Revenue <sup>1</sup>	7,335	9,221	9,268
<b>Total Own-Source Revenue</b>	<b>34,314</b>	<b>36,930</b>	<b>36,857</b>
Federal Transfers	7,979	7,988	7,814
<b>Total Revenue</b>	<b>42,293</b>	<b>44,918</b>	<b>44,671</b>
Operating Expense(net of in-year savings)	44,661	45,906	46,154
Disaster Assistance <sup>2</sup>	1,191	235	318
Capital Grants	2,159	3,302	2,922
<i>Climate Leadership Plan: Operating Exp.</i> <sup>3</sup>	1,379	868	744
<i>Capital Grants</i>	2	68	91
Pension Provisions	-543	-237	-237
Amortization, Inventory Ch., Other	3,210	3,375	3,348
<b>Program Spending</b>	<b>52,059</b>	<b>53,517</b>	<b>53,340</b>
General Debt Service	438	619	638
Capital Plan Debt Service	580	779	757
<b>Total Debt Service</b>	<b>1,018</b>	<b>1,398</b>	<b>1,395</b>
<b>Total Expenditure</b>	<b>53,077</b>	<b>54,915</b>	<b>54,735</b>
Risk Adjustment	0	500	250
<b>Consolidated Balance</b>	<b>-10,784</b>	<b>-10,497</b>	<b>-10,314</b>
Total Capital Plan with SUCH Sector	6,578	9,175	8,292
Financing Requirements	17,311	18,662	14,933
<b>Annual Change, %</b>			
Tax Revenue	-2.6	7.8	5.3
Non-Renewable Resource Revenue	11.0	21.2	24.3
<b>Total Own-Source Revenue<sup>4</sup></b>	<b>n.a.</b>	<b>7.6</b>	<b>7.4</b>
Federal Transfers	11.7	0.1	-2.1
<b>Total Revenue<sup>4</sup></b>	<b>n.a.</b>	<b>6.2</b>	<b>5.6</b>
Program Spending <sup>4</sup>	n.a.	2.8	2.5
<b>Total Expenditure<sup>4</sup></b>	<b>n.a.</b>	<b>3.5</b>	<b>3.1</b>
<b>Memo Items, %</b>			
Own-Source Revenue / GDP	10.9	10.8	10.8
Program Spending / GDP	16.5	15.7	15.7
Consolidated Balance / GDP	-3.4	-3.1	-3.0
Debt Service / Revenue	2.4	3.1	3.1
<b>Resource Prices: WTI Oil, US\$/bbl</b>	<b>47.9</b>	<b>55.0</b>	<b>49.0</b>
Western Canadian Select, C\$/bbl	44.7	51.3	47.1
Oil Production, Bitumen, 000s bbl / day	2,549	2,906	2,876
Conventional, 000s bbl / day	431	416	415
Natural Gas, AB Reference Price, C\$/GJ	2.01	2.90	2.20
Canadian Dollar, US\$/C\$	76.2	76.0	78.3

<sup>1</sup> Includes the *Balancing Pool*. <sup>2</sup> Includes Wood Buffalo wildfires. <sup>3</sup> Includes the present value of the FY18-FY31 coal phase-out transition payments. <sup>4</sup> Revenues & expenditures adjusted as of FY17 for change in accounting treatment of drug cost rebates. Source: Alberta Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

**OUTLOOK**

Alberta is encouraged by the strength of its economic rebound in 2017, but acknowledges that its growth will slow considerably next year. Work is finishing on the last of the large oilsands projects that were well under way before oil prices declined. The Province also notes the hurdles ahead, including the need for additional pipeline capacity to diversify its markets, improve the returns on Canadian crude oil, and accommodate its forecast oil production increase of 315,000 barrels per day in 2017–18. With an outlook for moderating economic growth, gradual fiscal repair is directed by the government's commitment to protect Alberta's core social programs and sustain job creation.

**Alberta's Balance Sheet**

March 31, \$ billions

	FY17		FY18	
	Final	Budget	Q2	
Heritage Fund & Endowment Funds	19.8	20.2	20.2	
Contingency Account	2.3	0	0	
Other Financial Assets	44.2	43.7	42.8	
<b>Financial Assets</b>	<b>66.3</b>	<b>63.9</b>	<b>63.0</b>	
Liabilities for Capital Projects	23.8	29.8	28.5	
Debt: Pre-1992 Teachers' Pension Plan	0.9	0.9	0.9	
Direct Borrowing for <i>Fiscal Plan</i>	8.6	15.1	13.2	
Pension Liabilities	10.0	9.8	9.8	
Other Liabilities	31.9	31.0	32.2	
<b>Total Liabilities</b>	<b>75.2</b>	<b>86.5</b>	<b>84.7</b>	
<b>Net Financial Assets</b>	<b>-8.9</b>	<b>-22.6</b>	<b>-21.7</b>	
% of GDP	-2.8	-6.6	-6.4	

Source: Alberta Finance; nominal GDP forecast: Scotiabank Economics.

**Alberta's Financing Requirements**

\$ billions

	FY17		FY18	
	Final	Budget	Q2	
Direct Borrowing: Capital	4,686	5,954	4,672	
Direct Borrowing: <i>Fiscal Plan</i>	8,585	6,362	4,639	
<b>Term Debt: Provincial Corporations</b>				
Agriculture Financial Services Corp.	196	315	200	
Aberta Capital Finance Authority	2,584	3,050	3,050	
Alberta Petroleum Marketing Commission	329	481	481	
Alberta Treasury Branches	699	2,500	1,500	
The Balancing Pool	232	0	391	
<b>Subtotal</b>	<b>4,040</b>	<b>6,346</b>	<b>5,622</b>	
<b>Total Financing Requirements</b>	<b>17,311</b>	<b>18,662</b>	<b>14,933</b>	

\* Gross basis, including long-term debt refinancing. Source: Alberta Finance.

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