

Lower borrowing needs for FY 2017-18

- Halfway into the fiscal year, the budget deficit is revised down \$183 million to \$10.3 billion, as lower-than-anticipated revenue (-\$247 million) is offset by additional expense reductions (-\$180 million) and by using half (\$250 million) of the risk adjustment.
- The capital Plan is now forecasted at \$8.292 billion, \$883 million less than at Budget.
- Real GDP growth for 2017 is revised up from 2.6% at Budget to 4.0%, and for 2018 is also revised up from 2.2% to 2.5%. Nominal GDP growth is revised up from 5.3% to 6.0% in 2017 and from 5.4% to 4.0% in 2018.
- Crude WTI price is now projected at US\$49/barrel on average over the current fiscal year, a US\$6 downward revision which is somewhat offset by a lower-than-expected light-heavy differential (revised down from US\$16.00/barrel to \$12.10). However, the exchange rate (US cents per \$Cdn) is revised up from \$US0.76 to \$US0.78. Consequently, the WCS@Hardisty is revised down from \$Cdn51.30/barrel to \$Cdn47.13. Oil production is now estimated at 3.291 million barrels per day, down from 3.322 projected at Budget.
- Net debt (debt minus financial assets) at the end of March 2018 is now projected at \$21.7 billion, \$902 million less than at Budget. In terms of net assets (assets minus debt), the province still has an accumulated surplus of \$27.4 billion, a touch higher than estimated at Budget (\$27.2 billion).
- Gross financing requirements are revised down \$3.729 billion (from \$18.7 billion to \$14.9 billion). Direct borrowing for the fiscal plan is lowered by \$1.9 billion mostly due to \$2.4 billion of additional cash from 2016-17 results less a \$0.5 billion net increase in cash requirements. Direct borrowing for the capital plan is reduced by \$1.3 billion and borrowing for provincial corporations is reduced by \$724 million. As of November 22, 65% of the borrowing requirements for the whole fiscal year, or \$9.7 billion, had been completed. Refinancing of maturities account for \$3.6 billion.

The deficit slightly revised down

Halfway into the fiscal year, the budget deficit is revised down \$183 million to \$10.3 billion, as lower-than-anticipated revenue (-\$247 million) is offset by additional expense reductions (-\$180 million) and by using half (\$250 million) of the risk adjustment.

Total revenue is now forecast to be \$247 million lower than budget, due primarily to low oil prices and the protracted impacts of the economic downturn on income taxes.

Non-renewable resource revenue is \$96 million above budget. Crude oil, natural gas and by-products royalties have increased \$399 million, due mainly to lower costs and slightly higher production, while land lease sales revenue was up \$345 million, due to higher bid prices and hectares sold, and other revenue was up \$22 million. These increases are mostly offset by a \$671 million decrease in bitumen royalties, due to lower-than-expected and a higher US-Canadian dollar exchange rate. These outweigh the positive impact on bitumen royalties of a narrower light-heavy differential, due to local supply disruptions and reduced global heavy oil supply (OPEC restraint has focussed more on heavier crudes).

Personal income tax revenue is reduced \$339 million from budget, due primarily to lower-than-expected 2016 assessments. This is partially mitigated by a higher forecast for household income growth related to improved 2017 employment, and a positive \$40 million prior-years' adjustment (the 2017 portion of 2016 - 17 revenue was slightly under-reported). Corporate income tax revenue is revised down \$43 million due mainly to lower oil prices and higher-than-expected refunds. Revenue from other taxes is revised down \$121 million, mainly because of lower tobacco consumption and lower growth in insurance premiums.

Investment income is \$287 million higher than the 2017 Budget estimate, due mainly to realization of gains embedded in assets from recent strong equity markets, and higher Alberta Capital Finance Authority (ACFA) net income.

Total revenue from other sources is \$126 million lower than budget. Increases include \$107 million in Alberta Treasury Branches (ATB) net income, \$63 million in premiums, fees and licences (mainly agriculture insurance premiums and the payment in lieu of taxes from ATB), and \$75 million in other revenue. These are more than offset by decreases of \$174 million in federal transfers, \$120 million in the Balancing Pool projected loss, \$34 million primarily in APMC income from the delay in the North West Redwater Partnership upgrader start-up, and \$45 million in gaming revenue.

However, the \$247 million total revenue shortfall is more than offset additional expense reductions of \$180 million and by using half (\$250 million) of the risk adjustment.

Reduction in the Capital Plan

2017-18 Capital Plan spending is forecast to be \$8.3 billion, a decrease of \$883 million from Budget 2017. The decrease is primarily due to re-profiling of school, municipal, health and post-secondary facilities, continuing care, housing and other projects to future years, and savings on projects, partly offset by increases related to projects carried over from 2016 -17.

Economic Assumptions

Real GDP growth for 2017 is revised up from 2.6% at Budget to 4.0%, and for 2018 is also revised up from 2.2% to 2.5%. Nominal GDP growth is revised up from 5.3% to 6.0% in 2017 and from 5.4% to 4.0% in 2018.

Crude WTI price is now projected at US\$49/barrel on average over the current fiscal year, a US\$6 downward revision which is somewhat offset by a lower-than-expected light-heavy differential (revised down from US\$16.00/barrel to \$12.10). However, the exchange rate (US cents per \$Cdn) is revised up from \$US0.76 to \$US0.78. Consequently, the WCS@Hardisty is revised down from \$Cdn51.30/barrel to \$Cdn47.13. Oil production is now estimated at 3.291 million barrels per day, down from 3.322 projected at Budget.

Debt and borrowings

Net debt (debt minus financial assets) at the end of March 2018 is now projected at \$21.7 billion, \$902 million less than at Budget. In terms of net assets (assets minus debt), the province still has an accumulated surplus of \$27.4 billion, a touch higher than estimated at Budget (\$27.2 billion). The accounting is such that the change in net assets between March 31, 2017 and March 31, 2018 is equal to the budget deficit. It follows that net assets are forecasted to decrease \$10.3 billion during the current fiscal year.

Gross financing requirements are revised down \$3.729 billion (from \$18.7 billion to \$14.9 billion). Direct borrowing for the fiscal plan is lowered by \$1.9 billion mostly due to \$2.4 billion of additional cash from 2016-17 results less a \$0.5 billion net increase in cash requirements. Direct borrowing for the capital plan is reduced by \$1.3 billion and borrowing for provincial corporations is reduced by \$724 million. As of November 22, 65% of the borrowing requirements for the whole fiscal year, or \$9.7 billion, had been completed. Refinancing of maturities account for \$3.6 billion.

Marc Pinsonneault

Alberta - 2017 Fiscal Update

FISCAL PLAN SUMMARY

(millions of dollars)

Income Statement

	Fiscal Year			Change from Budget
	2016-17 Actual ^a	2017-18 Budget ^{a,b} Forecast		
Revenue				
Income tax revenue	14,532	15,095	14,713	(382)
Other tax revenue	5,649	6,667	6,546	(121)
Non-renewable resource revenue	3,097	3,754	3,850	96
Other revenue	19,015	19,402	19,562	160
Total Revenue	42,293	44,918	44,671	(247)
Expense				
Operating expense (net of in-year savings)	44,661	45,906	46,154	248
Climate Leadership Plan operating expense	1,379	868	744	(124)
Disaster assistance (with operating 2013 flood support)	481	233	316	83
Wood Buffalo Disaster Recovery Program	710	2	2	-
Capital grants (including 2013 flood support)	2,159	3,302	2,922	(380)
Climate Leadership Plan capital grants	2	68	91	23
Amortization / inventory consumption / disposal losses	3,210	3,375	3,348	(27)
General debt servicing costs	438	619	638	19
Capital Plan debt servicing costs	580	779	757	(22)
Pension provisions	(543)	(237)	(237)	-
Total Expense	53,077	54,915	54,735	(180)
Risk Adjustment	-	(500)	(250)	250
Surplus / (Deficit)	(10,784)	(10,497)	(10,314)	183
Capital Plan				
Capital grants	2,159	3,302	2,922	(380)
Capital investment	4,412	5,659	5,139	(520)
Climate Leadership Plan (capital grants)	2	68	91	23
Climate Leadership Plan (capital investment)	5	146	141	(5)
Total Capital Plan	6,578	9,175	8,292	(883)

^a 2016-17 Actual and 2017-18 Budget numbers have been restated for a change in accounting treatment of drug cost rebates under Product Listing Agreements. Instead of reporting the rebates in Miscellaneous revenue and gross pre-rebate drug costs in Health operating expense, the rebates are now being netted from expense directly. This reduces both revenue and expense by \$111 million in 2016-17 Actual numbers, and by \$104 million in 2017-18 Budget numbers.

^b Budget revenue has been increased by \$7 million, and budget operating expense has been increased by \$160 million, to correct for consolidation adjustments eliminating those amounts incorrectly.

Source: 2017-18 Second Quarter Fiscal Update and Economic Statement, Government of Alberta.

Alberta - 2017 Fiscal Update

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