

# Province of Alberta

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October 2020



# Overview

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- Oil and gas most dominant segment of economy
  - Oil production projected to be 3.2 million barrels per day
  - Natural gas production expected to be 3.9 billion cubic feet
- Economy hit twice by pandemic and oil price war
  - Real GDP forecast of -8.8% in 2020, +4.6% in 2021
- Deficit forecast to rise to \$24 billion in 2020-21
  - \$17 billion increase from February 2020 budget
- Borrowing requirement of \$29 billion for 2020-21
  - \$18 billion issued since April 1, 2020
- Alberta remains a strong credit
  - A+ (S&P), Aa3 (Moody's), AA- (Fitch), AA(low) (DBRS)
  - Net debt to GDP forecast to be 22% at 2020-21 year end
  - Government committed to reducing operating expenses

# Alberta's economic outlook

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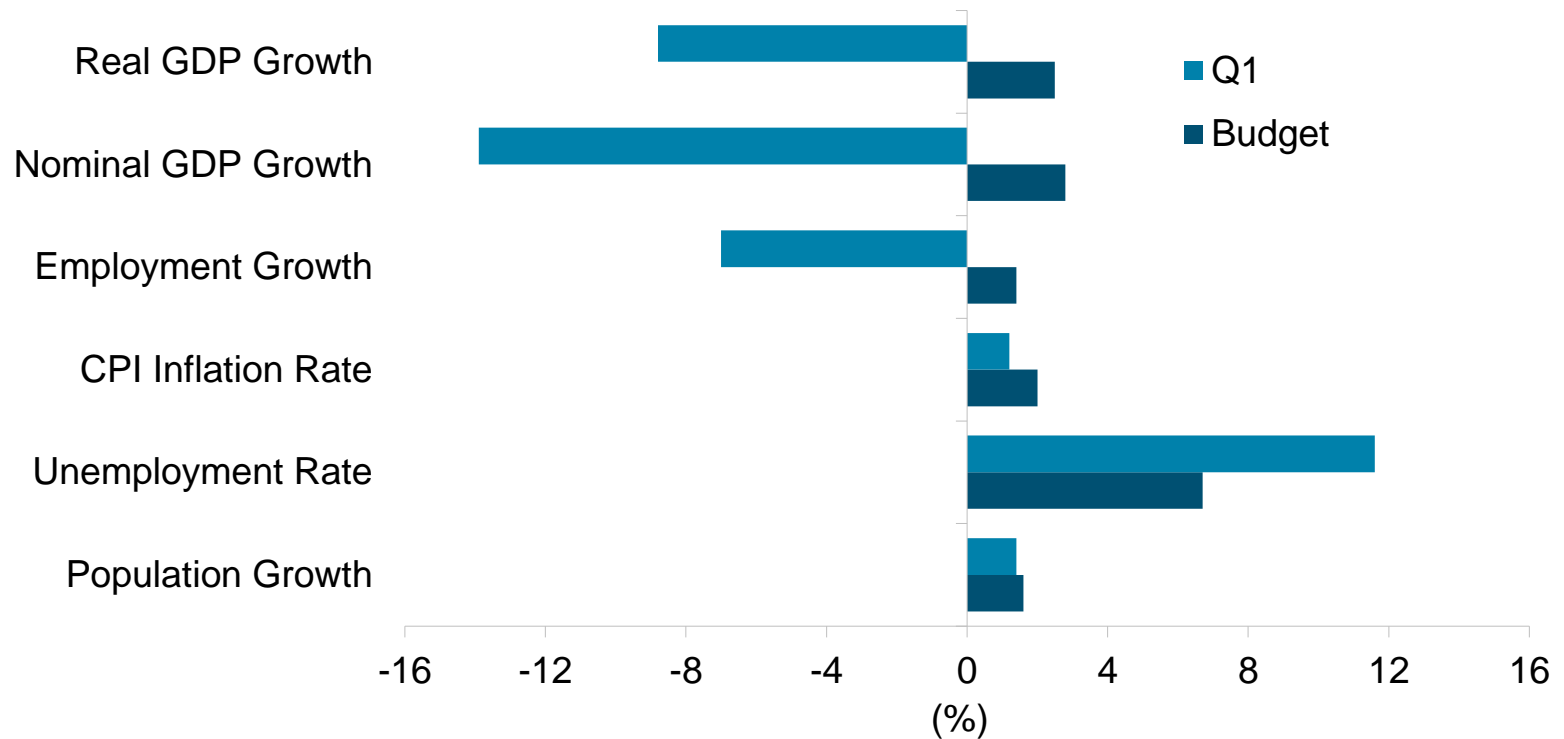
# Dual shock of COVID-19 pandemic and oil price collapse hits Alberta economy

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- Severe contraction in activity, employment and incomes this year
  - Real GDP forecast to decline by 8.8%, employment to fall 7%
  - Unprecedented monetary and fiscal stimulus mitigate the impact
- Activity beginning to improve in some parts of the economy
  - Housing activity, consumer spending leading the recovery
  - Business activity and investment lagging behind
  - Real GDP to see a partial rebound of 4.6% in 2021
- A prolonged recovery
  - Social distancing measures expected to remain in place until next year
  - Full recovery in real GDP and employment after 2021
  - Risks to outlook extremely high

# Forecast dramatically reduced since Budget

## Key indicators forecast, 2020

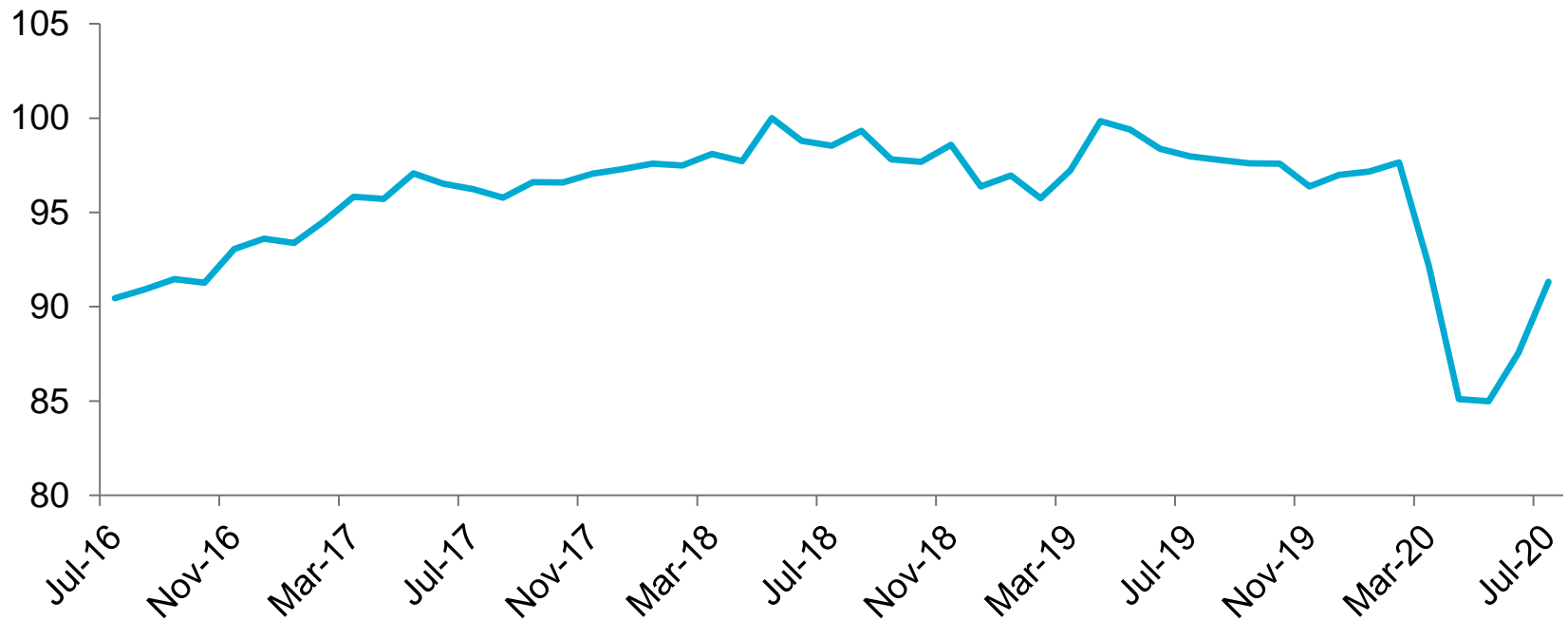


Source: Alberta Treasury Board and Finance, Budget 2020, 2020-21 First Quarter Fiscal and Economic Update

# Provincial activity rebounds from pandemic lows

## The Alberta Activity Index

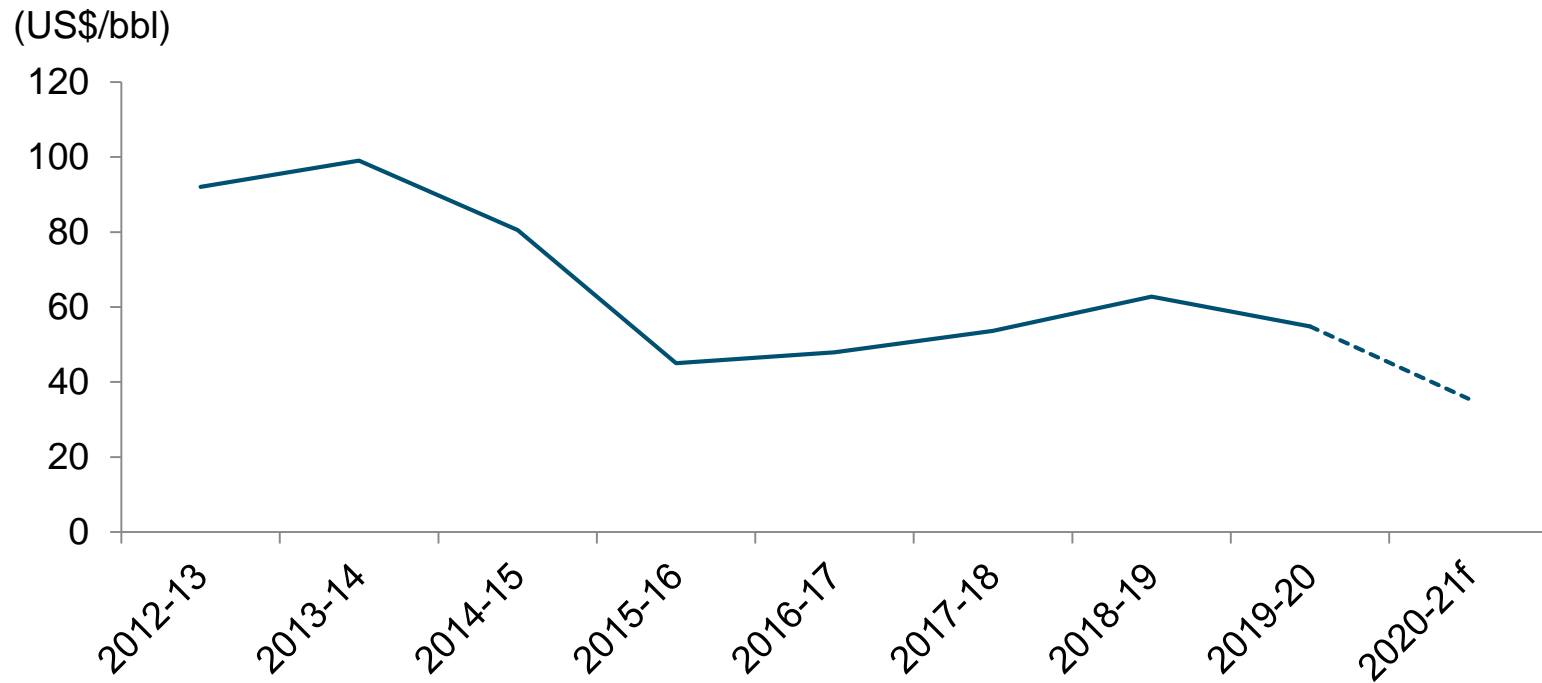
(May-18=100)



Source: Alberta Treasury Board and Finance

# Muted outlook for oil prices

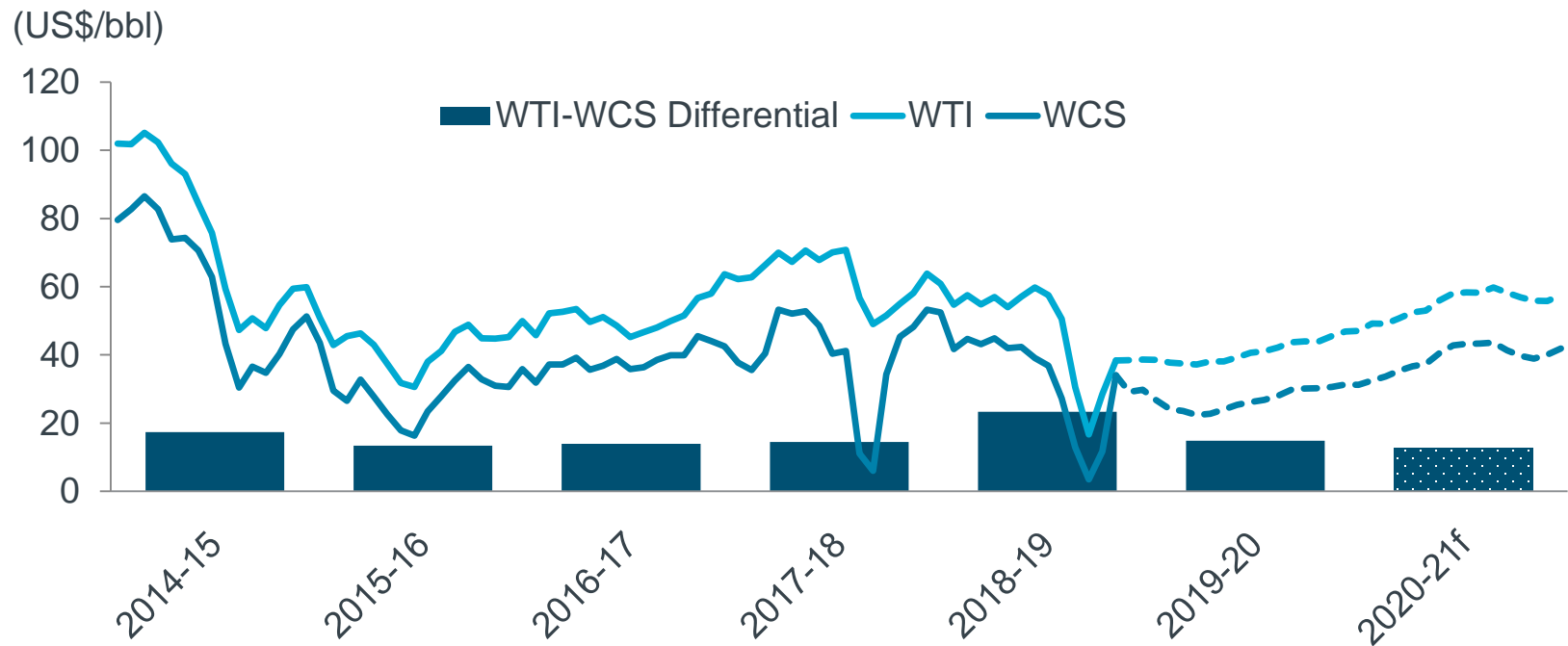
## West Texas Intermediate



Source: Alberta Treasury Board and Finance, Budget 2020, 2020-21 First Quarter Fiscal and Economic Update

# Differential to remain narrow

## Oil prices

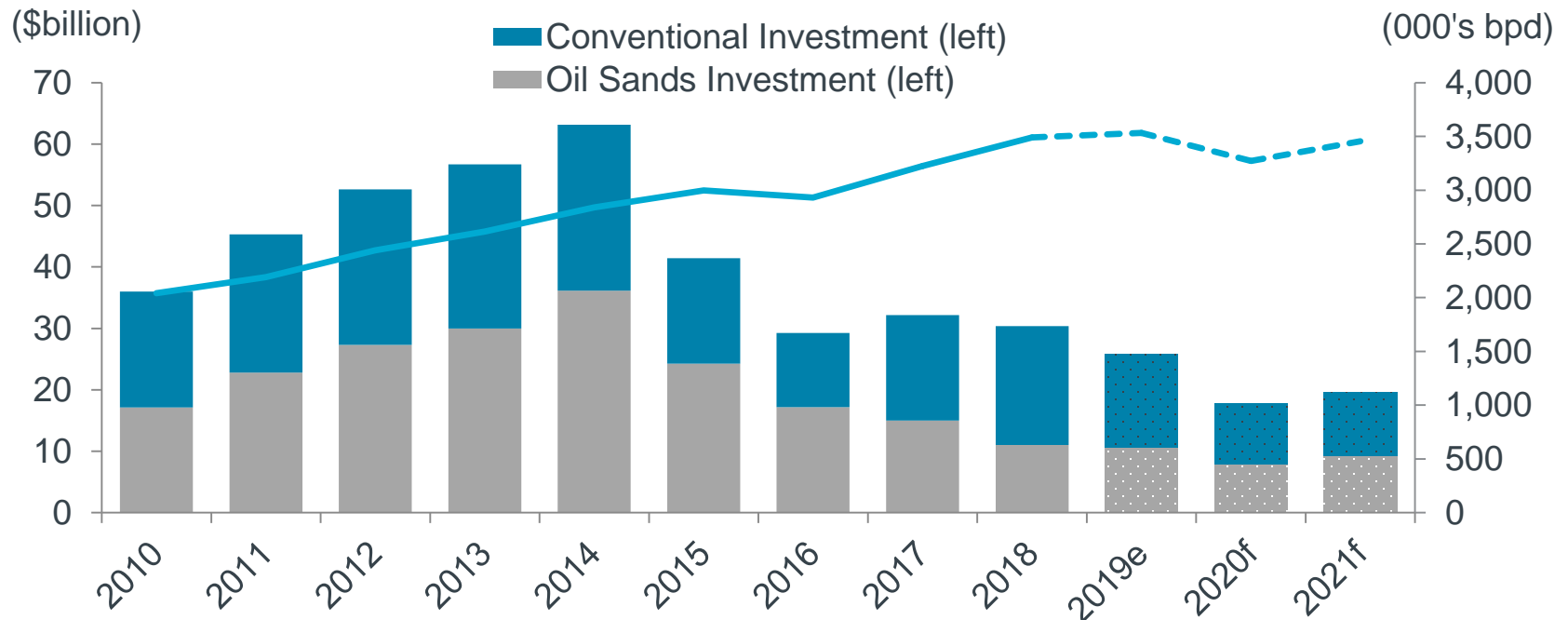


Source: Alberta Energy, Alberta Treasury Board and Finance; f-forecast



# Oil and gas investment, production to pick up following 2020 weakness

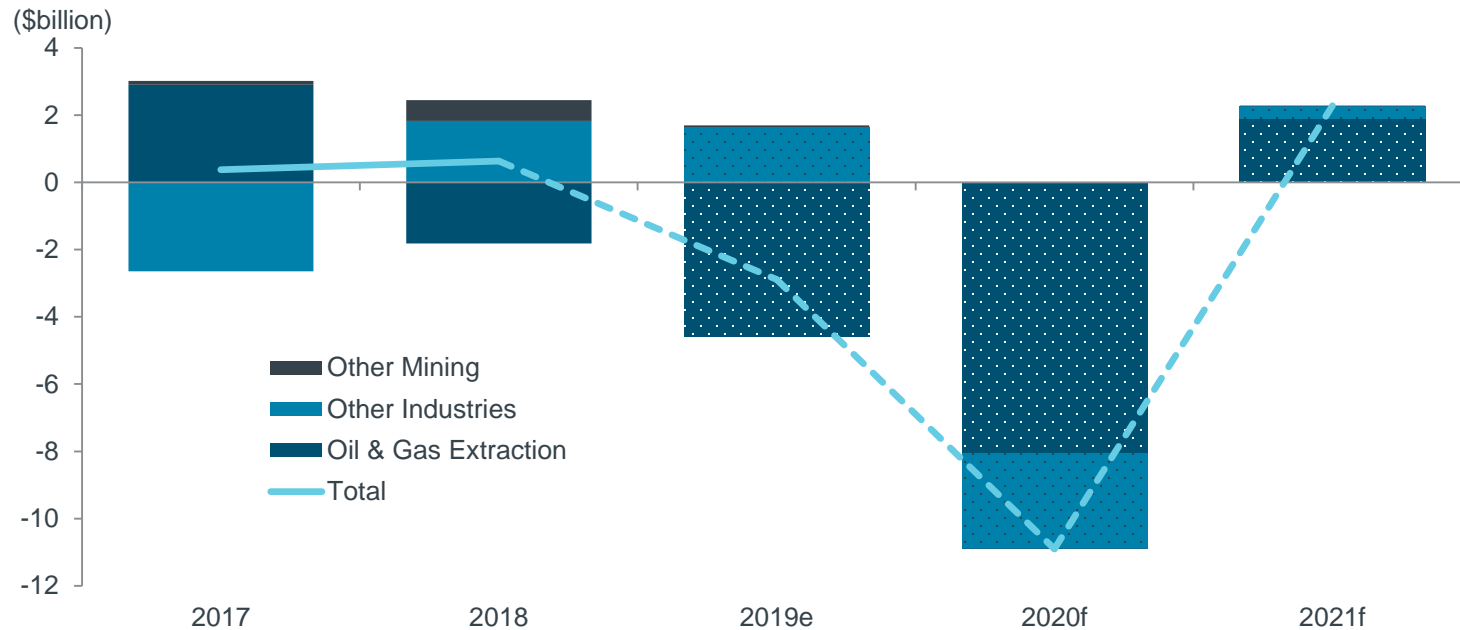
## Alberta's nominal oil and gas investment and crude oil production



Source: Statistics Canada, Alberta Treasury Board and Finance, 2020-21 First Quarter Fiscal and Economic Update; e-estimate, f-forecast

# Non-energy investment to lag in the recovery

## Change in private non-residential investment in Alberta

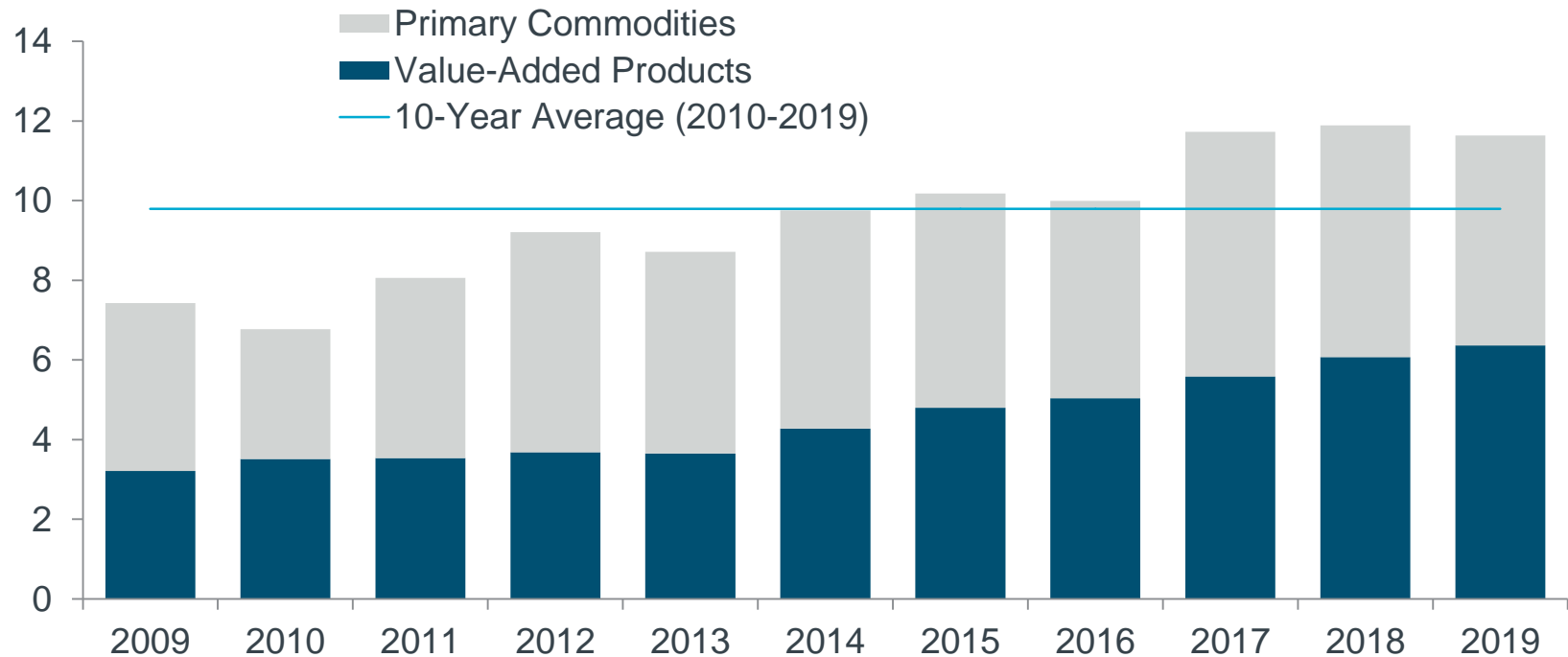


Source: Alberta Treasury Board and Finance, Q1 Fiscal Update, f-forecast

# Value-added exports a source of growth

## Alberta agri-foods exports

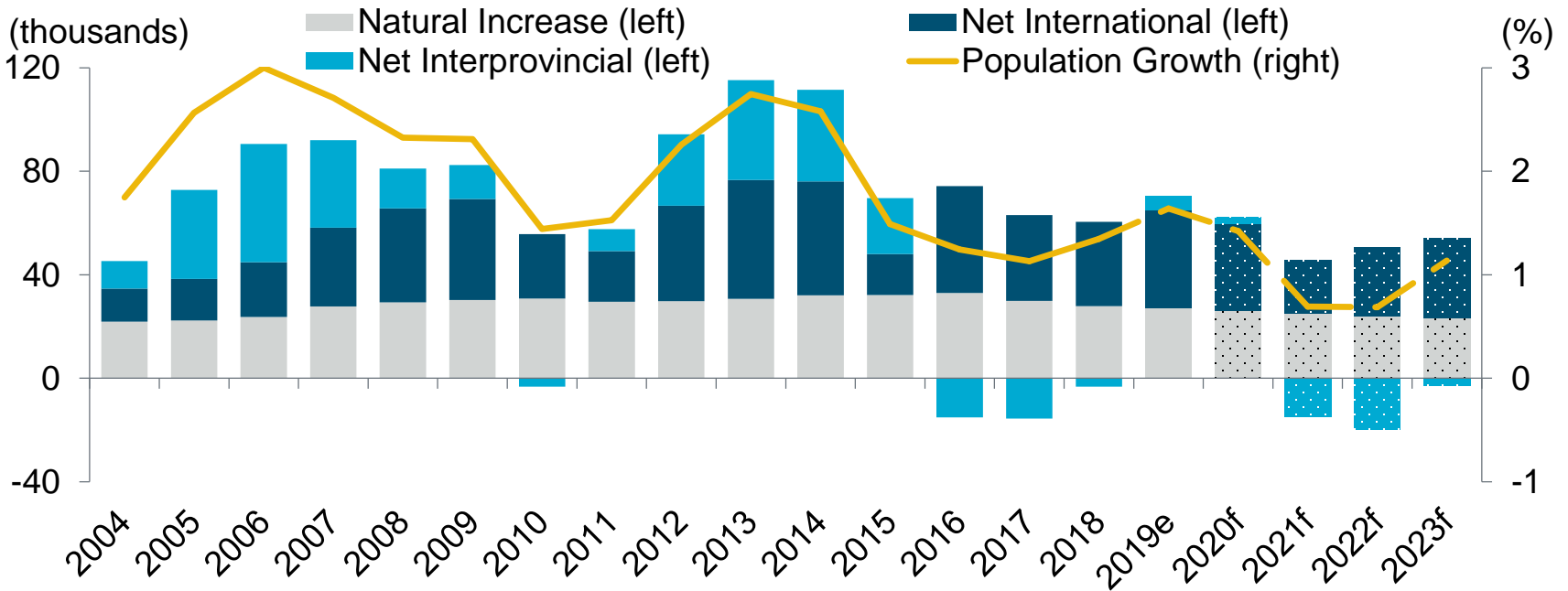
(\$billions)



Source: Statistics Canada, Alberta Agriculture and Forestry

# Population growth to pick up after slowing in the short-term

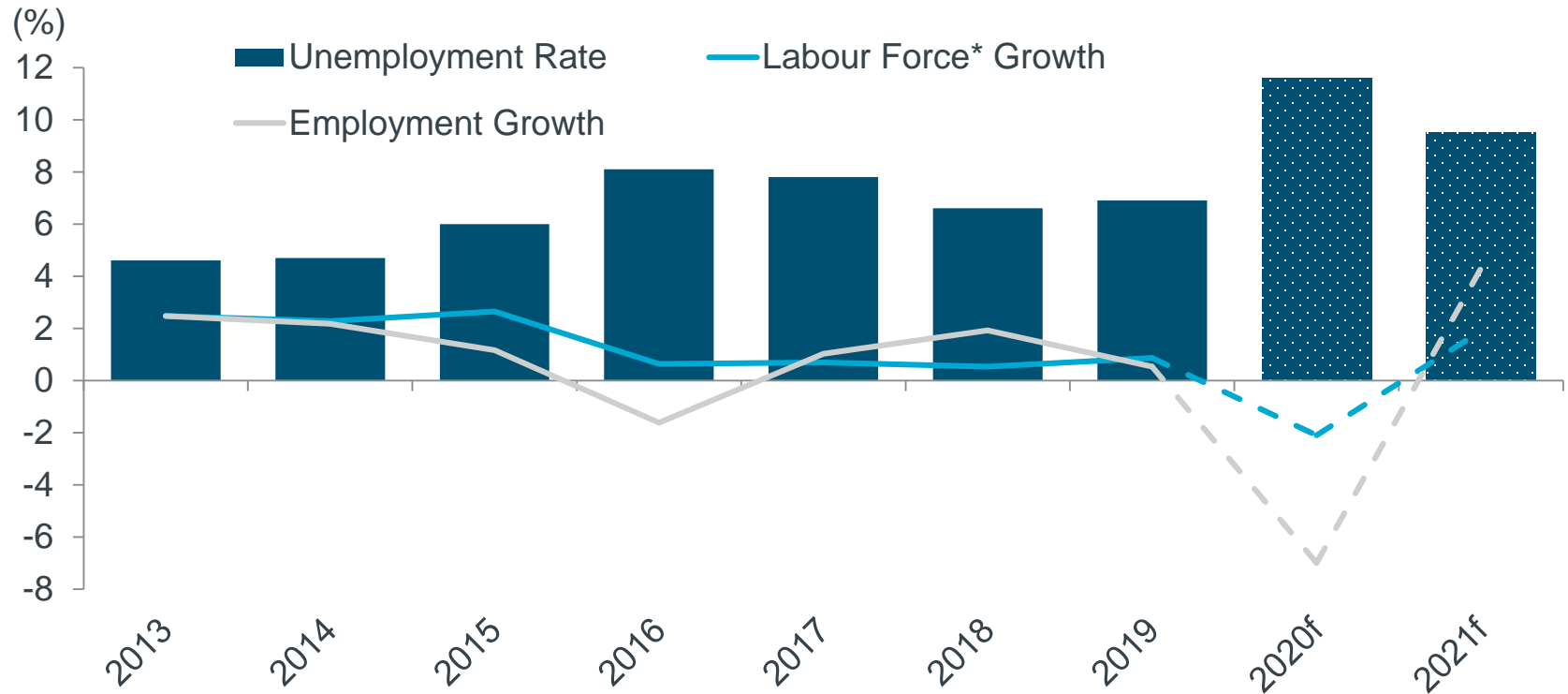
## Annual change in the Alberta population by component



Source: Statistics Canada, Alberta Treasury Board and Finance, 2020-21 First Quarter Fiscal and Economic Update; e-estimate, f-forecast

# Unemployment rate to ease gradually

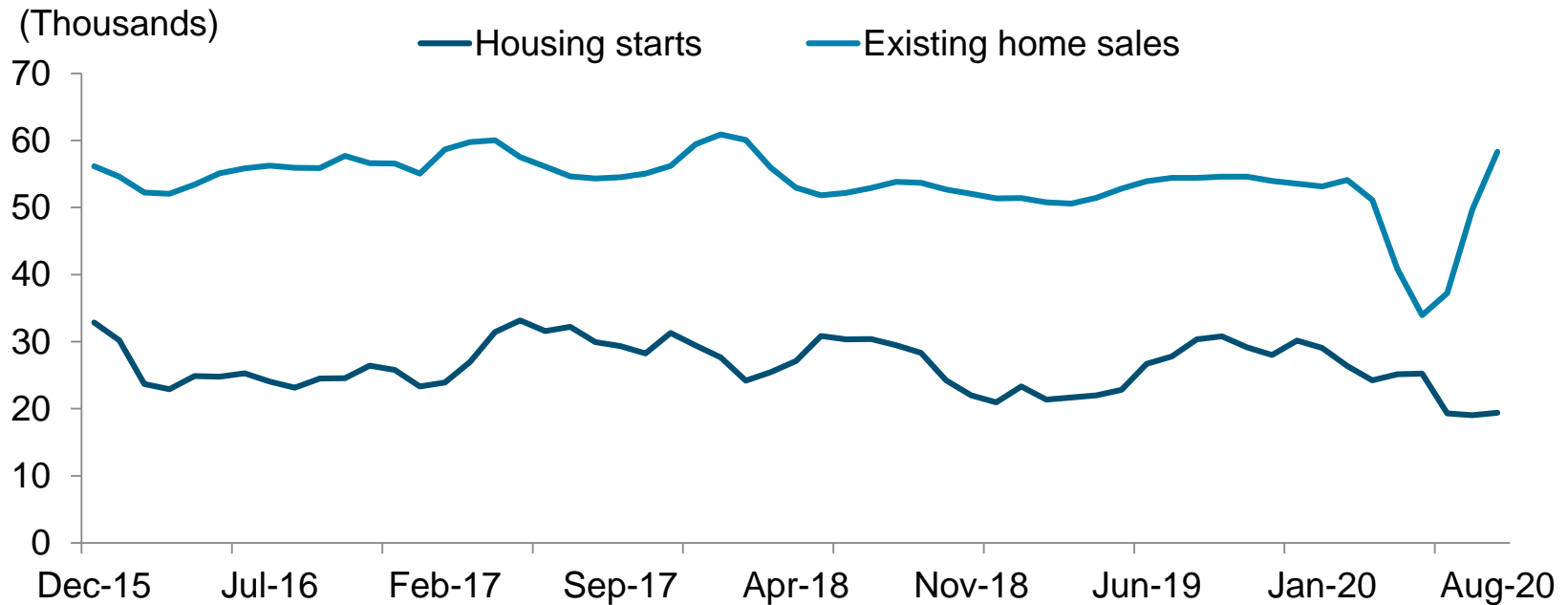
## Labour market indicators



Source: Statistics Canada, Alberta Treasury Board and Finance, 2020-21 First Quarter Fiscal and Economic Update; e-estimate, f-forecast  
\* The number of people working or looking for work

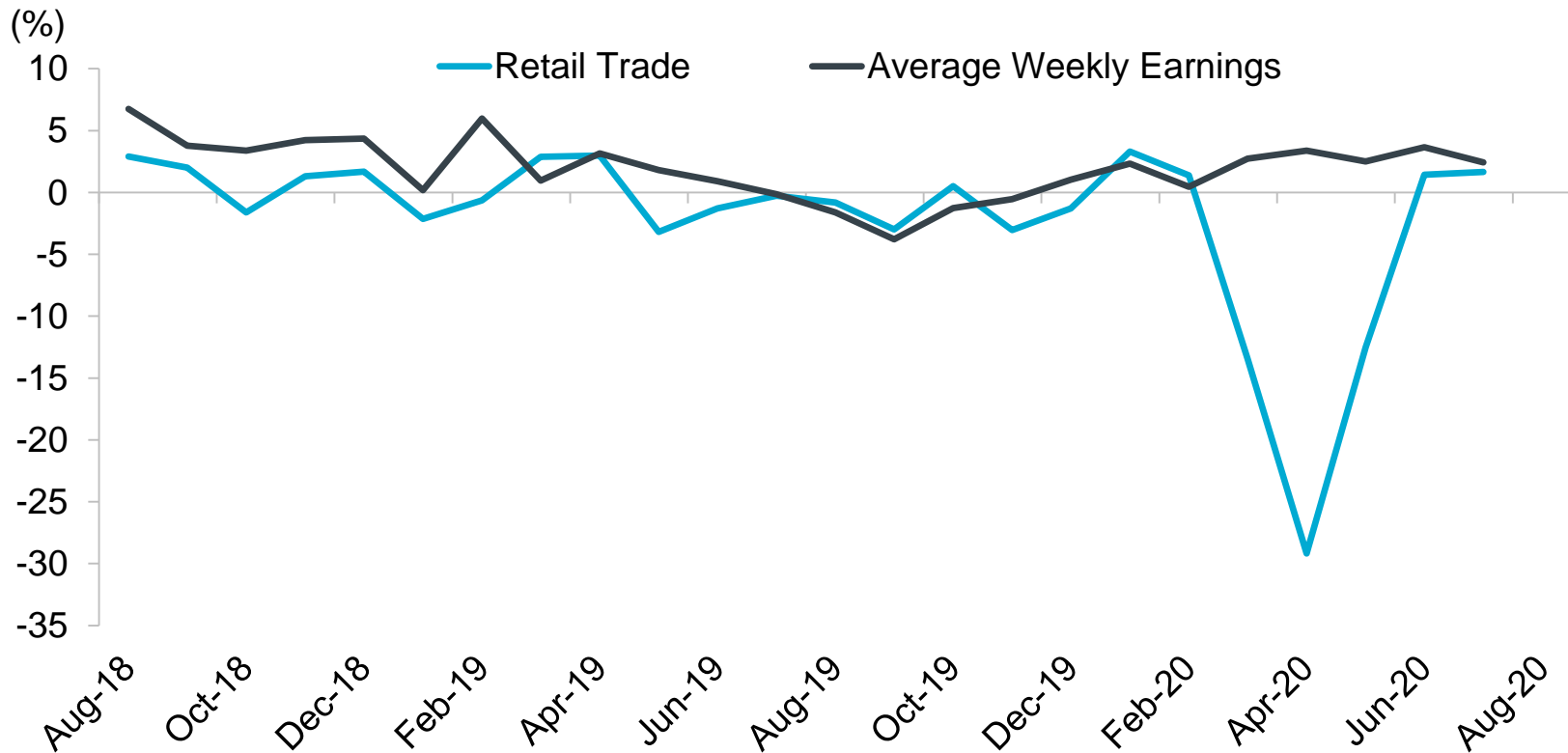
# Housing activity resilient even during the pandemic

## Annualized Alberta housing start and existing home sales\*



# Retail spending leads recovery

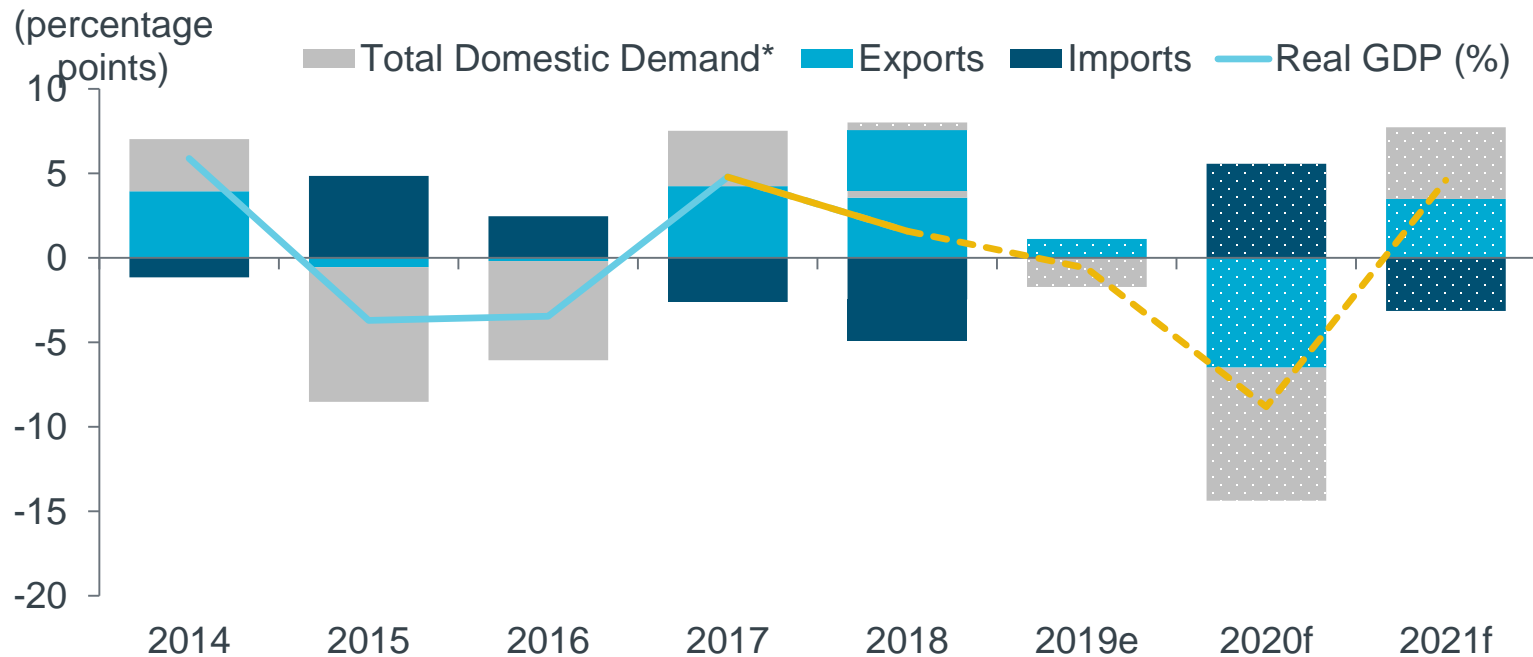
## Annual growth in retail sales and average weekly earnings



Source: Statistics Canada

# Consumption to fuel growth in domestic demand

## Contribution to growth in Alberta real GDP by expenditure



Source: Statistics Canada, Alberta Treasury Board and Finance, 2020-21 First Quarter Fiscal and Economic Update; e-estimate, f-forecast  
\* Includes total household, business, and government spending



# Assumptions

## Energy and exchange rate assumptions

	2017-18	2018-19	2019-20	2020-21	
	Actual	Actual	Actual	Budget	Q1
WTI Oil (US\$/bbl)	53.69	62.77	54.85	58	35.60
Light-Heavy Differential (US\$/bbl)	14.40	23.31	14.82	19.10	12.50
Natural Gas (Cdn\$/GJ)	1.82	1.34	1.39	1.70	1.90
Exchange Rate (US¢/Cdn\$)	78.0	76.3	75.2	76.5	73.0

## Economic assumptions

	2017	2018	2019*	2020*		2021*	
				Budget	Q1	Budget	Q1
Real GDP (% change)	4.8	1.6	-0.6	2.5	-8.8	2.8	4.6
Nominal GDP (% change)	9.2	3.8	0.6	2.8	-13.9	5.9	6.3
Employment (% change)	1.0	1.9	0.5	1.4	-7.0	2.1	4.3
Unemployment Rate (%)	7.8	6.6	6.9	6.7	11.6	6.0	9.5

Source: Alberta Treasury Board and Finance *Budget 2020*, \*2020-21 First Quarter Fiscal Update and Economic Statement

# Assumptions

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## Fiscal Sensitivities to Key Assumptions in Budget, 2020-21<sup>(1)</sup>

(millions of dollars)	Change	Net Impact (2020 – 2021)
Oil Price (WTI US\$/bbl)	-\$1.00	-355
Light-Heavy Differential (US\$/bbl)	+\$1.00	-325
Natural Gas Price (Cdn\$/GJ)	-10 Cents	-10
Exchange Rate (US¢/Cdn\$)	+1 cent	-255
Interest Rates	+1%	-235
Primary Household Income	-1 %	-220

(1) Sensitivities are based on current assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land lease sales.

# Fiscal plan update

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# Updated fiscal projections

<i>(millions of dollars)</i>	2019-20	2020-21		Change from Budget
	Actual	Budget	Q1 Forecast	
Revenue	46,224	49,996	38,449	(11,547)
Expense	58,376	57,306	62,608	5,302
Budget Surplus / (Deficit)	(12,152)	(7,310)	(24,159)	(16,849)
CoVid / recovery expenses	218	500	4,291	3,791
Disaster / emergency assist.	1,356	750	750	0
Crude-by-rail	866	0	1,250	1,250
Other expenses	55,936	56,056	56,317	261

# Fiscal strategy

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- Bring cost of government down
  - Reduce Alberta's per capita spending to bring it in line with other large provinces
  - Maintain (normal) operating spending at current levels
- Attract business and diversify with low corporate taxes
  - Corporate income tax rate dropped to 8%
  - Broad based tax reductions are more effective than targeted tax measures
- Recovery measures with long-term impact
  - Emphasis on infrastructure investment to benefit economy

# Borrowing plan

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# Updated borrowing requirements

(millions of dollars)

	2019-20	2020-21		Change from Budget
	Actual	Budget	Q1 Forecast	
Government	13,555	12,098	24,003	11,905
Provincial corporations	495	2,616	3,075	459
Govt. business entities	990	1,077	1,475	398
<b>Total requirements</b>	<b>15,040</b>	<b>15,791</b>	<b>28,553</b>	<b>12,762</b>

## Sources

Money market (net change)	5,711	(1,500)	(1,500)	0
Public private partnerships	159	151	107	(44)
<b>Term debt</b>	<b>9,170</b>	<b>17,140</b>	<b>29,946</b>	<b>12,806</b>

# Term debt issued to date

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## Issues by type (C\$ millions)

Public benchmarks (CAD, EUR, USD)	15,710
Carve-outs (CAD)	1,591
Private placements (AUD, EUR, NOK)	463
Ultra-long bonds (CAD)	638
Total debt issued	<u>18,402</u>

- Carve-outs
  - Large order protocol suspended briefly to allow for carve-outs placed without public float
- Private placements
  - Foreign-denominated as well as CAD ultra-long issues



# Borrowing strategy

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- Target issuance of 60% domestic and 40% international
  - Actual borrowing will reflect market conditions
- Ensure domestic liquidity
  - Maintain larger domestic benchmark sized issues (\$3-\$5B)
  - Limited domestic MTN issuance
  - Promote secondary market liquidity
- Control domestic supply
  - Target issuance of 40% in foreign currency markets
  - Frequent US\$ benchmarks
  - Arbitrage driven global currency issues

# Borrowing platforms

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## Term Debt

- Domestic C\$ Platform for benchmark and MTN issuance
- Australian Medium Term Note program
- Global US\$ Bonds
  - (SEC Registered)
- Global Multi-Currency Medium Term Note
  - (Rule 144A/Reg. S)(3)

## Short Term

- Domestic C\$ (short-term) Promissory Note
- Domestic T-Bill Program
- US\$ Commercial Paper program

# Strong liquidity position

## Short-term Borrowing

CAD promissory notes	O/N – 364 days	No limit
Domestic treasury bills	O/N – 364 days	No limit
US commercial paper	O/N – 270 days	US\$12 billion

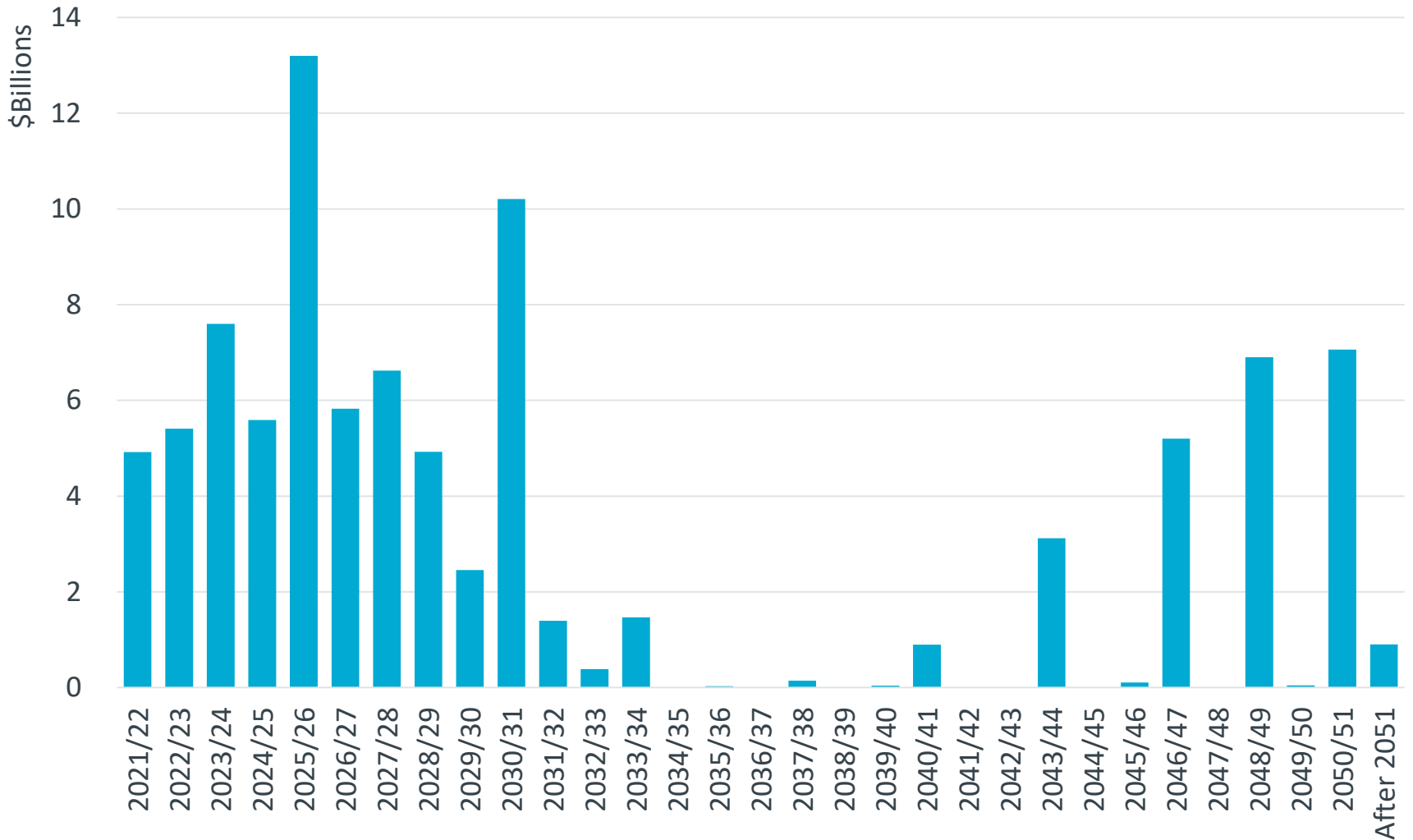
## Cash reserves

Dedicated cash reserve	\$4 billion	GoC, Provies
3 month cash requirement	\$9 billion	GoC, Provies, BAs

# Credit ratings

Ratings agency	Long-term rating	Short-term rating
<b>Moody's</b> October 9, 2020	<b>Aa3</b> (outlook stable)	<b>P-1</b>
<b>Standard and Poor's</b> May 28, 2020	<b>A+</b> (outlook negative)	<b>A-1</b>
<b>Fitch Ratings</b> June 30, 2020	<b>AA-</b> (outlook negative)	<b>F1+</b>
<b>DBRS Morningstar</b> March 19, 2020	<b>AA (low)</b> (negative trend)	<b>R-1 (mid)</b> (stable trend)

# Maturity schedule



# Contact information

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## Websites

Investor Relations: [investor.alberta.ca](https://investor.alberta.ca)

COVID-19 Updates: [www.alberta.ca/coronavirus-info-for-albertans.aspx](https://www.alberta.ca/coronavirus-info-for-albertans.aspx)

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