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DBRS Confirms Province of Alberta at AA (high) and R-1 (high), Changes Trend on Long-Term Ratings to Negative

Web: DBRS Confirms Prov. of Alberta at AA (high), R-1 (high), Changes Long-Term Ratings Trend to Negative
Bloomberg: DBRS Confirms Alberta at AA (high), Negative Trend
Industry Group: Public Finance
Sub-Industry: Provinces and Municipalities
Region: Canada

DBRS Limited (DBRS) has today confirmed the Issuer Rating and Long-Term Debt rating of the Province of Alberta (the Province) at AA (high), along with its Short-Term Debt rating at R-1 (high). The trend on the long-term ratings has been changed to Negative from Stable, while the trend on the short-term rating remains unchanged. DBRS has also confirmed the Long-Term Debt Obligations of Alberta Capital Finance Authority at AA (high) and has changed the trend to Negative from Stable. The Negative trend reflects the fact that Alberta continues to erode its low debt advantage through sustained deficit spending. Moreover, the Province has yet to provide a credible plan to restore balance. While Alberta's debt burden is low and the economy is showing signs of recovery, the fiscal plan demonstrates a lack of willingness to contain debt growth, which is likely to lead to a one-notch downgrade of the long-term ratings.

Based on Alberta's recently released public accounts, a deficit of $10.8 billion was recorded in 2016-17. On a DBRS-adjusted basis, after recognizing capital expenditures as incurred and excluding the non-recurring impact of the wildfires, this equates to a shortfall of $12.8 billion. Though somewhat better than expected because of lower-than-anticipated capital spending, the deficit was sizable at 4.2% of gross domestic product (GDP). Furthermore, a meaningful improvement in non-renewable resource revenues relative to expectations did not translate into meaningful improvement in the bottom line, as would have been anticipated at the time the Stable ratings trend was restored in April 2016. As a result, DBRS-adjusted debt rose by $14.1 billion, which includes $1.1 billion in coal phase-out liabilities that were not foreseen at the time of the budget. Consequently, the debt-to-GDP ratio climbed to 15.4%, up from 10.3% in 2015-16.

Alberta's economy appears to have turned a corner and has been supported by the modest recovery in oil prices, which, along with major projects coming to completion, has contributed to a pickup in oil and gas activity. At the same time, government capital spending and the reconstruction of Fort McMurray following last year's wildfires will further help to stimulate growth. The Province is budgeting for real GDP growth of 2.6% in 2017 followed by 2.2% in 2018. While the outlook appears reasonable in relation to the current private-sector consensus, considerable downside risks remain, including the outlook for global commodity prices and the threat of protectionist U.S. trade policies.

Despite a slowly improving economic outlook, the 2017-18 budget fails to demonstrate meaningful action by the government to address its substantial budgetary gap. The budget forecasts a deficit of $10.3 billion in 2017-18, or $13.6 billion on a DBRS-adjusted basis. This equates to 4.2% of GDP – the largest deficit among all provinces. The government has articulated a desire to return to balance by 2024. However, given their reluctance to use additional tax room and the continued focus on maintaining services and funding growth, this objective is highly uncertain since it relies on a sustained recovery in economic activity buoyed by higher oil prices. Based on the Province's medium-term plan, continuing budget deficits and debt-financed capital investment are projected to boost the debt burden to almost 24.0% of GDP by 2019-20. DBRS believes that the debt burden could exceed this level given the uncertain outlook for oil prices and Alberta's track record of weak fiscal discipline.

In the absence of a sustained improvement in fiscal resolve, a downgrade of the long-term ratings by one notch within the next year is likely.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link to the right under Related Research or by contacting us at info@dbrs.com.

The principal methodologies are Rating Canadian Provincial Governments and DBRS Criteria: Guarantees and Other Forms of Support, which can be found on dbrs.com under Methodologies.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.

The rated entity or its related entities did participate in the rating process. DBRS had access to the accounts and other relevant internal documents of the rated entity or its related entities.

Issuer	Debt Rated	Rating Action	Rating	Trend
Alberta, Province of	Issuer Rating	Trend Change	AA (high)	Negative
Alberta, Province of	Long-Term Debt	Trend Change	AA (high)	Negative
Alberta, Province of	Short-Term Debt	Confirmed	R-1 (high)	Stable
Alberta Capital Finance Authority	Long-Term Obligations (bsd on Prov. Alta)	Trend Change	AA (high)	Negative

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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