Scotiabank

GLOBAL ECONOMICS

FISCAL PULSE

February 29, 2024

Contributors

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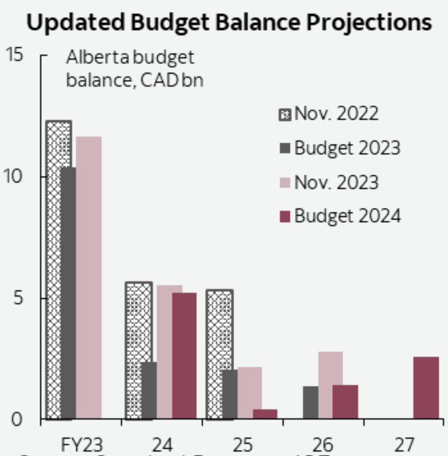
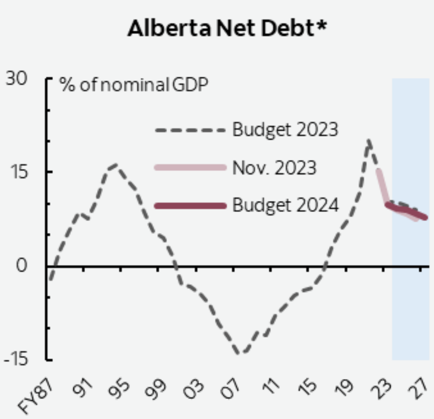
Chart 1



Sources: Scotiabank Economics, AB Treasury Board & Finance.

Chart 2



* From Finance Canada Fiscal Reference Tables.
Sources: Scotiabank Economics, Finance Canada, AB Treasury Board & Finance.

Alberta: 2024–25 Budget

STAMPEDE OF SPENDING CHIPS AWAY AT SURPLUSES

- **Budget balances: +$5.2 bn (1.2% of nominal GDP) in FY24, +$0.4 bn (0.1%) in FY25, +$1.4 bn (0.3%) in FY26, and +$2.6 bn (0.5%) in FY27—a slightly weaker path than the surpluses of over $2 bn through FY26 projected in mid-year fiscal update (chart 1).**
- **Net debt: expected to remain flat at 9.1% of nominal output in FY25 before edging down to 7.7% by FY27 (chart 2).**
- **Economic forecasts: WTI price projections nudged down to US$74/bbl in FY25 versus the mid-year update, remaining steady through FY26 and FY27; nominal GDP forecast at +3.5% in 2024, +6.1% in 2025, +5.5% in 2026, and +4.9% in 2027. Population growth at 3.7% in 2024, 2.3% in 2025, 2.0% in 2026, and 1.6% in 2027.**
- **Program spending lifted by around $2 bn each year through FY25–FY26 relative to the mid-year update, with grow rates still below the bounds of the speed of population growth plus inflation. New spending appears properly targeted and could prove beneficial to the province's long-run growth.**
- **Infrastructure spending: FY24 outlays revised down by $7.7 bn to $7.1 bn versus the mid-year update—still a 25.6% jump from the previous fiscal year; $8.3 bn planned each year through FY25 to FY27.**
- **Borrowing program: $13.8 bn in FY24, $19.8 bn in FY25, $4.4 bn in FY26, $8.0 bn in FY27; for FY24–26, updated borrowing requirements represent a total increase of over $10.2 bn from last year's budget due to advance borrowing.**
- **With a notably optimistic view of the province's economic outlook, particularly in the oil and gas sector, Alberta's Budget 2024 unlocks funding to bolster the province's essential services. The updated plan strikes a balance between preserving Alberta's fiscal advantages and investing in the province's growth.**

OUR TAKE

In light of a less favourable commodity outlook, Alberta's once-massive budget surplus is feeling the pinch as heightened spending takes centre stage. The FY24 surplus is expected to come in slightly lower but still at a hefty $5.2 bn (1.2% of nominal GDP). The FY25–26 surplus projections are slimmer than anticipated in the mid-year update owing to new spending initiatives and enhanced contingencies. The province expects to comfortably remain in the black by keeping spending growth well below strong revenue gains over the medium-term with a surplus of $2.6 bn (0.5% of GDP) projected in FY27. The Budget includes a sizable contingency of $2 bn each year from FY25 to FY27.

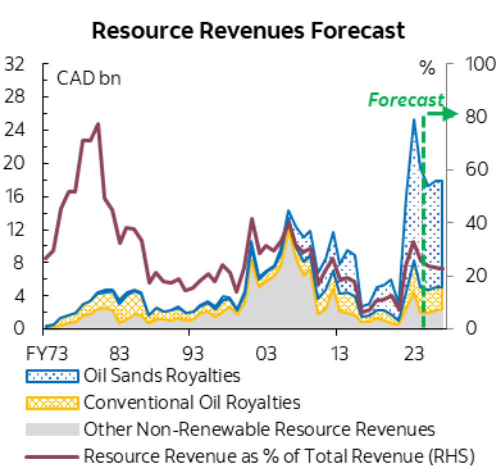
A series of upward revisions on the revenue side puts the province on a better trajectory, while anticipating stronger headwinds in the near term. The government forecast a $2.9 bn improvement in its FY24 bottom line relative to the last budget plan due to increases in personal and corporate income tax revenue, along with $1.8 bn more in bitumen royalties. Revenue is nevertheless projected to decline in FY25 by -2.8%, reflecting softer energy prices and a slower economy, mainly driven by the -10.8% contraction in natural resource revenue. Nevertheless, natural resource revenues, especially from oil sands royalties, remain pivotal to Alberta's coffer, projected to contribute around 23% of the province's revenue over the planning horizon (chart 3). With a narrower light-heavy differential expected, revenue from bitumen royalties is forecasted to grow over the next two years, contrary to declines anticipated previously. Over the medium term, the province remains optimistic and expects revenue to pick up rapidly by around 3.5% each year for the next two years.

Economic assumptions underpinning the current plan, while prudently factoring in oil price risks, exceed private-sector growth averages, exposing the plan to potential downside risks. In the baseline scenario, WTI is assumed to average US$74/bbl each year over the planning horizon, well below the average of private-sector forecasts and the current market pricing for near-term prices (chart 4). Scotiabank GBM shares the cautious view on commodity prices, forecasting near-term pressure from macro headwinds to constrain WTI prices in 2024, with weaker medium-term forecasts reflecting softer demand. The government presented an alternative scenario where WTI prices dip below US$60/bbl in FY25 and remain subdued under US$67/bbl for the following two fiscal years. This alternative forecast suggests a potential shift back to deficits, with an estimated impact ranging from $7–8 bn annually on the province's bottom line—an unlikely outcome in the prevailing demand-supply dynamic that keeps oil prices largely range-bound. The government foresees the province's economy outpacing last year's growth, fueled by increased business investments in both the energy and non-energy sectors. Projections indicate a real growth rate of 2.9% for the current year—1.6 ppts higher than the private-sector average—followed by an acceleration to 3.3% next year with sustained momentum thereafter.

The updated fiscal plan lifted program spending by around $2 bn each year through FY25–FY26 relative to the mid-year update, with increased outlays targeting essential services like health and education while still maintaining a surplus in the province's budget. Excluding contingency and disaster assistance, program spending is projected to grow by 5.4% in FY25 (chart 5)—within the bounds of the speed of population growth (+3.7% in 2024) plus inflation (+2.5). Spending rises across key areas, notably in healthcare, as the government set aside $1.4 bn (+5.4%) more in operating expenses to overhaul the province's health system. The government also plans a +5.1% rise in education operating expenses for FY25 to address enrollment growth, hire new staff and provide direct support to schools. Additional increases target supporting vulnerable populations, enhancing affordability (while remaining competitive compared to peers), and addressing rising costs due to still-high inflation. The budget also tackles risks surrounding the costs of climate change—which proved substantial in the ongoing fiscal year, amounting to $2.9 bn due to expenses related to wildfires, droughts and floods. The updated plan allocated $2 bn each year over the planning horizon in preparation for disasters and emergencies, an increase from the previous plan's $1.5 bn.

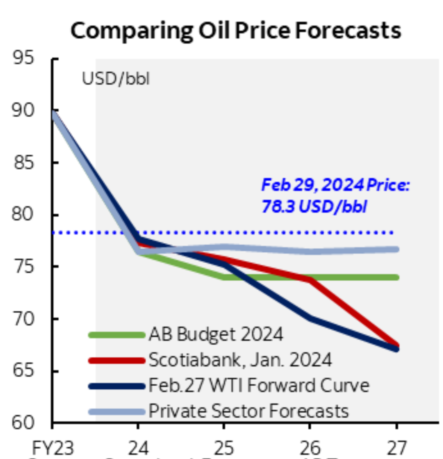
We are encouraged by continued trends and new policy measures that contribute to the diversification of Alberta's economy and the expansion of the province's revenue base amid the transition to a sustainable future. Budget 2024 underscores growth in investments beyond the oil and gas sector, expected to grow by 11% in nominal terms this year and averaging around 10% per year from 2025 to 2027. This year's plan provided more detail on the Alberta Carbon Capture Incentive Program (ACCIP)—an incentive program expected to help attract $35 bn in capital investment over the next decade. The budget also announces the implementation of the Alberta is Calling Attraction Bonus, offering a $5,000 refundable tax credit to eligible individuals who relocate to Alberta after April 2025, aiming at attracting skilled labour needed for the diversification of the economy.

Chart 3



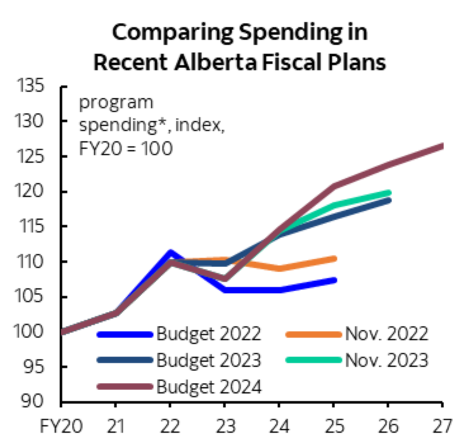
Sources: Scotiabank Economics, AB Treasury Board & Finance.

Chart 4



Sources: Scotiabank Economics, AB Treasury Board & Finance, Bloomberg.

Chart 5

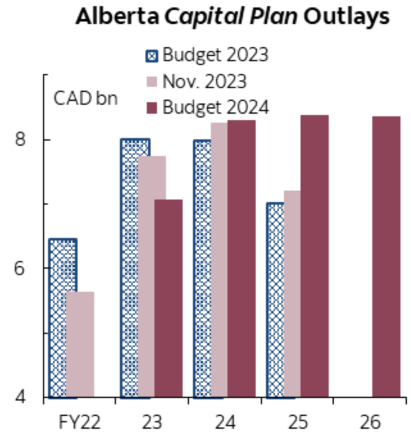


* Excluding contingency and disaster and emergency assistance. Sources: Scotiabank Economics, AB Treasury Board & Finance.

Stepped-up Infrastructure spending should help support the province's growth and diversification. Relative to the 2023 budget plan, capital expenditures have been increased by $2 bn (chart 6). Outlays under the Capital Plan were set to rise by 17% to $8.3 bn in FY25 and remain elevated through FY27. Projects targeted under the province's Capital Plan include municipal infrastructure, healthcare system, education facilities, and various construction activities deemed likely to stimulate economic growth and local job creation.

Alberta's balance sheet remains in great shape. As a share of output, net debt forecasts remain on a downward trajectory, with a terminal rate of 7.7 % of nominal GDP in FY27. Debt servicing costs remain affordable, projected to peak at 4.6% and stabilize at about 4% of total revenues throughout the forecast horizon. Based on the fiscal framework set up in last year's budget, the government allocates surplus cash to repay taxpayer-supported debt as it matures and invest the rest. After the large repayment of $13.3 bn made in FY23, $3.2 bn is expected to be repaid in FY24. The remainder goes into the new Alberta Fund for future debt repayment, deposits into the Heritage Fund or funding one-time spending initiatives.

Chart 6



Sources: Scotiabank Economics, AB Treasury Board & Finance.

Borrowing requirement projections were revised higher than anticipated in the last budget as the government opted to borrow in advance for cost-effective refinancing of large bond maturities. The government now expects to borrow $13.8 bn in FY24, $19.8 bn in FY25, $4.4 bn in FY26, and $8.0 bn in FY27. For FY24–26, new figures represent a total increase of over $10.2 bn from last year's budget due to a large amount of pre-borrowing planned in FY25 to prepare major debt maturities in 2025–26.

Updated Fiscal Forecast
$ billions except where noted

	FY24		FY25		FY26		FY27
	Nov. '23	Feb. '24	Nov. '23	Feb. '24	Nov. '23	Feb. '24	Feb. '24
Total Revenue	**74.3**	**75.6**	**73.2**	**73.5**	**75.0**	**76.1**	**78.8**
Own-Source	61.6	63.0	60.4	60.9	61.7	62.9	65.2
PIT	15.0	15.2	15.4	15.6	16.5	16.5	17.5
CIT	6.8	7.2	6.9	7.0	7.1	7.1	7.3
Nat. Resources	19.7	19.4	17.6	17.3	17.4	17.8	17.9
Other	20.1	21.1	20.6	21.0	20.8	21.5	22.4
Fed. Transfers	12.7	12.7	12.7	12.6	13.2	13.2	13.6
Total Expenditure*	**67.4**	**67.4**	**69.5**	**71.2**	**70.6**	**72.6**	**74.2**
Programs**	64.3	64.3	66.3	67.8	67.2	69.5	71.0
Health	27.1	27.0	28.0	28.4	28.2	29.0	29.9
Education	16.1	16.0	16.3	17.0	16.6	17.3	17.5
Other	21.1	21.3	21.9	22.5	22.4	23.2	23.5
Debt Service	3.2	3.1	3.3	3.4	3.4	3.1	3.2
Disaster assistance	1	**2.9**	—	—	—	—	—
Contingency	**0.1**	—	**1.5**	**2.0**	**1.5**	**2.0**	**2.0**
Balance	**5.5**	**5.2**	**2.1**	**0.4**	**2.8**	**1.4**	**2.6**
% of GDP	*1.2*	*1.2*	*0.5*	*0.1*	*0.6*	*0.3*	*0.5*
Net Debt	**40.8**	**40.9**	**40.0**	**41.6**	**37.1**	**41.2**	**39.2**
% of GDP	*9.0*	*9.3*	*8.5*	*9.1*	*7.5*	*8.5*	*7.7*
Debt Service							
% of Revenue	*4.2*	*4.1*	*4.4*	*4.6*	*4.5*	*4.1*	*4.0*

* Net of contingency. ** Net of pension provisions and excluding disaster and emergency assistance
Sources: Scotiabank Economics, AB Treasury Board & Finance.