

Alberta: 2021–22 Budget

STICKING TO THE PLAN

- **Budget balance forecasts:** **-\$18.2 bn** (-5.4% of nominal GDP) in FY22, **-\$11 bn** (-3%) in FY23, **-\$8 bn** (-2%) in FY24, all slightly wider than expected in the November 2020 mid-year fiscal update (chart 1).
- **Net debt:** expected to climb steadily from 24.5% of provincial output in FY22 to 26.6% by FY24 (chart 2).
- **Real GDP growth:** -7.8% in 2020, +4.8% this year, averages 3.4% through 2024; economy expected to return to its pre-pandemic peak in 2022— one year earlier than forecast in November.
- **Borrowing requirements:** \$24 bn in FY22, \$18.7 bn in FY23, \$12.9 bn in FY24; FY22–23 projections are a cumulative \$2.6 bn higher than anticipated in the November Update.
- **Capital spending:** edges lower to \$8.1 bn in FY22, averages \$6.3 bn in FY23–24; FY22–23 total increased by \$1.4 bn versus February budget.
- **Fiscal anchors are unchanged from November.** Alberta aims to bring per-capita spending in line with the provincial average and keep net debt-to-GDP ratio below 30%; path to balance to be outlined post- pandemic.

OUR TAKE

Budget stays the course. Anchors outlined late last year—per-capita spending in line with the provincial mean, a net debt-to-GDP ratio below 30%, and a path to balance to be outlined post- pandemic—will continue to guide provincial fiscal policy. Increased expenditures in health care and strategic infrastructure contribute to incremental changes in projected budget balances and debt levels, but are consistent with policy priorities identified by the Province in November.

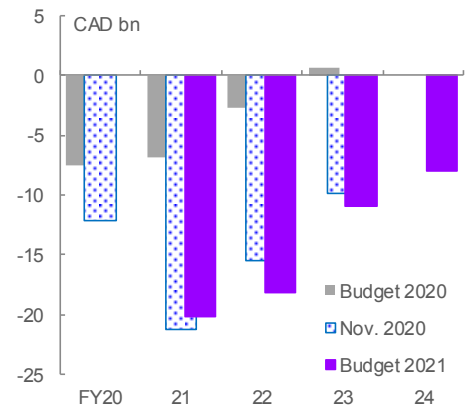
Despite an improved economic outlook, Alberta continues to face significant challenges. The record output contraction estimated to have occurred last year and second-highest ever recorded deficit in FY21 speak to the outsized impact of the pandemic and related energy price plunge on the province’s economy. Sizeable deficits remain on the horizon and the forecast return to pre-pandemic output levels remains at least a year away. In the base case scenario, finally recouping the losses incurred since the commodity price plunge that began in 2014 would still take place in 2023 (chart 3).

However, conservative oil price assumptions leave considerable upside potential for provincial economic growth and budget balances. At the time of the last update, the key WTI benchmark was hovering near 45 USD/bbl; it has since climbed by almost 20 USD (read our analysis [here](#)), but the projections underlying *Budget* are virtually unchanged from November (chart 4, p.2). FY22–23 revenue projections are likewise very close to November forecasts. This is prudent planning given the extent to which price volatility has upended Alberta’s heavily

CONTACTS

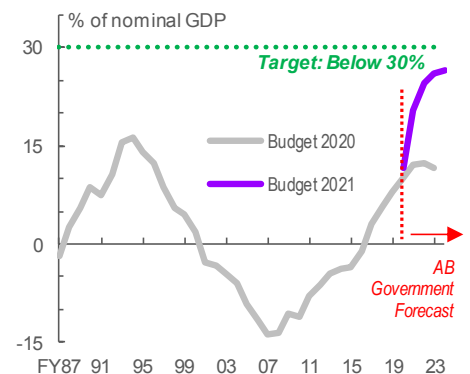
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Chart 1 Alberta Budget Balances



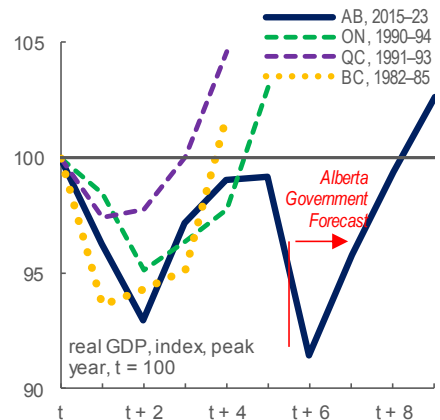
Sources: Scotiabank Economics, Alberta Treasury Board and Finance.

Chart 2 Alberta Net Debt*



* Based on Finance Canada Fiscal Reference Tables.
Sources: Scotiabank Economics, Finance Canada, Alberta Treasury Board & Finance.

Chart 3 Alberta's Nine-Year Downturn



Sources: Scotiabank Economics, Statistics Canada, Alberta Treasury Board and Finance.

energy-oriented revenue base in the past, but should a stronger-than-anticipated recovery materialize, the use of any windfalls must be deliberately and methodically considered.

Spending control continues to underpin financial planning, but the deepest cuts have been delayed. The previous update increased program expenses by more than 7% in FY21, then anticipated reductions of 8% and 1.6% in FY22 and FY23, respectively, as pandemic support was wound down. *Budget* builds a far more modest 1.6% decrease into FY22, with a 6.5% cut to follow in FY23. Much of the more muted drop penciled in for FY22 reflects new spending to combat COVID-19's pressures on the health care system. The FY22–23 cuts would not be the largest in Alberta history (chart 5) but will be challenging if price and population gains materialize over the medium-term as anticipated. Any revenue upside could reduce the need for outer-year spending reductions.

Alberta's fiscal anchors are still appropriate. The 30% upper limit on the debt-to-GDP ratio maintains its pre-pandemic advantage versus other provinces, provides flexibility to address COVID-19-related costs and further bolster the province's recovery, and also signals discipline to creditors. Aligning per-person spending with the provincial average, though challenging as noted, can generate long-term benefits to the extent that it facilitates more efficient delivery of critical government services as intended. Balancing the books and paying down debt are prudent once the pandemic has passed, as is the Province's openness to review its revenue structure and tax system once post-COVID-19 fiscal dynamics become clearer.

Economic diversification remains Alberta's holy grail, but may require a lengthy quest. Ultimately, without further broadening of the revenue base away from natural resources, government balances will continue to fluctuate with commodity cycles. *Budget* outlines several encouraging initiatives on this front—it allocated \$3.1 bn to its economic recovery and a range of sectoral strategies in FY22—but they will take time to bear fruit. These include: attraction and development of skilled workers in the technology industry, strategies to drive investment in the agricultural sector, efforts to reduce the regulatory burden for FinTech startups, and new funding for tourism. The planned \$1.7 bn increase in FY22 *Capital Plan* outlays (chart 6)—concentrated in municipal infrastructure funding—should also support these objectives.

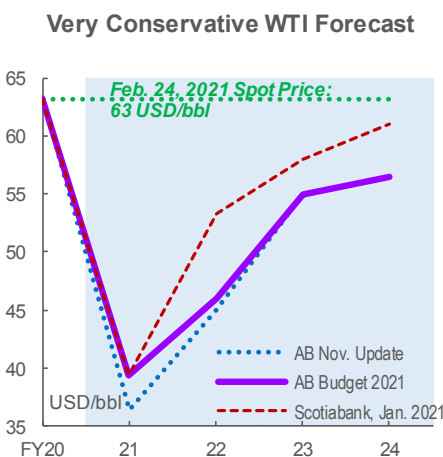
Updated Fiscal Forecast

\$ billions except where noted

	FY21		FY22		FY23	
	Nov.	Bud.	Bud.	Bud.	Bud.	Bud.
Total Revenue	41.4	42.3	43.7	47.4		
Own-Source	30.1	30.9	33.5	37.6		
PIT	10.8	10.9	11.6	12.4		
CIT	2.2	2.2	1.9	2.5		
Natural Resources	1.7	2.0	2.9	4.7		
Other	15.5	15.8	17.1	17.9		
Fed. Transfers	11.3	11.4	10.2	9.9		
CHT	4.8	4.8	5.0	5.1		
CST	1.7	1.8	1.8	1.8		
Other	4.8	4.8	3.4	2.9		
Total Expenditure	62.7	62.5	61.9	58.4		
Programs*	60.3	60.1	59.2	55.3		
Health	20.7	25.2	24.4	23.1		
Education	14.7	14.6	14.9	14.7		
Other	24.9	20.3	19.9	17.5		
Debt Service	2.4	2.4	2.8	3.1		
Balance	-21.3	-20.2	-18.2	-11.0		
% of GDP	-6.9	-6.6	-5.4	-3.0		
Net Debt	63.5	62.5	82.2	94.0		
% of GDP	20.6	20.3	24.5	26.1		
Debt Service						
% of Revenue	5.8	5.6	6.3	6.5		

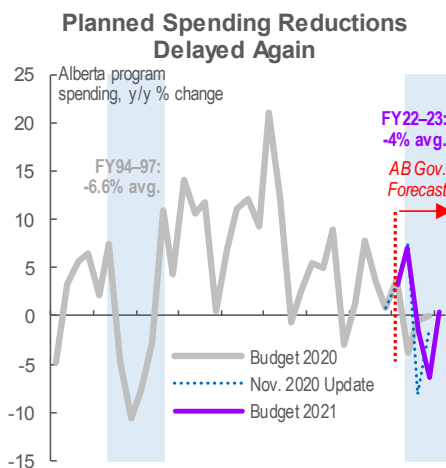
* Net of pension provisions. Sources: Scotiabank Economics, Alberta Treasury Board and Finance.

Chart 4



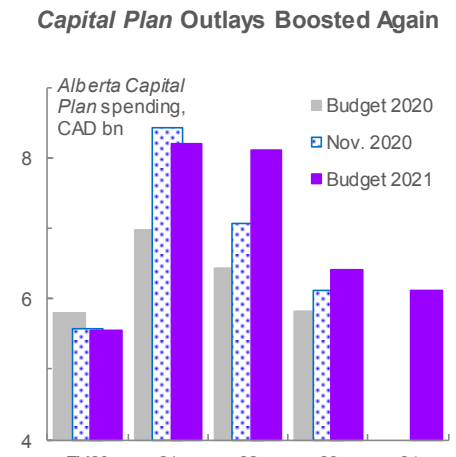
Sources: Scotiabank Economics, Alberta Treasury Board & Finance, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Finance Canada, Alberta Treasury Board & Finance.

Chart 6



Sources: Scotiabank Economics, Alberta Treasury Board and Finance.

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