Scotiabank.

GLOBAL ECONOMICS

FISCAL PULSE

March 1, 2023

Contributors

Laura Gu
Economist
Scotiabank Economics
416.866.4202
laura.gu@scotiabank.com

Alberta: 2023–24 Budget

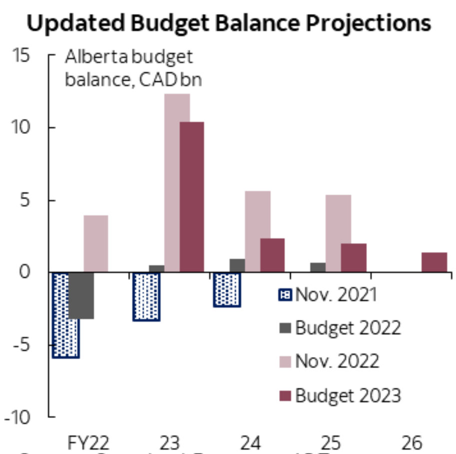
LARGE SURPLUSES UNLOCK NEW SPENDING

- **Budget balances: +$10.4 bn (2.2% of nominal GDP) in FY23, +$2.4 bn (0.5%) in FY24, +$2.0 bn (0.4%) in FY25, and +$1.4 bn (0.3%) in FY26—a slightly weaker path than the surpluses of over 1% of GDP through FY25 projected in mid-year fiscal update (chart 1).**
- **Net debt: expected to remain flat at 10.2% of nominal output in FY24 before edging down to just 9.1% by FY26 (chart 2).**
- **Economic forecasts: WTI price projections nudged down to US$90.5/bbl in FY23, and lifted slightly to US$79/bbl in FY24 and US$76/bbl in FY25 versus the mid-year update; nominal GDP forecast at +24.0% in 2022, -2.2% in 2023, and +3.5% in 2024.**
- **Infrastructure spending: FY23 outlays revised down by $1.2 bn to $6.4 bn versus the mid-year update; $8.0 bn planned each year in FY24 and FY25, before moderating to $7.0 bn in FY26.**
- **Budget 2023 reversed the near-term spending restraint put in place in previous plans, but the growth rate in expenditures seems relatively modest and well within the bounds of the speed of population growth plus inflation—though the $600 one-time payments to seniors and parents with household income below $180k will likely run counter to efforts to reign in inflation.**
- **Borrowing program: $3.3 bn in FY23, $6.7 bn in FY24, $6.1 bn in FY25, $15 bn in FY26; for FY23–25, updated borrowing requirements represent a total increase of over $10 bn from the mid-year update estimates.**
- **As widely expected, the budget delivers on a path of surpluses driven by windfall revenue and royalty developments built on a strong oil outlook. Volatility in the commodity markets could lead to material downside risks in the coming fiscal year, and the substantial contingencies built into the planning should provide some flexibility to maneuver going forward. A set of fiscal rules is introduced to dampen the boom-bust cycle which is a welcomed development but alone likely won't be enough.**

OUR TAKE

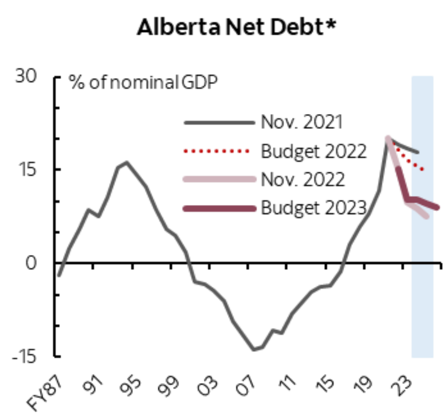
Alberta is projecting another surplus in FY24 following a strong handoff from FY23 as the tight oil market is expected to continue to boost the province's resource revenue.

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.

The FY23 surplus estimate was revised down slightly but still at a hefty $10.4 bn (2.2% of nominal GDP). The FY24–25 surplus projections are slimmer than anticipated in the mid-year update owing to new spending initiatives and enhanced contingencies. The Budget includes contingency and disaster assistance amounts of $1.3 bn in FY23, and $1 bn each year from FY24 to FY26.

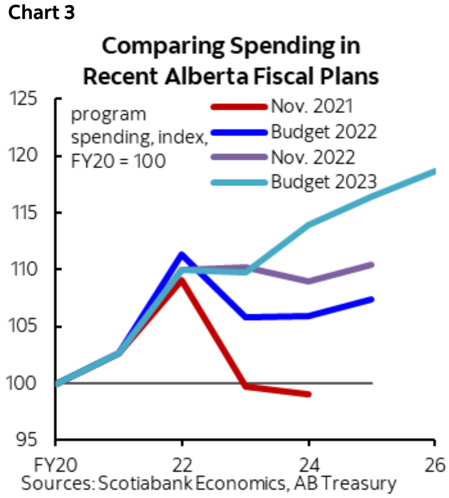
The budget introduces a new fiscal framework including a balanced budget requirement with some exemptions. There are a series of rules under the new framework including keeping spending growth within the bound of population growth and inflation. New rules allow deficits only when revenue projections change drastically or unanticipated costs occur, and deficits would need to be eliminated within two years. In cases of surplus, 50% of the surplus cash must go to repaying maturing debt, with the rest allocated to the new Alberta Fund for future debt repayment, deposits into the Heritage Fund or funding one-time spending initiatives. In theory, this should blunt somewhat the boom-bust cycle though in practice it may not be terribly binding.

Released shortly before the provincial election scheduled for May 29, Alberta's Budget 2023 raised the province's spending profile once again, targeting the rising cost of living (chart 3). Total expenses are expected to rise 3.8% (before contingencies and allowances) in FY24 instead of the slight dip anticipated in the mid-year update, and are set to grow further by over 2% each year in FY25 and FY26. The budget includes $8.7 bn over FY24–26 in policy initiatives supporting households with rising cost of living, which are primarily measures already announced such as the indexation of personal income tax and the fuel tax relief, with $1.1 bn new spending in affordability payments of $600 to seniors and parents with household income below $180k. With the COVID-19 spending surge behind us, the province continues to grow healthcare expenses by 4.1% in FY24 and an average rate of 3% each year in FY25–26, bringing the per capita expenses on a steep upward trend (chart 4).

The revenue outlook remains largely unchanged from the mid-year update with significant bandwidth around oil price assumptions. Revenues are projected to decline by -7.1% in FY24 relative to FY23 driven by the $9.2 bn drop in resource revenues, which should continue to normalize in FY25–26, but still contribute to over 20% of total revenues (chart 5). The Budget assumes WTI prices to average US$79/bbl in FY24—close to the level at which crude closed on Feb. 28, 2022, acknowledging the recent softening of oil prices, but the outlook remains optimistic over the planning horizon compared to prices suggested by the futures (chart 6). The Budget assumes slight moderation in oil prices in FY25 and FY26 to an average of US$76/bbl and US$73.5/bbl, respectively. Given the near-term wild swings in oil prices, these assumptions are not as conservative as the ones in the last budget, and could lead to material downside risks considering the high sensitivity to oil prices—the budget links 1 USD/bbl with a net fiscal impact of $630 mn.

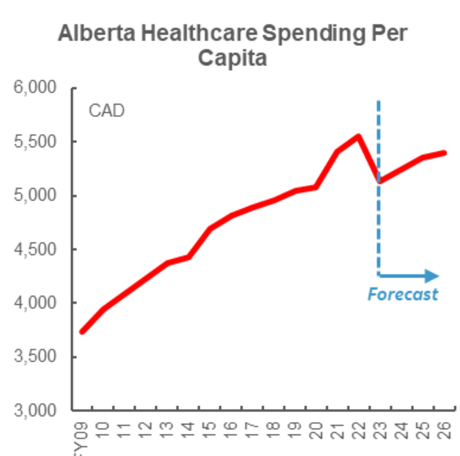
The budget also notes significant business investments flowing into the province's non-energy sectors, such as tech, manufacturing and petrochemicals, expanding the province's non-energy tax base. Non-energy investment growth is expected to slow to 5.6% this year from a whopping 14% growth last year, owing to higher borrowing costs. The share of non-energy to total business investment is expected to remain close to 60%, well above its 10-year historical average of about 47%. Oil and gas investment is expected to continue to grow amid favourable oil prices, but will remain well below its pre-2014 peak with spending focusing on clean energy projects and optimizing existing infrastructure. Capacity expansions in petrochemicals and other non-energy sectors should support steady growth in Alberta's manufacturing exports over the planning horizon.

Chart 3



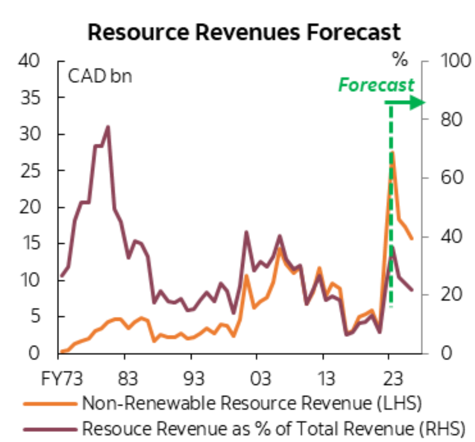
Sources: Scotiabank Economics, AB Treasury Board & Finance.

Chart 4



Sources: Scotiabank Economics, AB Treasury Board & Finance.

Chart 5

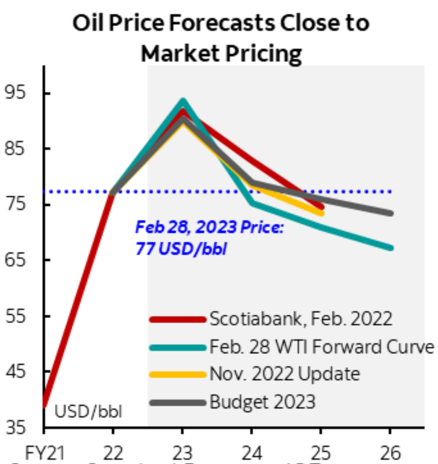


Sources: Scotiabank Economics, AB Treasury Board & Finance.

The government plans a steep increase in capital spending during FY24 to $8.0 bn and keep it elevated in the following two fiscal years (chart 7). Infrastructure expenditures are expected to total $23 billion over the next three years, $2 bn higher than planned last November. The investments will help improve transportation infrastructure and healthcare services.

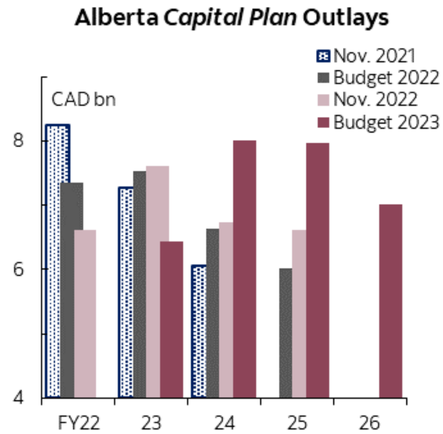
FY23–25 borrowing requirement projections were revised higher than anticipated in the mid-year update. Borrowing requirements are estimated to come in at $3.3 bn in FY23, up from the previously anticipated $1.4 bn, and are expected to total $6.7 bn in FY24, $6.1 bn in FY25 before jumping to $15 bn in FY26. The province continues to dedicate surplus cash to repaying maturing debt, with $13.4 bn debt repaid in FY23 and another $1.4 bn planned in FY24. As a share of output, net debt forecasts remain on a downward path but from a higher base than projected in the mid-year update. Projected to remain flat at 10.2% of GDP in FY24 before trending down to reach 9.1% by FY26, Alberta's net debt burden is far lower than all provinces' latest estimates.

Chart 6



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

Chart 7



Sources: Scotiabank Economics, AB Treasury Board & Finance.

Updated Fiscal Forecast
$ billions except where noted

	FY23		FY24		FY25		FY26
	Nov. '22	Feb. '23	Nov. '22	Feb. '23	Nov. '22	Feb. '23	Feb. '23
Total Revenue	**76.9**	**76.0**	**69.6**	**70.7**	**69.9**	**71.7**	**72.6**
Own-Source	64.4	64.3	58.0	58.1	57.6	59.2	59.5
PIT	13.3	13.8	13.8	14.1	14.7	15.0	16.1
CIT	6.3	6.4	6.2	5.9	6.6	6.3	6.6
Nat. Resources	28.1	27.5	19.2	18.4	16.0	17.3	15.7
Other	16.7	16.5	18.9	19.8	20.3	20.7	21.1
Fed. Transfers	12.5	11.8	11.5	12.6	12.3	12.5	13.1
Total Expenditure*	**63.9**	**64.3**	**63.2**	**66.8**	**63.8**	**68.2**	**69.7**
Programs**	61.2	61.6	60.4	63.9	61.2	65.4	66.6
Health	24.8	23.6	24.9	24.5	25.7	25.4	26.0
Education	15.4	13.9	15.4	14.4	15.6	14.8	15.0
Other	21.0	24.1	20.1	25.0	20.0	25.2	25.6
Debt Service	2.7	2.7	2.8	2.8	2.6	2.8	3.1
Contingency	**0.7**	**1.3**	**0.8**	**1.5**	**0.8**	**1.5**	**1.5**
Balance	**12.3**	**10.4**	**5.6**	**2.4**	**5.3**	**2.0**	**1.4**
% of GDP	*2.6*	*2.2*	*1.2*	*0.5*	*1.1*	*0.4*	*0.3*
Net Debt	**46.0**	**47.4**	**41.2**	**46.5**	**36.1**	**45.6**	**44.1**
% of GDP	*9.9*	*10.2*	*8.7*	*10.2*	*7.5*	*9.7*	*9.1*
Debt Service *% of Revenue*	*3.5*	*3.6*	*4.0*	*4.0*	*3.7*	*3.9*	*4.3*

* Net of contingency. ** Net of pension provisions.
Sources: Scotiabank Economics, AB Treasury Board & Finance.