# Alberta: 2021–22 Mid-Year Update

## OIL PRICE GAINS DRIVE FISCAL WINDFALL

- **Budget balance forecasts: -$5.8 bn (-1.7% of nominal GDP) in FY22, -$3.3 bn (-0.8%) in FY23, -$2.2 bn (-0.6%) in FY24, respective anticipated windfalls of $12.3 bn, $7.7 bn, and $5.7 bn versus Budget 2021** (chart 1)**.**
- **Net debt: now expected to decline steadily to 17.9% of nominal GDP by FY24, in stark contrast to the climb to almost 27% pencilled in at budget time** (chart 2, p.2)**.**
- **Economic forecasts: nominal GDP forecast raised from 8.8% to 18.1% (2021) and from 7.5% to 11.5% (2022); WTI price projections lifted by 25 USD/bbl in FY22—now two-thirds complete—and by 9 USD/bbl in FY23.**
- **Borrowing requirements: $13 bn in FY22, $12.4 bn in FY23, $7.6 bn in FY24; combined FY22–24 projections are $22.7 bn lower than expected in Budget, which mirrors the deficit improvement over that period.**
- **Capital spending: planned outlays raised by $140 mn versus Budget in FY22, by about $850 mn relative to the previous plan in FY23.**
- **Update puts Alberta on considerably firmer fiscal footing; while that in part reflects conservative assumptions in the February 2021 budget, it should be well-received by creditors.**

## OUR TAKE

**The Update outlines a massive multi-year revenue windfall that clearly puts Alberta on much firmer financial footing than previously forecast.** FY22–24 balance projections were cut by a whopping $25.8 bn, and shortfalls are now expected to tally less than 1% of GDP in FY23 and FY24. Over the next three fiscal years, the province's debt burden as a share of GDP is expected to be between 5 and 9 ppts lower than budgeted and bend downward. That indicator is on pace to remain well below the 30% upper limit that the government previously targeted; among the provinces that have released updated forecasts, Alberta expects the smallest net debt burden as a share of GDP over FY23–24. Projected debt servicing costs are still on pace to rise as a share of revenue, but hit just 5.5% by FY24.

**That windfall was not unexpected given the very conservative oil price assumptions that underpinned the last plan** (chart 3, p.2) **and the subsequent rise in crude values.** Nearly half of the $14.2 bn increase in projected FY22 revenues versus Budget stems from bitumen royalties alone; over FY23–24, that category accounts for more than 60% of the windfall. For calendar years 2022 and 2023, the government assumes WTI prices of 66 USD/bbl and 64 USD/bbl, which are 5 USD/bbl and 4 USD/bbl below the private-sector average, respectively. That profile acknowledges the present risks associated with the omicron variant of COVID-19—which have already driven a selloff of crude—and the potentially dampening impacts of persistent global supply chain-related issues.

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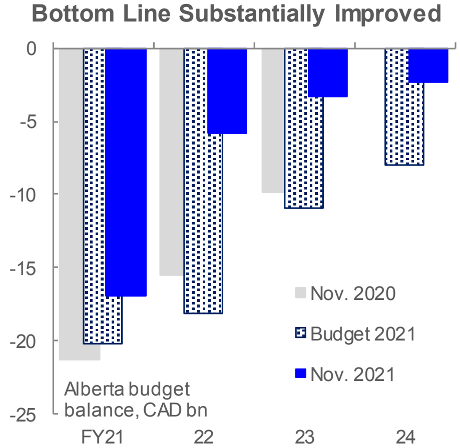
**Updated Fiscal Forecast**
$ millions except where noted

| | FY22 | | FY23 | FY24 |
|---|---|---|---|---|
| | Bud. | Nov. '21 | Nov. '21 | Nov. '21 |
| **Total Revenue** | **43.7** | **57.9** | **55.6** | **56.4** |
| Own-Source | 33.5 | 46.6 | 45.3 | 46.4 |
| PIT | 11.6 | 13.1 | 13.1 | 13.8 |
| CIT | 1.9 | 2.9 | 3.3 | 4.1 |
| Natural Resources | 2.9 | 10.9 | 9.9 | 9.2 |
| Other | 17.1 | 19.7 | 19.0 | 19.2 |
| Fed. Transfers | 10.2 | 11.4 | 10.4 | 10.0 |
| Other | 10.2 | 11.4 | 10.4 | 10.0 |
| **Total Expenditure** | **61.9** | **63.7** | **58.9** | **58.7** |
| Programs* | 59.2 | 61.3 | 56.0 | 55.6 |
| Health | 24.4 | 23.8 | 22.9 | 22.9 |
| Education | 14.9 | 14.7 | 14.6 | 14.6 |
| Other | 19.9 | 22.8 | 18.5 | 18.1 |
| Debt Service | 2.8 | 2.5 | 2.9 | 3.1 |
| **Balance** | **-18.2** | **-5.8** | **-3.3** | **-2.3** |
| *% of GDP* | *-5.4* | *-1.7* | *-0.8* | *-0.6* |
| **Net Debt** | **82.2** | **66.8** | **71.3** | **73.9** |
| *% of GDP* | *24.5* | *19.2* | *18.4* | *17.9* |
| **Debt Service** | | | | |
| *% of Revenue* | *6.3* | *4.3* | *5.3* | *5.5* |

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

**Chart 1**

**Bottom Line Substantially Improved**




Sources: Scotiabank Economics, Alberta Treasury Board and Finance.

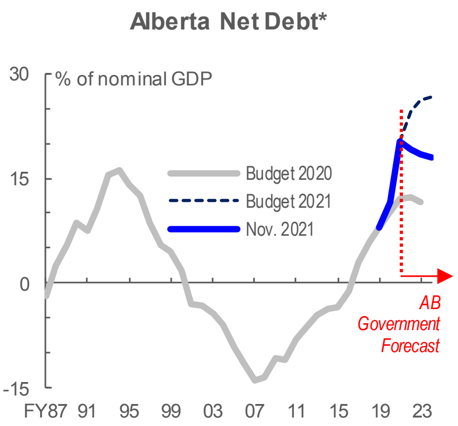
**Still, the Update is more positive about economic prospects through FY24 and now expects a full recovery of real GDP to pre-pandemic level by mid-2022.** That is supported not only by a stronger energy price outlook, but also by an expansion of non-energy investment. The province continues to project a pick-up in population growth following the pandemic-induced slowdown; with continued net interprovincial outflows projected through 2024, immigration is expected to underpin population growth.

**Spending restraint still features prominently in the fiscal blueprint, but cuts are scheduled to begin one year later and are now more significant** (chart 4)**.** Instead of the 2% and 6.5% reductions in program spending previously planned for FY22 and FY23, respectively, the province plans to increase non-interest expenditures by 6% in FY22, then has built in declines of 9% (FY23) and 1% (FY24). However, the level of planned FY23 program expenditures is about $2 bn higher than forecast in the last pre-COVID-19 fiscal plan. Some of the increases relative to Budget planned for this year relate to the pandemic. Expenses related to Alberta's severe fourth wave of COVID-19 this summer are expected to erode two-thirds of the $1.25 bn contingency included in Budget. The province also created a $1.4 bn contingency for crop insurance payments in the wake of this summer's drought.

**Alberta's FY22–24 *Capital Plan* is now expected to total $21.6 bn, more than $900 mn more than anticipated in Budget 2021.** The *Capital* Plan is the government's infrastructure spending program that aims to support recovery and long-term development. In FY22, planned outlays increased by $140 mn versus Budget, driven by Federally funded municipal support. In FY23, they were raised by a larger $850 mn relative to February due to some Capital Maintenance and Renewal (CMR) project reprofiling and carry forward. Over the three years, the government allocated another $150 mn to expand broadband internet in rural, remote, and Indigenous communities, $136 mn for the Alberta Petrochemical Incentive Program (APIP), and $190 mn for flood prevention-related projects.

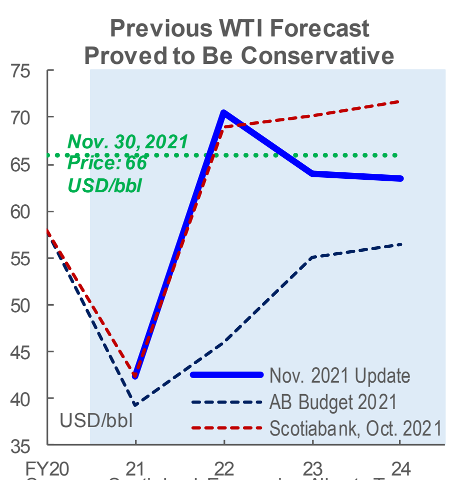
**FY22–24 borrowing requirement projections were revised significantly lower than anticipated at Budget time.** The government now expects to borrow $13 bn this fiscal year, $12.4 bn in FY23, and $7.6 bn in FY24—reductions of $11.1 bn, $6.3 bn, and $5.2 bn, respectively.

Chart 2



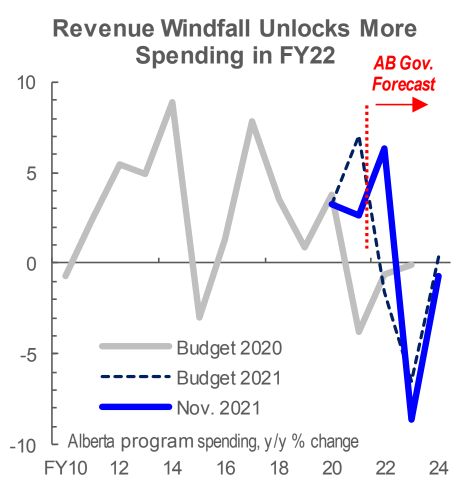

Based on Finance Canada Fiscal Reference Tables.
Sources: Scotiabank Economics, Finance Canada, Alberta Treasury Board & Finance.

Chart 3




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

Chart 4




Sources: Scotiabank Economics, Alberta Treasury Board and Finance.