

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

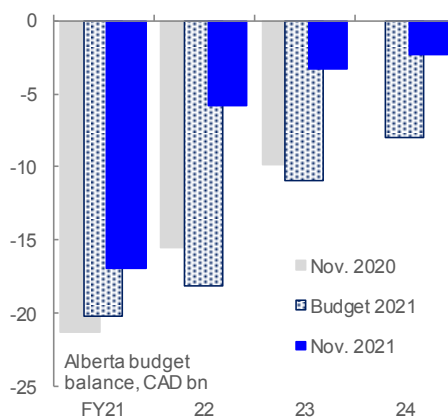
	FY22		FY23		FY24	
	Bud.	Nov. '21	Nov. '21	Nov. '21	Nov. '21	Nov. '21
Total Revenue	43.7	57.9	55.6	56.4	56.4	56.4
Own-Source	33.5	46.6	45.3	46.4	46.4	46.4
PIT	11.6	13.1	13.1	13.8	13.8	13.8
CIT	1.9	2.9	3.3	4.1	4.1	4.1
Natural Resources	2.9	10.9	9.9	9.2	9.2	9.2
Other	17.1	19.7	19.0	19.2	19.2	19.2
Fed. Transfers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

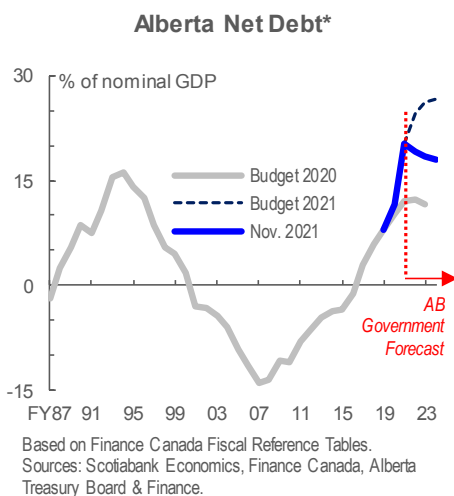


Chart 3

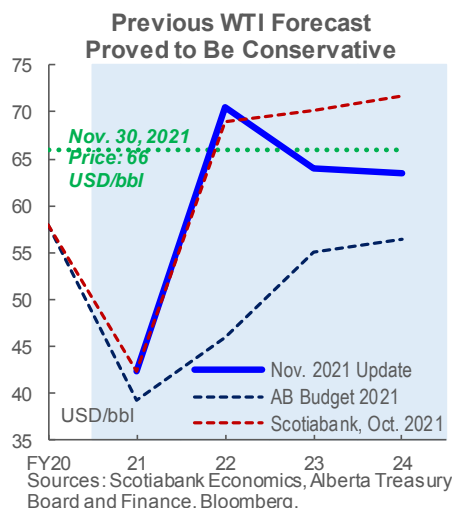
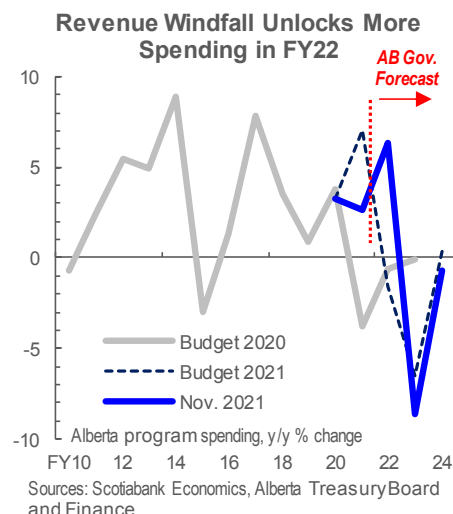


Chart 4



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