

Contributors

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Chart 1

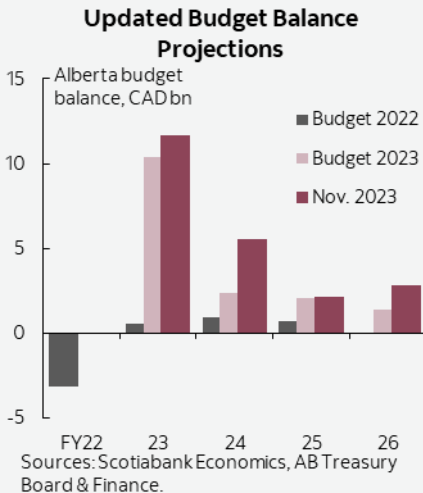
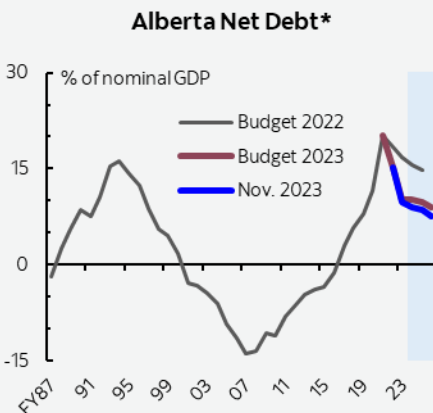


Chart 2



Alberta: 2023–24 Mid-Year Update

ON SOLID GROUND

- **Budget balance forecasts:** \$5.5 bn (1.2% of nominal GDP) in FY24, \$2.1 bn (0.5%) in FY25, \$2.8 bn (0.6%) in FY26, respective improvement of \$3.2 bn, \$0.1 bn, and \$1.4 bn versus Budget 2023 (chart 1).
- **Net debt:** revised down by an average of \$6 bn each year through FY26; as a share of nominal output, net debt is now expected to decline steadily from 9.8% in FY23 to 7.5% by FY25 (chart 2).
- **Economic forecasts:** nominal GDP forecast nudged down from -2.2% to -2.3% for 2023 but lifted from +3.5% to +3.9% for 2024; WTI price projections unchanged at US\$79/bbl in FY24, US\$76/bbl in FY25 and US\$73.5/bbl in FY26.
- **Borrowing requirements:** not updated but with a \$3.2 bn improvement in the budget balance, the program should come in much lower than the \$6.7 bn forecast for FY24 at Budget time.
- **Capital spending:** planned outlays are projected to total \$7.7 bn in FY24, \$8.3 bn in FY25 and \$7.2 bn in FY26—a total of \$211 mn increase from Budget 2023 over the three fiscal years.
- **Alberta solidifies its prominent standing in provincial public finances with a prudent plan that exercises spending restraint. The commitment to dedicating a larger cash surplus (\$3.2 bn versus \$1.4 bn in Budget 2023) towards repaying maturing debt is commendable. Oil price assumptions appear reasonable particularly with recent supply-side politics supporting oil prices. It is nevertheless crucial to acknowledge the province’s fiscal sensitivity to volatile oil prices, as fluctuations in energy prices and light-heavy differentials could significantly impact the outlook.**
- **The recently unveiled Alberta Carbon Capture Incentive Program (ACCIP), designed to facilitate the development of new carbon capture, utilization and sequestration (CCUS) projects in the province, is not included in this update. The incentive program is expected to help attract \$35 bn in capital investment with an estimated cost between \$3.5 bn and \$5.3 bn.**

OUR TAKE

Alberta’s mid-year update projects notable current-year improvement followed by modest upward revisions in each of the next two years. Driven by revenue gains across various sources, the province is estimating a \$5.5 bn (1.2% of nominal GDP) surplus for FY24, followed by two years of surpluses of around 0.5% of nominal output. This comes on the heels of a hefty \$11.6 bn surplus (+2.5% of nominal GDP) in FY23—\$1.3 bn higher than anticipated in February. With the bulk of the surplus cash designated for debt repayment, debt levels are projected to edge down from a lower starting point as a share of output than anticipated in Budget 2023, reinforcing Alberta’s advantage over other provinces. Net debt is projected to edge down to 9.0% of GDP in FY24 before steadily declining to reach 7.5% by FY26—far lower than all provinces’ latest estimates.

The revenue upside is not surprising given Alberta’s favourable economic and labour conditions, supported by robust energy prices. Own-source revenues are expected to surpass budget estimates by \$3.5 bn (6%), with the increase evenly distributed between non-renewable resource revenue and tax revenue. Bitumen royalties—accounting for about 70% of resource revenue—are tracking \$1.8 bn higher than Budget 2023 projection, driven by a tighter light-heavy differential, a weaker Canadian dollar and an additional oil sand reaching payout this year. Both the personal income tax (PIT) and

corporate income tax (CIT) benefit from a stronger starting point following the 2022 tax assessments, projecting a combined improvement of \$1.8 bn.

Granted, the economic assumptions underpinning the current plan appear optimistic. Real GDP is expected to grow by 2.8% this year and 2.6% next year, while nominal GDP is projected to contract by -2.3% this year before rebounding by 3.6% next year. These are very optimistic growth figures that surpass our current projections, where we expect the Alberta economy to grow by 2.3% in real terms this year and a more moderate rate of 1.2% next year.

Largely unchanged from Budget 2023, oil price assumptions are in line with expectations for current year, and more conservative in outer years (chart 3). The WTI price assumption remains unchanged at US\$79/bbl in FY24 and the light-heavy differential was revised down from US\$19.5/bbl to US\$17/bbl—both are very close to the averages so far this fiscal year. Despite crude prices being a wildcard, the completion of the Trans Mountain Pipeline Expansion (TMX) in early 2024 will boost egress for Alberta, keeping light-heavy differentials tight. The update assumes WTI prices to gradually moderate in FY25 and FY26 to an average of US\$76/bbl and US\$73.5/bbl, respectively—more conservative than the private-sector averages and Scotiabank’s latest forecasts for both years, signalling prudent planning given the high sensitivity to oil prices. As a rule of thumb, a US\$1/bbl change in WTI price is linked with a net fiscal impact of \$630mn for Alberta.

The update largely maintains the spending plan in Budget 2023 with incremental new spending added (chart 4). The \$1.2 bn expense increases in disaster and emergency assistance costs linked to the unprecedented wildfire season almost depleted the \$1.5 bn spending contingency set aside at budget time. The updated fiscal plan maintains \$1.5 bn in contingency and disaster assistance each year from FY25 to FY26. Regular program spending only saw a modest \$341 mn increase relative to the budget, with another \$309 mn expense increase coming from debt service costs.

Alberta’s FY24–26 Capital Plan is now expected to total \$23.2 bn, \$211 mn more than anticipated in Budget 2023. In FY24, planned outlays decreased by \$261 mn versus Budget, driven by re-profiling of cash flows to future years due to project delays.

Chart 3
Oil Price Forecasts Below Private-Sector Projections

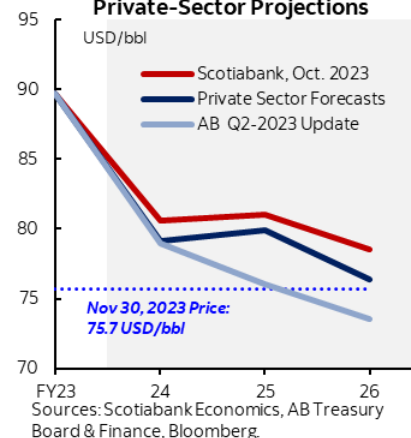
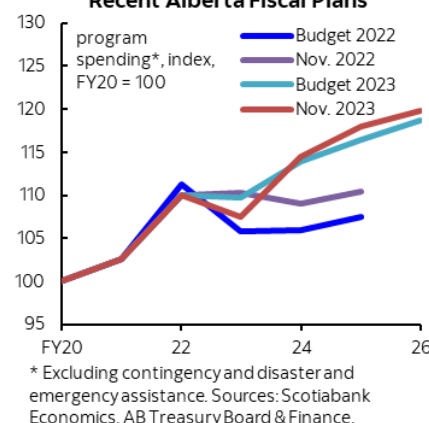


Chart 4
Comparing Spending in Recent Alberta Fiscal Plans



Updated Fiscal Forecast
\$ billions except where noted

| | FY23 | | FY24 | | FY25 | | FY26 | |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Feb. '23 | Final | Feb. '23 | Nov. '23 | Feb. '23 | Nov. '23 | Feb. '23 | Nov. '23 |
| Total Revenue | 76.0 | 76.1 | 70.7 | 74.3 | 71.7 | 73.2 | 72.6 | 75.0 |
| Own-Source | 64.3 | 64.8 | 58.1 | 61.6 | 59.2 | 60.4 | 59.5 | 61.7 |
| PIT | 13.8 | 13.9 | 14.1 | 15.0 | 15.0 | 15.4 | 16.1 | 16.5 |
| CIT | 6.4 | 8.2 | 5.9 | 6.8 | 6.3 | 6.9 | 6.6 | 7.1 |
| Nat. Resources | 27.5 | 25.2 | 18.4 | 19.7 | 17.3 | 17.6 | 15.7 | 17.4 |
| Other | 16.5 | 17.4 | 19.8 | 20.1 | 20.7 | 20.6 | 21.1 | 20.8 |
| Fed. Transfers | 11.8 | 11.4 | 12.6 | 12.7 | 12.5 | 12.7 | 13.1 | 13.2 |
| Total Expenditure* | 64.3 | 63.2 | 66.8 | 67.4 | 68.2 | 69.5 | 69.7 | 70.6 |
| Programs** | 61.6 | 60.3 | 63.9 | 64.3 | 65.4 | 66.3 | 66.6 | 67.2 |
| Health | 24.4 | 25.5 | 26.7 | 27.1 | 27.7 | 28.0 | 28.2 | 28.2 |
| Education | 15.4 | 15.2 | 16.0 | 16.1 | 16.3 | 16.3 | 16.6 | 16.6 |
| Other | 21.8 | 19.6 | 21.2 | 21.1 | 21.3 | 21.9 | 21.8 | 22.4 |
| Debt Service | 2.7 | 2.8 | 2.8 | 3.2 | 2.8 | 3.3 | 3.1 | 3.4 |
| Disaster assistance | — | 1.3 | — | 1.2 | — | — | — | — |
| Contingency | 1.3 | — | 1.5 | 0.1 | 1.5 | 1.5 | 1.5 | 1.5 |
| Balance | 10.4 | 11.6 | 2.4 | 5.5 | 2.0 | 2.1 | 1.4 | 2.8 |
| % of GDP | 2.2 | 2.5 | 0.5 | 1.2 | 0.4 | 0.5 | 0.3 | 0.6 |
| Net Debt | 47.4 | 45.6 | 46.5 | 40.8 | 45.6 | 40.0 | 44.1 | 37.1 |
| % of GDP | 10.2 | 9.8 | 10.2 | 9.0 | 9.7 | 8.5 | 9.1 | 7.5 |
| Debt Service | 3.6 | 3.7 | 4.0 | 4.2 | 3.9 | 4.4 | 4.3 | 4.5 |
| % of Revenue | 3.6 | 3.7 | 4.0 | 4.2 | 3.9 | 4.4 | 4.3 | 4.5 |

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

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