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Canadian Fiscal Analysis

ALBERTA BUDGET 2019

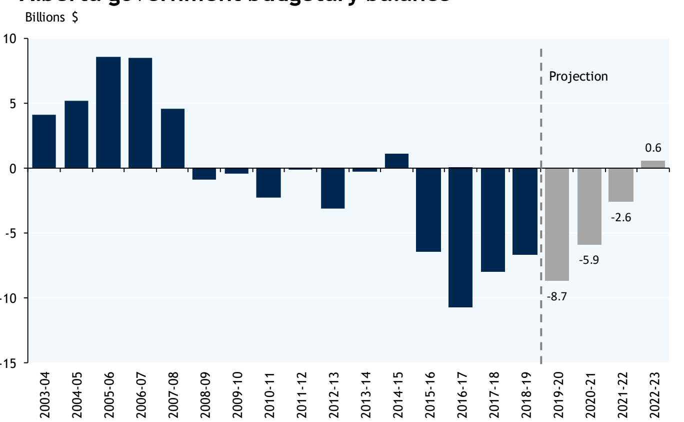
October 25, 2019

Courage and Resolve

- Fiscal plan slims down the public sector, lowers business taxes
- Provincial deficit to be eliminated by FY22/23
- However, a one-time crude-by-rail provision will increase the deficit to $8.7 billion in FY19/20
- Net debt projected to rise but remain manageable at 16% of GDP in FY22/23.

The much-anticipated first budget of Alberta's United Conservative Party did not disappoint—nor did it surprise. As promised, it charted a new course for the government's finances by substantially slimming down the public sector and maintaining earlier-announced businesses' tax reductions. The four-year fiscal plan draws heavily from the recommendations of the Blue Ribbon Panel on Alberta's Finances (known as the McKinnon panel) delivered in September. The government tackles Alberta's structural deficit ($6.7 billion last year) mainly by aligning public sector spending with that of other provinces on a per capita basis. This results in operating expenses being cut in absolute terms by 2.8% (-$1.3 billion) by FY22/23. This level of fiscal restraint hasn't been seen in Alberta in over 25 years- however it still pales in comparison to the 18% cut to the operating budget by the Ralph Klein government between 1993 and 1996.

Alberta government budgetary balance



Source: RBC Economics Research, Alberta Finance and Treasury Board

The oil price crash five years ago forever changed Alberta's fiscal outlook. A sharp rebound can no longer be counted upon to balance the books. The plan presented on October 24 by Finance Minister Travis Toews was built on the sober assessment that new realities necessitate forceful action. The task at hand won't be easy. It will take courage and resolve, as Minister Toews put it in his budget speech, to correct course. Whether this plan will permanently address Alberta's fiscal challenges—especially the significant revenue volatility arising from resource royalties—remains to be seen. But at last, Alberta has a credible plan at hand to make significant inroads.

Cuts far and wide but health and education exempt

Health and education are among the few areas spared (spending on both is kept effectively flat in nominal terms over the entire period). Social programs including the Assured Income for the Severely Handicapped (AISH), seniors and special needs programs won't see cuts – however indexation will be paused through the duration of the fiscal plan. The sectors where the budget has taken an axe include the treasury board and finance, advanced education and justice and the solicitor general. The public sector will face a 7.7% reduction (labour costs contribute over half of the operating budget) mainly through attrition and hiring restraint – a move that the government expects will save $552 million in compensation costs by 22/23. Additionally, there are no provisions for wage increases throughout the fiscal plan. The expenditure reduction efforts extend to capital spending, where the government is trimming its four-year capital plan.

The government also announced it was lifting the freeze on tuition fees for postsecondary education starting in FY 20/21. Fees will be allowed to increase by as much as 7% over each of the remaining three years of the fiscal plan.

Tax relief for businesses

Another main plank of Budget 2019 is meaningful tax relief designed to spur business investment and boost job creation

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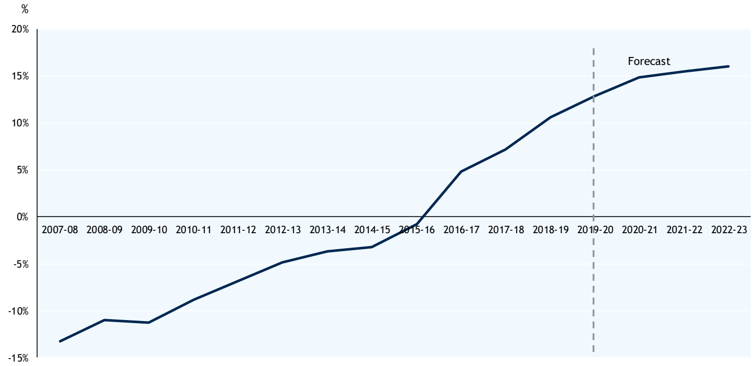
in the province. The two biggest initiatives—repealing the carbon tax (costing the government $1.4 billion in lost revenues) and lowering the corporate income tax rate, in stages, from 12% to 8% by January 2022 (costing $2.4 billion over four years) — were implemented earlier this year.



Source: RBC Economics Research, Alberta Finance and Treasury Board
*Net taxpayer supported debt

Deficit to be eliminated in 2022-23

The government plans to balance the budget within their four year plan with the deficit initially rising to $8.7 billion (higher than the previous government projected). This is mainly due to loss provisions made to “extricate taxpayers” from the crude-by-rail program that the previous government signed. The UCP government had previously indicated that they were going to offload the contracts to the private sector. The deficit is then forecasted to fall to $5.9 billion in FY 20/21 and $2.6 billion in FY 21/22 before a small surplus of $583 million is projected in FY 22/23. The inclusion of a contingency and unallocated disaster fund over the four years as well as a revenue forecast allowance (once the budget is balanced in FY 22/23) provides some degree of prudence.

Alberta's consolidated fiscal plan					
($ billions	Actual	Forecast			
	2018/19	2019/20	2020/21	2021/22	2022/23
Total revenues	49.6	50.0	50.1	53.6	57.5
Total expenditures	56.3	56.5	55.2	55.5	55.8
Program spending	54.4	56.5	53.4	53.5	53.5
Interest on public debt	2.0	2.3	2.5	2.8	3.0
Crude-by-rail provision	0.01	1.5	-	-	-
Contingency(disaster assistance)	-	0.68	0.75	0.75	0.75
Revenue forecast allowance	-	-	-	-	0.45
Reserve	0.0	2.2	0.8	0.8	1.2
Surplus/(Deficit)	(6.7)	(8.7)	(5.9)	(2.6)	0.6

Debt to GDP rises but stable

Net debt is expected to rise for the first three years in the plan, and fall by just over 1% in the last year. The net debt-to-GDP ratio is set to rise from 12.8% to 16% through the four years, although Alberta will continue to have the lowest ratio of all provinces.

Borrowing requirements

Borrowing is projected to total $15.1 billion in FY 19/20 and rise to $15.3 billion in FY 20/21 before declining to $12.2 billion in FY 21/22 and $12.6 billion in FY 22/23.

Economic growth assumptions						
	2018	2019	2020	2021	2022	2023
Real GDP growth (%)						
Budget 2019	2.2	0.6	2.7	2.9	3.0	3.0
RBC	2.1	0.6	1.9			
Nominal GDP growth (%)						
Budget 2019	5.0	3.5	2.5	5.9	5.8	6.3
RBC	4.4	2.1	3.1			

Source: RBC Economics, Alberta Treasury Board and Finance