

BALANCING ALBERTA'S BUDGET BY 2022 IS ONLY PART OF ALBERTA'S LONG-RUN FISCAL CHALLENGE.

Since oil prices fell in 2014, Alberta's provincial government has wrestled with large and persistent deficits. The new government elected in April 2019 is committed to balancing the books by 2022. But a longer-run challenge remains.

The November 2018 School of Public Policy Research Paper entitled *Alberta's Long-Term Fiscal Future* demonstrates Alberta's finances are not sustainable. Absent revenue or spending policy changes, net debt to GDP is on track to approach 50 per cent of GDP by 2040 – a large amount, illustrated in red in the top figure. In the recent election campaign, the UCP proposed to lower corporate and carbon taxes, freeze operating spending, and balance the books by 2022. But after this, an aging population and declining resource revenue growth rates will put pressure on the provincial books. The UCP fiscal plan bends the net-debt curve significantly, but a longer-run challenge remains as net-debt eventually grows again – illustrated in blue.

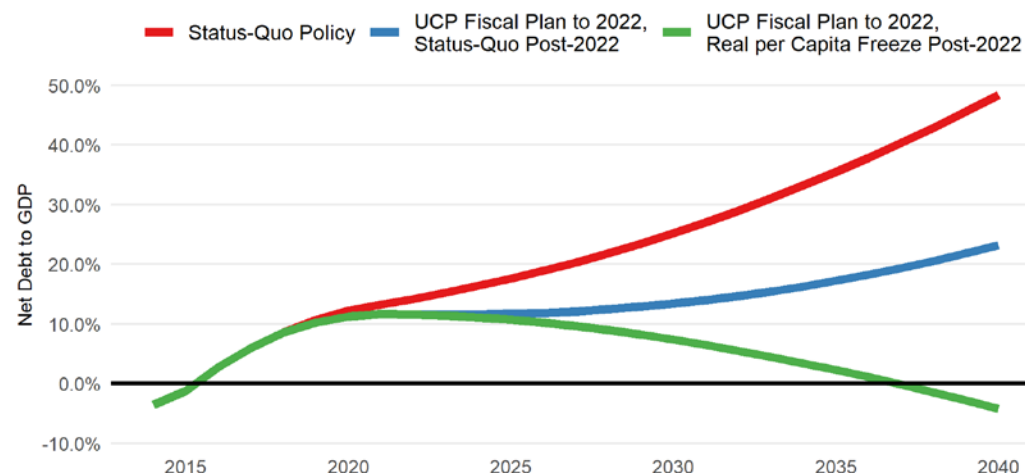
A spending freeze to 2022 shrinks Alberta's long-run fiscal gap by half. But Alberta's finances remain unsustainable without additional measures.

One option to ensure sustainable finances is to restrain program spending growth beyond 2022 to population plus inflation. As populations age, this will require sustained disincline, but is one way to ensure sustainable finances. By 2040, net debt by 2040 could be eliminated – illustrated in green. This additional restraint effectively means an increasing share of resource revenues could repay debt or accumulate in a savings fund, rather than fund program spending. By 2040, Alberta would not be reliant on resource revenues by the mid-2030s – illustrated below.

Projections are not predictions; but they are critical to understand implications of fiscal policy choices. This also illustrates only one of many options, and increased revenues would allow for less spending restraint. The UCP proposed a panel of experts to evaluate fiscal options. This will be no easy task, but it is an important one.

Projecting Alberta's Net Debt, as % of GDP, to 2040

Based on Tombe (2018), updated to reflect UCP's short-term fiscal plan. Beyond 2022, program spending either grows according to status-quo assumptions in Tombe (2018) or with population and inflation.



Projecting Alberta's Budget Surplus/Deficit to 2040

Note: projects Alberta's budget surplus/deficit, with and without resource revenues, under a scenario where program spending grows only with population growth and inflation. Revenue follows Tombe (2018), adjusted to reflect UCP fiscal plan.

