

## Backgrounder C: Alberta's Record on Savings

### Introduction

The Government of Alberta's financial position has varied substantially over the course of the past three-and-a-half decades. Since 1976, the province's net financial asset position has ranged from a net *debt* position of -\$8.3 billion (in 1993-94) to a net financial *asset* position of +\$39.4 billion in 2007-08. Since the onset of the global recession in 2008, Alberta has drawn down a portion of its net financial assets as it has recorded four consecutive budget deficits (through 2011-12). Nevertheless, the province presently retains a very healthy financial position with net financial assets of +\$26.7 billion as of March 31, 2012.

With the post-1993 turnaround in the Province's fiscal position, the government was able to pay down its debt and set aside billions in savings in various major funds and accounts, including the Alberta Heritage Savings Trust Fund; the Sustainability Fund, and various special purpose endowment funds like the Alberta Heritage Foundation for Medical Research, the Alberta Heritage Foundation for Science and Engineering Research, the Alberta Heritage Scholarship Fund, and the Alberta Cancer Prevention Legacy Fund.

### Alberta's Savings Record: 1976 to Present

One way to measure the amount of savings that Alberta has amassed is to examine the change in Alberta's net financial assets over the past two decades. As with an Alberta household, decisions by the Alberta government to pay off debt and/or put surplus money into various accounts are both forms of savings.

After the establishment of the Heritage Fund in 1976, the province experienced several years of robust economic growth and strong non-renewable resource revenues. By 1981-82, the province had accumulated net financial assets of just over \$12 billion. With the recession of 1981-82 and its aftermath, however, the next several years saw little overall change in the province's financial position, with accumulated savings increasing by \$500 million between 1981-82 and 1984-85, to about \$12.6 billion.

In 1986, the province entered a period of economic and fiscal difficulties, which included a substantial downturn in provincial energy revenues. As a result, provincial expenditures exceeded revenues for several consecutive years, and the government drew heavily on its accumulated savings. By 1991-92, Alberta had drawn down all of its accumulated net savings, and had become a net debtor. By 1993-94, after a string of nine consecutive budget deficits, Alberta's net debt had grown to over \$8.3 billion.

With a series of fiscal consolidation measures in the early- to mid-1990s, and the advent of a prolonged period of economic growth, the province began running budget surpluses. The annual savings from these surpluses were initially used to pay down the province’s accumulated debt. By 1999-2000, the net debt had been eliminated and the province was able to direct surplus dollars into various savings accounts, such as the Heritage Fund, the Sustainability Fund and special purpose endowments. By the end of 2007-08, the province had accumulated savings of over \$39.4 billion.

In 2008, a major economic downturn ensued. Alberta adopted a policy of drawing on its accumulated savings, primarily through the Sustainability Fund, to fund resulting budget deficits, rather than cutting funding for core programs and services. By the end of 2011-12, Alberta’s accumulated savings had declined to \$26.7 billion.

<b>Fiscal Year</b>	<b>Net financial assets/(Net debt) (\$ millions)</b>
1981-82	12,007
1984-85	12,578
1990-91	464
1991-92	(2,165)
1993-94	(8,313)
1998-99	(63)
1999-00	2,654
2007-08	39,410
2011-12	26,728

Over the past 18 years, beginning in 1993-94 and extending through 2011-12, the province went from a net debt of \$8.3 billion to net financial assets of \$26.7 billion, in effect generating about \$35 billion in net savings. About 65 per cent of those savings were used to pay down the province’s debt, with the remaining 35 per cent of the savings used to build up such accounts as the Heritage Fund, the Sustainability Fund and special purpose endowments.

On a cumulative basis, when we compare the province’s savings of \$35 billion over this period with the energy revenues of \$139 billion collected over this same period, the province has saved one-quarter (25 per cent) of its energy revenues since 1993-94.