

Contributors

John Fanjoy
Economist
Scotiabank Economics
416.866.4735
john.fanjoy@scotiabank.com

Prince Edward Island: 2024–25 Budget

TIMELINE FOR DECLINING DEFICITS IS PUSHED OUT

- **Budget balance forecasts:** **-\$85.5 mn (-0.9% of nominal GDP) in FY24**, little changed at **-\$85.0 mn (-0.8%) in FY25**, then **-\$59.5 mn (-0.5%) in FY26**, and **-\$30.5 (-0.3%) in FY27** (chart 1).
- **Net debt-to-GDP:** **27.4% of nominal GDP in FY24**, **28.8% in FY25**, **29.5% in FY26**, and **29.3% in FY27** (chart 2).
- **Real GDP forecasts:** **3.0% in 2023**, **4.1% in 2024**, and **4.0% in 2025**.
- **Borrowing program:** **\$531 mn cash requirements**, up 35% from the prior fiscal year, of which **\$400 mn is long-term borrowing**.
- **Changes to personal income tax brackets and the carbon levy along with additional spending on healthcare, public education, and housing result in a longer and slower decline in deficits amid forecast assumptions of steady economic growth.**

OUR TAKE

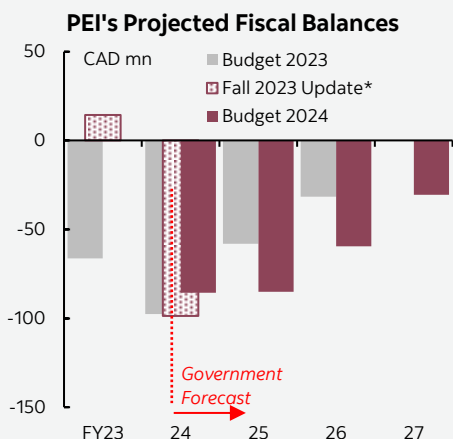
Budget 2024 presents a smaller deficit for PEI's FY24 than the mid-year update but bigger deficits that will steadily decline through the forecast horizon. The budget balance for FY24 is expected to be **-\$85.5 mn (-0.9% of nominal GDP)**, an improvement of **\$13.5 mn** relative to the December 2023 update owing to lower program spending. The fiscal balance path is projected to be little changed in the year ahead. Running a deficit of **\$85 mn (-0.8% of nominal GDP)** in FY25 that will steadily decline to **\$59.5 mn (-0.5%)** in FY26 and **\$30.5 mn (-0.3%)** in FY27, the budget pushes back the planned decline in deficits by a year.

Total revenue in FY25 is expected to increase by \$133.5 mn to \$3,147 mn in FY25, up 4.4% year-over-year. Of this increase in total revenue, nearly half is expected to come from federal transfers (+\$60 mn) owing primarily due to greater equalization payments (+\$48 mn), in addition to infrastructure programs (+\$14 mn) and health transfers (+\$4 mn) from the government of Canada. The remainder of the province's increased revenue is expected to come from own sources. Personal income taxes in FY25 is expected to increase by **\$39 mn to \$594 mn (7.1% y/y)**, while the announced raise in tax bracket thresholds and lower tax rates for the first four tax brackets take effect January 2025. Rising corporate income taxes (+\$29 mn, 21.8% y/y), sales tax (+\$8.3 mn, 1.6% y/y) and real property tax (+\$8.2 mn, 5.3% y/y) are partially offset by a reduced carbon levy (-\$8.8 mn, -85.5% y/y).

Total expenditure adds on an additional \$26.4 mn of spending in FY25 and \$61.9 mn in FY26 relative to last year's budget. Program spending adds on an additional **\$30.6 mn** and **\$60.7 mn** of spending in FY25 and FY26 respectively, while debt servicing costs are expected to be lower by **\$4.2 mn** in FY25 and higher by **\$1.2 mn** in FY26 relative to Budget 2023 forecasts. Program spending in the budget largely focuses on healthcare, as well as education and housing. Of Budget 2024's **\$115.8 mn (4.1% y/y)** increased program spending by department in FY25, **\$90.1 mn** is towards Health and Wellness (17.5% y/y) and Health PEI (7.3%), **\$28.5 mn** on Education (10.1%), French language school board (8.1%), and public schools (5.9%), as well as **\$17 mn** towards Housing (5.5%) and the PEI Housing Corporation (24.7%).

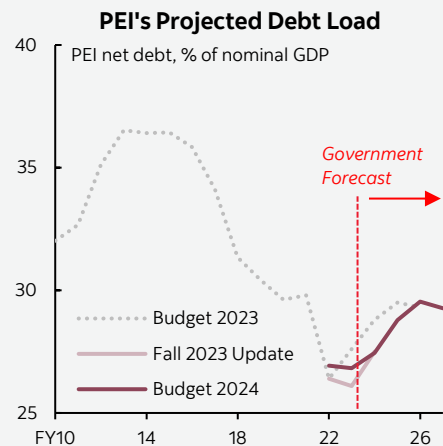
The economic outlook included in the budget expects steady growth through the forecast horizon. Real GDP is estimated to have increased 3.0% in 2023, with further rises of 4.1% and 4.0% in 2024 and 2025 respectively, and nominal GDP increasing 6.5% in 2023, picking up to 6.6% in 2024, before coming down to 6.0% in 2025. This outlook is

Chart 1



* FY23 figure is final result.
Sources: Scotiabank Economics, PEI Finance.

Chart 2



Sources: Scotiabank Economics, PEI Finance, Statistics Canada, Finance Canada.

much more optimistic than our forecasts published early in February, expecting real GDP growth of 1.4% in 2024 and 1.9% in 2025 with nominal GDP growth of 4.3% and 3.2% over the same period. As the policy rate is likely to remain elevated through the first half of 2024 and the hikes to date continue to work their way through the economy, there is downside risk that economic activity in the near term is below the budget assumptions.

Assumptions around economic activity is the main driver of the province’s lower projected path for net debt as a percent of nominal GDP. Net debt levels as presented in the budget are little changed in FY25 but have been raised for FY26. PEI’s net debt is now expected to increase 11.8% year-over-year in FY25, owing to the handoff from a lower starting point, 8.8% y/y in FY26, and 5% in FY27. Net debt-to-GDP is projected to rise from 27.4% in FY24 to 29.5% by FY26, before easing slightly to 29.3% in FY27. Should nominal GDP grow slower than expected, there is upside risk that the net debt burden would increase closer in line with Budget 2023’s outlook.

PEI’s borrowing program continues to increase, with cash requirements of \$531 mn in FY25, up 35% from \$392 mn in FY24. The majority of the cash borrowing in 2024-2025 is expected to come from long-term borrowing totaling \$400 mn, double the previous fiscal year, with the remaining \$131 mn coming from short-term borrowing, liquidity reserves, and working capital.

Updated Fiscal Forecast								
\$ millions except where noted								
	FY24			FY25		FY26		FY27
	Bud.'23	Dec.'23	Bud.'24	Bud.'23	Bud.'24	Bud.'23	Bud.'24	Bud.'24
Own-Source Revenue	1,780.1	1,793.2	1,823.0	1,885.0	1,896.7	1,969.8	2,010.5	2,131.1
Federal Transfers	1,215.1	1,227.8	1,190.9	1,263.0	1,250.7	1,320.0	1,313.2	1,372.3
Total Revenue	2,995.2	3,020.9	3,013.9	3,148.0	3,147.4	3,289.8	3,323.7	3,503.4
Program Spending	2,930.1	2,954.4	2,936.0	3,033.9	3,064.5	3,138.7	3,199.4	3,334.0
Debt Service	162.7	165.1	163.4	172.1	167.9	182.6	183.8	199.9
Total Expenditure	3,092.8	3,119.5	3,099.4	3,206.0	3,232.4	3,321.3	3,383.2	3,533.9
Budget Balance	-97.6	-98.6	-85.5	-58.0	-85.0	-31.5	-59.5	-30.5
% of GDP	-1.0%	-1.0%	-0.9%	-0.6%	-0.8%	-0.3%	-0.5%	-0.3%
Net Debt	2,800.3	2,749.7	2,740.3	3,042.3	3,064.3	3,182.7	3,333.0	3,499.7
% of GDP	28.8%	27.5%	27.4%	29.5%	28.8%	29.3%	29.5%	29.3%

Sources: Scotiabank Economics, PEI Finance.

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