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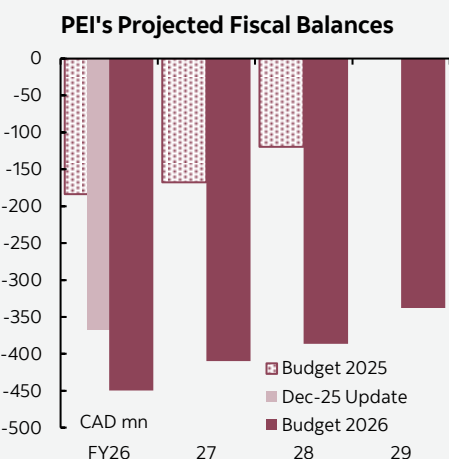
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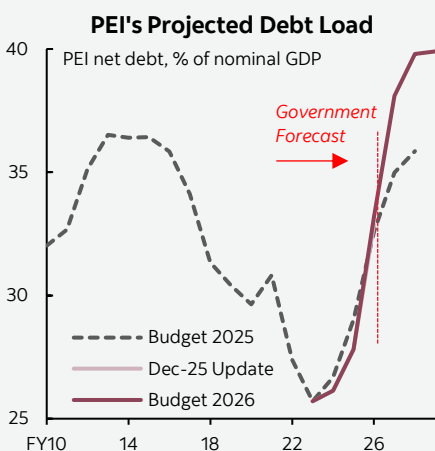
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Chart 1



Sources: Scotiabank Economics, PEI Finance.

Chart 2



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

# Prince Edward Island: 2026–27 Budget

## FISCAL OUTLOOK DETERIORATES IN AFFORDABILITY BUDGET

- **Bottom line:** Weaker revenue and higher spending have led PEI to anticipate larger deficits and a faster increase in debt than previously projected, despite some efforts to find fiscal savings and target new affordability measures. The decline in the deficit in future years will depend in large part on the achievement of the planned \$200 mn annual savings through a spending review as well as the planned slowdown in health spending growth.
- **Budget balance:** the FY26 deficit is estimated to be \$450 mn (4% of nominal GDP), up from \$367 mn (3.2%) in the mid-year update, and is projected to decline from \$410 mn (3.5%) in FY27 to \$338 mn (2.6%) by FY29 (chart 1).
- **Economic assumptions:** real GDP growth is assumed to grow 2% in 2026 and 2027, down from an estimated 2.4% in 2025.
- **Net debt:** projected to rise from 33.2% in FY26 to 39.8% in FY28, higher than last year's outlook of 35.9%, then holding at 39.9% in FY29 (chart 2).
- **Borrowing requirements:** set to be \$918 mn in FY27, down from \$1,053 mn in FY26.

### OUR TAKE

**PEI's Budget 2026 falls further into the red for longer with the deficit gradually declining over the outlook.** PEI's latest operating budget marks a clear deterioration in the near-term fiscal outlook versus both the December fiscal update and last year's operating budget as the province now expects the budget balance for fiscal year 2025–26 (FY26) to be -\$449.6 mn (-4.0% of nominal GDP), compared with -\$367.4 mn (-3.2%) in the mid-year update and -\$183.9 mn (-1.7%) in Budget 2025. The budget's larger deficit reflects both a softer revenue track and a higher spending base relative to last year's budget plan. The deficit is projected to gradually decline from \$410 mn (3.5% of GDP) in FY27 to \$338 mn (2.6%) in FY29. As such, the latest budget expects the province will be quickly approaching the ceilings of its fiscal anchors for net debt-to-GDP and the interest-to-revenue ratio, formally targeted in December 2025, by the end of the outlook.

**Weaker revenues are weighing on the budget's bottom line over the near-term.** Total revenue was revised down by nearly \$250 mn over FY27 and FY28 relative to last year's budget. The previously announced increase in the basic personal exemption from \$14,650 to \$15,000 is expected to save residents \$3.2 mn in income annually. Additionally, the province is proposing a new 20% tax bracket on income over \$200 k, up from 19% currently. Total revenue is projected to increase 3.5% y/y to \$3.39 bn in FY27, before increasing 4.4% y/y to \$3.54 bn in FY28 and 4.7% y/y to \$3.7 bn in FY29.

### PEI's expenditure plans point to a larger spending envelope over the medium term.

Total expenditure is expected to increase to \$3.8 bn in FY27, up from \$3.72 bn in FY26, as the latest outlook adds more than \$260 mn in spending across FY27 and FY28 compared to last year's budget. Higher health spending is adding to overall expenditure over the outlook and is projected to rise from \$1.16 bn in FY26 to \$1.41 bn in FY27, \$1.47 bn in FY28, and \$1.53 bn in FY29. Other major program expenditures include Public Schools Branch which is planned to be \$344 mn in FY27, up from \$329.8 mn in FY26, and Social Development and Seniors spending at \$246.9 mn in FY27, up from \$241.8 mn in FY26. This is partially offset by lower program spending by other departments, including Transportation, Infrastructure, and Energy with planned expenditures of \$279.1 mn in FY27, down from \$317.4 mn in FY26. Most notably, the province is introducing \$26 mn in funding for a new PEI Essentials Benefit, which is targeted to low- and middle-income residents, and complements an increase to the PEI child benefit. Helping fund these new

affordability measures is the elimination of the PEI Energy Rebate Program. Looking beyond FY27, the government’s three-year plan expects total expenditure will increase 3.3% y/y to \$3.92 bn in FY28 and 3.0% y/y to \$4.04 bn in FY29. As a measure to limit spending pressures, the province will be undertaking a multi-year comprehensive expenditure review that is estimated to save \$195 mn in FY28 and \$200 mn in FY29.

**The higher deficits for longer will further driver up the province’s net debt over the outlook.** Net debt is projected to rise from \$3.77 bn (33.2% of GDP) in FY26 to \$4.50 bn (38.1%) in FY27 and \$4.89 bn (39.8%) in FY28, before reaching \$5.13 bn (39.9%) in FY29. This is a steeper trajectory than last year’s budget, which anticipated a materially lower debt burden of 35.9% by FY28, and will be bumping up against the 40% net debt-to-GDP ceiling. The budget assumes that nominal GDP will grow 4% in 2026 and 2027, before increasing 4.5% per year thereafter. Meanwhile, real GDP growth is assumed to grow 2% in 2026 and 2027, down from an estimated 2.4% in 2025 amid trade uncertainty and slowing population growth. Higher debt also keeps interest costs elevated, as spending on debt services rises from \$170.8 mn in FY26 to \$247.8 mn in FY28 and \$268.1 mn in FY29, pushing debt service to roughly 7.0%–7.2% of revenue in the outer years, up from 5.2% in FY26, and close to the province’s fiscal anchor of keeping the interest-to-revenue ratio below 7.5%.

**The province’s cash requirements remain elevated amid the large deficits and capital program.** For FY27, total cash needs are estimated at \$918.4 mn, down from \$1,052.7 mn in FY26, driven by the consolidated deficit (\$410 mn), \$486.5 mn in capital asset acquisitions, and \$105.1 mn in net borrowing on behalf of Crown corporations, which is partially offset by \$166.2 mn in amortization. These borrowing requirements are planned to be met through \$900 mn in long-term borrowing and \$18.4 mn in short-term borrowing and working capital.

Updated Fiscal Forecast							
\$ millions except where noted							
	FY26		FY27		FY28		FY29
	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'26
Total Revenue	3,343	3,271	3,498	3,386	3,671	3,535	3,701
Total Expenses	3,527	3,720	3,666	3,796	3,790	3,921	4,039
Budget Balance	(184)	(450)	(168)	(410)	(120)	(386)	(338)
% of GDP	(1.7)	(4.0)	(1.5)	(3.5)	(1.0)	(3.1)	(2.6)
Net Debt	3,562	3,775	3,976	4,505	4,239	4,892	5,127
% of GDP	32.6	33.2	35.0	38.1	35.9	39.8	39.9
Debt Service	170	171	214	201	238	248	268
% of Revenue	5.1	5.2	6.1	5.9	6.5	7.0	7.2

Sources: Scotiabank Economics, PEI Finance.

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