

Prince Edward Island: 2021–22 Budget

READYING FOR RECOVERY AFTER AVOIDING THE PANDEMIC'S WORST

- Budget balance forecasts: $-\$112$ mn (-1.5% of nominal GDP) in FY22, $-\$46$ mn (-0.6%) in FY23, $-\$28$ mn (-0.3%) in FY24—all slightly wider than expected in the June 2020 budget (chart 1).
- Net debt: expected to edge up to 35.4% in FY22, then ease to 33.8% by FY24—slightly higher than forecast in last year's budget (chart 2).
- Nominal GDP growth: -6.6% in 2020 and $+5.8\%$ this year—consistent with the provincial economy reaching pre-pandemic output level in late FY22 or early FY23.
- Borrowing: $\$276$ mn in FY22 of which $\$200$ mn is long-term, $\$475$ mn forecast for FY21 roughly evenly split between short- and long-term sources of cash.
- We assess Budget to be a credible plan that maintains PEI's healthy fiscal position relative to most other Canadian jurisdictions and sets up recovery.

OUR TAKE

Like virtually every economy around the world, Prince Edward Island has had its fiscal position eroded by COVID-19 over the last year. According to the Island's latest projections, a return to black ink will not occur until after FY24; that contrasts sharply with the surpluses planned through at least FY22 as of the last pre-pandemic budget.

Relative to other jurisdictions, however, the Island's finances are in good shape. Deficits of about 1.5% of provincial GDP in FY21–22 are among the lowest forecast by any subnational government in Canada thus far (chart 3, p.2). Ditto for net debt, despite the increase as a share of output expected in FY22 (chart 4, p.2). These figures reflect a strong fiscal position entering the pandemic, early and decisive action that helped quell the spread of COVID-19, and the natural advantages of Island status. PEI's modest economic contraction relative to other jurisdictions in 2020 is well-established, and Budget noted a number of economic indicators for which PEI's results far outperformed the national average in 2020.

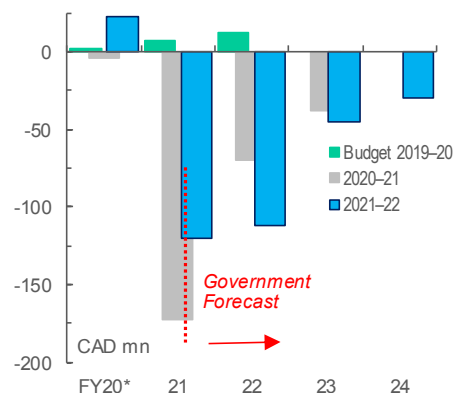
Policy supports in the budget look appropriately targeted. Funds to recruit and retain nurses and nurse practitioners and efforts to expand use of virtual technology in the health care system seek to address the labour and care delivery challenges exposed by the pandemic across the world. Plans to designate new child care spaces and reduce related costs target higher labour force participation among working parents. A further cut to the small business tax rate should help reduce costs as firms relaunch their operations. Grants that subsidize reopening costs for tourism businesses in 2021 acknowledge the particularly challenging outlook for firms within one of the Island's key sectors.

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Chart 1

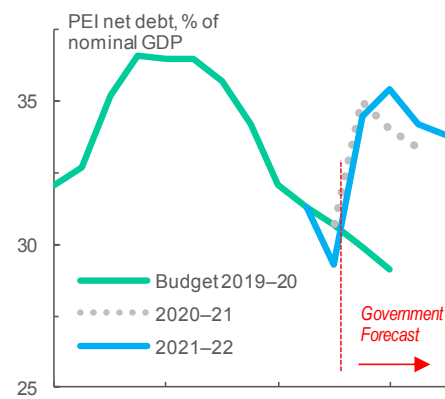
PEI's Projected Fiscal Balances



* Final result. Sources: Scotiabank Economics, PEI Finance.

Chart 2

PEI's Projected Debt Load



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

The Province also announced plans to boost infrastructure outlays late last year.

A planned increase in federal funding unlocks greater spending potential for the Island. The fiscal plan released in June 2020 assumed that transfers from Ottawa would surge by more than 20% in FY21, then retreat at a roughly equal rate the next year as pandemic support waned. By contrast, this year's plan is built on average annual transfer growth of 3.5% during FY22–24, which puts FY22–23 revenues from federal sources on track to exceed the prior plan's levels by more than \$250 mn (chart 5, p.3). With the benefit of those funds, the province has pencilled a 4.4% climb in total expenditures into FY22—presumably reflecting the cost of new programs and policies—which compares to a 7.8% cut planned as of the June 2020 fiscal blueprint (chart 6, p.3).

Economic projections underlying Budget appear reasonable and consistent with prudent fiscal planning.

Our most recent PEI economic forecast assumes real growth stronger than the private sector average noted within the document, but was completed following the passage of additional US stimulus and already incorporates some Canadian fiscal support in the spring. To the extent that our more optimistic national-level expansion unfolds, the Island may see some budget balance upside.

Population growth remains a key question mark with mobility limited and travel restrictions still in place. PEI witnessed the strongest headcount gains of any province in Canada during the years leading up to the pandemic, and those gains were anchored by the attraction and retention of skilled newcomers. Population projections underlying the fiscal plan—discussed in the budget paper and released in the prior week—are feasible, but acknowledged to be tilted towards the optimistic end of the range of standard Statistics Canada scenarios (chart 7, p.3). The Province assumes that immigration levels will return to their long-run trend by the end of 2021.

Updated Fiscal Forecast

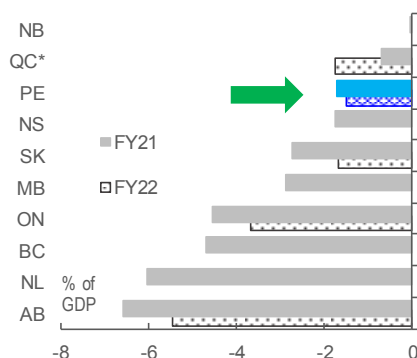
\$ millions except where noted

	FY20	FY21	FY22	FY23	FY24
Nominal GDP	7,523	7,027	7,435	7,944	8,257
% change	7.6	-6.6	5.8	6.8	3.9
Total Revenue	2,188	2,277	2,390	2,485	2,585
% change	5.2	4.1	5.0	4.0	4.0
Own-Source	1,340	1,333	1,416	1,482	1,537
Federal Transfers	847	944	974	1,003	1,047
Total Expenditure	2,166	2,397	2,502	2,531	2,612
% change	7.1	10.7	4.4	1.2	3.2
Health	743	786	846	880	915
Other Departments	1,213	1,399	1,429	1,414	1,449
Interest	126	121	128	133	140
Amortization	84	92	99	104	109
Budget Balance	22.0	-120.0	-112.1	-45.7	-27.9
% of GDP	0.3	-1.7	-1.5	-0.6	-0.3
Net Debt	2,205	2,425	2,634	2,716	2,792
% of GDP	29.3	34.5	35.4	34.2	33.8

Sources: Scotiabank Economics, PEI Finance, Statistics Canada.

Chart 3

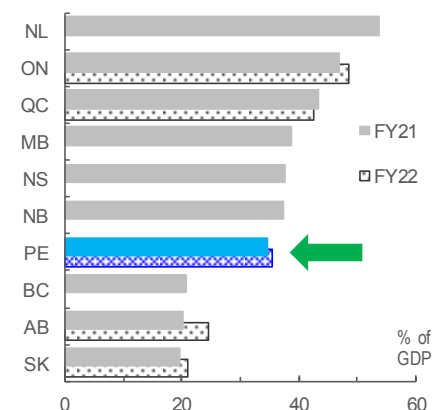
Provincial Budget Balance Projections



* After Generations Fund and Stabilization Reserve transfers.
Sources: Scotiabank Economics, Statistics Canada, Budget Documents.

Chart 4

Provincial Debt Load Projections



Sources: Scotiabank Economics, Statistics Canada, Budget Documents.

Cash requirements for FY22 are forecast to amount to \$276 mn, of which \$200 mn is expected to be apportioned to long-term borrowing. For FY21, the projected total is \$475 mn—about \$15 mn more than anticipated in the June 2020 budget—which includes \$250 mn in long-term borrowing.

Chart 5

Federal Transfers Increased Throughout Planning Horizon

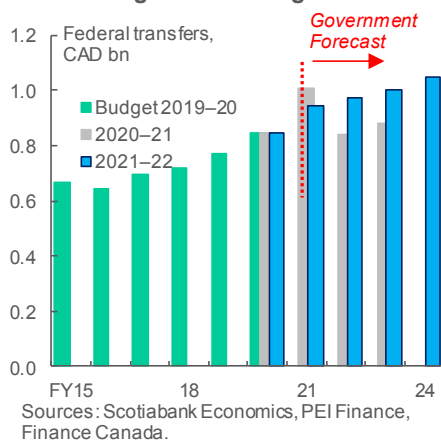


Chart 6

Spending Profile Smoothed

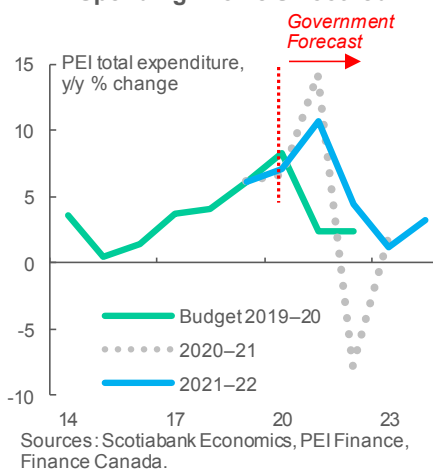
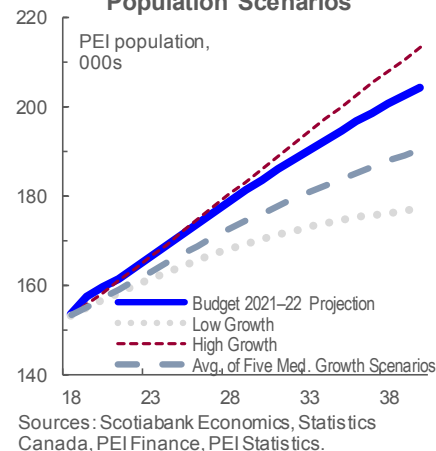


Chart 7

Comparing PEI Population Scenarios



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