

Contributors

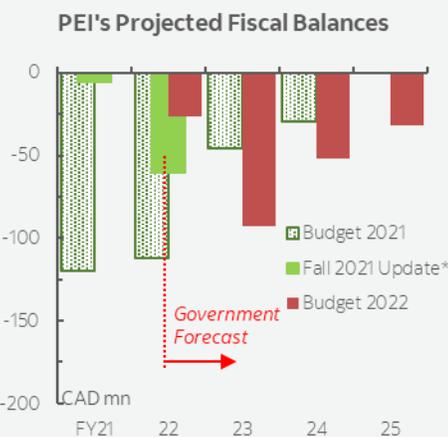
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## Prince Edward Island: 2022–23 Budget

### FINANCIALLY DODGING THE COVID BULLET, READY TO MOVE ON

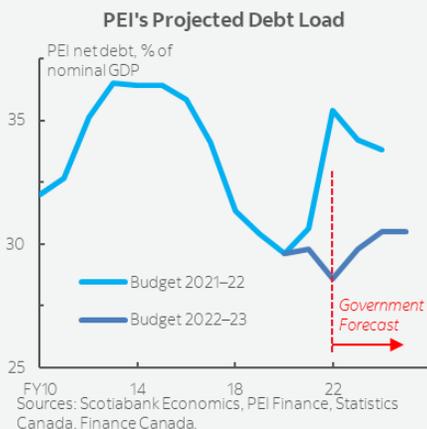
- **Budget balance forecasts:** -\$26.5 mn (-0.3% of nominal GDP) in FY22, -\$93 mn (-1.0%) in FY23, -\$51.9 mn (-0.6%) in FY24, -\$32.1 mn (-0.3%) in FY25—narrower as a share of GDP than expected in many other provinces even at its peak (chart 1).
- **New policy measures focus on health, child care, and economic recovery.**
- **Net debt:** expected to edge up from 28.6% in FY22 to 29.8% in FY23, then stabilize at 30.5% in FY24 and FY25—well below forecast in last year’s budget (chart 2).
- **Real GDP growth:** +3.5% in 2021, +2.9% in 2022 anticipated by the average private-sector forecast—following the mildest contraction among provinces in 2020 at -1.7% of GDP.
- **Borrowing:** \$213 mn in FY22 of which \$200 mn is long-term; \$332 mn cash requirements forecast for FY23 of which \$250 mn is long-term, slightly up from FY22.
- **The budget confirmed PEI’s outstanding track record in pandemic management and prudent fiscal planning. We believe the budget outlined a credible three-year framework that maintains PEI’s financial advantage.**

Chart 1



\* FY21 figure is final result.  
Sources: Scotiabank Economics, PEI Finance.

Chart 2



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

### OUR TAKE

**Effective pandemic management and prudent fiscal planning has enabled PEI to minimize fiscal shocks, running only modest and declining deficits over the horizon, while still supporting targeted additional investments.** Recall that the province settled at a meagre of \$5.6 mn deficit in FY21 (less than 0.1% of nominal GDP), before slashing its forecast FY22 deficit by three-quarters from the previous Budget to \$26.5 mn (-0.3% of GDP) in the latest estimate. With that track record, PEI plans to increase expenditures by 2.4% in FY23, and with revenues relatively flat, the shortfall is expected to widen to \$93 mn (1.0% of GDP). The plan anticipates a gradual reduction of deficits over the three-year horizon—driven by strong revenue growth in FY24 and FY25 and stabilizing expenditures—to -\$32.1 mn (-0.3% of GDP) in FY25.

**Despite a temporary slow-down in FY23, robust growth in the province’s own-source revenues and federal funding should continue to support future spending initiatives and debt servicing costs.** Revenues are projected to decrease slightly from both provincial and federal sources in FY23, before picking up again by an annual rate of 4% from both sources in FY24 and 25. Meanwhile, the three-year plan suggests expenditures will grow across the planned horizon, yet at a slower rate of 2–3%. Debt service cost is expected to increase slightly as a share of revenue from 4.7% in FY22 to 5.1% in FY23, and edge down to 5% in FY25.

**Policy measures have a focus on health and economic recovery.** Extra funding was allocated to recruit specialized physicians, support the medical homes and neighbourhoods project—an Island-based electronic platform that connects patients and health care practitioners at the local level—and expand the dental care program. In partnership with the federal government, PEI plans to improve the availability of child care and early education. The budget also outlined efforts to improve clean and affordable energy and public transit in the province. More relevant to the recent discussions on rising inflation, there will also be an increase in the Basic Personal Taxable Amount tied to the Consumer Price Index.

**Federal transfer projections were lifted again and will remain an important source of income across the three-year fiscal framework.** PEI now expects to receive \$1,017 mn (40% of revenues) from the federal government in FY22, \$43 mn higher versus the last Budget. The plan then assumes the FY23 transfers to remain on the same level even with the removal of some pandemic support, then grow at an average annual rate of 3.9% during FY24–25 to hold steady near 40% of provincial government receipts.

**Prudent fiscal planning continues to account for potential downside risks.** The nominal GDP assumptions underpinning the deficits sat at very modest levels of 3.9% for 2022, 3.0% for 2023, and 3.2% in 2024. While caution is warranted considering the volatilities of the province’s main industries, most private-sector forecasters project higher nominal growth for the island. The budget also included two contingencies worth \$15 mn (0.6% of total expenditures) each in FY23 to absorb potential costs/losses associated with two areas of uncertainty—COVID-19 and the US potato export ban.

**The province expects immigration to remain the anchor of its population expansion plans, and again contribute significantly to economic growth in the coming year.** Before the pandemic, immigration contributed more to population gains in PEI than in any other province. PEI anticipates that 2,500 newcomers will arrive on the Island in 2022—the second-highest ever recorded total—as travel linkages improve, system backlogs are processed, and pandemic restrictions ease. That surge should support labour force growth this year, though omicron wave impacts will likely delay the recovery and exacerbate job vacancy rates early in 2022.

**Despite the 2 ppts projected increase as a share of output from FY22 to FY25, the province’s net debt trajectory remains well below the historical average, as well as levels expected in many other provinces.** With more deficits on the horizon, PEI is expected to increase its cash requirements from \$213 mn in FY22 (94% is long-term) to \$332 mn in FY23 (75% is long-term).

Updated Fiscal Forecast					
\$ millions except where noted					
	FY22		FY23	FY24	FY25
	Update	Bud.'22	Bud.'22	Bud.'22	Bud.'22
Own-Source Revenue	1,482.1	1,556.6	1,555.8	1,622.1	1,686.4
Federal Transfers	996.6	1,016.6	1,013.3	1,049.9	1,092.4
<b>Total Revenue</b>	<b>2,478.7</b>	<b>2,573.2</b>	<b>2,569.1</b>	<b>2,672.0</b>	<b>2,778.8</b>
Program Spending	2,416.1	2,478.5	2,531.1	2,589.9	2,672.9
Debt Service	123.2	121.2	131.0	134.0	138.0
<b>Total Expenditure</b>	<b>2,539.3</b>	<b>2,599.7</b>	<b>2,662.1</b>	<b>2,723.9</b>	<b>2,810.9</b>
<b>Budget Balance</b>	<b>-60.6</b>	<b>-26.5</b>	<b>-93.0</b>	<b>-51.9</b>	<b>-32.1</b>
<i>% of GDP</i>	-0.8%	-0.3%	-1.0%	-0.6%	-0.3%
<b>Net Debt</b>	<b>2,493.8</b>	<b>2,462.1</b>	<b>2,664.5</b>	<b>2,804.7</b>	<b>2,898.0</b>
<i>% of GDP</i>	31.1%	28.6%	29.8%	30.5%	30.5%

Sources: Scotiabank Economics, PEI Finance.

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