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Chart 1

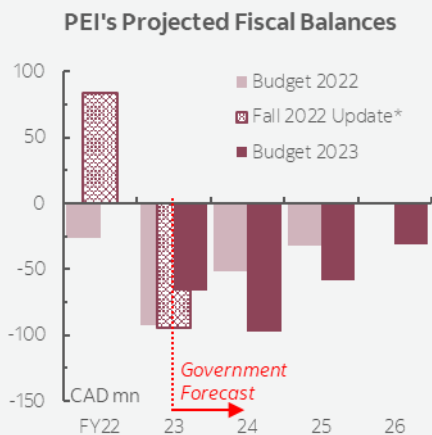
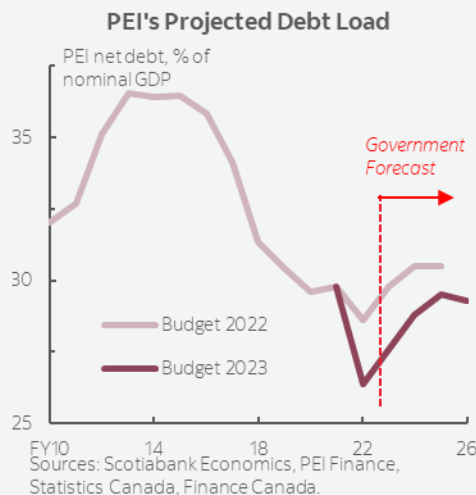


Chart 2



## Prince Edward Island: 2023–24 Budget

### PROMISING GROWTH OUTLOOK SPURS MAJOR SPENDING PLANS

- **Budget balance forecasts:** **-\$66.2 mn** (-0.7% of nominal GDP) in FY23, **-\$97.6mn** (-1%) in FY24, **-\$58.0 mn** (-0.6%) in FY25, **-\$31.5 mn** (-0.3%) in FY26—a better-than-anticipated starting point followed by deeper deficits projected for the next two years relative to the last budget with no return to balance in sight (chart 1).
- **New policy measures focus on health, housing and affordability.**
- **Net debt-to-GDP:** expected to edge up from 27.6% in FY23 to 28.8% in FY24—1.7 ppts below forecast in last year's budget—then stabilizes at levels above 29% in FY25 and FY26 (chart 2).
- **Real GDP growth:** **+2.9% in 2022**, **3.5% in 2023**—well above private-sector forecast range of 0.8–2% in 2023; **nominal GDP growth:** **+4.4% in 2022**, **+6.5% in 2023**, **+6.0% in 2024**.
- **Borrowing:** **\$374 mn** cash requirements forecast for FY24 of which **\$250 mn** is long-term, up 27% from FY23.
- **The budget features tax system changes and major new investments in housing and healthcare. Although more prudence is warranted in a highly uncertain economic environment, we acknowledge the imperative to increase spending to cater to the province's fast-growing population.**

### OUR TAKE

**The re-elected PEI Progressive Conservative government tabled a budget with a considerable increase in spending supported by an optimistic growth projection.**

Higher-than-anticipated own-source revenue puts PEI on a better starting point and the province is projecting a narrower deficit of **-\$66.2 mn** (-0.7% of nominal GDP) in FY23—a \$28.6 mn improvement from its mid-year fiscal update. The province expects the deficit to widen to **-\$97.6mn** (-1.0%) in FY24 as growth slows and total spending rises by 6.4%. In outer years, the province sees the deficit fall to more modest levels of **-\$58.0 mn** (-0.6%) in FY25 and **-\$31.5 mn** (-0.3%) in FY26.

**Revenues are forecast to rise by 5.5% in FY24, mostly attributable to a material boost in federal transfers.** PEI anticipates \$1.2 bn in major transfers in FY24—up 12.5% over FY23 and accounting for 87% of revenue increases. Own-source revenues are expected to rise modestly by 1.2% in FY24 even with the fiscal impact of new tax relief measures. Over the medium term, total revenue is set to grow at an average pace of 4.8% through FY26.

**Following a surge of 13.1% last year, the province's total expenditures saw another substantial boost in the near term (chart 3), partly offset by additional funding support from the federal government.** Total expenditures are slated to grow by \$187 mn (6.4%), including a \$136.5 mn (15.0%) bump to health and wellness. Over the medium term, total spending will continue to grow at an average pace of 3.6% per year, within the bound of projected revenue growth. Debt service costs are expected to be \$19.5 mn (13.6%) higher in FY24, accounting for 5.5% of total revenue in FY24, up from 5.0% in FY23.

**Policy measures fall into three categories: health, housing and affordability.** Extra funding was allocated to medical homes (\$8.9 mn), prescription drugs and the Pharmacy Plus program (\$13 mn), and enhancing mental health supports (\$3.2 mn). Other major healthcare investments include \$21.9 mn combined capital and operational spending designated to establishing the UPEI Medical School. Investments in housing include \$6 mn to offset property tax increases and \$1 mn to launch a new rent-to-own program. The budget contains tax relief measures helping with rising cost of living, tallying up over \$14

mn in FY24. These include an increase in the Basic Personal Amount to reach \$13,500 by 2024, a \$750 increase in the income threshold eligible for the low-income tax reduction and a five-bracket income tax system.

### The growth projections underpinning the outlook hinge on strong population growth assumptions and are significantly more optimistic than the private-sector forecast range.

PEI enjoyed the highest population growth (3.6%) in the province's history and among its peers last year, and projects another 3.5% growth this year. The province expects rising international immigration and positive inter-provincial migration to continue anchoring its population expansion plan with its headcount reaching 200k by the early 2030s. With an optimistic growth trajectory, extra caution is warranted in a highly uncertain environment, especially given volatilities of the province's main sectors and the shaky economic outlooks of its main trading partners. The budget included contingencies totaling \$43 mn (1.4% of total expenditures) in FY24 to absorb potential costs/losses associated with salary negotiations and other extraordinary events.

### The island continues to boost infrastructure spending to bolster its economic potential.

The province's ambitious FY23 capital plan was unveiled in November last year and targets spending above \$1 bn for the next five years—\$321 mn (38.1%) higher than its last 5-year plan (chart 4). The enhanced plan aims to improve the province's climate resiliency (\$24.5 mn), healthcare (\$92 mn), housing affordability (\$100 mn) and education (\$30 mn).

**With strong projected nominal growth in the next three years, the province's net debt trajectory remains well below the historical average as a share of output.** Revised down slightly relative to the last budget as a share of nominal output, the net debt-to-GDP ratio is now expected to increase steadily from 27.6% in FY23 to above 29% by FY26. Although PEI still enjoys the second lowest debt burden among provinces east of Saskatchewan, it is on an upward trajectory and an unforeseen slowdown in growth could put the province's net debt-to-GDP ratio on a higher path. With more deficits on the horizon, PEI is expected to increase its cash requirements from \$295 mn in FY23 (68% is long-term) to \$374 mn in FY24 (67% is long-term).

Chart 3

#### Spending Profile Largely Lifted

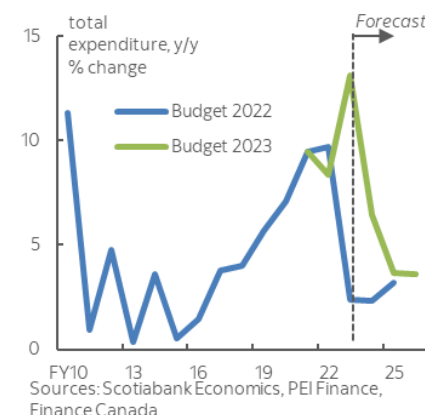
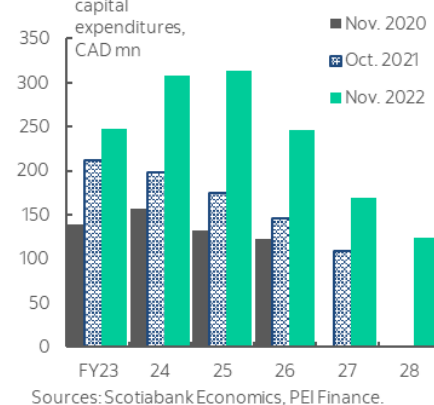


Chart 4

#### PEI Capital Budget Once Again Shifts Higher



### Updated Fiscal Forecast

\$ millions except where noted

	FY23			FY24		FY25		FY26
	Bud.'22	Update	Bud.'23	Bud.'22	Bud.'23	Bud.'22	Bud.'23	Bud.'23
Own-Source Revenue	1,555.8	1,711.8	1,759.6	1,622.1	1,780.1	1,686.4	1,885.0	1,969.8
Federal Transfers	1,013.3	1,096.0	1,080.0	1,049.9	1,215.1	1,092.4	1,263.0	1,320.0
<b>Total Revenue</b>	<b>2,569.1</b>	<b>2,807.8</b>	<b>2,839.6</b>	<b>2,672.0</b>	<b>2,995.2</b>	<b>2,778.8</b>	<b>3,148.0</b>	<b>3,289.8</b>
Program Spending	2,531.1	2,753.8	2,762.6	2,589.9	2,930.1	2,672.9	3,033.9	3,138.7
Debt Service	131.0	148.8	143.2	134.0	162.7	138.0	172.1	182.6
<b>Total Expenditure</b>	<b>2,662.1</b>	<b>2,902.6</b>	<b>2,905.8</b>	<b>2,723.9</b>	<b>3,092.8</b>	<b>2,810.9</b>	<b>3,206.0</b>	<b>3,321.3</b>
<b>Budget Balance</b>	<b>-93.0</b>	<b>-94.8</b>	<b>-66.2</b>	<b>-51.9</b>	<b>-97.6</b>	<b>-32.1</b>	<b>-58.0</b>	<b>-31.5</b>
% of GDP	-1.0%	-1.0%	-0.7%	-0.6%	-1.0%	-0.3%	-0.6%	-0.3%
<b>Net Debt</b>	<b>2,664.5</b>	<b>2,548.8</b>	<b>2,515.4</b>	<b>2,804.7</b>	<b>2,800.3</b>	<b>2,898.0</b>	<b>3,042.3</b>	<b>3,182.7</b>
% of GDP	29.8%	27.9%	27.6%	30.5%	28.8%	30.5%	29.5%	29.3%

Sources: Scotiabank Economics, PEI Finance.

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