

2024 PEI Budget

Deficits to Persist Over Projection Horizon

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Highlights

- PEI expects to carry a deficit worth 0.8% of GDP in FY 2024/25, with no plan to balance the books through FY 2026/27.
- Economic growth is projected to accelerate in 2024 and remain robust over the next several years, underpinning solid revenue gains. Tax relief for households is in the cards starting in 2025. On the opposite end of the ledger, healthcare spending steals the show in FY 2024/25.
- The government’s expectation that economic growth will remain firm opens some room for a downside surprise, with an attendant impact on PEI’s bottom line. Fortunately for the province, its debt burden is on the lower end of the provincial spectrum.

In Budget 2024, PEI expects to run an \$85 million deficit this fiscal year, amounting to about 0.8% of GDP. Thereafter, dwindling shortfalls are expected through FY 2026/27.

Healthcare is a major focus of the budget. However, the government will also deliver cost of living relief via the continued roll out of tax system changes introduced previously and the introduction of a new childcare benefit.

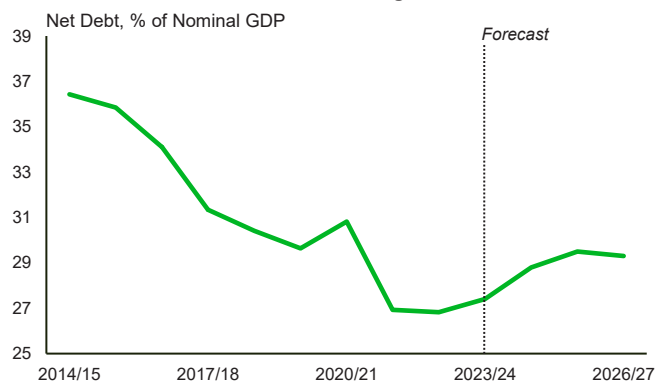
Very Strong Economic Growth Expected in PEI

The PEI government has built tremendously strong forecast assumptions into their budget planning. For instance, after slowing to a still-hot estimated rate of 6.5% in 2023, nominal GDP is expected to grow between 6-6.6% over the next 3 years. This is underpinned by robust real GDP growth that averages 4% annually over the same time, marking an acceleration from an estimated 3% gain in 2023.

These rates are well above our own forecasts and even the private-sector consensus. The government chalks this up to continued robust population and employment growth, the muted impact of interest rates on consumption, and government incentives (like the elimination of the HST on purpose-built rentals) boosting construction.

Unsurprisingly given this outlook, revenue growth is anticipated to be solid over the projection horizon, albeit a touch softer this fiscal year, partly due to dropping “other revenues”. Meanwhile growth in the main tax categories is expected to be firm. In January 2025, the government will continue its rollout of tax

Chart 1: Capital Spending, Lingering Deficits to Push PEI's Debt Burden Higher



Source: PEI Budget 2024, TD Economics.

system changes meant to put more money in the pockets of Islanders. These changes include increasing the basic personal amount, raising the thresholds for each of the tax brackets, and lowering tax rates for the first four brackets. These changes are expected to cost the PEI government \$14.6 million – a relatively small hit to government finances. A childcare benefit will also be introduced in January 2025 at a cost of \$4.4 million, to help families manage the costs associated with their children. Families with household incomes up to \$45,000 will receive \$720 per year. Meanwhile, families with incomes between \$45,000 and \$80,000 will receive a prorated benefit.

On the expenses side, spending growth will slow to around 4% in FY 2024/25, restrained by expenditures in “Environment, Energy and Climate Action”. On the other hand, massive healthcare spending growth is projected, with it expected to climb by nearly 9% this fiscal year, supported by a push to improve recruitment of healthcare professionals, add more doctors, and enhance medical care services.

Debt-to-GDP to Push Higher

Persistent deficits and rising capital spending will conspire to push net debt-to-GDP about 2 ppts higher from its FY 2023/24 level of 27.4% through FY 2026/27. On the capital investment front, note that the recently released survey of capital spending intentions suggests that public sector investment could expand by a sizzling 22% this year, supported by educational investment and expenditures tied to public administration.

Long-term borrowing requirements are expected to total \$400 million this fiscal year, up from \$200 million in FY 2023/24.

Bottom Line

Probably the biggest takeaway from PEI’s budget is the government’s expectation that economic growth will remain very strong over the next several years, even as trade gets impacted by slowing U.S. economic growth and softer activity in other provinces. However, a significant gain in capital spending will help in this regard, as will the likelihood of solid population growth.

Should real GDP growth hew closer to consensus (1.1% in 2024), revenues would obviously be impacted to the downside. Fortunately, PEI’s debt burden is on the lower end of the provincial spectrum, offering some room to absorb the impact.

Prince Edward Island Government Fiscal Position				
[Millions of C\$ Unless Otherwise Noted]				
Fiscal Year	2023-24 Forecast	2024-25 Estimate	2025-26 Plan	2026-27 Plan
Revenues	3,014	3,147	3,324	3,503
% Change	-	4.4	5.6	5.4
Provincial*	1,823	1,897	2,011	2,131
% Change	-	4.0	6.0	6.0
Federal Transfers	1,191	1,251	1,313	1,372
% Change	-	5.0	5.0	4.5
Expenditures	3,099	3,232	3,383	3,534
% Change	-	4.3	4.7	4.5
Program Spending	2,817	2,933	3,055	3,183
Interest	163	168	184	200
Amortization	119	131	144	152
Budget Balance	-85.5	-85.0	-59.5	-30.5
% of GDP	-0.9	-0.8	-0.5	-0.3
Net Debt	2,740	3,064	3,333	3,500
% of GDP	27.4	28.8	29.5	29.3

*Includes own source revenue, net consolidated surplus of government business enterprises, and revenue from consolidated agencies. Source: PEI Budget 2024, TD Economics.

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