

2023 PEI Budget

Solid Economic Growth to Underpin Gradual Improvement in the Deficit

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Highlights

- On the heels of a shallower-than-anticipated deficit in FY 2022/23, PEI's shortfall is projected to increase to 1% of GDP this year. Among the provinces, only B.C. is expected to record a larger deficit as a share of GDP in the year ahead. The PEI government is poised to ramp up spending in health and education significantly, while rolling out new tax-relief measures for households.
- Net debt-to-GDP is projected to increase from 27.6% in FY 2022/23 to 29.3% by FY 2025/26. While this would still leave the Island as one of the least indebted provinces, it is dependent on PEI's recent string of lofty growth performances being maintained over the medium term, which could be challenging in this current backdrop.

In their first budget since their recent election win, the PEI government will maintain strong near-term program spending while simultaneously rolling out tax-relief to offset cost-of-living increases. Over the medium term, deficits are forecast to decline gradually while net debt-to-GDP increases but remains low. However, these projections count on robust economic growth being maintained over the medium term, which could be a challenge given that the current backdrop is fraught with risks.

Revenues drive better-than-expected starting point

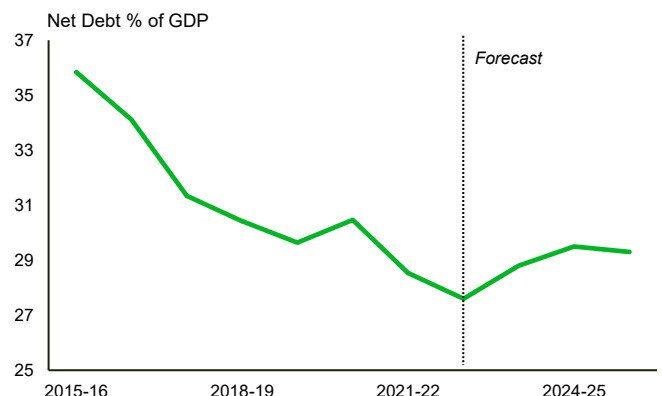
The government expects the FY 2022/23 deficit to total \$66.2 million (or 0.7% of GDP). This is a marked improvement from the \$94.8 billion deficit forecast in last winter's fiscal update. With very little change in the spending projection, revenues are fully responsible for this improvement, as PEI enjoyed solid economic growth last year. Indeed, recently released GDP by industry data pegs the Island's real GDP growth at 2.9% last year following a nation-leading 7.9% print in 2021. This better-than-expected starting point puts the province on firmer footing heading into this fiscal year.

Lofty Revenue Growth on the Horizon

Bucking the trend seen in most provinces this budget season, PEI is forecasting a healthy 5.5% gain in revenues this year. This projection sees a major boost from federal transfers, but even own-source revenues are forecast to edge higher this year, notwithstanding the anticipated drag from the new tax-relief measures rolled out in the budget. These measures (which will put \$14 million back on the pockets of households) include:

- Increasing the basic personal amount by \$750 to \$12,750 this year and a further \$750 by 2024
- Increasing the income threshold for the low-income tax reduction by \$750 in both 2023 and 2024

Chart 1: Solid Economic Growth in PEI to Keep Province's Debt Burden Low



Source: PEI Provincial Budget 2023, Department of Finance Canada, Statcan, TD Economics.

The Province will also implement a new, 5-bracket tax system in 2024 while resetting assessment rates to 2020 levels to prevent a jump in property taxes in 2024. Meanwhile, the seniors tax credit will increase to \$4,679 in 2023 and \$5,595 in 2024, while income thresholds for the credit are increased in both years.

After this fiscal year, revenues are expected to grow by 5%, on average, through FY 2025/26. Robust economic growth underpins these projections, as PEI is forecasting nominal GDP growth to average a meaty 6% over the next 3 years. In comparison, we're expecting growth of around 4% (on average) this year and next.

For this year, the province expects economic growth to be supported by tourism, population growth, manufacturing activity, and non-residential spending, which more-than-offsets the drag on exporting activity from the damage caused by Hurricane Fiona. Real GDP growth, meanwhile, is forecast at 3.5% this year, well above consensus and our March forecast calling for a 1.5% gain. Accordingly, there could be some downside risk to the government's revenue forecasts should our projections be more on the mark.

On the other side of the ledger, program spending growth is forecast at 6% this year, lifted by outlays for early childhood education spending (\$10/day daycare program), and health and wellness. In the latter category, notable outlays are earmarked for mental health, prescription drugs and the Island's Pharmacy Plus Program. Elsewhere, funding is committed to improve housing affordability through the launch of a rent-to-own program and by providing financing for shovel-ready projects, among other items. After this fiscal year, spending growth is forecast to slow to 3.4% (on average) through FY 2025/26.

Deficit Projected to Increase This Fiscal Year

The Island is projecting the deficit to grow to \$97.6 million this year. This equals 1% of GDP, which is a larger shortfall (by this tally) than any other province except B.C. After this year, the province expects some improvement in the deficit, with it projected at 0.3% of GDP by FY 2025/26.

Deficits that linger through the medium-term help drive an uptick in the Island's net debt burden. Indeed, the net debt-to-GDP ratio is forecast to rise 1.7 ppts by FY 2025/26 from its FY 2022/23 level of 27.6%. This profile still implies that PEI would remain one of the least indebted provinces.

Borrowing requirements are forecast at \$374 million this fiscal year, up 27% from FY 2022/23. Note that PEI's 5-year capital spending plan (released late last year), envisions a 25% jump in investment this fiscal year, in response to record population growth.

Bottom Line

PEI is expecting its fiscal backdrop to remain fairly healthy over the medium term, with the deficit narrowing and debt-to-GDP remaining low. In the near term, the government's firm spending plans could help to keep economic and fiscal momentum strong through their impact on aggregate demand. However, the government's medium-term growth assumptions are optimistic, suggesting downside risk to its fiscal performance if some of the downside surprises (including weaker-than-expected U.S. economic growth or a deeper-than-anticipated consumption slowdown in the face of higher rates) materialize.

Prince Edward Island Government Fiscal Position				
[C\$ Millions, unless otherwise indicated]				
Fiscal year	22-23E	23-24F	24-25F	25-26F
Revenues	2,840	2,995	3,148	3,290
% change	-	5.5	5.1	4.5
Provincial*	1,760	1,780	1,885	1,969.8
% change	-	1.2	5.9	4.5
Federal transfers	1,080	1,215	1,263	1,320
% change	-	12.5	3.9	4.5
Expenditures	2,906	3,093	3,206	3,321
% change	-	6.4	3.7	3.6
Program spending	2,655	2,809	2,904	3,002
Interest	143	163	172	183
Amortization	108	121	130	137
BUDGET BALANCE	-66.2	-97.6	-58.0	-31.5
% of GDP	-0.7	-1.0	-0.6	-0.3
Net Debt	2,309	2,515	2,800	3,042
% of GDP	27.6	28.8	29.5	29.3

Source: 2023 Prince Edward Island Budget.
*Includes own source revenue, net consolidated surplus of Government Business Enterprises and revenue for consolidated agencies.

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