

2025 Prince Edward Island Budget

Deficits Expected Over the Projection Horizon

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Highlights

- PEI's deficit is pegged at a meaty 1.7% of GDP in the upcoming fiscal year, as expenditures are juiced by program spending and a new contingency for tariff-related growth risks.
- Economic growth is expected to be solid in 2025. In turn, revenue growth is forecast to be firm, despite tax relief measures for households and businesses.
- Net debt-to-GDP is forecast to climb significantly over the medium term, reducing flexibility to respond to downside growth shocks.

PEI's FY 2024/25 deficit is pegged at \$166 million. This works out to about 1.6% of GDP, putting it in line with the shortfalls observed during the Global Financial Crisis. Weaker revenue gains and stronger program spending were the contributors. This deficit is projected to climb to \$184 million (or 1.7% of GDP) this year, on the back of a huge gain in spending. Deficits are expected to persist through FY 2027/28. Net debt to GDP, meanwhile, is seen as climbing nearly 7 ppts from its FY 2024/25 level over the projection horizon.

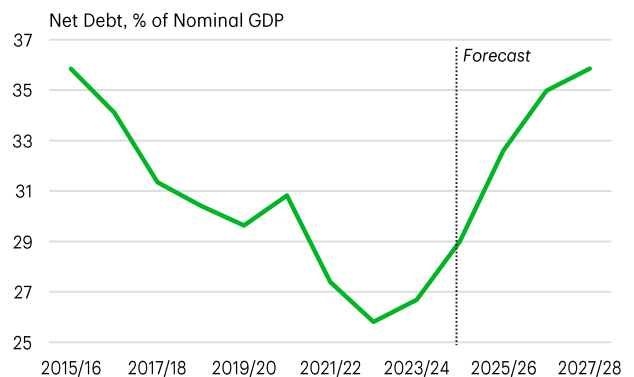
Tax relief is a notable feature of the budget, with measures for households and businesses. The Island has also introduced a sizeable contingency for tariff-related downside growth risks.

Reasonably Firm Economic Growth Expected

PEI is projecting real GDP growth of about 2.3%, on average, in 2025 and 2026, supported by a rising population and homebuilding. Meanwhile, nominal GDP is seen as advancing by an average of 4.2% over the two years. In comparison, our forecast has softer nominal GDP gains in 2025 and 2026 (on average), driven by a weaker outlook for real GDP.

This relatively firm backdrop is expected to support a 7% surge in revenues this year, with healthy gains in own-source revenues and federal transfers expected. This gain also comes despite a few tax relief measures introduced. For households,

Chart 1: PEI Debt to Rise Sharply Amid Trade Uncertainty



Source: PEI Budget 2025, TD Economics.

this includes increasing the basic personal amount to \$14,650 for the 2025 tax year and to \$15,000 in 2026. In addition, all personal income tax bracket thresholds will be increased by 1.8% starting in January 2026. These measures will cost the government \$5.1 million. On the business side, the small business threshold will be increased to \$600k, while the corporate income tax rate is cut by 1%. The cost to the government from business tax relief is pegged at \$9.3 million.

On the opposite end of the ledger, spending growth is expected to soar by 7.2% in FY 2025/26. Program spending growth is seen as climbing significantly, lifted by gains for big ticket items like healthcare and education. The Island has also introduced a \$32 million contingency (about 0.3% of GDP) to guard against downside growth risks from U.S. tariffs.

Debt Burden to Rise Notably

Net debt-to-GDP is forecast to jump from last year's estimated 29% to 35.9% by FY 2027/28. This marks a sizeable shift for the Island, which had seen debt levels closer to 27% of GDP over the past several years. In fact, if PEI's debt burden does climb to 35.9% by the end of the projection horizon, it would mark the highest level since FY 2014/15.

Long-term borrowing requirements are expected total \$800 million for FY 2025/26, up from \$400 million the prior fiscal year.

Bottom Line

The uncertain economic backdrop could challenge PEI's healthy revenue growth projection for this year and cause the Island's fiscal position to deteriorate. Note that debt to GDP is forecast to climb significantly through FY 2027/28, reducing flexibility to respond to downside growth shocks that may loom in coming years.

Exhibits

Prince Edward Island Government Fiscal Position				
[Millions of C\$ Unless Otherwise Noted]				
Fiscal Year	2024-25 Forecast	2025-26 Estimate	2026-27 Plan	2027-28 Plan
Revenues	3,123	3,343	3,498	3,671
<i>% Change</i>	-	7.1	4.6	4.9
Provincial*	1,898	2,022	2,111	2,211
<i>% Change</i>	-	6.5	4.4	4.8
Federal Transfers	1,224	1,321	1,387	1,459
<i>% Change</i>	-	7.9	5.0	5.2
Expenditures	3,289	3,527	3,666	3,790
<i>% Change</i>	-	7.2	3.9	3.4
Program Spending	3,248	3,502	3,611	3,726
Interest	167	170	214	238
Amortization	126	145	159	174
Budget Balance	-166.3	-183.9	-167.8	-119.5
<i>% of GDP</i>	-1.6	-1.7	-1.5	-1.0
Net Debt	3,040	3,562	3,976	4,239
<i>% of GDP</i>	29.0	32.6	35.0	35.9

*Includes own source revenue, net consolidated surplus of government business enterprises, and revenue from consolidated agencies. Source: PEI Budget 2025, TD Economics.

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