Economics

PROVINCIAL BUDGET BRIEFS

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Prince Edward Island budget 2024

Prince Edward Island remains on track to post a moderate budget deficit in fiscal 2023/24, and is projecting a similar shortfall of $85mn for the upcoming year. While the economy is expected to continue growing at a robust pace, supporting revenues, spending growth will keep pace for the upcoming year. While the projected deficit for the 2024/25 fiscal year is little changed relative to the outgoing year, increased borrowing on behalf of crown corporations and for capital spending will see net new bond issuance rise from $200mn in 2023/24 to $400mn.

Table 1: Summary of fiscal position: (C$millions)

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget
Revenue	2,877	2,995	3,014	19	3,147	3,324	3,503
Provincial sources	1,786	1,780	1,823	43	1,897	2,011	2,131
• % change	10.3	1.2	2.1	1	4.0	6.0	6.0
Federal source	1,091	1,215	1,191	-24	1,251	1,313	1,372
Expenditures	2,863	3,093	3,099	7	3,232	3,383	3,534
Programs	2,613	2,809	2,817	8	2,933	3,055	3,183
• % change	11.2	5.8	7.8	2	4.1	4.2	4.2
Public debt interest	144	163	163	1	168	184	200
Amortization of tangible capital assets	104	121	119	-2	131	144	152
Consolidated budget balance	14.4	-97.6	-85.5	12.1	-85.0	-59.5	-30.5

PEI expecting economic good times to continue

The province of Prince Edward Island has been outperforming the Canadian economy as a whole fairly consistently since 2019, and that stronger performance is expected to continue going forwards. Real GDP is expected to average 4% a year from 2024 to 2026, with nominal GDP averaging just over 6%. The province acknowledges that these forecasts are stronger than the private sector average, which they stated was only 1.1% for real GDP in 2024. Their view is that the impact of interest rates in consumption will be more muted for PEI because of lower house prices and debt levels, while population and labour force growth will remain strong. Tourism is also expected to continue to rebound, with a record number of cruise ship passenger arrivals anticipated this summer.

Deficits to remain

For the outgoing 2023/24 fiscal year, the province projects a deficit of $85.5mn, which is $12mn narrower than anticipated at the start of the year and equates to roughly 0.9% of provincial GDP. While program spending is tracking $8mn above initial estimates, that has been more than offset by increased revenues. In particular, sales tax receipts are expected to be $60mn higher than in the Budget 2023.

For the upcoming fiscal year, the deficit is expected to be broadly unchanged at $85mn, with both revenues and spending anticipated to increase by close to 4%. Health will see the largest increase on the spending side, and starting in January 2025 a new Children's Benefit is expected to cost $4.4mn on a full year basis. The province will continue to increase the basic personal amount of tax and raise tax brackets generally, to the cost of $15mn.

Looking further out, deficits are expected to slim but remain wider than had been forecast a year ago. The $30mn shortfall by fiscal 2026/27 would be roughly 0.25% of GDP based on the province's projections for nominal GDP.

Table 2: Economic forecasts

	2023	2024	2025	2026
Real GDP	3.0	4.1	4.0	4.0
Nominal GDP	6.5	6.6	6.0	6.0
Employment	5.7	4.3	5.2	6.0
Personal income	8.0	7.0	7.5	8.0
Retail sales	6.0	5.5	6.0	6.5

Long-term borrowing projected to double from a reduced figure this year

Despite the forecasted improvement in the deficit for fiscal year 2023/24, and lower net borrowing requirements on behalf of Crown Corporations, total cash requirements increased to $381mn from $363mn. That increase was due to higher acquisitions of tangible capital assets, while a change in Pension, Retirement, and Other Employment Obligations added some $50mn to requirements. As a result, the province altered its borrowing plans and elected to increase its short-term funding/liquidity reserves/working capital to $192mn, up from $124mn previously planned. At the same time, long-term borrowing plans were reduced by $50mn and projected to finish this fiscal year at $200mn.

The province raised that $200mn in a single transaction which was completed in January of this year, a new 10yr benchmark with a 4.05% coupon maturing June 2034. That deal places the total number of bonds outstanding for the province at 17 with a value of $2.705bn. Due to higher interest rates, that coupon of 4.05% was higher than their weighted average coupon of 3.93%. The province maintains the highest average amongst peers as it has some bonds outstanding with 6%+ coupons from the early 2000s. For example, there is a 6.1% $100mn bond maturing in 2027 which was issued in 2002.

For the upcoming fiscal year, the province’s total cash requirements are increasing year-over-year by about $140mn, reaching $520mn. That is mainly due to the higher capital spending and higher net borrowings on behalf of Crown Corporations. The province is electing to fund that through both short- and long-term funding again. The former will be decreasing to $131mn, while the latter will be doubling to $400mn.

Table 3: Borrowing requirements (C$millions)

Borrowing requirements	2023/24 Forecast	2023/24 Estimate	2024/25 Forecast
Consolidated (surplus)/deficit	98	85	85
Capital adjustments	187	204	239
Sinking funds earnings/provisions	23	23	21
Pension transfers/accruals	5	54	45
Borrowing On Behalf of Crown Corp	50	15	130
Net financial requirement	363	381	520
Maturities & calls	11	11	11
Total	374	392	531

Table 4: Sources of funding (C$millions)

Sources of funding	2023/24F	2023/24E	2024/25F
Short-term paper	124	192	131
Bonds and MTNs	250	200	400
Total	374	392	531
Net new issues: Bonds & MTNs	250	200	400

Capital plan and net debt-to-GDP increasing year-over-year

The province's capital plan is expected to be higher this upcoming year at $369mn, up from $321mn in this current outgoing year. Meanwhile, the overall five-year capital plan calls for a total of $1.3bn in spending, up $176mn from last year's five-year plan.

The key areas of focus highlighted in the budget address are healthcare, housing and affordability measures. As a result, the largest increase year-over-year in dollar terms will be in Health and Wellness which jumps more than three-fold to $53mn, from $16mn. Meanwhile, the largest decrease will be in Transportation and Infrastructure which drops $24mn to $85mn. Despite the drop, that line item is still the largest spend for the province with respect to acquisition of capital assets.

That higher capital spending and deficit of $85mn translates into an increase of $324mn in net debt for this upcoming year, placing net debt-to-GDP for 2024/25 at 28.8%, up from 27.4% this outgoing year. Looking ahead, the three-year fiscal plan sees that ratio increasing again to 29.5% in 2025/26, then slightly decreasing to 29.3% the following year (i.e. 2026/27). The main reason for the forecasted increase this upcoming year to 28.8% is that net debt is proportionately outpacing GDP growth.

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