

Prince Edward Island: 2021–22 Mid-Year Update

IMPROVED FINANCIAL RESULTS ENABLE INFRASTRUCTURE BOOST

SUMMARY

- **Budget balance forecast: -\$60.6 mn in FY22 (-\$112 mn in March 2021 Budget), following final -\$5.6 mn reported in FY21 *Public Accounts* (-\$120 mn in Budget 2021) (chart 1); economic forecasts not updated.**
- **Net debt forecast: lowered by \$140 mn to \$2.49 bn for FY22, which builds on \$126 mn improvement reported in FY21 *Public Accounts*.**
- **FY22–26 infrastructure spending plans also increased by more than \$200 mn to address priorities in education, social housing, and climate policy.**
- **Reduced deficit and debt forecasts put the Island ahead of schedule on path to budget balance and fiscal repair; mid-year update should be well-received by rating agencies and the province’s creditors.**

OUR TAKE

PEI’s mid-year update builds on last month’s *Public Accounts* results to put the province on much firmer fiscal footing than projected at Budget time; this news should be well-received by creditors. Most of the upward revision to FY22 program spending forecasts relates to implementation of new federal programs; that overshoots are on pace to be dominated by revenue gains speaks to the strength of PEI’s recovery relative to projections as well as federal government measures that maintained the tax base and supported demand. The Island is now positioned to achieve budgetary balance on an earlier timeline than previously suggested and improve upon its last forecast trajectory that had net debt rising this fiscal year before easing below 34% of nominal GDP by FY24.

Despite much good news on the economic front, conditions in PEI’s key tourism sector remain challenging. Since Budget 2021, COVID-19 cases have remained low, Statistics Canada confirmed that the Island witnessed one of the smallest GDP declines of any jurisdiction in 2020, agricultural prices have gained, exports continued to grow—supported in part by a rebounding aerospace sector. The province also anticipates a return to pre-pandemic population growth rates next year, anchored by a recovery in immigration. Still, August 2021 overnight stays on the Island were nearly 40% below 2019 levels. The prospect of further reopening of tourism-oriented segments of the economy as we approach summer 2022 is more auspicious.

Planned increases to infrastructure spending—announced last month in the FY22 *Capital Budget*—should generate an incremental boost to economic growth. Projected FY22 outlays were raised by \$37 mn versus the last plan (chart 2, p.2), and the wind-down penciled in for FY23 now represents an annual contraction of just 9%—in stark contrast to the 29% decline anticipated last year. Major policy priorities include investments in new schools, social housing, and

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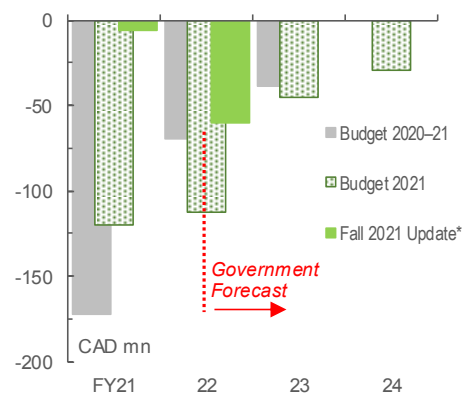
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	FY21		FY22	
	Bud.	Final	Bud.	Update
Own-Source Revenue	1,332.9	1,396.4	1,415.5	1,482.1
Federal Transfers	943.6	968.2	974.0	996.6
Total Revenue	2,276.5	2,364.6	2,389.5	2,478.7
Program Spending	2,275.8	2,249.0	2,374.1	2,416.1
Debt Service	120.7	121.2	127.5	123.2
Total Expenditure	2,396.5	2,370.2	2,501.6	2,539.3
Budget Balance	-120.0	-5.6	-112.1	-60.6
Net Debt	2,424.8	2,299.3	2,634.2	2,493.8

Sources: Scotiabank Economics, PEI Finance.

Chart 1

PEI's Projected Fiscal Balances



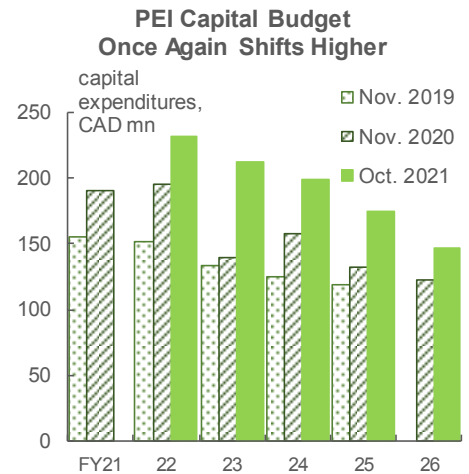
* FY21 figure is final result.
Sources: Scotiabank Economics, PEI Finance.

electric school buses. Given that the province’s long-run growth plans depend fundamentally on a return to pre-pandemic rates of population expansion, meaningful infrastructure spending will be key to providing public services.

Federal transfer projections were lifted by only \$23 mn versus Budget but remain an important element of PEI’s post-pandemic path to fiscal repair. The change was attributed to the fact that various aspects of Ottawa’s COVID-19 funding were only confirmed after the March 2021 blueprint and is only about one-third the size of the upward revision to own-source revenues. In recent years, federal transfers have accounted for a larger share of revenues in PEI than in any other province; Budget 2021 assumed that transfers to the Island would rise steadily from FY22 to FY24 to hold steady near 40% of provincial government receipts.

Borrowing projections were not updated, but narrower fiscal shortfalls imply cash requirements more modest than the \$276 mn forecast for FY22 at Budget time. That figure included an estimated \$200 mn in long-term borrowing.

Chart 2



Sources: Scotiabank Economics, PEI Finance.

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