April 7, 2017

PEI MOVING BACK INTO THE BLACK

Highlights

- Prince Edward Island is on track to record a surplus of $600 thousand in FY2017-18. The surplus is slightly smaller than what was projected in last year's budget plan, but is a stark improvement from the FY2016-17 deficit of $17.9 million.
- Budget 2017 contained no new revenue generating measures. In fact, the government opted to lower personal income taxes.
- Spending is expected to grow modestly, driven largely by a significant increase in healthcare expenditures.
- Net debt as a share of GDP is expected to continue its downward trend, reaching 33.7% this fiscal year.

Prince Edward Island is on track to record its first balanced budget in a decade this fiscal year (FY). A surplus of $600 thousand is expected in FY2017-18. The surplus is slightly smaller than what was projected in last year's budget plan, but is a stark improvement from the FY2016-17 deficit of $17.9 million – nearly double the gap expected last year. Budget 2017 contained no new revenue generating measures. In fact, the government opted to lower personal income taxes. Spending is expected to grow modestly, driven in largely by a significant increase in healthcare expenditures. Moreover, net debt as a share of GDP is expected to continue its downward trend, reaching 33.7% this fiscal year.

PRINCE EDWARD ISLAND GOVERNMENT FISCAL POSITION
[C$ Millions, unless otherwise indicated]

	2017 Budget			
Fiscal year	16-17E	17-18F	18-19F	19-20F
Revenues	**1,732**	**1,812**	**1,860**	**1,913**
% change	--	4.6	2.7	2.8
Provincial*	1,058	1,107	1,141	1,176
% change	--	4.6	3.1	3.0
Federal transfers	675	706	719	737
% change	--	4.6	1.9	2.5
Expenditures	**1,750**	**1,812**	**1,855**	**1,900**
% change	--	3.5	2.4	2.4
Program spending	1,555	1,614	1,655	1,699
Interest	124	126	128	129
Amortization	71	72	72	72
BUDGET BALANCE	**-17.9**	**0.6**	**5.4**	**12.9**
% of GDP	-0.3	0.0	0.1	0.2
Net Debt*	**2,196**	**2,220**	**2,239**	**2,232**
% of GDP	34.5	33.7	32.8	31.6

Source: 2017 Prince Edward Island Budget and Public Accounts.
*Includes own source revenue, net consolidated surplus of Crown Corporations and revenue for capital assets.

Past HST increase driving revenues up

The budget gap in FY2016-17 was about $8.5 million deeper than the $9.5 million projected in last year's budget plan. The larger-than-expected shortfall stemmed mostly from higher program spending – particularly in Health PEI, and Family and Human Services. Meanwhile, higher transfers from the federal government provided some offset.

For the current fiscal year, revenues are expected to grow by 4.6%, helped along by a full-year impact of the HST hike that came into effect in October 2016, and a sizable increase in transfers from the federal government. Still, a reduction in personal income tax revenues will come in the form of a 2% increase in the Basic Personal Amount. This follows a 3.8% increase in the exemption in last

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year's budget. Revenue estimates are based on expectations for real GDP growth of 1.3% in 2017 and 1.2% in 2018 – slightly more conservative than our projections for the province.

Meanwhile, spending is projected to rise by 3.5% this fiscal year, but to slow to just under 2.5% in the subsequent two fiscal years. Healthcare and transportation, infrastructure, and energy will see the largest gains in FY2017-18. Indeed, the budget plan projects a 5.8% increase in expenditures by Health PEI, marking the heftiest increase in eight years. Education will also receive a sizeable increase in its budget this fiscal year. All told, the provincial government is projecting a thin positive budgetary balance of $600,000 in FY2017-18, with the surplus growing steadily in the coming years, and projected to reach $12.9 million by FY2019-20.

Net debt-to-GDP trending down

The improvement in fiscal position will help the government rein in the provincial debt load. Capital investments will lead to modest increases in debt over the next two years, with net debt in dollar terms expected to peak in FY2018-19, and slide lower thereafter. On a relative basis, the net debt-to-GDP ratio has already been trending down since peaking at 36.6% in FY2012-13. The government projects it will total 33.7% in the current fiscal year, and is forecast to fall to 31.6% by FY2019-20.

Bottom Line

The Government of Prince Edward Island is on track for a balanced budget in the current fiscal year and beyond in light of the past implementation of revenue-generating measures and controlled spending growth going forward. These surpluses should enable the provincial government it to begin reducing P.E.I.'s debt burden, with net-debt as a share of GDP continuing to trending lower in the coming years.