

PRINCE EDWARD ISLAND BUDGET 2019

June 26, 2019

Slim surpluses over the horizon

Overview

The newly elected minority Progressive Conservative government in Prince Edward Island projects small budget surpluses over its three-year fiscal plan. A big part of this is thanks to the previous government (Finance Minister Darlene Compton tipped her hat to the previous government in her budget address)—who, benefitting from the provinces' strong economic growth, generated significant surpluses in the previous two years. This allowed the new government to increase expenditures in priority areas highlighted during their election campaign including housing, education and healthcare. The projected surplus for FY 19/20 and the years to come are lower than estimates for FY 18/19. Provincial debt as a share of the economy is expected to fall through the fiscal horizon.

Revenues

The overall economic picture in Prince Edward Island continues to be strong. The province had the strongest growth in GDP in 2018, and big gains in the labour market to boot (3.1%). Revenues are expected to rise by 7.6% this year and by an average of 2.6% through the remainder of the fiscal plan. The government is giving islanders a break by increasing the basic personal tax amount to \$10,000 (from \$9,160) beginning January 1, 2020. The low-income tax threshold will also rise from \$17,000 to \$18,000. The breaks will also extend to businesses with the small business tax rate being lowered to 3.0% (from 3.5%) although this is the fourth year in a row that this rate has been cut.

Expenditures

Budget 2019 aims to deliver some of the campaign promises of the Progressive Conservative government. Healthcare was by far the most debated issue and will see a spending jump of 4% in FY 19/20 and average 3% over the two years beyond the current fiscal year. Spending will be focused on adding new physicians, increasing long-term care beds and mental health initiatives. There are also increases to education spending (4%) with a focus on hiring more teachers and boosting wages for early educators. Infrastructure will see a massive increase in investment - up \$87 million, most of it will funded by the federal government.

Net debt and borrowing plan

Budget surpluses and strong economic growth will result in a slow decline of the net debt as a share of GDP from 30.7% in FY 19/20 to 29.1% in FY 21/22. PEI is currently in fourth place amongst the provinces when it comes to their net debt as a share of GDP.

Our take

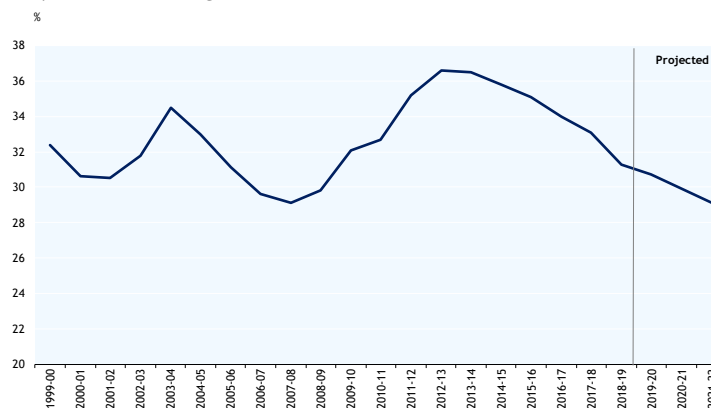
In their first budget, the Progressive Conservative government have stayed the course established by the Liberals in the past few years. Overall the budget is positive, with the government spending being focused on important issues while maintaining surpluses. The province is in an enviable position, economically and fiscally—however future surpluses are very much contingent on how the economic cycle plays out. With big spending increases this year, and no contingency fund in place to shield against unforeseen circumstances, there is little room to maneuver. We think the government can benefit by establishing a rainy day fund, putting them in a more stable position to combat any future economic headwinds.

Prince Edward Island budget balance





Net Debt as % of GDP



Source: Prince Edward Island Department of Finance, RBC Economic Research

Table 1: Budget Summary (millions of dollars)

	Forecast	Estimate	Plan	
	2018-19	2019-20	2020-21	2021-22
Total Revenues	2,045	2,201	2,258	2,317
Program Expenses	1,825	1,986	2,026	2,074
Interest	126	128	134	137
Amortization	80	86	91	94
Total Expenses	2,031	2,199	2,251	2,305
Adjusted Budgetary Balance	13.8	1.8	7.4	12.6
Net Debt	2,175	2,244	2,280	2,281
Net Debt to GDP Ratio	31%	31%	30%	29%

Source: Prince Edward Island Department of Finance

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