

Fresh investments (and deficits) to secure the Island economy

By Daren King & Ethan Currie

Highlights

Prince Edward Island recorded robust economic growth in 2024, as real GDP increased by more than twice the national average at 3.8% but growth is expected to slow down in 2025 in the current context of uncertainty. Looking ahead, the Government has no plans to return to a balanced budget by 2027-28, signaling a growing budgetary shortfall (\$183.9 million in 2025-26) which includes contingencies for trade-related economic weakness – a provision we have seen other provinces also take. Despite persisting red ink, the deficit is set to shrink to \$119.5 million by 2027-28. To face the current trade war, Budget 2025 outlined plans to increase the productivity of businesses by reducing the corporate tax rate by 1% and also increased the exclusion threshold for small businesses. Net debt-to-GDP is expected to grow throughout the three-year plan, reaching 32.6% in the coming fiscal year and 35.9% in 2027-28. The interest bite will grow alongside this, though PEI will maintain a relatively manageable debt burden. At twice the amount of 2024-25, the gross bond requirement of \$800 million for 2025-26 would not be considered out of line of a relative basis when compared to the expected provincial average.

- **Economic outlook** — Economic growth in PEI was particularly robust in 2024, as it is estimated that real GDP increased by 3.8% during the year, which was more than twice the national average (1.5%). As for nominal GDP, which has a greater influence on public finances, we're talking about an estimated rise of 5.6% in 2024, also well above the growth seen in the country as a whole (4.6%). Although job creation was strong in the province in 2024 (3.6%), it was not able to keep pace with population growth. As a result, the average annual unemployment rate rose from 7.3% in 2023 to 7.8% in 2024. For the future, the Budget 2025 assumes real GDP growth to slow down to 2.5% in 2025 in the context of the current trade war. Real GDP should then increase by 2.0% in 2026 and 2027, before picking up at 2.5% in 2028. More importantly for public finances, the budget forecasts nominal GDP growth of 4.3% in 2025, 4.0% in 2026 and 2027, and 4.5% in 2028.
- **Fiscal Outlook** – With the 2024-25 fiscal year officially past, Prince Edward Island's budgetary position reflects a larger-than-expected deficit compared to both Budget 2024 and the fall fiscal update. The province is now projecting a \$166.3 million shortfall (5.3% of revenue or 1.6% of GDP), which is revised up from the \$129.5 million deficit signaled in the fall (which itself was a deteriorating revision relative to last year's budget). That deficit comes as the second in a row after PEI registered budgetary surpluses in each year since 2016-17 (aside from a pandemic-related distortion in 2020-21). A return to surplus is going to have to wait as the province (like last year) has penciled in deficits throughout the three-year fiscal plan. 2025-26 is expected to see the budgetary shortfall, which includes a \$32 million contingency amidst trade uncertainty, grow to \$183.9 million (5.5% of revenue / 1.7% of GDP), before easing to \$167.8 million (4.8% of GDP) in 2026-27 and \$119.5 million in 2027-28 (3.3% of GDP). Both sides of the income statement are expected to grow at a healthy clip over the next three years – revenues are seen advancing at a 5.5% annualized pace while spending is set to grow 4.8% per year on average.
- **New Initiatives** – To face the current trade war, the 2025 Budget aims to increase the productivity of businesses in the province by reducing the corporate tax rate by 1% and increasing the exclusion threshold for small businesses to \$600,000, two measures that would result in a \$9.3 million reduction in revenue. The Budget also establishes a \$10 million Tariff Working Capital Program to provide financial relief through flexible loans. The financial exercise also provides for tax relief for individuals. At a cost of \$5.1 million, the government will increase the basic personal amount to \$14,650 for 2025, to \$15,000 in 2026 and will increase all five tax brackets by 1.8% in 2026 as well. The Budget also plans to increase the minimum wage to \$17/hour in 2025. Among other measures, there is \$16.8 million for the UPEI Faculty of Medicine, \$21 million for long-term care investment, \$9.2 million for new funding for staffing in the public school system, and \$10.5 million for 190 additional childcare spaces.
- **Debt Outlook & Borrowing Requirement** – PEI's net debt ended the 2024-25 fiscal year slightly lower than initially budgeted in absolute terms (\$3.04 billion vs \$3.06 billion) but was slightly worse relative to GDP (29.0% vs 28.8%). The debt burden is set to grow throughout the projection period, rising to \$3.56 billion (32.6% of GDP) in the 2025-26 fiscal year, and \$4.24 billion by 2027-28 (35.9% of GDP). PEI's 'interest bite' will see a slight improvement to the outgoing fiscal year in 2025-26 at 5.1% but is set to climb higher in the next two years, as interest charges are set to consume a still-relatively manageable 6.5% of the province's revenue in 2027-28. When it comes to borrowing, PEI tapped the domestic debt capital market for \$400 million last fiscal year, and alongside a larger funding requirement for 2025-26, the province has signaled that tally doubling to \$800M. While a material step-up vs. the prior fiscal year, PEI's relative bond issuance (vs. revenue) wouldn't be considered out of line to the expected provincial average in 2025-26. Over the following two fiscal years (2026-27 and 2027-28), long-term borrowing requirements are expected to return to levels between \$450M and \$550M.
- **Current long-term credit ratings** — S&P: A, Positive | Moody's: Aa2, Stable | DBRS: A, Stable

[Refer to our [Provincial Ratings Snapshot](#) for additional colour on specific credit rating drivers/considerations]



Prince Edward Island

\$ Millions	Budget	Forecast	Budget	Plan	
	2024-25	2024-25	2025-26	2026-27	2027-28
Gross Consolidated Revenue	3,147.4	3,122.5	3,343.0	3,498.2	3,670.6
Taxes, licenses, fees, permits and sales	1,719.7	1,722.8	1,854.8		
Federal sources	1,248.4	1,224.2	1,321.0	1,387.1	1,459.2
Investment/Sinking fund	38.8	35.8	31.9		
Net consolidated surplus of GBE and agencies	140.3	139.6	135.4		
Gross Consolidated Expenditure	3,232.4	3,288.8	3,526.9	3,666.0	3,790.1
Program expenditures and consolidated agencies	2,933.3	2,994.6	3,179.7	3,292.0	3,377.6
Debt Servicing	168.0	166.7	169.7	213.7	237.6
Amortization	131.2	127.5	145.7	160.3	174.9
Tariff and Trade Contingency	-	-	32.0	-	-
Consolidated Surplus (Deficit)	(85.0)	(166.3)	(183.8)	(167.8)	(119.5)
As a % of GDP	-0.80%	-1.59%	-1.68%	-1.48%	-1.01%
As a % of revenue	-2.70%	-5.33%	-5.50%	-4.80%	-3.26%

Cash Requirements	530.8	580.6	873.4		
Consolidated Surplus (Deficit)	85.0	166.3	183.8	167.8	119.5
Net acquisition of tangible capital assets	368.8	352.0	482.6	405.6	316.6
Amortization of tangible capital assets	(129.8)	(126.2)	(144.5)	(159.1)	(173.7)
Net borrowings on behalf of Crown Corporations	130.0	100.0	145.1		
Sinking Fund Earnings	10.5	10.5	11.1		
Sinking Fund Provisions and Transfers	10.2	10.2	10.2		
Change in pension accrual	(11.1)	0.7	0.4		
Transfer to Pension Fund	56.6	56.6	56.6		
Maturing debt not financed by Sinking Fund	10.5	10.5	128.0		
Financing sources					
Short-term Financing	130.8	80.6	73.5		
Long-term Financing	400.0	500.0	800.0		

Net debt - Beginning of Year	2,740.2	2,647.7	3,039.8	3,561.8	3,976.1
Deficit (surplus)	85.0	166.3	183.8	167.8	119.5
Acquisition of Tangible Capital Assets	368.8	352.0	482.6	405.6	316.6
Amortization	(129.8)	(126.2)	(144.5)	(159.1)	(173.7)
Net Debt - End of Year	3,064.3	3,039.8	3,561.8	3,976.1	4,238.5
as a % of GDP	28.8%	29.0%	32.6%	35.0%	35.9%

Debt Servicing / Gross Consolidated Revenue	5.3%	5.3%	5.1%	6.1%	6.5%
Federal transfers / Gross Consolidated Revenue	39.7%	39.2%	39.5%	39.7%	39.8%

Source: Prince Edward Island Budget documents.



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