

PRINCE EDWARD ISLAND BUDGET 2015

June 23, 2015

Budget balance planned for 2016/17

On account of a provincial election that occurred earlier this spring, Prince Edward Island released their fiscal plan later than in previous years with Budget 2015 presented by Finance Minister Roach on June 19, 2015. In the event, the government announced its intention to return to surplus in 2016/17 with an excess of \$11.9 million anticipated followed by a larger \$44.1 million surplus in 2017/18. This is one year later than the projected return to surplus in 2015/16 set out in Budget 2014. For the current 2015/16 fiscal year, the government expects to record a \$19.9 million shortfall, which would represent a marked improvement from the \$34.7 million estimated for 2014/15 (initially projected as a \$39.7 million deficit in last year's budget). Despite the year-to-year improvement in 2015/16, the delay in returning to surplus results in a cumulative \$12 million budget balance deterioration over the first three years of the fiscal plan (including 2014/15) relative to Budget 2014.

2014/15 fiscal performance contributes to narrower deficit in 2015/16

An upwardly revised revenue estimate more than offset higher expenditures to bring the 2014/15 deficit estimate to \$34.7 billion, a \$5 billion improvement from the projection presented in Budget 2014. The marking-to-market of this fiscal performance along with program expenditure restraint and revenue-boosting initiatives collectively are expected to result in the budget deficit narrowing to \$19.9 billion in 2015/16.

The measures proposed in Budget 2015 include:

- Increase in tobacco tax effective on June 20, 2015 (\$5/carton; \$8/200g) is expected to bring in \$2 million in incremental revenues annually
- Affirmed earlier announced changes to Income Tax Act that will raise basic tax credit threshold to \$17K from \$15K at a cost of \$1.7 million annually
- Launch *Sales Force PEI* to establish new markets for exports

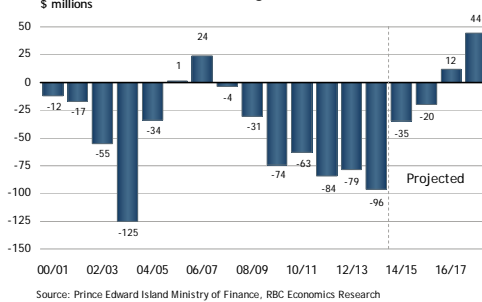
Strengthening tax revenues to lift own-source revenues in 2015/16

Total revenues are projected to edge up by 0.5% to \$1.65 billion in 2015/16. Strengthening tax revenues (which account for more than 50% of total revenues) are slated to lift provincial own-source revenues by 3.6% to \$1.0 billion. Providing some offset, however, will be lower revenues from federal sources, expected to ease by 2.3% to \$0.63 billion in 2015/16. On the expenditure side of the ledger, a 0.3% decline in program spending is planned despite increases in the largest components (Health PEI and Education both set to rise 1.0%). This program expenditure restraint along with a 0.9% drop in total interest and amortization expenses, on account of lower debt charges, are set to see total expenditures dip by 0.4% to \$1.67 billion in 2015/16. Together, this results in a shortfall of \$19.9 billion for the 2015/16 fiscal year.

Revenue growth to outpace expenditure gains through the fiscal plan

The return to budget surplus in 2016/17 is, in part, premised on the province maintaining a degree of expenditure restraint through the fiscal plan. Total expenditures are slated to rise by 1.1% annually in 2016/17 and 2017/18 (and compares to the 2.3% increase projected for 2016/17 in Budget 2014). A slower pace of program spending (0.8% annually) is expected to be met by rising debt servic-

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Budget assumptions

	2014	2015	2016
Real GDP growth (%)			
Budget 2015 planning assumption	1.3	2.7	2.1
RBC	1.4	1.6	1.7
Nominal GDP growth (%)			
Budget 2015 planning assumption	2.2	3.5	3.9
RBC	3.2	3.1	3.3

Source: Prince Edward Island Ministry of Finance, RBC Economics Research

Laura Cooper

Economist

(416) 974-8593

laura.cooper@rbc.com

ing costs (2.3% and 5.2%, in 2016/17 and 2017/18, respectively). In contrast, firm revenue growth is expected to buttress the shift to balance, with total revenues set to rise by 3.1%, on average, reflecting increases across total provincial revenues (3.1% and 3.0% in 2016/17 and 2017/18, respectively) and federal source revenues (3.0% in each year).

Capital plan

The province's capital plan, released in November 2014, outlined the projected net capital expenditures for the next five fiscal years. In 2015/16, capital expenditures are slated to decline by \$6.1 million to \$74.5 million, led by a \$5.4 million decrease in investment for Health PEI (to \$8.83 million). Investment is also set to ease in Education and Early Childhood Development (down \$1.9 million to \$13.7 million) and in Tourism PEI (down \$0.7 million to \$0.8 million). In contrast, a planned \$2.7 million increase in the largest component of capital spending, Transportation and Infrastructure (accounts for more than 50%), provides a partial offset to the overall decline.

Economic forecast

The government forecasts real GDP growth of 2.7% in 2015 and 2.1% in 2016 following a projected 1.3% rate in 2014. Improvements across tourism, manufacturing and export industries are expected to contribute to the positive economic growth outlook. The robust pace of economic growth in 2015 is above RBC's forecast for more modest growth of 1.6%. Our forecast calls for a rate of growth of 1.7% in 2016. We anticipate that a pullback in capital investment in the public sector along with intensifying demographic headwinds will likely weigh on growth through the projection period.

Net Debt to peak in 2015/16

The province's net debt is projected to rise to \$2.18 billion as of March 31, 2016, marking a 1.3% increase from an estimated \$2.15 billion at the same date in 2015. The new fiscal plan indicates that the peak in this measure will occur in 2015/16 (in contrast to the 2014/15 peak projected in Budget 2014). The net debt to GDP ratio is expected to continue to decline, however, from a peak of 37% in 2012/13 to 35.2% in 2015/16 and 31.6% by 2017/18 abetted by a strengthening economic backdrop.

Prince Edward Island fiscal plan

\$ millions	Actual	Estimate	Forecast	Projection		
	2013-14	2014-15	2014-15	2015-16	2016-17	2017-18
Revenue	1,541	1,617	1,641	1,649	1,699	1,750
Expense	1,637	1,657	1,675	1,669	1,687	1,706
Surplus/ (deficit)	-97	-40	-35	-20	12	44

Source: Prince Edward Island Ministry of Finance, RBC Economics Research

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