

# PRINCE EDWARD ISLAND BUDGET 2018

April 13, 2018

## Toeing the (budgetary) line

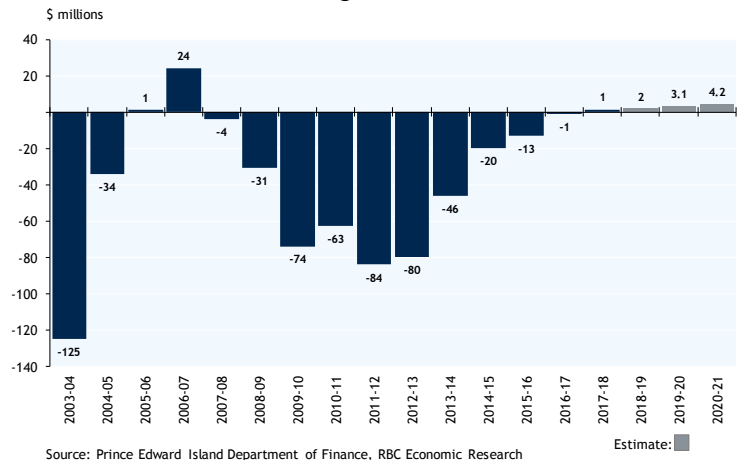
### Overview

The Prince Edward Island government released its second balanced budget on April 6 and is projecting surpluses for the next three years. After several years of fiscal restraint, the government is putting its surplus position to work in Budget 2018 by raising spending on a host of new initiatives and bolstering old ones. While new spending doesn't tip the government back into deficit, it does reduce future surpluses to razor thin levels totaling only \$9 million over the next three years. Provincial debt as a share of the economy will remain near its current level as the province continues to accrue new debt for infrastructure spending.

### Revenues

As Finance Minister Heath MacDonald noted in his budget address, the economy of Prince Edward Island is on a tear. Over the past few years, economic growth has been rapid, job creation has been strong, and exports have been surging. This is causing an expansion of the projected tax base and in overall revenues. The government expects revenues to jump 4.6% this year and by an average of 3.2% through the fiscal plan. Budget 2018 is handing some of the economy's bounty back to the taxpayers through modest tax cuts. The government plans to raise the basic personal amount by \$500 this year and a further \$500 next year and rebate the provincial portion of the HST on electricity. For small businesses, the government is laying out a 0.5% tax cut and a small business investment grant.

Prince Edward Island budget balance



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

Estimate: ■

### Expenditures

Budget 2018 introduces a raft of new initiatives across a number of files. The largest is health care which is seeing spending jump by an average of 2.6% over the next three years thanks in part to \$32 million in new initiatives including \$4 million for mental health. The budget outlines spending of \$17 million for childcare spaces and subsidies, the hiring of teachers, and other education initiatives. Further education-related initiatives involve a debt-reduction grant designed to retain new graduates and an expanded free tuition program. In all, the government has laid out \$95 million in spending initiatives and partly as a result overall expenditures are expected to rise by an average of 3.4% a year over the next 3 years.

### Net debt and borrowing plan

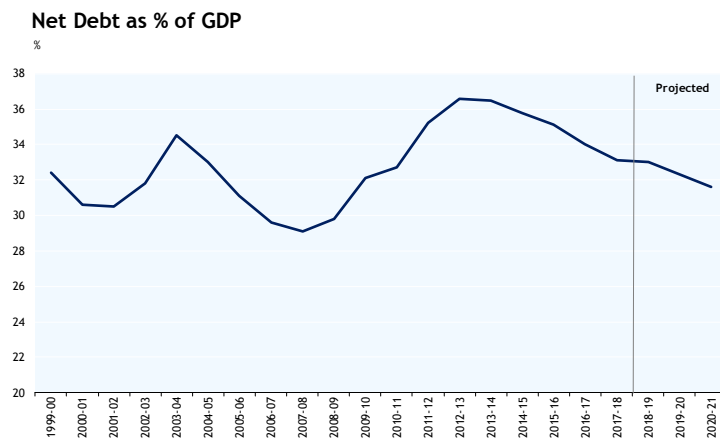
Prince Edward Island's slim surpluses for the next three years in the operating budget plus borrowing for investment will cause the Island's debt to rise gradually through 2021. However, this increase will be modest and economic growth will cause a slow decline in net debt as a share of GDP. The government intends to borrow \$81 million in 2018 and will do so using short-term instruments.

### Our take

With its second balanced budget, Prince Edward Island is putting its new revenues to work with new spending initiatives. With an as-



sumption of steady economic growth, the province aims to maintain a slim surplus over the next three years. Like last year, the province has not set aside a contingency reserve which may endanger the surplus in the coming years, but overall the province's fiscal situation compares well to many other provinces. Our advice for Prince Edward Island, as for many provinces, is to budget with an eye on the economic cycle. After many years of strong growth on the Island, the government should be setting their fiscal plan to guarantee fiscal sustainability in all economic climates.



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

**Table 2: Budget Summary (millions of dollars)**

	Forecast	Estimate	Plan	
	2017-18	2018-19	2019-20	2020-21
Total Revenues	<b>1,899</b>	<b>1,985</b>	<b>2,036</b>	<b>2,089</b>
Program Expenses	1,699	1,781	1,828	1,877
Interest	124	127	130	132
Amortization	74	76	76	76
Total Expenses	<b>1,898</b>	<b>1,984</b>	<b>2,033</b>	<b>2,085</b>
<b>Adjusted Budgetary Balance</b>	<b>1.2</b>	<b>1.5</b>	<b>3.1</b>	<b>4.2</b>
<b>Net Debt</b>	<b>2,208</b>	<b>2,264</b>	<b>2,294</b>	<b>2,309</b>
<b>Net Debt to GDP Ratio</b>	<b>33%</b>	<b>33%</b>	<b>32%</b>	<b>32%</b>

Source: Prince Edward Island Department of Finance

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