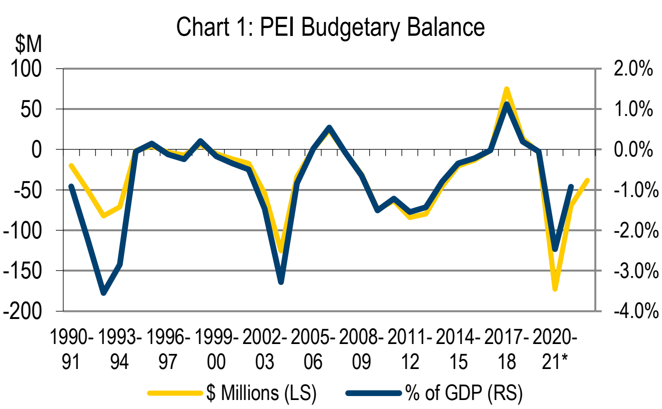
Laurentian Bank Securities
ECONOMIC RESEARCH AND STRATEGY

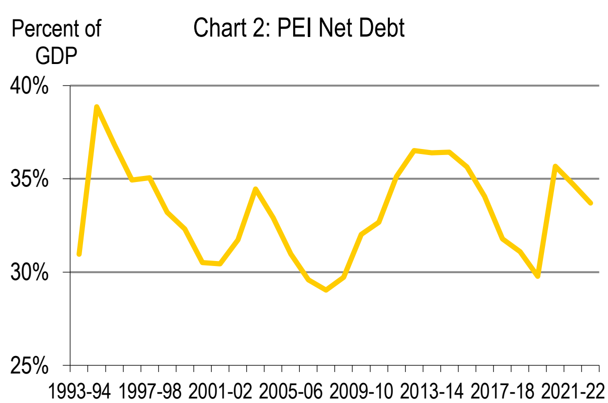
The PEI 2020 Budget – Reopening the Island Economy

Minister of Finance Darlene Compton tabled yesterday the 2020 Prince Edward Island Budget. While very few coronavirus cases were registered in PEI and all 27 known patients recovered, the closure of non-essential services in April tipped the economy into a recession. Moreover, the shutdown of interprovincial and international borders has had a disproportionate effect on the Island, highly dependent on tourism activity. More than 1M overnight stays are registered each year under normal circumstances. The fishing season was also delayed from both a lack of global demand and the scarcity of temporary foreign workers available. Overall, the government expects real GDP to contract 5.1% in 2020 followed by a 5.0% rebound in 2021.

A $173M deficit is projected in FY 2020-21 (2.5% of GDP). This most likely is the largest deficit in dollar terms on record and represents the highest as a share of GDP since FY 2003-04 when the global SARS outbreak was a key headwind to economic growth (chart 1). Own-source revenues are projected to decline 3.4% due to lower economic activity. A one-time $75M Covid-19 relief transfer from the Government of Canada underpins a 23% jump in federal transfers, allowing total revenue to increase by 6.5%. Covid-19 related expenses are estimated at $95M in direct support to individuals and businesses and $14M in additional health care expenses. Altogether, program expenditures are poised to increase 15.1% in FY 2020-21, including $65M in contingencies. The Island reopened all non-essential services on June 1. Atlantic Provinces are also looking into the idea of a regional "bubble", which would help ease the pain in tourism this year. The government expects a swift recovery next year. Own-source revenues are forecast to grow on average to a pre-recessionary trend of 4.6% in FY 2021-22 and FY 2022-23. While being highly dependent on a recovery in tourism and the absence of a second wave of Covid-19 infection, it would allow the government to return to a balanced budget in FY 2023-24.



Note: Nominal GDP forecasts from LBS.
Sources: PEI government , Government of Canada Fiscal Reference Tables, LBS Econ. Res. and Strategy calculations.



Note: Nominal GDP forecasts from LBS.
Sources: PEI , Government of Canada Fiscal Reference Tables, LBS Econ. Res. and Strategy calculations.

From FY 2014-15 to FY 2019-20, the province successfully reduced its net debt-to-GDP ratio, close to a multi-year low of 30% (chart 2). Higher borrowing needs in FY 2020-21 ($225M long-term and $235M short term) will cause the debt ratio to jump to 35%. As the government gradually returns to balance, that ratio could start declining again next year.

Dominique Lapointe, CFA | Senior Economist
438 835-7626 | lapointed@vmbl.ca