

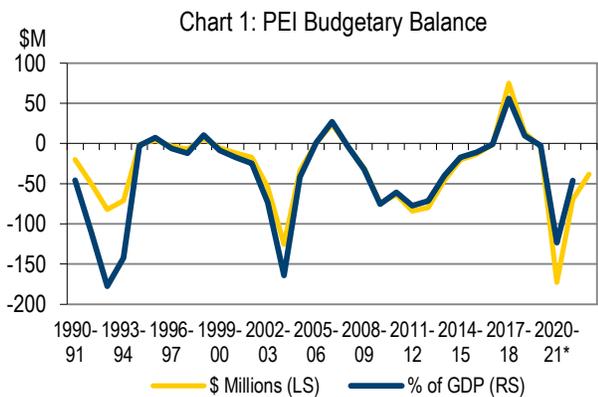


Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

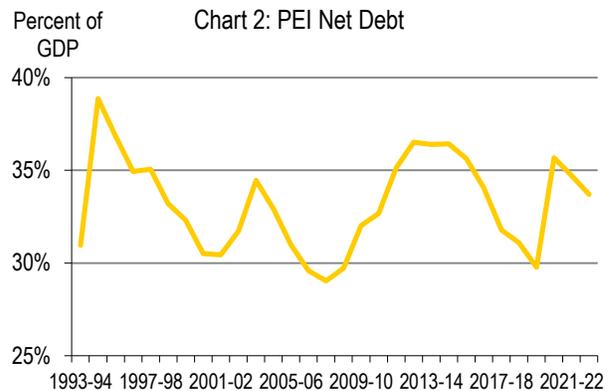
The PEI 2020 Budget – Reopening the Island Economy

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.



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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.

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