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Prince Edward Island: Red ink persists to support Island economy

By Taylor Schleich & Ethan Currie

Highlights

Prince Edward Island recorded resilient economic growth in 2025, as real GDP advanced by a greater amount than the national average, but slower GDP inflation brought nominal figures in line with Canada's nominal rate of 4.3%. The provincial budget deficit was larger than expected in the outgoing year, a miss that was driven by both higher spending and lower revenues. Looking ahead, the province expects to remain in the red, projecting a \$410 million deficit (3.5% of GDP) for 2026-27, a modest improvement from the year prior. Deficits persist, but moderate out the projection horizon, with a \$338 million shortfall (2.6% of GDP) slated for 2028-29. Like other provinces, PEI's budget prioritizes core service spending, with some targeted cuts and tax changes to support fiscal consolidation. Net debt-to-GDP is expected to grow throughout the three-year plan, reaching 38.1% in 2026-27 and peaking just below the fiscal anchor of 40% (39.9% in 2028-29) that was outlined in December. The provincial interest bite will grow in tandem, reaching 7.2% in the final projection year, shy of the 7.5% anchor (the second of two). Gross bond requirements, while materially higher than they were just two years ago, will moderate slightly in the upcoming fiscal year. The province is projecting \$900 million in term issuance, down from \$1 billion in 2025-26.

- **Economic Outlook** — Real economic growth in PEI is estimated at 2.4% in 2025, which was well above the national aggregate (1.7%). Nominal GDP growth at 4.3% in the year was in line with the Canadian average, as inflation was slower at 1.4%. Last year, payroll growth was outpaced by population growth, but falling participation allowed the jobless rate to remain unchanged relative to 2024, at 8.0%. Looking ahead, PEI's population, employment, and labour income are projected to grow, but at a more modest pace. GDP is expected to advance slower than originally anticipated over the next two years, before accelerating in 2028 as population growth picks up. In nominal terms, GDP is projected to grow at 4.0% in each of 2026 and 2027, and 4.5% in 2028 and 2029. The province notes that growth could be hindered if tariffs and other geopolitical uncertainties persist.
- **Fiscal Outlook** — The latest, though not yet official, estimate of Prince Edward Island's 2025-26 deficit stands at \$450 million (4.0% of GDP). That's larger than the \$184 million shortfall penciled into last year's budget, and also larger than the \$367 million projected in the fall fiscal update. This miss was driven both by lower-than-expected revenue and higher-than-planned spending. Looking ahead, the province expects to remain in the red, projecting a \$410 million deficit (3.5% of GDP) for 2026-27. The modest improvement versus 2025-26 is a function of revenue growth (+3.5%) outpacing spending growth (+2.0%). In the outer two years the forecast horizon, deficits remain but do moderate. In 2027-28, PEI expects to run a \$386 million shortfall (3.1% of GDP) before registering a \$338 million deficit (2.6% of GDP) in 2028-29. In these outer years, revenue is seen growing 4.5%/year and spending is planned to jump +3.2%/year. Relative to Budget 2025, more red ink is expected to accumulate in this latest fiscal plan. In the three "overlapping" years of the fiscal plans (i.e., 2025-26 to 2027-28), the cumulative deficit is expected to total \$1.25 billion vs. \$0.47 billion a year ago.
- **New Initiatives** — Like other provinces, PEI's 2026 budget focuses on maintaining core services, supporting Islanders impacted by a challenging economic backdrop, and finding consolidation where / when possible. Health care spending continues to account for the largest share of the provincial budget. Of the \$3.8 billion in planned spending for the upcoming fiscal year, about \$1.2 billion will be attributed to the health sector, an increase of about \$200 million. Allocations will be made towards primary care, the recruitment and retention of health care staff, supporting operations at the UPEI medicine faculty, the continuation of Pharmacare programs, and more. The budget for education, while relatively smaller, will also see increases as funding is allocated to creating additional early learning spaces and promoting post-secondary schooling with bursary programs. The province was faced with "difficult choices" as the fiscal outlook deteriorates, as certain spending cuts were introduced. Notably, the Department of Transportation saw reductions as the PEI energy rebate program was eliminated—funds will be redirected in the PEI Essentials Benefit, a broader program. On the revenue front, a new personal income tax bracket will apply to Islanders with an annual income over \$200,000, estimated to generate around \$4.4 million—rates will remain unchanged otherwise. In January 2026, increases to certain thresholds and the basic personal amount will save Islanders roughly \$3.2 million in the year. Otherwise, slight increases to non-resident property taxes and insurance premium tax rates are expected to bring in an additional \$2 million to the provincial bottom line.
- **Debt Outlook & Borrowing Requirement** — PEI's net debt ended the 2025-26 fiscal year higher than what was outlined in the prior budget in both absolute (\$3.77 billion forecast vs. \$3.56 guidance) and relative terms (33.2% of GDP vs. 32.6%). The debt burden is set to grow throughout the projection period. It will advance to \$4.51 billion (38.1% of GDP) in 2026-27 and reach \$5.13 billion (39.9% of GDP) by 2028-29. The province's "interest bite" will increase in tandem, stepping up from 5.2% in the outgoing fiscal year, to 6.0% in 2026-27. That ratio will rise further thereafter as debt servicing costs are expected to consume 7.0 cents of each revenue dollar in 2027-28 and 7.2 cents in 2028-29. Throughout the horizon, the interest bite will be below the 7.5% anchor—one of two goalposts PEI had set in December 2025. The other is to keep net debt-to-GDP below 40%, also set to be achieved throughout the forecast horizon, albeit barely. When it comes to borrowing, PEI tapped the domestic debt capital market for \$1 billion last fiscal year. That was \$200 million larger than initially signaled, though long-term borrowing is seen moderating to \$900 million in 2026-27. While borrowing has stepped up materially in recent years (long-term issuance was just \$400 million in 2024-25), PEI's relative bond issuance (vs. revenue) wouldn't be considered out of line to the expected provincial average.

Current long-term credit ratings — S&P: A, Stable | Moody's: Aa2, Stable | DBRS: A, Stable

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



Summary of Three-Year Plan (\$ millions)

	2025-26	2026-27	2027-28	2028-29
	Forecast	Budget	Plan	Plan
Revenue	3,270.7	3,386.3	3,535.1	3,701.3
Expense	3,720.3	3,796.2	3,921.3	4,039.3
Surplus (Deficit)	(449.6)	(409.9)	(386.2)	(338.0)
Net Debt	3,774.6	4,504.8	4,892.4	5,127.4
Net Debt-to-GDP (%)	33.2%	38.1%	39.8%	39.9%
Interest as % Revenue	5.2%	6.0%	7.0%	7.2%



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