

BUDGET ANALYSIS

Prince Edward Island: Budget 2026–27

Holding the Helm into Deeper Deficit Seas

By Laura Gu, Senior Economist, and Kari Norman, Senior Economist

In line with most provinces that have announced their budgets, Prince Edward Island (PEI) anticipates a deterioration in its bottom line, with projected deficits deepening to \$415M (3.5% of nominal GDP) in FY2027, before narrowing slightly to \$338M (2.6%) by FY2029 (graph 1). The deterioration in the bottom line is in part a result of slower revenue growth and elevated spending. While the province anticipates some improvement toward the outer years of the forecast, the updated outlook implies a materially weaker bottom line than previously expected. Table 1 on page 2 summarizes the province’s updated fiscal forecasts.

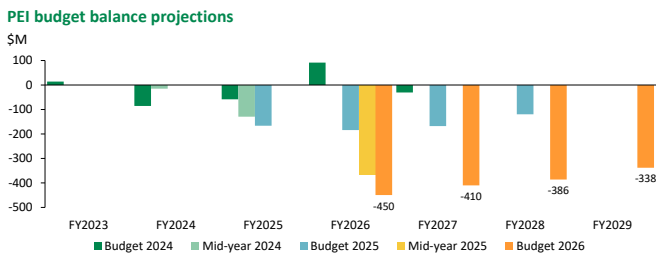
Economic fundamentals remain supportive of the revenue base. PEI has led national growth over recent years and continues to benefit from lower effective US tariff exposure than some other provinces. The province left its economic assumptions unchanged from Budget 2025, forecasting real GDP growth of 2.4% in 2025 and 2.0% in 2026 and 2027, modestly above our view. Population growth slowed to 1.1% in 2025, undershooting last year’s projection of 1.5%, and is expected to slow further to 0.7% in 2026 and 0.8% in 2027.

Increased spending largely reflects higher costs carried forward from last year. Program spending is projected to rise by 13.7% in FY2026, more than double the 6.5% increase forecast in last year’s budget. Health PEI is the primary driver, with spending now projected to be \$106.4M higher than previously planned, accounting for roughly half of the total increase in FY2026 expenditures. The government expects spending growth to moderate in FY2027, with program spending rising by just 1.3%, although Health PEI expenditures are still projected to increase by a relatively firm 5.5%. This points to spending restraint elsewhere in the fiscal plan.

To support households and businesses, the province has introduced a range of affordability measures, including \$94.7M for childcare, school food programs and free school supplies, along with \$34.6M in housing-related supports.

In the capital plan tabled last November, PEI committed \$441M in capital spending for FY2027, a 4.5% increase over last year’s already elevated level, with a five-year total of \$1.6B. While the stepped-up infrastructure program is intended to support economic activity, it also adds to the province’s debt burden.

Graph 1
Weaker Handoff and Increased Spending Drive Deeper Deficits in PEI



PEI Finance and Desjardins Economic Studies

Revenue weakness reflects a softer FY2026 carryover and slower projected growth in FY2027, driven primarily by weaker sales tax revenues. The FY2026 sales tax forecast has been revised down by \$78.9M, accounting for most of the downward revision. Despite a lower starting point, the province continues to project robust growth in income taxes, with personal income tax revenues expected to rise by 9.1% in FY2026 and corporate income tax revenues by a strong 14.0%.

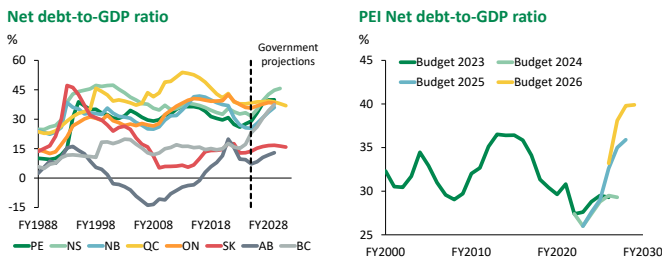
Table 1
Prince Edward Island Fiscal Forecasts

| \$M (unless otherwise indicated) | 2024-25 | 2025-26 | | 2026-27 | | 2027-28 | | 2028-29 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Actual | Bud 2025 | Bud 2026 | Bud 2025 | Bud 2026 | Bud 2025 | Bud 2026 | Bud 2026 |
| Total revenues | 3,124 | 3,343 | 3,271 | 3,498 | 3,386 | 3,671 | 3,535 | 3,701 |
| % change | 3.6 | 7.0 | 4.7 | 4.6 | 3.5 | 4.9 | 4.4 | 4.7 |
| Own-source revenues | 1,904 | 2,022 | 1,963 | 2,111 | 2,030 | 2,211 | 2,115 | 2,210 |
| % change | 3.0 | 6.2 | 3.1 | 4.4 | 3.4 | 4.8 | 4.2 | 4.5 |
| Federal transfers | 1,219 | 1,321 | 1,308 | 1,387 | 1,356 | 1,459 | 1,420 | 1,491 |
| Total expenses | 3,287 | 3,495 | 3,720 | 3,666 | 3,796 | 3,790 | 3,921 | 4,039 |
| % change | 8.5 | 6.3 | 13.2 | 4.9 | 2.0 | 3.4 | 3.3 | 3.0 |
| Program spending | 3,122 | 3,325 | 3,550 | 3,452 | 3,595 | 3,553 | 3,674 | 3,771 |
| % change | 8.9 | 6.5 | 13.7 | 3.8 | 1.3 | 2.9 | 2.2 | 2.7 |
| Debt charges | 166 | 170 | 171 | 214 | 201 | 238 | 248 | 268 |
| % of total revenues | 5.3 | 5.1 | 5.2 | 6.1 | 5.9 | 6.5 | 7.0 | 7.2 |
| Contingency | 0 | 32 | 0 | 0 | 0 | 0 | 0 | 0 |
| Budget balance | -164 | -184 | -450 | -168 | -410 | -120 | -386 | -338 |
| % of GDP | -1.5 | -1.7 | -4.0 | -1.5 | -3.5 | -1.0 | -3.1 | -2.6 |
| Net debt (% of GDP) | 27.8 | 32.6 | 33.2 | 35.0 | 38.1 | 35.9 | 39.8 | 39.9 |
| Real GDP (% change) | 3.8 | 2.5 | 2.4 | 2.0 | 2.0 | 2.0 | 2.0 | 2.5 |
| Nominal GDP (% change) | 7.5 | 4.3 | 4.3 | 4.0 | 4.0 | 4.0 | 4.0 | 4.5 |

Bud: Budget
Prince Edward Island Department of Finance and Desjardins Economic Studies

Larger operating deficits alongside higher capital outlays have put net debt on a steeper upward trajectory, with net debt projected to rise from 33.2% of GDP in FY2026 to just under 40% in FY2028 and FY2029, leaving PEI with one of the highest debt burdens among provinces, second only to Nova Scotia (graph 2). The Long-Term Borrowing Program is set at \$900M in FY2027, modestly below the \$1.0B completed in FY2026.

Graph 2
PEI's Growing Net Debt Burden



Provincial budget documents and Desjardins Economic Studies