BUDGET ANALYSIS

British Columbia: Budget 2025

A Prudent Plan for a Turbulent Time

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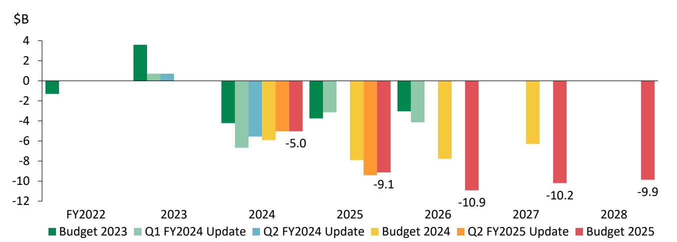
HIGHLIGHTS

- British Columbia's fiscal year 2025–26 (FY2026) budget reveals deeper-than-anticipated deficits under prudent assumptions, while preparing for strong fiscal headwinds blowing from south of the border. The provincial government is now projecting a $10.9B deficit in FY2026 which gradually narrows to $9.9B in FY2028 (graph 1). Table 1 on page 2 summarizes the province's updated fiscal forecasts.
- The updated fiscal plan is characteristically prudent, as the province continues to embed ample buffers through contingencies and conservative assumptions.
- The government's estimated downside risks from new US tariffs, which could result in additional annual shortfalls ranging from $1.7B to $3.4B due to pervasive job losses and reduced corporate profits, appear reasonable.
- Amid the financial strains caused by US tariffs, the province has managed to control spending by keeping new policy measures light and targeted.
- Larger projected deficits are expected to push the debt-to-GDP ratio higher from 22.9% in FY2025 to 34.4% in FY2028. Gross borrowing requirements are now expected to total $31.1B in FY2026, $33.1B in FY2027, and $34.7B in FY2028. For FY2026 and FY2027, the updated borrowing requirements represent a total increase of $6.2B from last year's budget.
- In light of a weaker revenue outlook and significant tariff impacts, BC's Budget 2025 balances critical investments with a relatively manageable debt position, even as the province's debt is expected to rise as a share of the economy. By keeping program spending increases incremental and targeted, despite strong revenue headwinds from external factors, the budget is a step in the right direction, paving the way for further consolidation in future plans.

Graph 1
BC's Bottom Line Faces More Pressure

Budget balance projections



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Our Takeaways

Anticipating strong headwinds to its bottom line from external factors—a common theme across all provinces this budget season—BC tabled a prudent plan that projects deeper-than-anticipated shortfalls over the planning horizon. With new spending kept incremental and targeted, weaker revenue growth is expected to drive a deeper deficit of $10.9B in FY2026, gradually narrowing to $9.9B in FY2028.

Accounting for the Tariff Impact

BC lowered its forecasts for economic growth this year and next in its base case to reflect lower population growth assumptions.

The budget projects BC's economy to grow by 1.8% in real terms in 2025 and 1.9% in 2026, slightly below the first quarter update projections of 2.0% in 2025 and 2.3% in 2026, and in line with average private-sector growth forecasts.

The government provided an alternative scenario that accounts for the impact of US tariffs, assuming 10% tariffs on Canadian energy exports and a 25% tariff on all other goods, along with partial retaliation from Canada. The scenario sees real GDP growth slow to 0.3% in 2025 and 0.8% in 2026, potentially leading to annual revenue reductions ranging from $1.7B to $3.4B over the planning horizon.

The downside risks outlined in the alternative scenario are reasonable in our view. While the province faces similar challenges as the rest of the country due to US tariffs, BC's diversified export destinations offer some protection. The province otherwise expects solid growth this year as interest rates decline and fiscal policies remain stimulative. LNG Canada is set to boost natural gas exports from Western Canada when it begins commercial operations in mid-2025. Rising natural gas prices also bode well for BC.

The budget allocates substantial contingencies of $4B annually for the next three years. These contingencies help absorb unforeseen costs, such as a new collective-bargaining mandate and tariff impacts, and could potentially result in narrower deficits than planned.

Tax Revenues to Encounter Near-term Headwinds

The province foresees near-term pressure on its topline revenue growth, driven by lower revenues from corporate income taxes. Corporate income tax revenue is projected to decline by 24.8% in FY2026 and by an additional 8.5% in FY2027, before rebounding with a 12.2% increase in FY2028. Meanwhile, the personal income tax revenue projection remains intact and is expected to grow steadily, averaging 4.5% annually over the next three years, offsetting some of the short-term weaknesses in corporate income taxes (graph 2).

Graph 2
Solid Personal Income Taxes Offset Weaker Corporate Income Taxes

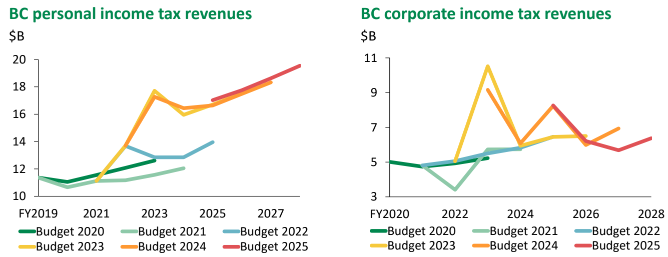

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TABLE 1
Updated BC Fiscal Forecasts

	2023–2024	2024–2025		2025–2026		2026–2027		2027–2028
IN $B (UNLESS OTHERWISE INDICATED)	Actual	Q2 FY2025	Budget 2025	Budget 2024	Budget 2025	Budget 2024	Budget 2025	Budget 2025
Total revenues	79.6	81.4	82.9	82.8	84.0	86.4	85.7	88.2
% change	*-2.3*	*2.3*	*4.1*	*1.7*	*1.4*	*4.3*	*2.0*	*2.9*
Own-Source Revenues	65.9	67.1	68.7	67.9	68.7	71.7	70.8	73.6
% change	*-4.5*	*1.9*	*4.2*	*1.2*	*0.1*	*5.6*	*3.1*	*3.9*
Federal Transfers	13.7	14.3	14.2	14.9	15.3	14.7	14.9	14.6
Total expense	84.7	90.9	92.0	90.6	94.9	92.7	95.9	98.0
% change	*4.7*	*7.3*	*8.7*	*-0.3*	*3.2*	*2.3*	*1.1*	*2.2*
Program spending	81.4	86.5	87.6	85.8	89.9	87.0	90.0	90.9
% change	*4.4*	*6.3*	*7.7*	*-0.8*	*2.5*	*1.4*	*0.1*	*1.0*
Debt charges	3.3	4.3	4.4	4.8	5.1	5.7	5.9	7.2
% of total revenues	*4.1*	*5.3*	*5.3*	*5.8*	*6.0*	*6.6*	*6.9*	*8.1*
Forecast allowance								
Budget balance	**-5.0**	**-9.4**	**-9.1**	**-7.8**	**-10.9**	**-6.3**	**-10.2**	**-9.9**
% of GDP	*-1.2*	*-2.2*	*-2.1*	*-1.8*	*-2.5*	*-1.4*	*-2.2*	*-2.0*
Net Debt, % of GDP	*18.4*	*22.3*	*22.9*	*24.8*	*26.7*	*27.5*	*30.9*	*34.4*
Gross Borrowing Requirements	**—**	**—**	**29.2**	**29.5**	**31.1**	**28.4**	**33.1**	**34.7**
Capital Requirements	13.4	17.6	16.0	19.0	20.2	18.7	20.4	19.3
Refinancing Requirements	—	—	3.8	6.3	8.2	6.3	6.3	8.8
Other Financing Sources	—	—	0.5	-3.3	(7.4)	-2.6	(3.4)	(3.2)

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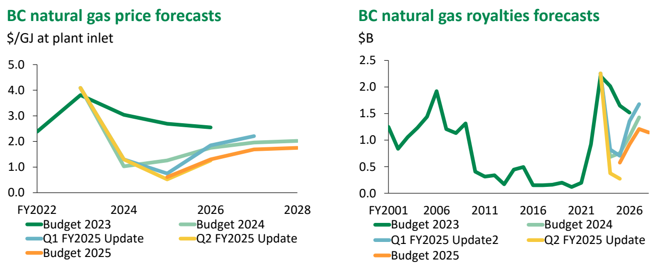
Natural Gas Supports Revenue Growth with Room for Upside

Revised down from the province's first quarter update, natural gas royalties forecasts continue to be underpinned by conservative natural gas price assumptions well below the average of private-sector forecasts (graph 3). The updated fiscal plan projects average royalties growth of 26% per year over the next three years due to higher prices and production volumes, with potential for more upside if momentum in natural gas prices persists.

Graph 3
Conservative Natural Gas Price Forecasts Provide a Buffer



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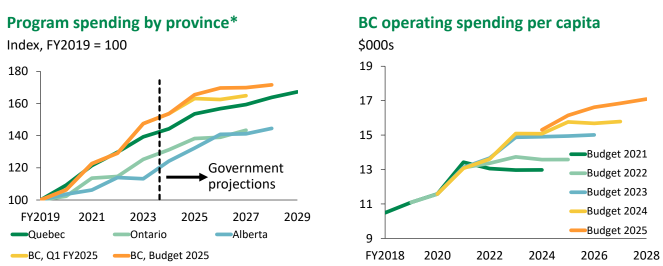
Lifted Near-term Spending Targets Healthcare

Program spending has been lifted although increases appear moderate (graph 4). It's now projected to rise by 2.5% in FY2026—a reversal of the previously planned spending cut but it's still a reasonable pace consistent with inflation plus population growth. Outer-year spending growth was kept under an average of 0.6% annually, leading to a gradual reduction in deficits.

Graph 4
BC's Spending Plans Continue to Grow



* Quebec and Ontario figures based on mid-year FY2025 projections
Statistics Canada, provincial budget documents and Desjardins Economic Studies

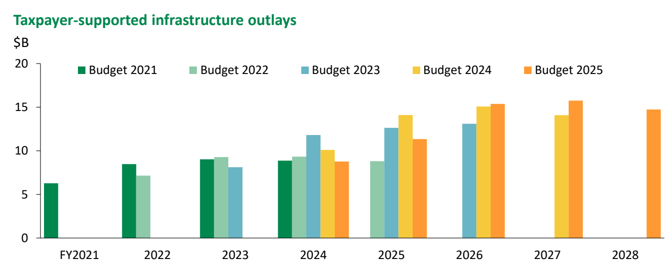
At $4.2B, healthcare-related investments make the largest contribution to the $9.9B in additional expenses across the three-year horizon. This builds on the significant health and mental health spending outlined in the province's previous plans. New spending outside of healthcare has been kept incremental, with a focus on education and social services.

On a per capita basis, program spending is projected to grow as the province anticipates stagnant population growth throughout the planning horizon. The government expects BC's population to increase by 0.2% in 2025, before declining by 0.3% in 2026, lower than our updated forecast.

Increased Capital Outlays and Deficits Elevate Borrowing Needs

Capital spending was lower in FY25 ($11.3B) than planned in the first quarter update ($13.6B) but will rise to $15.8B in FY26, totalling $45.9B over the three-year horizon (graph 5). The increased infrastructure investments aim to stimulate economic activity amid US tariff challenges but will also contribute to a higher net debt burden. Over 60% of the spending will be allocated to projects in public transit and healthcare. The capital plan is anticipated to support 180k jobs in the province over three years.

Graph 5
Major Capital Spending to Stimulate the Economy



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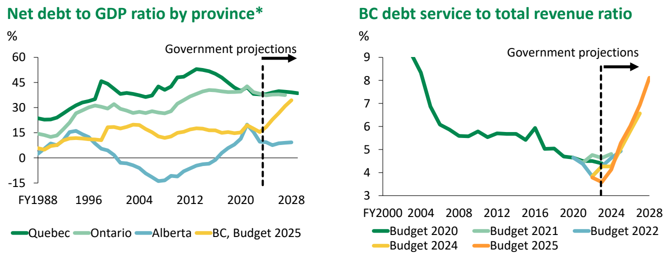
Net debt is projected to increase as a share of nominal output, rising from 22.9% in FY2025 to 34.4% in FY2028. This should remain well below the levels of Ontario and Quebec (graph 6 on page 4), which have yet to announce their updated fiscal plans. As the government continues to forecast rising debt levels, debt service costs are expected to rise from 5.3% of revenue in FY2025 to 8.1% in FY2028. These estimates likely represent an upper bound, given the substantial prudence embedded over the planning horizon.

Borrowing requirements have been revised upward to $31.1B in FY2026, compared to the previous forecast of $29.5B in the last budget, driven by higher refinancing maturing short-term debt

Graph 6
BC's Debt Indicators Are Set to Rise, But Remain Favourable



* Quebec and Ontario figures based on mid-year FY2025 projections
Provincial budget documents and Desjardins Economic Studies

with long-term borrowing. For FY2027 and FY2028, the province expects to borrow $33.1B and $34.7B, respectively, reflecting higher capital spending projections and a deeper deficit outlook.