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British Columbia: Net improvement vs. prior guidance

By Warren Lovely and Ethan Currie

Selected highlights

- **Economic backdrop:** *Diversification (in industry and trade) to allow for modest near-term growth*

  British Columbia's economy expanded at a modest pace in 2025. The second quarter (Q2) outlook notes that performance is mixed among sectors, as activity has been stirred by U.S. trade policies (and associated uncertainty). Generally, dampened exports and housing activity have weighed on economic growth this year, while strong consumer spending, residential construction, and government investment have provided a boost at the margin (not unlike what has occurred in other provinces). And while tariffs negatively impact business confidence, investment and growth overall, B.C.'s diverse economy and greater access to non-U.S. markets helps to mitigate some of the risks stemming from the shift of global trade regimes. Since the Q1 report, real GDP growth for 2025 has been revised down by one tick, to 1.4%, while 2026 is poised for a 1.3% expansion, unchanged from prior guidance. Employment growth is expected to soften through 2026. That's partly a function of lower migration and population growth. However, the unemployment rate is anticipated to stabilize, averaging 6.2% and 6.1% in 2025 and 2026, respectively. While those projections are notedly *higher* than what was envisioned back in a pre-tariff world, the unemployment rate forecast has brightened relative to Budget 2025 (where a jobless of 6.7% had been originally contemplated for 2025).

- **Fiscal outlook:** *Deficit narrows vs. Q1 update, with spending efficiencies a longer-term focus*

  British Columbia projects a $11.2 billion deficit for 2025-26, representing a near-$400 million net improvement vs. the most recent guidance (from Q1). Top-line revenue has firmed $512 million vs. that most recent estimate. Enhanced personal and corporate income tax receipts, which capture positive prior-year adjustments, more than offset marginal pressure in a few other revenue streams (including property transfer tax, mining/coal revenue, sales tax, health transfers due to a lower share of the population). Incremental revenues are also more than sufficient to absorb an extra $122 million in total expenditure. Relative to Q1, the biggest spending adjustment captures refundable tax credits linked to the earlier-announced removal of the carbon tax. There's lower spending on wildfires thanks to more favorable weather conditions. Budget 2025 had allocated fully $4 billion in a contingencies vote to cover unexpected costs/spending pressures. It is expected that the full amount of the contingencies vote will be allocated. Recall that B.C.'s deficit containment strategy is predicated on an expenditure management and efficiency review exercise. The province sees itself as "on-track" against a near-term target of $300 million, with Budget 2026 set to provide greater colour on the longer-term strategy/goals. It will be important to secure meaningful and lasting progress through prospective efficiency initiatives. At 2.5% of GDP, B.C.'s deficit is at the high end of the range for the provinces, with debt (discussed below) having accumulated in recent years. Saying that, B.C.'s deficit ratio essentially matches the scale of the federal government's 2025-26 shortfall (as outlined in Ottawa's recent budget). Note: While B.C.'s fresh update focuses solely on 2025-26, the earlier Q1 report (official link **here**) had provided a comprehensive update to the full three-year fiscal framework (through 2027-28).

- **Debt burden & borrowing:** *Debt burden improved vs. budget/Q1, less borrowing relative to prior guidance*

  Reflecting the marginal reduction in the deficit and lower capital spending, the Q2 update makes favourable adjustments to the debt picture. The level of taxpayer-supported debt for 2025-26 has been marked down $315 million vs. Q1 and is more than $1 billion lower than the original budget plan (aided by an improved starting point, earlier confirmed via the public accounts). Controlling for the underlying economic backdrop, the taxpayer supported debt-to-GDP ratio—the province's preferred debt metric—is expected to be 26.4% come March 2026. That ratio had been estimated at 26.6% in Q1 and 26.7% at the time of the budget. While B.C.'s net debt-to-GDP ratio remains below the weighted provincial average, credit rating agencies have taken notice of the province's relatively larger deficit and the associated pace of debt accumulation. As per recent credit opinions, a tempered rate of debt growth (and eventual stabilization in the debt burden) are likely key to returning the province to a 'stable' outlook. In the meantime, debt remains relatively affordable. While increasing in recent years, the taxpayer-supported interest bite remains manageable at 5.0% of revenue in 2025-26 (unchanged from the Q1 projection). As for borrowing, recall that B.C. had originally budgeted for $31.1 billion in gross borrowing for the current fiscal year. That requirement expanded to $35.1 billion by the Q1 report. But in a welcome development for bondholders, gross financing needs have since receded $2.9 billion to $32.2 billion. There's been considerable progress made against the still-sizeable borrowing requirement. Some $27.3 billion in term funding has so far been secured and B.C. is hardly the only province to make good use of established access to international capital markets. Consider: Foreign currency issues account for almost 60% of fiscal year-to-date bond supply. At this juncture, $6.0 billion remains against the downwardly adjusted funding requirement. We would emphasize that remaining borrowing is to be secured via short-term *and* long-term markets (i.e., it's not meant to be all bonds). Sensibly, B.C. aims to keep its funding options open; notwithstanding strong seasonal demand in the domestic market, the province will "continue to look at funding opportunities domestically and internationally".

Current long-term credit ratings — S&P: A+, Negative | Moody's: Aa1, Negative | DBRS: AA (High), Negative | Fitch: AA+, Negative

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

Table 1.1 2025/26 Forecast Update

($ millions)	*Budget 2025*	*First Quarterly Report*	*Second Quarterly Report*
Revenue	84,003	83,264	83,776
Expense	(94,915)	(94,841)	(94,963)
Deficit	**(10,912)**	**(11,577)**	**(11,187)**
Capital Spending:			
Taxpayer-supported capital spending	15,374	14,664	13,901
Self-supported capital spending	4,828	4,818	4,804
	20,202	**19,482**	**18,705**
Provincial Debt:			
Taxpayer-supported debt	118,719	117,992	117,677
Self-supported debt	37,913	37,381	37,409
Total debt	**156,632**	**155,373**	**155,086**
Taxpayer-supported debt metrics:			
Debt-to-GDP ratio	26.7%	26.6%	26.4%
Interest bite (cents per dollar of revenue)	4.9	5.0	5.0

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