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## **British Columbia: Larger deficit as services (& economy) protected**

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### **Highlights**

With the conclusion of fiscal year 2025-26 drawing near, British Columbia is on track to run a \$9.6 billion budgetary shortfall (2.2% of GDP). That's technically an improvement to what last year's guidance offered up (\$10.9 billion) but still represents the largest deficit in the province's history. Looking ahead, the deficit is set to grow in 2026-27 to \$13.3 billion (or 2.9% of GDP), before moderating out the plan horizon, gradually falling to an \$11.4 billion (2.3%) shortfall by 2028-29. B.C. continues to build ample prudence into its fiscal planning, with \$5 billion per year of contingencies incorporated. As elsewhere across Canada, B.C.'s economy was—and is—under pressure from significant policy and trade uncertainty. Conceding that fiscal pressures are growing, the province has retained its commitment to enhance government efficiencies, while also recognizing the need to support core services / sectors through turbulent times. As such, Budget 2026 introduces continued and increased funding in health care and education, and makes new allocations aimed at bolstering the skilled trades workforce and attracting private sector investment. In addition to reined in public expenditures, adjustments to the tax system will also offer a partial fiscal offset. Given the fiscal path outlined in Budget 2026, the province's debt curve remains pointed higher. Like the 2025-26 deficit, B.C.'s preferred indebtedness measure, taxpayer-supported debt, is set to end the fiscal year lighter than initially projected. Debt—outright and as a share of GDP—is expected to climb higher in the coming year(s), as B.C.'s 'interest bite' will also step up from historically low / generally sustainable levels. These debt trajectories are, however, slightly better than previously outlined, as B.C. would retain a relative debt edge to Canada's largest provinces (Ontario, Quebec), should the plan materialize. The province pencils in \$35.4 billion of debt issuance for 2026-27, representing a nearly \$4 billion increase from the outgoing fiscal year (with \$1 billion of issuance still remaining). That figure is then expected to remain steady in 2027-28, before moderating to \$30.7 billion in the last year of the plan. B.C. has generally found a ready investment base for its debt, including internationally, which has eased the burden on domestic bondholders.

- **Economic outlook** — As elsewhere in the country, B.C.'s economy in 2025 was impacted by uncertainty caused by the trade conflict with the United States. In addition, B.C. was more affected than other Canadian provinces (except Ontario) by the decline in the number of non-permanent residents. As a result, it is estimated that the province's real GDP grew by 1.5% in 2025 (vs. 2.4% in 2024), which is lower than the 1.7% growth rate for the country as a whole. More important for public finances, nominal GDP grew by 4.1% (Canada: 4.2%). As for the labour market in 2025, job creation reached only 1.1%, which is half the growth rate of the working-age population. As a result, the average unemployment rate rose from 5.6% in 2024 to 6.2% in 2025. Looking ahead, uncertainty is likely to continue to weigh disproportionately on B.C.'s economy due to high household debt, which amplifies the risks. In addition, population decline is expected to accelerate in the coming quarters and weigh on growth in this province with a significant number of non-permanent residents. In this context, the budget is based on a lower real GDP growth rate of 1.3% in 2026, a relatively cautious forecast compared to the 1.5% expected by the consensus of private sector economists. The budget forecasts that growth should accelerate to 1.8% in 2027 and then to an average of 2.1% from 2028 to 2030. As for nominal GDP, growth of 4.4% has been forecast for 2026, followed by 4.1% in 2027, and 4.3% on average between 2028 and 2030. As for the labour market, the average annual unemployment rate is expected to decrease from its peak of 6.2% in 2025 to 5.9% in 2026, then gradually decrease from 5.8% in 2027 to 5.5% in 2029 and 2030.
- **Outgoing year budget balance (2025-26)** — With just over a month left to go in 2025-26, British Columbia's deficit is tracking lower than the budgetary guidance offered this time last year. The \$10.9 billion shortfall projected in Budget 2025 is now expected to settle at \$9.6 billion (2.2% of GDP, 11.3% of revenue). Expenses are seen coming in slightly lower than plan (-0.2%) which is mainly a function of less funding on refundable tax credits. Revenues are tracking above the original budget plan (+1.4%), aided by a one-time \$2.7 billion tobacco settlement and stronger personal and corporate income taxes. Note that relative to the *Second Quarterly Report*, the expected deficit is also improved as this most recent guidance was for an \$11.2 billion shortfall (2.5% of GDP).
- **Medium-term fiscal outlook (2026-27 & beyond)** —The \$9.6 billion deficit projected for 2025-26, the largest in the province's history, is expected to grow in 2026-27. With tepid revenue growth (+0.5%) and faster spending increases (+4.4%), British Columbia is expecting to spill \$13.3 billion of red ink in the fiscal year ahead (2.9% of GDP, 15.6% of revenue). That's a deterioration from 2025-26 and is also \$3.1 billion weaker than was projected in Budget 2025. Spending on health is one of the largest pressure points but increases in interest costs are also significant. While taxation revenues, natural resource revenues and federal transfers are all set to grow respectably, the one-time nature of 2025-26's tobacco settlement leaves top line revenue barely increasing in 2026-27.

Further out the horizon, the deficit is seen moderating but remaining above 2% of GDP. For 2027-28, the province expects to run a \$12.2 billion deficit (2.5% of GDP, 13.7% of revenue) and in the final year of the three-year plan (2028-29), British Columbia is forecasting an \$11.4 billion shortfall (2.3% of GDP, 12.5% of revenue). Modest budgetary improvements in the outer years of the fiscal outlook are a function of revenue growth (+3.6% per year) outpacing spending growth (+2.2% per year). All told, more red ink will now be accumulated relative to what was expected a year ago. The combined deficit over the three overlapping years of Budget 2025 and Budget 2026 (i.e., 2025-26 to 2027-28) has risen from \$31.0 billion in last year's budget to \$35.1 billion in this year's. This deterioration is a function of additional spending which, across those three years, is now \$5.4 billion higher than planned last spring.

As far as prudence is concerned, the province's fiscal plan does not contain the provision of a forecast allowance but does include Contingencies Vote estimates of \$5 billion in each year of the fiscal plan. These reflect "funding set aside for uncertain or unforeseen matters, future initiatives, caseload



pressures, and collective bargaining mandate costs”. British Columbia also regularly provides fiscal sensitivities. These suggest that 1%-pt of additional nominal GDP growth is worth \$300-500 million and that a one percentage point increase in interest rates would mean a hit to the deficit of \$271 million, all else equal.

- **New initiatives** — Budget 2026 vows to protect core services in health care and education, support business investment, and make needed updates to tax systems and government efficiencies. In an economic period characterized by uncertainty and volatility, the fiscal plan outlines three primary pillars of action which seek to “future-proof” the province. The first of which aims to safeguard critical services in health care and education. A cumulative \$2.8 billion over the next three years will be devoted to new funding for the health care system, the lion’s share of which (\$2.3 billion) will focus on increasing capacity—hiring more professionals and developing / operating new and expanded facilities throughout the province. Smaller, but still significant investments will be made in intensive mental-health and addictions treatment (\$131 million) and the expansion of public coverage to include free / enhanced-coverage medications (\$653 million). On the education front, \$3.9 billion in capital funding will be allocated to facility replacements / upgrades in B.C.’s fastest-growing neighbourhoods, while \$634 million is earmarked in funding for new teachers and student services as enrolment surges. The province is also setting aside funds for enhancements to services for youth with disabilities and provides \$139 million in additional funding over three years to reduce crime. The second main component of the Budget keys in on ‘investing in B.C.’s future’. Specifically, this section outlines plans to create more opportunities for skilled trades workers (\$283 million set aside here, predominantly to double skilled trades funding over the plan horizon). It also showcases new investment of over \$40 million to streamline permitting and help bolster growth in key resource industries, such as mining (where exploration investments will benefit from a \$750 million+ allocation), and a tariff-targeted forestry sector, receiving an additional \$50 million to support stability and protect jobs. A temporary 15% Manufacturing and processing Investment Refundable Tax Credit will also be introduced in this budget to help increase productivity and competitiveness in a key economic corner. Lastly, pillar three of the Budget makes updates to the tax system while also aiming at making government more efficient. Conceding that economic uncertainty, an underperforming economy, and higher costs are contributing to public finance pressures, the province will make adjustments to the tax regime in order to avoid the more detrimental (and longer-term) effects of cuts to the core services, some of which mentioned above. The tax rate of the first income tax bracket will be upwardly adjusted by just over 50 basis points, to 5.6%, translating to an additional \$76 in income taxes for the average taxpayer in 2026. That said, more than 40% of taxpayers will see savings when combined with other tax reduction credits, and B.C. will also pause the indexing of tax brackets until 2030. The province will also reallocate certain investments (like \$1.4 billion of housing initiatives) to strategically sequence the capital plan, ensuring continued support while mitigating risks associated with fiscal pressures. As part of its Budget 2025 commitments to expenditure management, B.C. will continue to seek government-related efficiencies, as this Budget includes estimated savings of \$3.5 billion over the course of the fiscal plan.
- **Debt outlook & interest bite** — British Columbia’s preferred debt measure—taxpayer-supported debt—is projected to end the outgoing 2025-26 fiscal year at \$116.5 billion, which is more than \$2 billion lighter than the original 2025 budget target (benefiting in part from a smaller-than-planned deficit). It likewise represents a modest net improvement vs. the most recent guidance (Q2 report). B.C.’s taxpayer-supported debt has nearly doubled in the last three fiscal years and the fresh budget plan would add \$72 billion over the coming three fiscal years. Debt is expected to reach \$142.9 billion by the end of 2026-27 fiscal year, rising to \$189.0 billion by the end of 2028-29. Controlling for underlying growth in the economy (or the provincial revenue base), the province’s taxpayer-supported debt burden has been (and remains) on a rising trajectory. Pre-COVID, taxpayer-supported debt hovered around 15% of nominal GDP but is to end 2025-26 at an estimated 26.1% (which is admittedly lower than the original Budget 2025 plan and more recent updates). Debt-to-GDP is forecast at 30.9% for 2026-27, which again marks a slight improvement vs. prior guidance. This ratio is to reach 37.4% by 2028-29, which is the final year of the fiscal framework. Scaled to revenue, taxpayer-supported debt has gone from ~80% pre-COVID to a planned 173% for 2026-27, on its way to 214% in the final year of the plan. With a view to bolstering long-term fiscal sustainability, the capital plan is to be strategically sequenced/re-paced, with possible project redesign aimed at reducing costs (and thus debt). In general, the capital plan review was done with a view to “maintain the province’s debt-to-GDP ratio among the best in Canada”, with the province fully expecting to maintain a balance sheet edge vs. both Ontario and Quebec (and also compared to the feds). Reflecting B.C.’s historically low debt burden, the taxpayer-supported interest bite has been relatively modest/limited. For the outgoing 2025-26 fiscal year, related interest costs consumed less than 5% of total provincial revenue. But given planned debt accumulation and an expectation of higher underlying rates, the interest bite can be expected to grow. The budget projects a 6.2% taxpayer-supported interest bite for 2026-27, with this debt affordability metric topping 8% by 2028-29. For planning purposes, the yield on 10-year Canada bonds is assumed to average 3.34% in calendar 2026 vs. 3.23% for 2025. Consistent with the rising debt load, fiscal sensitivity analysis suggests an interest rate shock could have a larger budgetary impact. As per Budget 2026, a 1%-pt unanticipated increase in interest rates would result in an annual fiscal cost of \$271 million (vs. \$220 million estimated in Budget 2025).
- **Borrowing requirement** — British Columbia’s gross borrowing requirement amounted to \$31.5 billion in 2025-26. Strictly speaking, that isn’t all that far removed from the \$31.9 billion originally telegraphed in Budget 2025. Note, however, that a smaller operating deficit and reduced capital requirements both lowered the underlying cash need, offset by a move to refinance short-term debt with long-term issues—a decision that will provide some relief on future refi needs. The province has signaled that \$1.0 billion remains to be borrowed before the end of the 2025-26 fiscal year (i.e., before March 31<sup>st</sup>), with this residual need to be covered via short- and long-term issuances. Of the \$30.1 billion of long-term borrowing thus far completed in 2025-26, it’s been nearly evenly split between domestic and international markets. Indeed, having secured the equivalent of \$15.4 billion via foreign currency bond deals, B.C. once again meaningfully reduced the amount of bonds domestic investors were required to absorb. Based on the fresh fiscal framework, B.C.’s future borrowing needs are a bit lighter than previous guidance but still relatively meaningful (when scaled to population, revenue or GDP). Assuming no pre-funding, the province projects a gross borrowing requirement of \$34.9 billion for 2026-27 (vs. \$36.0 billion in the earlier Q1 update). The coming fiscal year’s deficit may be larger, but capital needs have been marked down and (as noted) refinancing requirements have eased vs. prior guidance. B.C. will “continue to look to funding opportunities domestically and internationally”, which has been an effective strategy in recent years. While heightened economic and geopolitical uncertainty could ultimately alter the fiscal trajectory, the budget currently projects \$35.0 billion in gross borrowing in 2027-28, moderating to just over \$30 billion come 2028-29.
- **Current long-term credit ratings** — S&P: A+, Negative | Moody’s: Aa1, Negative | DBRS: AA(H), Negative | Fitch: AA+, Negative  
*[Refer to our [Provincial Ratings Snapshot](#) for additional colour on specific credit rating drivers/considerations]*

**British Columbia**

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	<b>Budget</b>	<b>Forecast</b>	<b>Budget</b>	<b>Plan</b>	<b>Plan</b>
	2025/26	2025/26	2026/27	2027/28	2028/29
Taxation revenue	49,699	49,224	50,775	54,038	56,477
Resource revenue	2,997	2,555	3,011	3,177	3,549
Other revenue	12,019	14,778	12,449	12,435	12,568
Other federal transfers	15,277	14,610	15,468	15,103	15,335
Commercial Crown corporation net income	4,011	3,915	3,820	3,825	3,825
<i>as of Insurance Corporation of British Columbia (ICBC)</i>	800	800	700	700	700
<b>Total revenue</b>	<b>84,003</b>	<b>85,082</b>	<b>85,523</b>	<b>88,578</b>	<b>91,754</b>

Program spending	85,855	85,657	87,466	88,162	89,480
Debt servicing costs	5,060	5,039	6,366	7,581	8,711
Contingencies	4,000	4,000	5,000	5,000	5,000
<b>Total spending</b>	<b>94,915</b>	<b>94,696</b>	<b>98,832</b>	<b>100,743</b>	<b>103,191</b>
<b>Surplus/Deficit</b>	<b>(10,912)</b>	<b>(9,614)</b>	<b>(13,309)</b>	<b>(12,165)</b>	<b>(11,437)</b>

**Provincial Debt Changes**

Deficit (surplus) before forecast allowance	10,912	9,614	13,309	12,165	11,437
Taxpayer-supported capital spending	15,374	12,467	13,664	13,117	10,885
Self-supported capital investments	4,828	4,606	5,013	5,048	5,194
Commercial Crown corp. retained earnings	1,545	1,644	1,441	1,447	1,444
Amortization and other capital asset changes	3,336	3,242	3,412	3,677	3,876
Other items	(12,379)	(11,391)	(7,524)	(8,973)	(8,132)
<b>Increase in total provincial debt</b>	<b>23,616</b>	<b>20,182</b>	<b>29,315</b>	<b>26,481</b>	<b>24,704</b>
<b>Total provincial debt</b>	<b>156,632</b>	<b>154,059</b>	<b>183,374</b>	<b>209,855</b>	<b>234,559</b>
<b>Taxpayer-supported</b>	<b>118,719</b>	<b>116,540</b>	<b>142,897</b>	<b>166,906</b>	<b>189,019</b>
<b>Self-supported</b>	<b>37,913</b>	<b>37,519</b>	<b>40,477</b>	<b>42,949</b>	<b>45,540</b>
Total provincial debt / GDP	35.2%	34.5%	39.3%	43.2%	46.4%
Taxpayer-supported	26.7%	26.1%	30.6%	34.4%	37.4%

<b>Capital Spending</b>	<b>20,202</b>	<b>17,073</b>	<b>18,677</b>	<b>18,165</b>	<b>16,079</b>
Taxpayer-supported capital spending	15,374	12,467	13,664	13,117	10,885
Self-supported	4,828	4,606	5,013	5,048	5,194

<b>Provincial borrowing requirements</b>	<b>31,877</b>	<b>31,646</b>	<b>35,433</b>	<b>35,206</b>	<b>30,713</b>
Operating deficit (surplus)	10,912	9,614	13,309	12,165	11,437
Capital spending	20,202	17,073	18,677	18,165	16,079
Refinancing requirements	8,155	11,582	6,042	8,624	5,151
Other financing sources	(7,392)	(6,623)	(2,595)	(3,748)	(1,954)

Source: Budget documents, British Columbia Ministry of Finance



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