Scotiabank

GLOBAL ECONOMICS

FISCAL PULSE

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British Columbia: 2025–26 Budget

BC SETS ASIDE SUBSTANTIAL BUFFERS AS OUTLOOK DETERIORATES

- **Bottom-line: BC is projecting deep deficits ahead, albeit substantial contingencies are embedded in this outlook. Absent this prudence, the profile would show a more modest deterioration over last year's outlook, though some election commitments have been shelved (e.g., $1,000 grocery rebate) to accommodate higher spending in other areas. Like other provinces to table updates so far, this budget largely reflects a placeholder as the country braces for trade turmoil.**
- **Growth assumptions: +1.8% real GDP growth for calendar 2025 and 1.9% for 2026—though this outlook is based on an absence of tariffs.**
- **Budget balance: -$9.1 bn (-2.1% of nominal GDP) for the fiscal year just ending, followed by -$10.9 bn (-2.5%) in FY26, -$10.2 bn (-2.2%) in FY27, and -$9.9 bn (-2.0%) in FY28 (chart 1).**
- **Net debt: projected to rise from 22.9% of GDP in FY25 to 34.4% by FY28—a nearly 20 percentage point increase from the 15.2% debt burden in FY23 (chart 2).**
- **Borrowing plan: given higher planned deficits, increased to $29.2 bn (+$5.0 bn) in FY25, $31.0 bn (+$1.6 bn) in FY26, $33.1 bn (+$4.7 bn) in FY27, and $34.7 bn in FY28.**

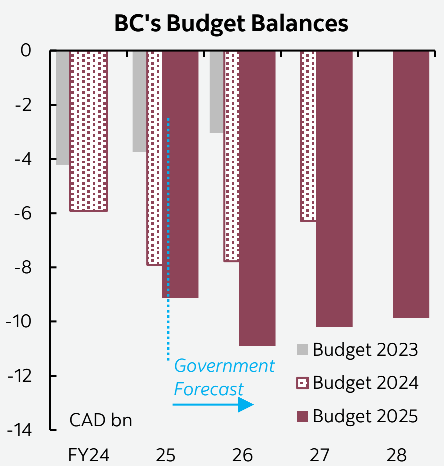
OUR TAKE

The FY25 deficit is looking smaller than expected in December, but future years expect larger deficits should full contingencies be used. The deficit for the year just ending is estimated at $9.1 bn—an improvement of roughly $0.3 bn compared to the projection in the December 2024 Fiscal and Economic Update—driven by stronger corporate income taxes and net income by the insurance Crown Corporation, which more than offset higher expenditures. However, the projected deficits for FY26 onward are significantly higher than those presented in the previous year's Budget: -$10.9 bn (-$3.1 bn relative to Budget 2024) in FY26, -$10.2 bn (-$3.9 bn) in FY27, and -$9.9 bn in FY28. This mainly reflects higher planned spending, especially on health and social services—as well as an increased spending contingencies vote.

The economic and revenue outlook have clear downside risks. The budget projections assume real GDP growth in BC of +1.8% for calendar 2025, 1.9% for 2026, and 2.1% in future years. Nominal GDP growth is pegged at 4.2–4.3% per year. However, the budget is clear that this outlook does not incorporate the implementation of U.S. tariffs, nor Canada's response. A separate backgrounder notes an estimate that 25% U.S. tariffs on goods and 10% on energy could decrease the province's revenues by $1.4 bn per year.

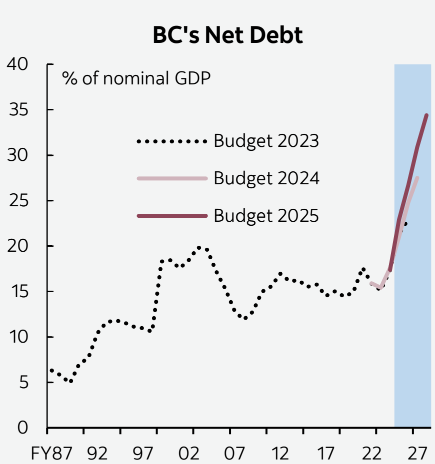
Expenditures continue to grow strongly, but the government has committed to review all spending. The government is allocating considerable new funding to health and social services, in addition to increasing the annual spending contingencies vote to $4 bn, which is meant to cover spending uncertainties related to new and existing programs and unforeseen events. The larger contingencies vote represents a potential upside fiscal risk to the extent it is not fully used, which could help offset the downside risks on the revenue side. In addition, in recognition of the elevated level of spending, the finance minister announced that the government will launch a review of all government spending, which could potentially represent some further future upside risk on the spending side.

Chart 1



Sources: Scotiabank Economics, BC Finance.

Chart 2



Sources: Scotiabank Economics, BC Finance, Statistics Canada.

Should the full contingencies be required, the province's debt burden is set to rise considerably. Based on the estimated deficits going forward, BC's net debt is projected to rise from 22.9% of GDP in FY25 to 34.4% by FY28—a nearly 20 percentage point increase from the post-pandemic low 15.2% debt burden in FY23.

BC's borrowing program will pick up in light of higher planned deficits. New borrowing requirements are estimated at $29.2 bn for FY25 (+$5.0 bn compared to the Budget 2024 projection), $31.0 bn (+$1.6 bn) in FY26, $33.1 bn (+$4.7 bn) in FY27, and $34.7 bn in FY28.

Updated Fiscal Forecast
$ billions except where noted

	FY25		FY26		FY27		FY28
	Bud. '24	Bud. '25	Bud. '24	Bud. '25	Bud. '24	Bud. '25	Bud. '25
Total Revenue	**81.5**	**82.9**	**82.8**	**84.0**	**86.4**	**85.7**	**88.2**
Own-Source	*67.1*	*68.7*	*67.9*	*68.7*	*71.7*	*70.8*	*73.6*
Fed. Transfers	14.4	14.2	14.9	15.3	14.7	14.9	14.6
Total Expenditure	***89.4***	***92.0***	***90.6***	***94.9***	***92.7***	***95.9***	***98.0***
Programs	85.3	87.6	85.8	89.9	87.0	90.0	90.9
Health	35.9	37.3	36.9	39.0	37.5	39.3	40.2
Education	19.5	19.3	19.8	19.8	20.0	20.0	20.2
Social Services	10.5	10.8	10.7	11.3	10.7	11.4	11.5
Contingencies	3.9	3.9	2.0	4.0	1.7	4.0	4.0
Other	15.5	16.3	16.3	15.6	17.1	15.1	14.9
Debt Service	4.1	4.4	4.8	5.1	5.7	5.9	7.2
Reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance	**-7.9**	**-9.1**	**-7.8**	**-10.9**	**-6.3**	**-10.2**	**-9.9**
% of GDP	*-1.9*	*-2.1*	*-1.8*	*-2.5*	*-1.4*	*-2.2*	*-2.0*
Net Debt	**88.6**	**97.7**	**109.2**	**118.7**	**126.5**	**143.4**	**166.5**
% of GDP	*21.0*	*22.9*	*24.8*	*26.7*	*27.5*	*30.9*	*34.4*

Sources: Scotiabank Economics, BC Finance.