

B.C. Budget (FY25/26) — Climbing Debt Mountain

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

The **Province of British Columbia is projecting a \$10.9 billion deficit** in FY25/26, or a chunky 2.5% of GDP. The FY24/25 deficit was revised down slightly to \$9.1 billion, while larger deficits persist through the forecast horizon. By FY27/28, the province still sees a large \$9.9 billion shortfall, with the end of the forecast again running meaningful larger than previously expected (\$6.1 billion).

This budget is also based on an underlying economic outlook void of any tariff action, which leaves it exposed to some downside risk. The Province outlines a downside scenario that could see revenues hit by roughly \$1.7-to-\$3.4 billion, but also continues to maintain large contingencies in the spending plan. Those contingencies total a hefty \$4 billion for FY25/26 and can be used to shape evolving spending priorities.

Still, with bigger and persistent deficits, as well as a record \$31 billion borrowing program, B.C.'s net debt-to-GDP ratio will continue to rise, sitting at 25% of GDP this coming fiscal year, and rising above 32% by FY27/28—into the league of Central and Atlantic Canada for the first time.

This budget introduces some smaller-ticket policy measures:

Summary of Major Policy Measures:

- Raising the **Speculation and Vacancy Tax** on homes to 3% for foreign homeowners and 1% for Canadian citizens and permanent residents.
- Increasing the claim limit for **Small Business Venture Capital Tax Credit** from \$120k to \$300k.
- Extending the **Training Tax Credit for Apprentices** for three years to 2028.
- Removing the sales tax exemption for used **zero-emission vehicles** starting in May 2025, earlier than its previously scheduled end date 2027.
- A total \$15.5 billion in **capital spending** over the forecast horizon to build and upgrade infrastructure.
- **Gross borrowing** rises to \$31 billion in FY25/26 increases to almost \$35 billion in two years.

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Fiscal Outlook

British Columbia (c\$ mlns, except where noted)

	24/25e	25/26f	26/27f	27/28f
Revenues	82,868	84,003	85,715	88,165
Expenditures	92,003	94,915	95,918	98,028
Budget Balance	(9,135)	(10,912)	(10,203)	(9,863)

Debt:

Taxpayer-Supported	97,711	118,719	143,412	166,479
Total Provincial	133,016	156,632	183,712	208,830

As a percent of GDP:

Budget Balance	(2.1)	(2.5)	(2.2)	(2.0)
Taxpayer-Sup. Debt	22.9	26.7	30.9	34.4

As a percent of revenue:

Debt Service	5.3	6.0	6.9	8.1
Federal Transfers	17.1	18.2	17.4	16.5

Key assumptions:

Real GDP (% chng)	1.2	1.8	1.9	1.9
Nominal GDP (% chng)	4.1	4.3	4.3	4.2

Note: GDP figures are for calendar year (FY24/25 = CY24)

Source: Provincial Budget () = deficit; e = estimate; f = forecast

Borrowing Requirements

British Columbia (c\$ mlns)

	24/25e	25/26f	26/27f	27/28f
Operating deficit	9,135	10,912	10,203	9,863
Capital requirements	15,970	20,202	20,382	19,327
Refinancing	3,806	8,155	6,282	8,843
Other sources	247	(8,199)	(3,808)	(3,360)
Gross borrowing reqmt.	29,158	31,070	33,059	34,673

Source: Provincial Budget

Total revenue is expected to increase 1.3% to \$84.0 billion in FY25/26. While most revenue sources push modestly higher, corporate tax revenues step back due to lower installments and prior-year settlements.

The revenue outlook is based on somewhat optimistic **economic assumptions** given no tariff action is incorporated. The baseline growth outlook doesn't include the tariffs and countermeasures that began on Budget Day. But, the budget includes a scenario analysis that reflects the current tariff environment, which indicates that real GDP growth could slow to 0.3% in 2025—somewhat lower than our current estimate of 0.8%. While we acknowledge the difficulty of forecasting in such a highly uncertain environment, we'll note that B.C. is relatively less exposed to U.S. trade than some of its peers.

Back to the baseline... the outlook for real GDP is, unsurprisingly, more optimistic than our post-tariff projections, with growth expected to pick up to 1.8% this year (again, we're at 0.8%) though it is a conservative estimate compared to our pre-tariff outlook. The Province expects growth to tick up to 1.9% in 2026, while we are at 1.0% as tariffs are assumed to be lifted. The forecast for nominal GDP growth, which underpins revenues, is similarly optimistic in a tariff world: the budget looks for 4.3% this year and next. Over the medium term, the outlook for B.C. will depend to some degree on the trade environment (especially if the U.S. introduces lumber tariffs, as the President has threatened) and on the outlook for interest rates. On the latter, our initial read is that tariffs will, on net, lead to more rate cuts by the Bank of Canada which, in turn, could maintain stability in the province's housing market.

Total expenses are expected to rise 3.2% in FY25/26 after robust growth in the prior year. If there is a theme in this budget, it is that B.C. continues to spend aggressively on priority areas in health care and education. The \$1,000 'grocery rebate' promised during the election campaign has been shelved. Meantime, total **capital spending** will rise to \$20.2 billion, with taxpayer-supported spending expected to increase \$4.1 billion to \$15.4 billion. This robust program is focused on schools, health care and transportation infrastructure.

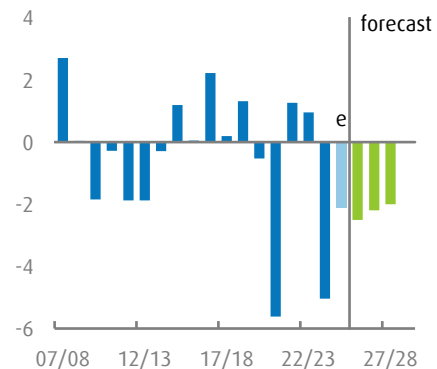
Gross provincial **borrowing** is estimated at a record \$31.1 billion for FY25/26, up from \$29.2 billion in FY24/25—the latter came in about \$5 billion larger than expected, in part due to pre-borrowing ahead of FY25/26. Looking ahead, borrowing remains above the \$30 billion mark for the following two fiscal years. For what it's worth, B.C.'s annual borrowing requirements would typically run below \$10 billion before really stepping up in FY23/24.

With the larger borrowing program, **debt ratios are expected to push significantly higher** over the coming three years. Taxpayer-supported debt-to-GDP will jump more than 11 percentage points in the next three years, and similar for the net debt-to-GDP ratio, which will top 32% by FY27/28. That will suddenly put B.C. in the same league as Ontario, Quebec and Atlantic Canada.

B.C. Holding onto Deficits

British Columbia (C\$ blns)

Budget Balance



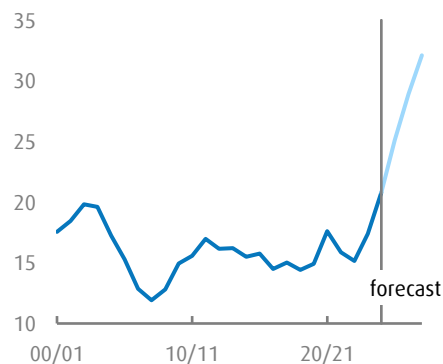
Source: Provincial Budget

e = estimate

Debt Ratio Continues to Soar

British Columbia (% of GDP)

Net Debt



Source: Provincial Budget

Bottom Line: British Columbia remains steadfast in its desire to spend, both on operating activities and through a robust capital program. From a credit perspective, another significant weakening in deficit and debt metrics comes even before meaningful downside risk to the economy from a trade war.

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