

Economics

PROVINCIAL BUDGET BRIEFS

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British Columbia budget 2026

The province of British Columbia is expecting to run a larger deficit for the upcoming 2026/27 fiscal year, with spending increasing but own-source revenue slipping as a one-time boost from the settlement with tobacco companies booked in the 2025/26 fiscal year reverses. The \$13.3bn shortfall would be \$3.7bn larger than currently estimated for the outgoing fiscal year and represents a deficit of nearly 3% of nominal GDP. Planned spending restraint, combined with some tax increases announced today to boost revenue, should see deficits slim slightly in fiscal 2027/28 and 2028/29. The widening deficit and increased borrowing for capital projects will see provincial borrowing requirements rise to \$34.9bn in fiscal 2026/27, up from \$31.5bn for 2025/26.

Table 1: Summary of fiscal position: (C\$billions)

Fiscal measure	2024/25 Actual	2025/26 25 Budget	2025/26 26 Budget	2025/26 Change	2026/27 26 Budget	2027/28 26 Budget	2028/29 26 Budget
Revenue	84.046	84.003	85.082	1.079	85.523	88.578	91.754
Own Source	69.739	68.726	70.472	1.746	70.055	73.475	76.419
* % change	5.8	-1.5	1.1	2.5	-0.6	4.9	4.0
Federal transfers	14.307	15.277	14.610	-0.667	15.468	15.103	15.335
Expenditures	91.393	94.915	94.696	-0.219	98.832	100.743	103.191
Program spending	87.148	89.855	89.657	-0.198	92.466	93.162	94.480
* % change	7.1	3.1	2.9	-0.2	3.1	0.8	1.4
Public debt interest	4.245	5.060	5.039	-0.021	6.366	7.581	8.711
Surplus /(deficit)	-7.347	-10.912	-9.614	1.298	-13.309	-12.165	-11.437

Slow going for BC economy

While the province of British Columbia isn't as reliant on exports to the US as most others, tariffs and the related uncertainty are still having a negative impact on the economy. That, combined with an expectation that the population of the province will decline in the coming year thanks to Federal government targets for non-permanent residents, will see real GDP slow further to 1.3% in 2026, from an estimated 1.5% in 2025. However, thanks to expected inflationary pressures, nominal GDP, which is more important for revenue forecasting, is still assumed to be between 4.0% and 4.5% over the forecast horizon. Sensitivity analysis suggests that a 1% divergence in nominal GDP would have a fiscal impact of between \$300-\$500mn. While last year's base case economic forecasts didn't include assumptions for tariffs, because President Trump's policies were only just taking shape at the time that economic forecasts were finalised, the forecasts used in today's Budget include all tariffs imposed as of January 12th.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2025	2026	2027	2028-30
Real GDP	1.5	1.3	1.8	2.1
• Private sector average	1.5	1.5	1.9	1.9
Nominal GDP	4.1	4.4	4.1	4.3
Employment	1.1	0.4	0.8	1.0
Unemployment rate (%)	6.2	5.9	5.8	5.6
Retail sales	5.8	2.4	3.3	3.8
Housing starts (K)	44.2	44.2	45.9	48.9
Personal income	3.4	3.4	3.8	4.2
Corporate profits	8.1	9.6	4.6	4.6
CPI	2.1	2.1	2.0	2.0
Population	0.5	-0.9	0.4	1.1

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2025	2026	2027	2028-30
3-month T-Bills (%)	2.59	2.27	2.61	2.8
10-year GoC Bonds (%)	3.23	3.34	3.49	3.4
Exchange rate (US¢/C\$)	71.5	73.6	75.6	77.7

Table 4: Commodity assumptions

Commodity assumptions	2025/26	2026/27	2027/28	2029/30
Stumpage rate (\$C/cm)	14.94	15.24	15.14	16.44

Note: 2028-30 is a three-year average

Deficit growing to nearly 3% of GDP

For the outgoing 2025/26 fiscal year, the province is now forecasting a deficit of \$9.6bn (2.2% of GDP), which is \$1.3bn lower than projected at the time of last year's Budget. However, that improvement largely reflects a \$2.725bn one-time revenue increase related to a settlement provinces reached with tobacco companies. Relative to the larger deficit that was still expected at the time of the mid-year update (which already included the one-time tobacco revenue), there has also been an improvement in expected personal and corporate tax receipts.

The upcoming 2026/27 fiscal year is expected to see a larger deficit of \$13.3bn, which is almost 3% of nominal GDP. Program spending is anticipated to rise by roughly 3%, while debt service costs will increase by \$1.3bn relative to the prior fiscal year. With the one-off tobacco revenue booked entirely in 2025/26 and flatter overall revenues for that year, own-source revenues are expected to decline in the coming fiscal year despite some tax increases in certain areas.

The province is increasing the tax rate for the first income tax bracket to 5.6%, from 5.06%, as well as broadening the Provincial Sales Tax base to include more professional services, increasing taxes for foreign home buyers and raising additional school tax rates on high-valued homes. Overall, the tax measures introduced today will bring in an estimated \$757mn of revenue in the upcoming fiscal year, rising to \$1.9bn by fiscal 2028/29.

The full three-year plan sees deficits slimming slightly to \$12.2bn in 2027/28 and \$11.4bn by 2028/29. That improvement partly reflects increased revenue as the full-year impact of today's measures is felt. However, it is also dependant on achieving an estimated \$3.5bn in savings over three years through managing expenses as well as \$2.8bn related to streamlining government operations. These improvements will be partly offset by higher debt-service costs, which are estimated to reach \$8.7bn by fiscal 2028/29.

As is typical for the province, the projections for spending include a contingency for unexpected expenses which cannot yet be allocated. Today's Budget includes \$5bn a year for such contingent spending, which is \$1bn a year more than what was included in Budget 2025.

Gross borrowing requirements are increasing over the next two years

For the outgoing fiscal year ending March 31, 2026, the province has borrowed just over C\$30.0bn in long-term debt across 26 transactions. That total includes seven international deals representing roughly 50% of all issuance. That compares to C\$26.8bn of long-term debt issued in 2024/25, with just about 64% completed in international markets. As the borrowing program has increased over the past few years, the province has tapped international markets to a much greater extent. For context, the C\$4.3bn borrowed in 2022/23 was completed almost entirely in the domestic market (97%), with only one small EUR deal that year. The province maintains their desire to continue looking at both domestic and international markets to address funding needs, while continuing to expand their investor base.

At the same time, internal financing sources represented \$0.4bn of funding completed this year, taking the total completed to \$30.5bn. Due to some changes with respect to the deficit, capital spending, refinancing requirements, and other financing sources, gross borrowing requirements for the outgoing year are \$31.5bn, down from the latest update of \$32.2bn. That leaves \$1.0bn in borrowing requirements before the fiscal year-end, which is said to be funded with short and long-term issuance. That gross borrowing figure is slightly higher when compared to last year's budget expectation of \$31.1bn, but slightly lower when compared to the mid-year's \$32.2bn.

As for this upcoming year, the larger deficit and higher capital spending has gross borrowing expanding by \$3.4bn to \$34.9bn, despite lower refinancing. As is the case historically, the breakdown of planned funding sources was not specified at this time. However, with respect to refinancing debt, this outgoing year was higher at \$11.6bn due to the estimated refinancing of maturing short-term debt with long-term borrowing. That leads us to believe long-term funding would be a larger proportion of borrowing this upcoming year.

Throughout the planning horizon, elevated levels in both the deficit and capital spending has gross borrowing requirements increasing to \$35.0bn in 2027/28, before declining to \$30.3bn in 2028/29. When compared to latest estimates for fiscal years 2026/27 and 2027/28, gross borrowing requirements are lower by a collective \$1.7bn. That reduction is mostly related to lower levels of capital spending in today's budget. Overall, the three-year fiscal plan sees gross borrowing requirements combined for a total of \$100.2bn through 2028/29.

Total capital requirements are expected to be \$52.9bn over the three-year plan with focus on areas related to transit and transportation, new and upgraded health-care facilities and schools, as well as electricity generation and transmission. Of that total, \$37.7bn is taxpayer-supported capital spending while the remaining \$15.3bn is self-supported. This three-year plan is down by \$8.2bn when compared to Budget 2025's plan due to a wind down in spending as major projects approach completion, changes to the timing of cashflows, as well as resequencing of major capital projects stemming from the capital plan review.

Table 5: Borrowing requirements (C\$billions)

Borrowing requirements	2025/26 Estimate	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Operating deficit /(surplus)	9.614	13.309	12.165	11.437
Capital investment / requirements	17.073	18.677	18.165	16.079
Other financing sources ¹	-6.623	-2.595	-3.748	-1.954
Direct borrowing by crowns entities	-0.150	-0.524	-0.182	-0.437
Net financial requirements	20.064	29.391	26.582	25.562
Maturities and calls	11.582	6.042	8.624	5.151
Total gross	31.496	34.909	35.024	30.276

Table 6 Sources of funding (C\$billions)

Sources of funding	2025/26 Estimate	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Internal sources/ST borrowing	0.429	N/A	N/A	N/A
Bonds and MTNs	30.067	N/A	N/A	N/A
Total	30.496	34.909	35.024	30.276

¹ Includes other financing sources for the province, the health and education sectors, Crown corporations and adjustments for non-cash budgetary items.

Taxpayer-supported debt-to-GDP rising throughout the planning horizon

Taxpayer-supported debt is now forecast to be \$116.5bn as at March 31, 2026, down \$2.2bn when compared to Budget 2025's estimate. That is mainly due to improved operating results and lower capital spending. That lower figure places taxpayer-supported debt-to-GDP at an estimated 26.1%, lower when compared to the 26.7% forecasted previously.

For this upcoming fiscal year, that ratio is expected to increase by 4.5% to 30.6%, as taxpayer debt is estimated to increase by some \$26.4bn. When compared to last year's estimate for the same year, today's figure is 0.3% lower. Over the fiscal plan, the debt level is expected to increase to finance operating and capital investment needs, with taxpayer-supported debt projected to reach \$189.0bn by 2028/29. That places the ratio at 37.4% by the end of the plan.

Collectively, that increase of \$72.5bn over the horizon will be used to finance the operating deficits and investments in capital infrastructure, including \$15.7bn for transportation sector projects, \$8.5bn for health facilities, \$5.7bn for education projects, and \$2.9bn for social housing.

For comparative purposes amongst provinces, net liabilities (debt)-to-GDP is also included in the budget documents. That ratio increases from 23.6% this outgoing year to 33.2% by 2028/29. When compared to last year's budget, that 23.6% for this year is an improvement of 1.5% as net liabilities were \$6.2bn lower mainly due to a growth in financial assets. This upcoming year's projected ratio of 27.4% places the province at the lower-end of the range amongst its provincial peers.

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