TD Economics

2025 British Columbia Budget

Straying Further From Balance

Marc Ercolao, Economist | 416-983-0686

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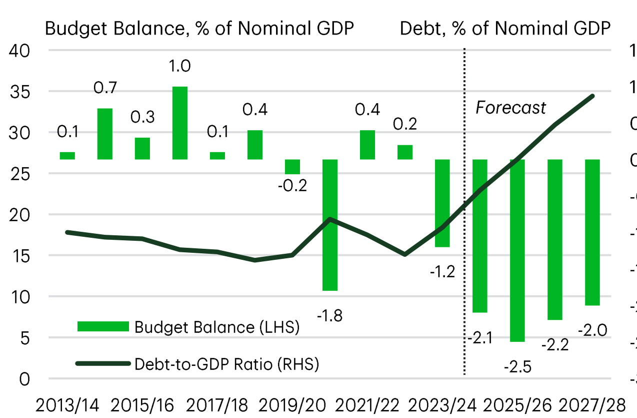
Highlights

- B.C.'s budget deficit is set to widen in FY 2025/26 to $10.9 billion (or 2.5% of GDP). The projected deficit trajectory over the next three years does not show any material improvements.
- The government's base-case economic projection excludes the impact of tariffs, leaving the economy exposed to downside risks. However, sizeable contingencies totaling $12 billion over three years may be able to offset some of the negative economic and fiscal drag from tariffs.
- B.C.'s taxpayer-supported debt is poised to ramp up over the next 3 years, due to ongoing deficits and additional capital spending. B.C.'s debt-to GDP ratio is expected to climb from 22.9% to 26.7% in FY 2025/26, before reaching nearly 35% in the outer-years of the forecast.

The B.C. government has tabled a generally restrained spending plan as new tariff risks inject considerable uncertainty into the province's outlook. Downwardly-revised economic and revenue growth will put B.C.'s finances deeper into red ink. The budget deficit for FY 2025/26 is forecast to reach $10.9 billion – or 2.5% of GDP – with the cumulative deficit over the three-year planning horizon over $8 billion higher than the Budget tabled a year ago. The government's base case economic projection does not directly incorporate the impact of tariffs, leaving downside revenue exposure of up to $3.4 billion annually by the government's own estimates. That said, $4 billion of new contingencies in each year of the fiscal plan should help to offset that drag.

B.C. has some room to absorb these deficits as it remains one of the least indebted provinces in Canada. The province is projecting a heavy climb in net debt-to-GDP (from 22.9% to 34.4% by FY 2027/28) which would leave B.C. with a debt load roughly in line with provincial-aggregate average. For context, B.C.'s debt ratio has averaged 15.5% over the past 5-10 years.

Chart 1: B.C. Diving Deeper Into Red Ink



Note: Debt = Taxpayer-Supported Debt. Source: B.C. Budget 2025, TD Economics.

B.C. Economic Assumptions [Percent Change Unless Otherwise Noted]				
Budget 2025				
Calendar Year	2024	2025F	2026F	2027F
Nominal GDP	4.1	4.3	4.3	4.2
Real GDP	1.2	1.8	1.9	1.9
Unemployment Rate (%)	5.6	5.7	5.4	5.3
CPI	2.6	2.2	2.1	2.0
Retail Sales	0.0	2.6	3.1	3.5

Source: B.C. Budget 2025, TD Economics.

No new major policy measures were announced in this Budget. The NDP government has also shelved its election promise of a $1,000 grocery rebate and has frozen some public-sector hiring as it prepares for turbulent times ahead.

Revenue Growth Subdued; Faces Downside Risk

Following an expected 4.1% gain this fiscal year, total revenues have been adjusted lower to 1.4% in FY 2025/26 year owing to weaker economic growth. Total taxation revenue is expected to stall in FY 2025/26 as a 4% jump in personal income taxes is offset by a 25% decrease in corporate taxes, the latter being impacted by significant one-time settlement payments received in the FY 2024/25 fiscal year. A projected increase in natural gas royalties, driven by higher natural gas prices and increased production volumes from the startup of LNG Canada, will support revenues in the near-term. Looking ahead, a rebound in the economy is expected to fuel a modest recovery in revenue growth to around 2.5% annually over the next few years. Still, that pace runs below the long-run average.

The B.C. government is forecasting below-trend real and nominal GDP growth of 1.8% and 4.3%, respectively, in 2025 before picking up to something closer to the long-run average by 2027. TDE's December forecast is generally in line with the government's base-case projections, but our own forecast revision exercise (to be completed in the next few weeks), may see headline growth fall below these estimates.

Due to the uncertainty at the time the Budget was compiled, U.S. tariffs and Canada's response were not incorporated in the government's base-case economic forecast. That said, a comprehensive analysis of the economic and fiscal impacts of U.S. tariffs was still conducted with assumptions that mirror official announcements from the U.S. administration and Canadian federal government. In a scenario with a 25% tariff on Canadian goods exports (10% on energy) and Canadian retaliation of $155 billion worth of U.S. goods imports, the government forecasts real GDP growth to effectively flatline, averaging 0.5% annually over the next two years. Preliminary estimates based on the scenario indicate an annual revenue shortfall potentially reaching over $3.0 billion.

We maintain that B.C. may be better able to absorb tariff impacts given the province's more diversified global trade channels and smaller reliance on the U.S. compared to other jurisdictions.

Spending Maintained in Focus Areas

Total expenses are slated to rise 3.2% in FY 2025/26, after growing by 8.7% in the past fiscal year. Excluding rising debt servicing costs leaves expected program-specific spending growth at a more moderate 2.5%, a large pullback from the nearly 8% y/y growth in average spend over the last four years.

Healthcare, education and other social services will receive the bulk of new outlays, totaling nearly $7.7 billion over the next three years. Health care funds will be directed toward primary care and health sector capacity, seniors care and mental health. Meanwhile, K-12 education will be the primary target for new funds in the education sector. Beyond this year, program spending is further curtailed to under 1.0% on average over the projection horizon. Spending restraint is evidenced by the pullback in expenses relative to GDP which is set to move lower from 21.6% to 20.3% in FY 2027/28.

Capital Spending to Lift B.C.'s Debt Burden

Capital spending is forecast to soar by 26% in the upcoming fiscal year, driven by outlays in schools, hospitals, transportation infrastructure and hydro-electric projects. Over the three-year forecast, the government added $3 billion to capital plans relative to last year's budget, bringing it to nearly $60 billion.

Provincial new borrowing requirements are slated to total $31 billion in FY 2025/26, up moderately from the $29.2 billion during the prior fiscal year and lifted by the government's capital plan and refinancing of debt maturities. Borrowing projections in this budget are a combined $6 billion higher over the next two years compared to what was projected in last year's Budget. Rising debt servicing costs combined with weak revenue projections will put the province's interest bite–or interest costs as a share of government revenues – on an upward trajectory, reaching 6.9 cents/dollar by FY 2027/28, more than what is currently paid by Ontario, Quebec, and Alberta.

Net Debt Due For a Steep Increase

Ultimately, the combination of higher debts and ongoing deficits should drive a near 4 ppt increase in the government's net debt-to-GDP ratio to 26.7% of GDP in FY 2025/26. Two years out, the government debt load is tracking toward 34.4% of GDP, putting B.C. in the middle of the provincial pack after a long history of being one of the least indebted provinces.

Bottom Line

B.C.'s relatively manageable fiscal position has allowed them to push forward with incremental spending and key investments to support economic growth in the near-term. The province's debt levels are projected to rise, creating some vulnerability to negative shocks moving forward. That said, substantial contingencies imbedded in the Budget should help reduce the risk of even larger fiscal deterioration. Like all provinces, B.C. 's economy is exposed to downside tariff-induced risks, though a more diversified trade profile may help soften the blow.

Exhibits

B.C. Government Fiscal Position [Millions of C$ Unless Otherwise Noted]				
Fiscal Year	2024/25 Forecast	2025/26 Plan	2026/27 Plan	2027/28 Plan
Revenues	**82868**	**84003**	**85715**	**88165**
% Change	7.2	1.4	2.0	2.9
Expenditures	**92003**	**94915**	**95918**	**98028**
% Change	10.5	3.2	1.1	2.2
Allocation for Contingencies	3,885	4,000	4,000	4,000
Surplus (+)/Deficit (-)	**-9135**	**-10912**	**-10203**	**-9863**
% of GDP	-1.6	-1.9	-1.7	-1.6
Total Debt	**133,016**	**156,632**	**183,712**	**208,830**
% of GDP	22.9	26.7	30.9	34.4
Note: Debt = Taxpayer-Supported Debt. Source: B.C. Budget 2025, TD Economics.				