BUDGET ANALYSIS

British Columbia: Budget 2026

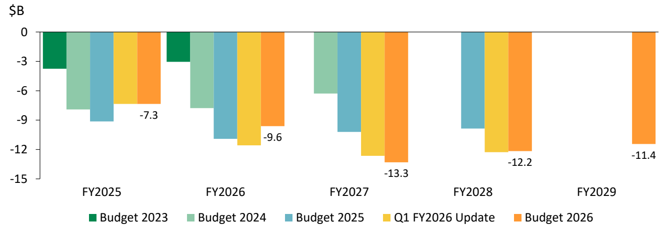
Working to Keep Public Finances from Deteriorating Further

By Randall Bartlett, Deputy Chief Economist, LJ Valencia, Economist, and Kari Norman, Senior Economist

HIGHLIGHTS

- **British Columbia's (BC's) Budget 2026 came with a mix of good and bad news.** Starting with the deficit, the near-term numbers improved considerably relative to those in the Pacific Province's Budget 2025 and more recent fall forecasts (graph 1). The deficit is on track to hit $9.6B this year, meaningfully below recent estimates. However, the annual fiscal shortfall looks likely to be larger than previously projected over the medium term, starting with a $13.3B deficit in the 2026–27 fiscal year (FY2027), equivalent to 2.9% of GDP. Table 1 on page 2 summarizes the province's updated fiscal forecasts.

Graph 1
Near-Term Improvement but Medium-Term Deterioration in BC's Fiscal Outlook
Budget balance projections



British Columbia Ministry of Finance and Desjardins Economic Studies

- **Looking under the hood, modest tax increases and a broadly improved outlook for the level of nominal GDP—the broadest measure of the tax base—helped to support a generally improved forecast for own-source revenues.** An upwardly revised outlook for federal transfers didn't hurt either. Of course, this tailwind is tempered by the usual prudence baked into the economic and natural gas price forecasts.
- **But along with the modestly better projection for revenues is a similarly augmented outlook for program spending.** Motivated by higher planned outlays for health care and education, any revenue tailwind was largely used to support public programs. On top of that, the Budget 2026 expense forecast includes contingencies of $5B in each year of the fiscal plan.
- **Due to the modest deterioration in the outlook for the average deficit over the next few years, the debt-to-GDP ratio looks a lot like what was published previously, rising gradually over the outlook.** That said, it is anticipated to remain below Ontario and Quebec's ratios over the medium term. Debt charges as a share of revenues may not be so fortunate, however.
- **At $37.7B over the three-year horizon, total planned capital spending is $8.2B lower than Budget 2025, with the provincial government keeping an eye on fiscal sustainability.** Borrowing requirements have been revised upward to $34.9B in FY2027 compared to the previous forecast of $33.1B in the last budget. For FY2028 and FY2029, the province expects to borrow $35.0B and $30.3B, respectively.

TABLE 1
Updated BC Fiscal Forecasts

	2024–2025	2025–2026		2026–2027		2027–2028		2028–2029
IN $B (UNLESS OTHERWISE INDICATED)	Actual	Bud. 2025	Bud. 2026	Bud. 2025	Bud. 2026	Bud. 2025	Bud. 2026	Bud. 2026
Total revenues	84.0	83.8	85.1	85.7	85.5	88.2	88.6	91.8
% change	*5.6*	*-0.3*	*1.2*	*2.3*	*0.5*	*2.9*	*3.6*	*3.6*
Own-source revenues	69.7	69.0	70.5	70.8	70.1	73.6	73.5	76.4
% change	*5.8*	*-1.0*	*1.1*	*2.6*	*-0.6*	*3.9*	*4.9*	*4.0*
Federal transfers	14.3	14.8	14.6	14.9	15.5	14.6	15.1	15.3
Total expense	91.4	95.0	94.7	95.9	98.8	98.0	100.7	103.2
% change	*8.0*	*3.9*	*3.6*	*1.0*	*4.4*	*2.2*	*1.9*	*2.4*
Program spending	87.1	89.9	89.7	90.0	92.5	90.9	93.2	94.5
% change	*7.1*	*3.1*	*2.9*	*0.1*	*3.1*	*1.0*	*0.8*	*1.4*
Debt charges	4.2	5.1	5.0	5.9	6.4	7.2	7.6	8.7
% of total revenues	*5.1*	*6.1*	*5.9*	*6.9*	*7.4*	*8.1*	*8.6*	*9.5*
Forecast allowance								
Budget balance	**-7.3**	**-11.2**	**-9.6**	**-10.2**	**-13.3**	**-9.9**	**-12.2**	**-11.4**
% of GDP	*-1.7*	*-2.5*	*-2.2*	*-2.2*	*-2.9*	*-2.0*	*-2.5*	*-2.3*
Net debt, % of GDP	*23.1*	*26.4*	*26.1*	*30.9*	*30.6*	*34.4*	*34.4*	*37.4*
Gross borrowing requirements	**—**	**32.2**	**31.5**	**33.1**	**34.9**	**34.7**	**35.0**	**30.3**
Capital requirements		18.7	17.1	20.4	18.7	19.3	18.2	16.1
Refinancing requirements	—	11.0	11.6	6.3	6.0	8.8	8.6	5.2
Other financing sources	—	-8.6	-6.6	-3.4	-2.6	-3.2	-3.7	-2.0

British Columbia Ministry of Finance and Desjardins Economic Studies

While some had anticipated a more austere Budget 2026, the Government of British Columbia struck a balance between taxing and spending that left many of the key fiscal metrics largely unchanged. This should assuage fears of a further deterioration in the province's finances, but also questions the government's ability to put its fiscal position on an improved trajectory.

The Economic Outlook Is Being Hit by Crosscurrents

The economy has taken centre stage in this year's budget season. Rapidly changing US trade policy and commodity prices mean the fiscal impact has largely not been as severe as many expected at this time last year. In BC's case, the results have been mixed, with projected real GDP growth revised lower along with the outlook for population growth (table 2). But the forecast for nominal GDP growth is broadly unchanged from Budget 2025. Add to that the substantial historical revisions to the level of nominal GDP and income bases recorded in BC and all other provinces, and the outlook is one that is broadly supportive of higher revenues going forward.

Pulling All the Levers Leads to Slightly Higher Revenues

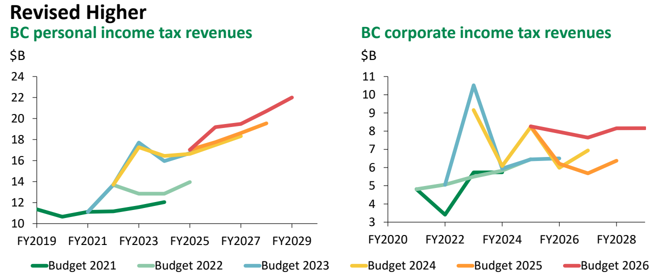
While not universally better than projected back in the spring of last year, the outlook for revenues in BC is generally higher than previously forecast. Better own-source revenues are largely responsible in the near term, but more elevated federal transfers take the reins in the outer years of the forecast. That said, some of the bigger revenue categories, like personal and corporate income taxes, suggest an increase in tax receipts (graph 2). This

TABLE 2
Updated BC Economic Projections

	2025	2026	2027	2028
Real GDP growth (%)				
Budget 2025	1.8	1.9	1.9	2.1
Budget 2026	**1.5**	**1.3**	**1.8**	**1.9**
Nominal GDP growth (%)				
Budget 2025	4.3	4.3	4.2	4.4
Budget 2026	**4.1**	**4.4**	**4.1**	**4.2**
Population growth (%)				
Budget 2025	0.2	-0.3	0.7	1.1
Budget 2026	**0.5**	**-0.9**	**0.4**	**1.0**

British Columbia Ministry of Finance and Desjardins Economic Studies

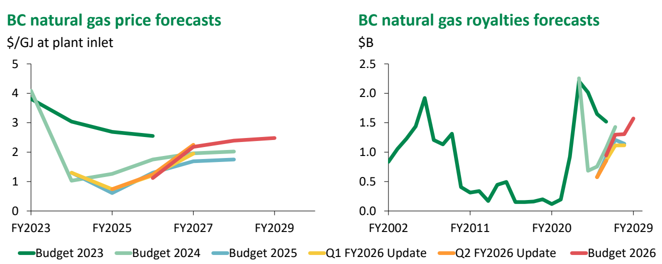
Graph 2
The Outlook for Personal and Corporate Income Taxes Has Been Revised Higher



British Columbia Ministry of Finance and Desjardins Economic Studies is thanks, in part, to an increase in the basic tax rate, property taxes, and the speculation and vacancy tax, as well as an expansion of the provincial sales tax.

As we've come to expect from the BC government, Budget 2026 assumed a natural gas price forecast that is lower than the private sector average over the outlook. This further added to the prudence of the fiscal forecast beyond what is baked into the economic outlook, keeping the projection of natural gas royalites below where it would be otherwise. That said, with natural gas prices expected to be higher than in prior budget documents, natural gas royalties are anticipated to similarly advance (graph 3).

Graph 3
Conservative Natural Gas Price Forecasts Provide a Budgetary Buffer

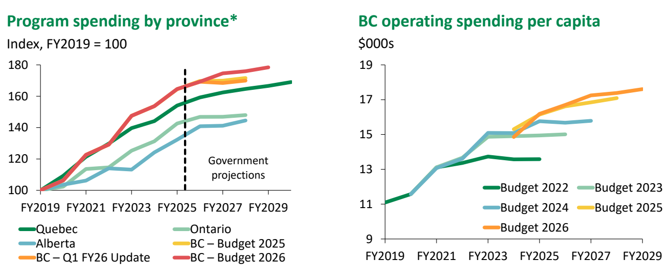


British Columbia Ministry of Finance and Desjardins Economic Studies

What Revenues Giveth, Spending Taketh Away

But while a broadly higher revenue outlook is a welcome development, this was essentially offset by higher program spending (graph 4). Program spending is now expected to increase in the outer years of the forecast where it was previously anticipated to decline. Specifically, the provincial government intends to undertake $5.1B in new spending over three fiscal years starting in FY2027, with more than half of that targeted toward health, mental health and addictions care ($2.8B). New

Graph 4
BC's Spending Plans Continue to Grow



* Quebec and Ontario figures based on mid-year FY2026 projections; Alberta numbers are from its 2025 budget.
Statistics Canada, provincial budget documents and Desjardins Economic Studies

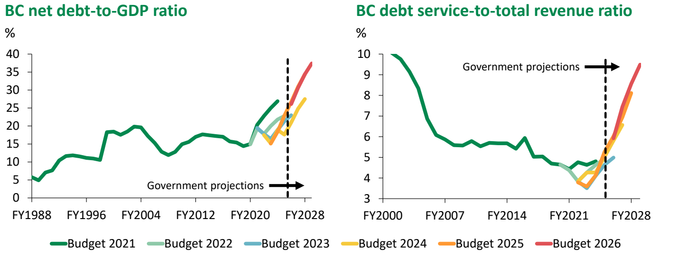
funding for education and childcare initiatives makes up the bulk of the remainder. However, there were some savings to be found in the expense outlook as well. For instance, the provincial government has said it is committed to reducing approximately 15,000 public sector FTEs by the end of FY2029, which represents 3.4% of the public sector workforce.

While the Government of British Columbia increased spending to offset much of the improved revenue outlook, it also increased its contingencies to $5B in each year of the fiscal plan (up from $4B previously). This additional layer of prudence is intended to help manage priority spending initiatives and caseload pressures.

Debt Metrics Little Changed from Past Projections

Accounting for changes to the revenue and expense outlooks, the average deficit has deteriorated modestly over the outlook when compared to Budget 2025. As such, it doesn't come as a big surprise that the outlook for net debt as a share of GDP is also similar (graph 5). Net debt is projected to increase as a share of nominal output, rising from 26.1% in FY2026 to 37.4% in FY2029. Upward historical revisions to nominal GDP helped push BC's projected net debt-to-GDP ratio slightly lower in the near-term. That said, the debt service-to-revenue ratio forecast has moved modestly above the levels shown in Budget 2025.

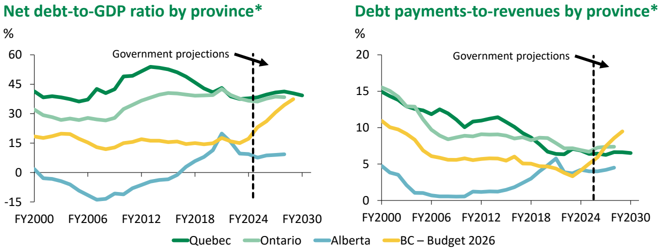
Graph 5
BC's Outlook for Debt Indicators Remains Broadly Unchanged from the Recent Past



Provincial budget documents and Desjardins Economic Studies

Despite deteriorating recently, BC's net debt-to-GDP ratio remains well below the levels of Ontario and Quebec (graph 6 on page 4), which have yet to announce their updated fiscal plans. More concerning is the expected rise in its debt service cost, which the provincial government anticipates will surpass the most recent medium-term projections published by the other big provinces.

Graph 6
BC's Debt Indicators Are Set to Rise, But Remain Favourable

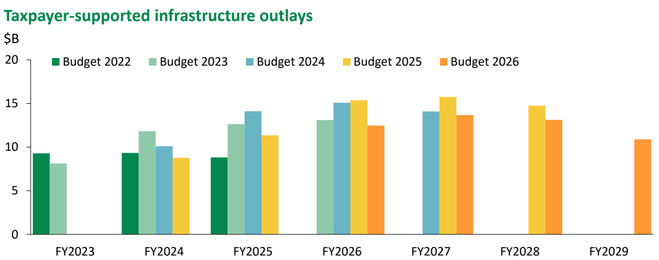


* Quebec and Ontario figures based on mid-year FY2026 projections; Alberta numbers are from its 2025 budget.
Provincial budget documents and Desjardins Economic Studies

Capital Plan Is Scaled Back, Creating Fiscal Room

Capital spending was lower in FY2026 ($12.5B) than planned in the second quarter update ($15.4B) but will rise modestly to $13.7B in FY2027 (graph 7). That said, at $37.7B over the three-year horizon, total planned capital spending is $8.2B lower than Budget 2025 as spending winds down for various public infrastructure projects. However, the adjustment of capital spending allows for greater fiscal sustainability and continuation of infrastructure investments over a longer horizon. Similar to the last budget, over 60% of the spending will be allocated to public infrastructure projects and healthcare.

Graph 7
Major Capital Spending Has Been Revised Downward



British Columbia Ministry of Finance and Desjardins Economic Studies

Borrowing requirements have been revised upward to $34.9B in FY2027 compared to the previous forecast of $33.1B in the last budget, driven by greater operating and capital investments as well as higher refinancing of short-term maturities. For FY2028 and FY2029, the province expects to borrow $35.0B and $30.3B, respectively, reflecting higher operating and capital spending projections as well as a deeper deficit outlook.