

BUDGET ANALYSIS

BC Q2 Update 2025:

Some Welcome Fiscal News Despite a Challenging Economic Backdrop

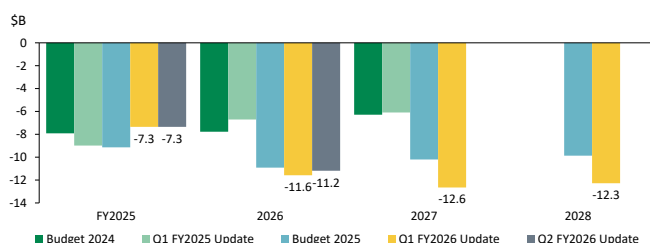
By Randall Bartlett, Deputy Chief Economist

The Government of British Columbia had good news to report in its Q2 Update 2025, revising its deficit outlook for the 2025–26 fiscal year (FY26) in a more positive direction for the first time in some time. The deficit is now expected to be \$11.2B this year, \$0.4B smaller than in its last financial outlook (graph 1). And while updated forecasts for the outer years aren't provided, one could expect they would be revised in a similar direction, all else being equal. Table 1 provides more information on the Government of British Columbia's updated fiscal forecast.

Graph 1

Slight Improvement in BC's Bottom Line Is Welcome News

Budget balance projections



British Columbia Ministry of Finance and Desjardins Economic Studies

Revenues were revised higher in the latest release, helping to reduce the FY26 deficit. Revenues are now expected to be \$83.8B this year, up from an anticipated \$83.3B in the Q1 Update but still below the \$84.0B pencilled into the budget. Higher personal (up \$816M) and corporate (up \$565M) income tax revenues are entirely responsible for the improved revenue outlook. Other revenue streams are instead anticipated to collectively reduce government coffers by \$869M this year compared to the Q1 Update.

TABLE 1

Updated BC Fiscal Forecasts

IN \$B (UNLESS OTHERWISE INDICATED)	2024–2025		2025–2026		
	Budget 2025	Actual	Budget 2025	Q1 FY2026	Q2 FY2026
Total revenues	82.9	84.0	84.0	83.3	83.8
% change	4.1	5.6	1.4	-0.9	-0.3
Own-Source Revenues	68.7	69.7	68.7	68.3	69.0
% change	4.2	5.8	0.1	-2.0	-1.0
Federal Transfers	14.2	14.3	15.3	14.9	14.8
Total expense	92.0	91.4	94.9	94.8	95.0
% change	8.7	8.0	3.2	3.8	3.9
Program spending	87.6	87.1	89.9	89.6	89.9
% change	7.7	7.1	2.5	2.9	3.1
Debt charges	4.4	4.2	5.1	5.2	5.1
% of total revenues	5.3	5.1	6.0	6.3	6.1
Forecast allowance					
Budget balance	-9.1	-7.3	-10.9	-11.6	-11.2
% of GDP	-2.1	-1.7	-2.5	-2.6	-2.5
Net Debt, % of GDP	22.9	23.1	26.7	26.6	26.4
Gross Borrowing Requirements	29.2	—	31.1	35.1	32.2
Capital Requirements	16.0		20.2	19.5	18.7
Refinancing Requirements	3.8		8.2	13.6	11.0
Other Financing Sources	0.5		(7.4)	(9.5)	(8.6)

British Columbia Ministry of Finance and Desjardins Economic Studies

BC's improved fiscal fortunes are especially notable given the backdrop of an economy that is deteriorating more quickly than previously projected. The Government of British Columbia now expects real GDP growth to be 0.1 percentage points (ppts) lower this year (at 1.4%) than planned for in September (table 2 on page 2). More importantly, there were more substantial downward revisions to growth in nominal GDP—the broadest measure of the own-source tax base—which is now estimated and forecast to be 0.6 ppts, 0.2 ppts and 0.1 ppts lower in 2024, 2025 and 2026, respectively.

TABLE 2
Updated BC Economic Projections

IN \$ MILLIONS (UNLESS INDICATED)	2024	2025	2026	2027
<u>Real GDP Growth (%)</u>				
Budget 2025	1.2	1.8	1.9	1.9
Q1 FY2026 Update	1.2	1.5	1.3	1.9
Q2 FY2026 Update	1.1	1.4	1.3	
<u>Nominal GDP Growth (%)</u>				
Budget 2025	4.1	4.3	4.3	4.2
Q1 FY2026 Update	4.1	4.0	4.2	4.2
Q2 FY2026 Update	3.5	3.8	4.1	
<u>Population Growth (%)</u>				
Budget 2025	3.0	0.2	(0.3)	0.7
Q1 FY2026 Update	3.0	0.4	(0.2)	0.8
Q2 FY2026 Update	2.8	0.5	(0.3)	

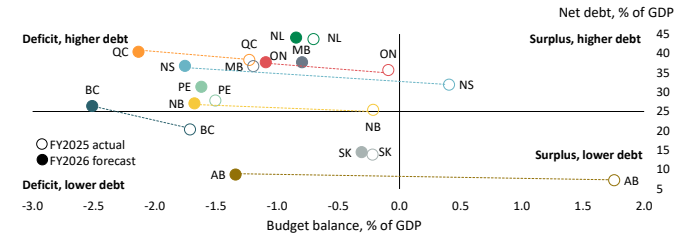
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In contrast to revenues, higher program expenses are likely to contribute more to the deficit than expected in either the Q1 Update or Budget 2025, but not enough to negate the anticipated revenue gains. Reduced fire management costs (down \$126M) are anticipated to be more than offset by greater spending on refundable tax credits (up \$181M) and other expense charges (\$67M). However, the provincial government reiterated that it is on track to meet its initial expenditure management target of \$300M in FY26, first announced in Budget 2025. The budget also included a Contingencies Vote of \$4.0B in FY26, and the forecast continues to assume these allocations will be fully spent and remains unchanged.

Putting this all together, it's not surprising that a smaller deficit this year is expected to cause BC's provincial debt to be slightly lower than previously projected. Debt service costs are also likely to be more modest this year than forecast in the Q1 Update, remaining below historical highs. BC continues to have one of the lowest debt-to-GDP ratios among Canada's provinces (graph 2), although it is anticipated to continue tracking higher in the coming years. Looking at borrowing requirements, the provincial government expects gross borrowing requirements for this year to be \$2.9B lower than previously projected, with \$6B in borrowing requirements remaining.

Graph 2
BC Has One of the Lowest Debt-to-GDP Ratios Among the Provinces

Provincial budget balances vs net debt*



*reflects the latest available information
Provincial financial documents, Statistics Canada and Desjardins Economic Studies