

British Columbia Budget 2026



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Following a significant \$9.2B deficit in FY 2025–26, the stark reality of a largely structural fiscal gap persists. In Budget 2026, the BC government proposes a \$13.3B deficit in FY 2026-27, followed by modest reductions to \$12.2B and \$11.4B, respectively, for the following two years. Such minor shrinking dynamic was part of the BC fiscal outlook for the last time in Budget 2023. Intending to bring down the annual deficit closer to 2.3% of nominal GDP by FY 2028-29, versus 2.9% today, should be perceived by market participants as a valuable effort given the geopolitical upheaval.

One number standing out relates to the level of spending projected to surpass the \$100B mark in FY 2027-28. The cumulative rate of increase in spending over three years – 9% – is higher than in last year's budget – 6.2% –, fitting with the choice of protecting core areas, namely health, education and public safety. This increase is front-loaded in FY 2026-27 (+4.5%), contributing to lift the deficit relative to the prior year. Part of the tapering in spending growth over time relates to expenditure management savings and public sector workforce reduction poised to generate \$1.4B in savings in FY 2027-28 and \$2.4B in FY 2028-29.

The other factor contributing to the temporary deficit bump in FY 2026-27 is the quasi-stagnation in revenues (\$85.5B). The tax base driven by nominal GDP growth looks fine (+4.4% in 2026). However, one-time settlement payments on both corporate and personal income tax revenue and the legal tobacco settlement – of \$2.725B – received the prior year is not recurrent. Besides those, the revenue outlook incorporates higher natural gas royalties, higher sales tax revenue, higher federal transfers and no fundamental change to the net income from BC Hydro and other crown corporations.

BC's real GDP advanced by 1.5% in 2025 on improving productivity and LNG Canada shipments to Asia, among positive drivers. Budget 2026 assumes a small deceleration of real GDP growth, to 1.3% in 2026. US trade uncertainty and the immigration reversal are notably shaping the 2026 forecast of a large 0.9% population reduction, stagnant housing starts and the absence of growth for consumer spending on goods.

The crucial outcome of the CUSMA negotiations ending next July particularly implies a wide range of adverse and positive paths (a 1% variation in nominal GDP = ~\$400M variation fiscal impact). BC's nominal exports to the US were down by a moderate 2.7% year-to-date as of November 2025, offset by a 3% increase in non-US exports. The proposed annual contingency of \$4B is \$0.5B higher than in last year's budget, a very comfortable cushion representing 5% of revenues. If this contingency turns out to be unused under a hypothetical optimistic scenario of abating US policy uncertainty and lower tariffs, the FY 2026-27 deficit could shrink significantly below the \$10B mark.

In a rare move to realign a notch spending with revenues, the BC government decided to increase the tax rate of the first income tax bracket – from 5.06% to 5.60% – to freeze the indexation of tax brackets until 2030 and to expand the sales tax base to incorporate a few services. These targeted tax hikes will generate close to \$0.5B annually in FY 2026-27 and \$1.1B in FY 2029-30.

The combination of operational deficits, a leaner capital spending program – of \$53B over 3 years versus \$59B a year ago – and moderate nominal GDP growth results in a taxpayer debt to NGDP ratio slightly surpassing 30% this year, on its way to 37% in three years (to coincidentally match today's Ontario net debt-to-NGDP figure). This ratio stood at 23.2% not long ago, in FY 2024-25. The four major credit agencies have a negative outlook on BC's long-term rating.

The bond borrowing program of FY 2025-26 is almost completed (\$1B remaining out of \$31B). Half of the bond issuance so far during FY 2025-26 occurred abroad. Foreign investors' inflows into the Canadian bond market have been increasing at a faster pace in 2025, according to Statistics Canada data available monthly. The long-term bond issuance program increases to \$35B for FY 2026-27 and FY 2027-28. The province will continue to look at funding opportunities domestically and internationally.

Takeaway

The geopolitical upheaval and related uncertain economic environment do not make it a proper time to suddenly focus on efforts to balance the books. Instead, running large deficits to support a structural economic restructuring and to protect people appear more appropriate. Efforts to prevent running larger deficits and borrowing programs notably include targeted tax hikes and better control over dollars dedicated to capital infrastructures.

Among the structural economic reorganization BC has in sight, progress relative to clean energy capacity development continue, as cited in one topic box of Budget 2026. For instance, a second call for power is underway, and a third one is anticipated in 2028. The participation of First Nations is crucial. A First Nation Equity Financing Program will be launched in spring 2026. Notably, the province intends to put in place a limit of \$1B loan guarantee program to support equity ownership for BC First Nations.