British Columbia

2025–26 First Quarterly Report

Modest Short-Term Fiscal Deterioration

One feature that stands out in British Columbia's *First Quarterly Report* is the relatively modest upward revision to the deficit for the current fiscal year, especially when compared to the more significant deteriorations seen in the *First Quarterly Reports* of the last two years.

Relative to Budget 2025, the $0.7B increase in the FY 2025–26 deficit brings it to $11.6B—its highest level in dollar terms to date. Unlike last year, this change is not tied to cost overruns on the spending side. Instead, it is principally driven by the elimination of the provincial carbon tax by the BC government, effective since April. This cancellation will result in a loss of $2.8B in revenues in FY 2025–26 alone—a material amount, considering total revenue is projected at $83B.

Downward adjustments to other taxation sources were relatively minor, including the sales tax, property transfer tax, and mining revenues. This reflects a degree of economic resilience, considering *the First Quarterly Report* accounts for all the tariffs announced to date. In contrast, the Budget 2025 base case scenario did not incorporate U.S. tariffs. BC's real GDP growth forecast was revised down from 1.8% to 1.5% in 2025, and from 1.9% to 1.3% in 2026. The annual contingency fund of $4B—a larger cushion compared to what other provinces have built in—remains untouched for the time being.

In addition to the cancellation of the carbon tax, another major modification relates to the legal settlement reached between tobacco companies and Canada last spring. Compensation payouts occurred in August, just in time to be integrated into this *First Quarterly Report*. BC's share is estimated at $2.7B in FY 2025–26.

Total spending in FY 2025–26 is on track at $95B. Wildfire costs were revised up by $0.6B, offset by a $0.7B drop in the estimate of refundable tax credits.

The removal of the provincial carbon tax is also the main factor behind higher projected deficits in FY 2026–27 and FY 2027–28. However, the government will no longer benefit from the tobacco legal settlement. As a result, deficits are projected to reach $12.6B in FY 2026–27 and $12.3B in FY 2027–28. The $2.3B upward revision to the deficit in FY 2027–28 is the largest in the 3-year outlook.

A few years ago, BC's taxpayer-supported debt-to-GDP ratio was consistently below 20%. The updated projection shows a sharp increase from 26.6% this year to 35.5% by FY 2027–28, compared to 34.4% in Budget 2025. However, this trajectory may be mitigated, as the BC government plans to find $1.5B in savings over three years. Additional expenditure management initiatives are expected, with most measures to be included in Budget 2026. Only a small portion of these efforts ($0.3B) are anticipated this fiscal year. Credit agencies will monitor closely to see if the BC government will deliver in Budget 2026. For example, Moody's latest report states: "Its rating (Aa1 negative) could be downgraded if the province were unable to meaningfully slow the increase in debt over the next 18–24 months."

Takeaway

After ending FY 2024–25 with a $7.3B deficit, the shortfalls proposed in this *First Quarterly Report* may raise concerns from a public finance management perspective. However, once we exclude the $4B annual contingencies, the size of the deficit appears relatively stable. Of course, economic uncertainty means these contingencies could be needed.

That said, BC has a lot more to offer in terms of long-term economic potential. New major projects may emerge and propel economic activity during both the construction and production phases. Notably, Phase II of the LNG Canada project—set to double production—was recently identified by the federal government's major projects office. Another major project identified was the expansion of the Red Chris copper-gold mine to a block cave operation. We previously highlighted the rich mineral belt of BC's northwest region in our provincial report on critical minerals released earlier this summer.