British Columbia
Budget 2025

British Columbia Budget 2025—Prudent Planning and Spending Restraint Amid U.S. Tariff Uncertainty

The base case economic scenario underlying Budget 2025 factors in slower population growth and some impacts related to U.S. trade policy uncertainty. However, long-lasting sweeping U.S. tariffs are not integrated in the economic outlook. Still, Budget 2025 contains prudent fiscal planning, namely a $4B annual contingency integrated to expenses. This $4B annual buffer should be sufficient to protect BC's fiscal position in case of a severe tariff shock. Indeed, the revamped alternative tariff scenario—25% tariffs on non-energy exports, 10% on energy exports to Canada and Mexico, 10% incremental tariffs on China and partial retaliation from Canada—could shave between $1.4B and $3.4B to annual fiscal revenues. The BC government estimates BC real GDP growth could barely advance in 2025 (+0.3%) under the alternative severe tariff scenario. In comparison, the base case economic scenario pegs BC real GDP growth at 1.8%, supported notably by the upcoming production and shipments of LNG near midyear.

Of course, this $4B annual contingency included under the total expense breakdown widens the gap relative to total revenues. As a result, the FY2025–26 deficit is projected at a record high of $10.9B. This shortfall could be cut by at least one third if tariffs are rapidly lifted. Annual deficits of a similar size are projected for the following two years, at $10.2B in FY2026–27 and $9.9B in FY2027–28. If these operational deficits become reality, BC would still be the home of sustainable public finances although some financial metrics would inevitably deteriorate. First, the taxpayer-supported debt-to-GDP ratio is projected to increase from 22.9% in FY2024–25 to 34.4% in FY2027–28. This represents a steeper rise relative to the pandemic shock. Back then, this ratio temporarily rose from about 15% to 20% before falling back quickly to 16% in FY2022–23 due to the V-shaped economic recovery. Second, annual interest payments would bite 6.9 cents out of every dollar of revenue in three years from now, versus the low figure of 4.3 cents today.

Another key feature of Budget 2025 relates to the very soft uptrend in expenses. These large deficit projections would have been even bigger without the incorporation of spending restraint. The government notably sets up expenditure management targets totalling $1.5B over three years. Accordingly, total expenses are projected to grow by a cumulative 6.2% over three years, which is not much compared to the 9.2% jump recorded in FY2024–25 alone, versus the previous year.

Additional prudence built-in the budget relates to the very conservative natural gas price forecasts. The henry hub benchmark currently trades at U.S.$4.30 per MMBtu. The FY2025–26 private sector average forecast stands near U.S.$2 per MMBtu. Budget 2025 assumes an even lower price of US$1.30 per MMBtu, followed by a moderate rebound in the following two years. Reaching the private sector average of US$2 in FY2025–26 could bring close to $400M in additional revenues, according to our calculations. Inversely, Budget 2025 incorporates a $600M jump in carbon revenues in FY2025–26 based on the BC government expectation of further carbon tax increases. However, candidates to the leadership of the federal Liberal party and the leader of the federal Conservative party have indicated that they could eventually repeal the carbon tax.

In addition to a possible record-high operational deficit, the FY2025–26 capital spending plan jumps to $20.2B, almost $4B more than a year ago. The capital spending plan notably targets financing of the Broadway subway line and Surrey-Langley Skytrain line, on top of boosting clean renewable energy capacity with BC Hydro. The combination of operational deficits and hefty capital spending will drive total borrowing requirements upward. Those are projected at $31B, $33B and $34.7B for the next three years. The budget documents cite higher refinancing requirements in FY2025–26 is due to refinancing maturing short-term debt with long-term borrowing. Furthermore, total annual borrowing requirements projected north of $30B going forward are above the issuance of $26.8B recorded in FY2024–25. The remaining of the FY2024–25 program, $2.3B, will be financed with short-term instruments. During FY2024–25, about 63% has been issued on the international market, a significantly higher share than in the past.

In summary, presenting a budget when U.S. trade policy uncertainty reaches an all-time high, including uncertainty relative to the persistency of sweeping U.S. tariffs imposed on March 4th, is not an easy feat. New Finance Minister, Brenda Bailey, smartly privileges prudent budget planning, mostly taking the form of a $4B annual contingency and spending restraint. All fiscal numbers derived from the gentle base case economic scenario are subject to change meaningfully in future quarterly updates as U.S. tariff-related developments evolve.