

**ISSUER COMMENT**

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# Province of British Columbia (Canada)

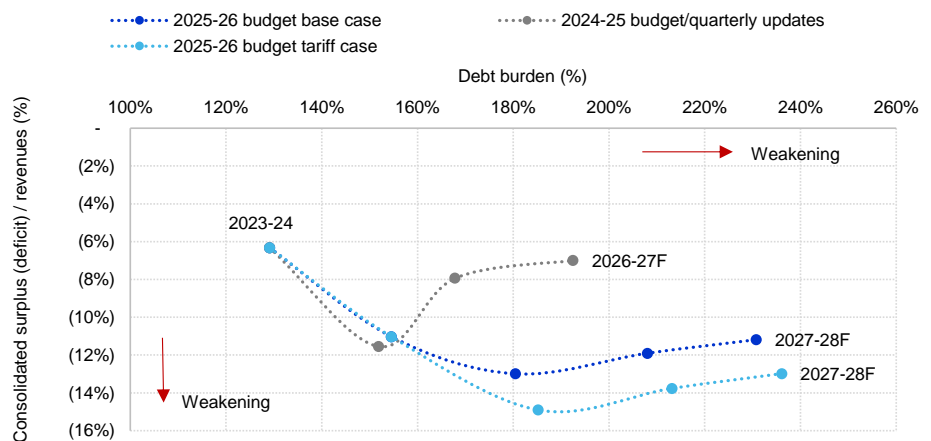
Deficits and debt will expand more than expected even in budget's non-tariff scenario, a credit negative

On 4 March, the Canadian [Province of British Columbia](#) (Aaa negative) released its budget for fiscal 2025-26 (ending 31 March 2026) with projections until 2027-28. As the budget was prepared before US tariffs were implemented on Canadian goods, its base case factors in the risk but not the actual implementation of tariffs. However, the budget does lay out a brief alternative tariff scenario which considers the incremental impact of tariffs on the base case fiscal and economic assumptions. As [US](#) (Aaa negative) tariffs and Canadian counter-tariffs came into effect on 4 March, our fiscal and economic projections incorporate the budget's tariff scenario forecasts rather than the base case. These projections reflect a faster erosion in the province's fiscal strength and debt affordability than we previously projected and are therefore credit negative. They include a revised larger deficit of CAD12.3 billion, or 14.9% of revenue, and a higher debt burden of 185.2% of revenue in 2025-26, above our previous projections of a deficit of 7.9% of revenue and debt burden of 167.8%. The deficit will modestly improve to CAD11.2 billion or 13.0% of revenue by 2027-28, while the debt burden would rise to 236.1%.

The budget's tariff scenario incorporates 25% US tariffs on all Canadian imports except energy imports, for which tariffs are 10%, and retaliatory 25% Canadian counter-tariffs on nearly 40% of US imports. Under this scenario, the province projects real GDP growth will slow to 0.3% in 2025, compared with base case growth of 1.8%, while annual revenue will be CAD1.4 billion lower than the base case. Even absent the explicit tariff scenario, the budget's base case represents a worsening fiscal profile than our previous forecasts (Exhibit 1).

Exhibit 1

**Both the budget's base case and tariff case projections reflect rising debt and a structural deficit**



Sources: Province of British Columbia and Moody's Ratings

The province remains less reliant on US demand, which account for about 50% of BC exports, than provincial peers as it has a larger trade exposure with Asia-Pacific. While this diversification increases resilience to single-market trade risks, the US remains the sole or main export destination for several key resources, including natural gas, electricity, metals and lumber products.

The budget forecasts that spending growth will continue to outpace revenue growth, with the largest spending increases in healthcare and social services. The province's cost cutting measures, including a CAD1.5 billion reduction in administrative and discretionary spending over three years, is relatively modest and will not materially alter the fiscal trajectory. As a result, we continue to view the province's deficit position as structural and without a target date to return to balance. In line with its established practice, the province includes significant contingency funds of CAD4.0 billion in each forecast year, providing some buffer against fiscal uncertainties.

The rise in debt reflects the province's need to finance deficits and fund capital spending. Capital spending for the 2025-26 to 2027-28 period will total CAD59.9 billion, exceeding the previous CAD56.5 billion three-year plan in last year's budget. A significant portion of debt was issued to fund capital spending on health, education, transportation and the province's wholly owned electric utility company, [British Columbia Hydro & Power Authority](#) (Aaa negative). As a result, our adjusted debt growth projections exceed our previous forecasts, with total provincial debt now expected to nearly double to CAD208.8 billion by 2027-28 from CAD107.5 billion in 2023-24. Rising leverage will lead to a continued weakening in debt affordability although from current strong levels. We project interest costs will approach 5.4% of revenue on an adjusted basis in 2027-28, up from 3.0% in 2023-24.

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