

The **Economic** and **Fiscal Update**



October 30, 2002

Overview

Canada 

“Sound fiscal management and a prudent approach to spending are the surest path to a better standard of living for our citizens and a higher quality of life for every Canadian.”

John Manley, Deputy Prime Minister
and Minister of Finance
2002 Economic and Fiscal Update speech

Introduction

Canadians today are reaping the benefits of sound economic and fiscal management in recent years.

Because of these policies, Canada avoided recession during the global slowdown of 2001 and posted strong economic growth this year.

But faced with an uncertain global outlook, we cannot be complacent.

The Government will remain prudent and stay the course by balancing its budget and paying down debt, while ensuring support for the programs and services Canadians need most.

And we will increase our efforts to make the standard of living and quality of life of Canadians better than ever.

Sound Fiscal Management

Canada has undergone a remarkable fiscal and economic turnaround in the past nine years. The hard work and sacrifice of Canadians, coupled with the Government's prudent fiscal management, has put the nation's finances back on track.

The numbers speak for themselves:

- Canada has recorded five consecutive budget surpluses, the first time this has happened in 50 years;
- we have paid down more than \$46 billion on our national debt; and
- our debt-to-GDP (gross domestic product) ratio has dropped from 71 per cent in 1995-96 to 49 per cent. Canada achieved the largest decline in the debt-to-GDP ratio of any Group of Seven (G-7) country.

Canada's commitment to fiscal discipline has paid dividends to all Canadians:

- we protected the \$100-billion, five-year package of personal and corporate income tax cuts and the increase in transfers to the provinces from the September 2000 health accord;
- prudent fiscal planning, along with our low inflation record, allowed the Bank of Canada to lower interest rates last year when the economy slowed; and
- Canada's finances stayed in surplus despite the global economic slowdown, unlike in other G-7 countries.

But we cannot be complacent. We must maintain our prudent approach to budget planning and continue to pay down our national debt:

- the debt still stands at more than \$536 billion and the cost of servicing that debt was \$37 billion last year, the Government's single biggest expenditure; and
- the cost of servicing the debt takes 22 cents out of every revenue dollar today, money that is not available for other priorities, such as health care and education.

Prudent Budget Planning

Prior to 2001-02 the Government set aside a Contingency Reserve of \$3 billion per year, along with an additional amount for economic prudence, to guard against unforeseen problems.

In the 2001 budget the Government used the economic prudence and part of the Contingency Reserve to deal with the costs associated with the global economic slowdown and new security measures to protect Canadians.

The Government said it planned to restore the full Contingency Reserve and economic prudence as soon as possible.

Today it has delivered on that promise.

The full \$3-billion annual Contingency Reserve to guard against unforeseen circumstances is restored, effective this fiscal year. As usual, any year-end surplus goes to pay down debt.

Further, an additional degree of economic prudence will be provided.

Managing Tax Dollars Wisely

Sound fiscal management means more than balanced budgets.

It also means giving Canadians good value for their hard-earned tax dollars through efficient, cost-effective government programs and services.

Therefore:

- in preparing the next budget, the Government will find opportunities to realign existing spending and improve efficiency;
- where appropriate, the Government will reallocate money to programs that meet the pressing needs of Canadians from those that have already served their purpose; and
- reallocated money will not go towards debt reduction. Rather, it will be used to help meet these pressing needs.

Economic Performance and Outlook

Canada has emerged from the slowdown of 2001 and finds itself in a better-than-expected economic recovery:

- our economy grew at an annualized rate of more than 5 per cent in the first half of 2002;
- from January to September the economy created 427,000 new jobs, the majority of them full-time; and
- real personal disposable income per person rose 2.9 per cent over the last 12 months.

And, as the survey of private sector forecasts in the October Economic and Fiscal Update shows, solid growth is expected to continue:

- economic growth is expected to average 3.4 per cent this year and 3.5 per cent in 2003, with Canada leading the G-7 both this year and next; and
- over the medium term, economic growth in Canada is forecast to average 3 per cent per year.

But uncertainty about global events, including weak and uneven economic recoveries in Europe, Japan and the US, along with declines in equity prices, continuing concerns about corporate governance and possible conflict in Iraq, could affect these forecasts.

Therefore, the Government will remain prudent in its budget planning.

Fiscal Situation and Outlook

For 2001-02 Canada recorded a budget surplus of \$8.9 billion, which went to reduce our national debt.

Average Private Sector Projections

For planning purposes the average private sector projections of Canada's fiscal-planning surplus are as follows:

2002-03:	\$1.0 billion
2003-04:	\$3.1 billion
2004-05:	\$3.5 billion
2005-06:	\$6.8 billion
2006-07:	\$10.5 billion
2007-08:	\$14.6 billion

These figures take into account the \$3-billion annual Contingency Reserve and additional economic prudence.

Surplus numbers are smaller in the near term, due to the ongoing impact of last year's economic slowdown on tax revenues and the effects of the Government's \$100-billion tax reduction package and the \$23.4-billion health accord of September 2000.

Meeting Future Challenges

Keeping the budget balanced and reducing debt are crucial to achieve a better standard of living and quality of life for Canadians.

We have made considerable progress since 1997.

But, to continue to make progress, the key will be to further improve our productivity growth as a nation.

Improved productivity does not mean working harder for less money, but working more effectively through better skills, equipment and education.

It is the surest path to better jobs, higher income and greater opportunities for personal growth and development.

The best way to improve our productivity is to make Canada a magnet for talent and investment by:

- making sure our existing policies and programs are as efficient, transparent and cost-effective as possible to encourage investment and entrepreneurship;
- ensuring that Canadians are equipped with what they need to succeed in a rapidly changing world, and that our children get the best possible start in life;

- working with the provinces and territories and all stakeholders to improve corporate governance standards and reform securities regulation;
- working with the provinces to agree on a long-term plan to ensure our health care system can meet the challenges of the 21st century; and
- investing in the nation's infrastructure to build competitive cities and healthy, safe communities.

How can I get more information on the 2002 Economic and Fiscal Update?

Information is available on the Internet at:
www.fin.gc.ca

You can also obtain copies of this brochure or other Update documents from:

Distribution Centre
Department of Finance Canada
Room P-135, West Tower
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Ottawa, Ontario K1A 0G5
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