Budget 1998

Building Canada for the 21st Century

A Balanced Approach to Economic and Financial Management

February 1998

> *"What I am about to say is something no Canadian government has been able to say for almost 50 years. We will balance the budget next year. We will balance the budget the year after that. And we will balance the budget this year. This achievement is the accomplishment of Canadians, not of government."*
>
> *Finance Minister Paul Martin*
> *1998 budget speech*

Our Plan is Working

The government will continue to follow its approach of sound economic and financial management for the country – it is an approach that is working.

■ The budget will be balanced in 1997-98 and in each of the next two years – the first time in nearly 50 years that the budget will be in balance for three consecutive years. Canada is the only Group of Seven (G-7) country to have balanced its budget.

■ In 1996-97, Canada's debt burden recorded its first meaningful decline in more than 20 years – it is now on a permanent downward track.

■ Job creation has rebounded strongly. Over one million jobs have been created since 1993 – 372,000 jobs in 1997 alone, all of them full time – and private sector forecasters expect solid job growth to continue.

- The unemployment rate is now below 9 per cent for the first time since the fall of 1990 – down from 11.2 per cent in 1993. While the level is not satisfactory, the improving trend is clear.
- Economic growth exceeded 3½ per cent in 1997 and continued strong growth is projected this year – which would give Canada the best back-to-back economic performance in over 10 years.
- Long-term interest rates are at the lowest levels in about 30 years, consumer demand is strong and business investment is surging.

Reducing the Debt Burden

The best way to measure a country's debt burden is in relation to the size of its economy or gross domestic product (GDP). The debt-to-GDP ratio measures what is owed in relation to what is produced, and thereby indicates an economy's capacity to manage its debt. The lower the ratio, the more manageable the debt.

- In 1996-97, the federal debt-to-GDP ratio recorded its first significant decline in more than 20 years by falling to 71.1 per cent from 71.9 per cent in 1995-96.
- This decline meant that economic growth began to outpace the growth of the debt.

As Canada prepares for the next century, a key challenge is to keep the debt-to-GDP ratio on a permanent downward path. To that end, the government will follow a two-track strategy:

- continued investments to support strong economic growth; and
- a debt repayment plan that will bring down the absolute level of the debt.

The Debt Repayment Plan

The Debt Repayment Plan is based on three key elements:

- as before, two-year fiscal plans based on prudent economic planning assumptions; the current plan commits to back-to-back balanced budgets in 1998-99 and 1999-2000;
- the inclusion in the fiscal plan of a Contingency Reserve of $3 billion in each year; and
- the use of the Contingency Reserve, when it is not needed, to pay down the public debt. By 2000-01, up to $9 billion in debt could be repaid.

With this plan, the debt-to-GDP ratio is projected to fall to about 63 per cent in 1999-2000.

Financial Surplus

For international comparisons, the most appropriate measure of the budget balance is financial requirements/surplus – a measure that essentially represents the amount of new money the government has to borrow on credit markets.

On that basis, Canada is in the best fiscal health of the G-7 group of nations.

- For the first time since 1969-70, the government recorded a financial surplus of $1.3 billion in 1996-97.
- Three consecutive years of balanced budgets means that there will be ongoing financial surpluses through 1999-2000.
- This will allow the government to begin to pay down its marketable debt. For the first nine months of 1997-98, the government paid down almost $13 billion of market debt.

A Balanced Approach

A successful debt reduction strategy requires that fiscal action be complemented by investments that are essential to long-term job creation by supporting strong economic growth.

The 1998 budget builds on actions taken in previous budgets through targeted investments and tax measures to build a strong economy and a secure society. Eighty per cent of the new spending initiatives in this budget reflect two of the highest priorities of Canadians.

- The **Canadian Opportunities Strategy** – measures providing Canadians greater and more affordable access to knowledge and skills – accounts for 43 per cent of the total cost of the spending initiatives over the next four years.
- Another 38 per cent is to increase cash transfers to provinces over the next four years for health and education under the Canada Health and Social Transfer.
- Over three years, $7 billion of tax relief is being provided, primarily to low- and middle-income Canadians.

Maintaining Spending Control

Even with the new spending initiatives proposed in this budget, federal program spending will continue to decline relative to the size of the economy (GDP).

- In 1993-94, total program spending as a percentage of GDP stood at 16.6 per cent.
- By 1999-2000, total program spending as a percentage of GDP will have declined to 11.5 per cent – its lowest level in 50 years.

Keeping Inflation Low

The government is also committed to ensure that Canada remains a low inflation country.

- The government and the Bank of Canada have agreed to extend the inflation control targets of 1 per cent to 3 per cent to the end of 2001.
- This will help maintain the low interest rates that have revived job creation and economic growth in Canada.

How can I get more information?

For further information, call 1-888-781-0000 (TDD: 1-800-465-7735) between 8 a.m. and 10 p.m. eastern time Monday to Friday.

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