DBRS was following the lead taken by another agency last year, that is to say before our budget. So, no connection can possibly be made between our budget and what has just happened.

Second, this rating relates to only 2 per cent of our debt, namely foreign currency. As for the budget, it is very unequivocal. Our goal is to bring the deficit down to 3 per cent of the gross domestic product within three years. We will achieve our goal and ultimately eliminate the deficit. That is our goal and we will achieve it.

Mr. Yvan Loubier (Saint–Hyacinthe—Bagot): Mr. Speaker, the Dominion Bond Rating Service quotes explicitly the budget as the reason for lowering the credit rating.

Does the Minister of Finance not recognize that failing to take seriously our proposal, the Bloc Quebecois proposal, to review and cut the fat in federal government expenditures was a bad move and that such an irresponsible move could end up costing the people of Quebec and Canada hundreds of thousands of dollars, while at the same time causing job losses and allowing interest rates to skyrocket?

Hon. Paul Martin (Minister of Finance and Minister responsible for the Federal Office of Regional Development—Quebec): Mr. Speaker, I have not heard the Bloc Quebecois propose any cuts. All I heard was: "Do not touch military bases. Do not touch unemployment insurance. No reform. No restructuring. Do not do a single thing." That is the Bloc's position. So, we have no lesson to take from them.

[*English*]

Mr. Preston Manning (Calgary Southwest): Mr. Speaker, last week we asked the Prime Minister if he would respond to the falling dollar and rising interest rates by making a stronger commitment to deficit reduction.

The Prime Minister refused to do so and now just yesterday, as has been mentioned, the Dominion Bond Rating Service downgraded its credit rating on the federal government foreign currency debt.

The DBRS said in making its downgrading that the federal government policies are not stringent enough to get the government out of the debt trap and if it wants a better rating it will have to include some meaningful spending reductions in the 1995 budget.

Is the Prime Minister now prepared to direct the finance minister to bring forward a stronger deficit reduction program before the government's credit rating is further downgraded?

Hon. Paul Martin (Minister of Finance and Minister responsible for the Federal Office of Regional Development –Quebec): Mr. Speaker, what the DBRS said was that we have a high level of foreign debt at the federal–provincial level, that is the corporate level. That is true. That is the situation. We as a country are heavily indebted at the federal and provincial levels and it is going require co–operation with the provinces which we have already begun, and that is true.

• (1425)

The Dominion Bond Rating Service said that our productivity is up, our inflation rates are down and there is great room for strength within this economy. It also said that it was putting the downgrade on but 2 per cent of our foreign debt and it maintained the triple–A level on our Canadian debt.

Mr. Preston Manning (Calgary Southwest): Mr. Speaker, I have a supplementary question.

Surely the finance minister is not suggesting that this downgrading was done lightly or frivolously. Surely members across the way know that the eyes of investors and borrowers are on the frontbenches of government, looking for signs as they are worried about the government's fiscal situation.

Is not the minister concerned that this downgrading could be the beginning of a trend and what steps is he taking to prevent downgrading of all of Canada's outstanding debt?

Hon. Paul Martin (Minister of Finance and Minister responsible for the Federal Office of Regional Development –Quebec): Mr. Speaker, first of all our budget was well received by the majority of the rating agencies.

Second, we very clearly set out that in the first stage of our budget that we were going to arrive in three years at a deficit target of 3 per cent of GDP and it will be the first time in the last 15 to 20 years that that has been attained.

Furthermore, we said this is the first stage of a two–stage budget. We also said that cutting at the margins and nibbling at the edges does not apply. Fundamental reform to unemployment insurance, to defence, and the way the government operates is what is required and that is what this government is going to do.

Mr. Preston Manning (Calgary Southwest): Mr. Speaker, it is not how members of this House, either on this side or that side, react to the government's signals. It is how the money markets react and that reaction has been negative.

Increasing scepticism that the federal government is not really prepared to come to grips with the deficit problem is now leading to concerns that the government may attempt to inflate its way out of a portion of its debt and cause interest rates to rise, the bank rate today rising from 4.25 per cent to 5 per cent.

Will the minister assure the House that the government will resort to deeper spending cuts before it will allow inflation rates to rise above present levels?