

In the last two years, Canada's trade performance has been remarkable. With a 15 per cent surge in exports to the U.S. and a 25 per cent rise in exports to Japan, the increasingly competitive Canadian economy generated hundreds of thousands of new jobs.

In 1995, Canada's merchandise trade surplus was \$28.4 billion, compared to \$ 9.5 billion in 1993. In the first quarter of 1996, the trade surplus averaged \$28 billion, down from the fourth quarter but similar to its 1995 average. Canada's impressive trade performance has led to a significant improvement in its current account deficit, which fell sharply in 1995 to 0.2 per cent of GDP in the fourth quarter — its lowest level relative to GDP in a decade. While it widened to 1 per cent of GDP in the first quarter of 1996, this is still a substantial improvement over its 1993 level of 4 per cent of GDP. Most forecasts expect further gains over the next several years.

The government has made considerable progress in putting Canada's public finances on a sound footing. Canada bettered the deficit target in 1994-95 and is well on the road to coming under its 1995-96 target (\$32.7 billion). Deficit targets for 1996-97 (\$24.3 billion) and 1997-98 (\$17 billion) are also on track. Seven of Canada's 10 provinces and two territories are expected to record balanced budgets — or even surpluses — in 1995-96.

Canada has taken more action towards getting its deficits and debt under control than other G-7 governments, and as a result the country's financial requirements will drop to 0.7 per cent of GDP in 1997-98. This is the lowest level in almost 30 years and the lowest among G-7 countries. Canada's total government deficit and program spending as a percentage of GDP will have recorded the largest decline among the G-7 countries over the period 1993-97.

The Canadian government's success in reducing the budget deficit and keeping inflation low has led to steady declines in short-term interest rates, which have come down about three percentage points in the past year and are now below U.S. rates for the first time in many years on a sustained basis.

All indications point to strong growth through 1996 and beyond. Impressive progress has been made on the jobs and growth fronts, and the economic fundamentals are strong. Low inflation and major fiscal reform have contributed to a considerable easing of monetary conditions. Greatly improved competitiveness combined with trade liberalization initiatives and structural reforms have led to a remarkable trade performance and significant improvement in Canada's current account deficit. In light of these conditions, both government and private forecasts expect Canada's real GDP growth to accelerate in 1996 and 1997, and outperform most other G-7 countries.