

For 1998-99 and 1999-2000, the government has committed itself to back-to-back balanced budgets. This will mark the first time in nearly 50 years that the federal government will have balanced its books for three consecutive years.

Financial requirements (the amount of new money the government has to borrow) have been eliminated after reaching a peak of \$34.5 billion in 1992-93. In fact, the government recorded a small financial surplus of \$1.3 billion in 1996-97. This means that for the first time in 27 years, the government did not have to borrow new money on financial markets to pay for its programs or for interest on the debt. With the government's commitment to balanced budgets, there will be ongoing financial surpluses through to 1999-2000.

Financial requirements and financial surpluses are the measures by which most industrialized countries calculate their budgetary balance. Using this measure, Canada is the only G-7 country to have already balanced its books. According to the OECD, Canada recorded a small surplus in 1997 — 0.9 per cent of the gross domestic product (GDP) — and is expected to run surpluses over the next two years.

Tackling the Debt

As a result, Canada's net debt-to-GDP ratio is now on a permanent downward track. While Canada now has the second highest ratio of the G-7 countries, the OECD projects that Canada will post the largest declines over the next few years. By the turn of the century, Canada's ratio is expected to be below the G-7 average.

In 1997, Canada's net debt-to-GDP ratio recorded its first significant decline in 25 years by falling to 64.6 per cent from 68.3 per cent in 1996. The ratio will decrease again in 1998 and 1999 and will continue to do so in 2000, when it is projected to fall below 50 per cent.

To put the net debt-to-GDP ratio on a permanent downward track, the Canadian government proposed a two-track strategy in its February 1998 budget: continued investments to support strong economic growth and a debt repayment plan to bring down the absolute level of the debt.