Canada's Economic and Fiscal Situation

The Canadian and provincial governments are committed to creating an economic environment where the private sector can prosper and create high-quality jobs. Since November 1993, efforts have focused on developing economic conditions that are conducive to jobs and growth. These efforts are paying off — inflation is now well below 2 per cent; interest rates are three percentage points lower than last year, and the government's deficit reduction targets have been met and bettered.

As a result, some 625,000 new jobs have been created over the past 2½ years and the unemployment rate has dropped to 9.4 per cent from 11.1. About 160,000 jobs have been created in the last six months alone. In 1995, Canada recorded the highest employment growth among G-7 countries and if International Monetary Fund predictions are correct, this trend will continue over the next two years.

These gains have been made because of the government's commitment to liberalize trade; to eliminate market barriers through structural reforms; to improve economic efficiency; to maintain low and stable inflation; and to implement effective fiscal reduction programs at all levels of government. In the last budget, money was reallocated for new investment in three priority areas — youth, technology and trade. These areas are critical for seizing the benefits of globalization and for creating future jobs and growth.

Canada is leading its G-7 partners in economic performance with the strongest employment growth over the 1995–97 period; the second lowest inflation rate over the past four years; remarkable gains in international competitiveness, leading to substantially improved trade and current account positions; and increased investor confidence in Canada, reflected in high business investment and a narrowing of risk premiums on Canada's long-term interest rates. By 1997, Canada is expected to have the lowest total government deficit as a percentage of GDP of all G-7 countries.

Despite a slowing of growth in 1995, the Canadian economy remains fundamentally healthy. In 1995, Canada's real GDP growth was 2.3 per cent on an annual average basis, down from 4.1 per cent the previous year, when Canada outperformed all its G-7 partners. The slowdown was primarily due to two main factors. First, a slowing of the U.S. economy during the first half of 1995 dampened Canadian export growth. Second, Canadian short-term interest rates rose in late 1994 and early 1995 following higher U.S. rates, which restrained domestic spending.

Real GDP grew 1.2 per cent at an annual rate in the first quarter of 1996, up only slightly from the 0.9 per cent growth set in the previous quarter. Final domestic demand growth rose sharply in the first quarter, led by stronger