BUDGET express

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March 23, 2004

FEDERAL BUDGET SPEECH OF MARCH 23, 2004

- Tax measures
- Economic Viewpoint

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INFORMATION BULLETIN

Office of the Vice-president, Tax Service
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TAX MEASURES

Federal Budget 2004

Office of the Vice-president, Tax Service
www.desjardins.com

March 23, 2004

Canada's Minister of Finance, Ralph Goodale, tabled his budget this afternoon. The budget does not include any tax cuts for individual taxpayers. The major fiscal item in the budget aimed at individuals is an increase in the grant related to the education savings plan for low- and middle-income families. For companies, the changes are also minor.

Highlights

Measures affecting Desjardins – Businesses	Measures affecting invididuals	Measures affecting Businesses and various measures
• Small business Deduction Limit • Deduction for the Depreciation Applicable to Computer Equipment • Income Trusts and Pension Funds	• Registered Education Savings Plan (RESP) • New Support Deduction for Persons with Disabilities • Increased Eligible Medical Expenses for Natural Caregivers • Education Tax Credit • Mineral Exploration Tax Credit • Taxpayer-Requested Adjustments • Tax Relief for Canadian Forces Personnel and Police	• GST Rebate for Municipalities • Patronage Dividends by Businesses Other than Cooperatives or Credit Unions • Reforming the Rules of Registered Charities • SR & ED Refundable Investment Tax Credit • Carry-Forward Period for Business Losses • Limitation Periods for the Collection of Federal Tax Debts • Deductibility of Fines and Penalties

MEASURES AFFECTING DESJARDINS - BUSINESSES

Small Business Deduction Limit

Budget 2003 implemented a phased increase in the small business limit, from $200,000 in 2002 to $300,000 in 2006.

In order to provide additional support to small business, budget 2004 proposes that the increase in the small business limit to $300,000 be accelerated by one year. The business limit will therefore be of $300,000 in 2005.

The new small business limit will be pro-rated where the taxation year of the corporation does not coincide with the calendar year. In addition, there will continue to be a requirement to allocate the small business limit among associated corporations, and the limit will continue to be reduced on a straight-line basis for companies having between $10 million and $15 million of taxable capital employed in Canada.

Deduction for the Depreciation Applicable to Computer Equipment

To adequately reflect the operating life of computer and related equipment, the budget proposes that the rate of depreciation be increased from 30% to 45% for depreciation applicable to these goods.

This measure applies to goods purchased after March 22, 2004.

Income Trusts and Pension Funds

In general, the use of income trusts typically shifts the taxation of income to unitholders. However, the government fears that pension funds, which are non taxable entities, significantly increase their equity ownership in the business income trust market, which would adversely affect public finances.

The government proposes two measures that will apply in 2005 to limit the level of investment that pension funds can make in business income trusts:

- that the direct holdings that a pension fund may invest in a business income fund be limited to no more than 1 per cent of the book value of the fund's assets. Excess holdings would be subject to a 1-per-cent per-month penalty tax;
- that investment by pension funds will be limited to no more than 5 per cent of the units of any business income trust. Excess holdings in any given business income trust would also be subject to a 1-per-cent per-month penalty tax based on the fair market value of the excess units held.

MEASURES AFFECTING INDIVIDUALS

Registered Education Savings Plan (RESP)

Two measures are proposed to assist education savings for low- and middle-income families:

- the creation of a new Canada Learning Bond for children in low-income families;
- an enhanced Canada Education Savings Grant for low- and middle-income families.

Learning Bond

Starting in 2004, an initial Canada Learning Bond of $500 will be provided for the first year of entitlement for the National Child Benefit (NCB) supplement which could be any year from the year of birth up to and including the year in which the child turns 15 years of age. Generally, a family is entitled to the NCB supplement if the household income is under $35,000.

Any subsequent bond will be in the amount of $100, and will be provided in respect of a child for each year in which the family is entitled to the NCB supplement up to and including the year in which the child turns 15 years of age.

Starting in 2004, a child born in a low-income family can receive Canada Learning Bond payments totalling up to $2,000.

The bonds will be payable into an RESP of which the child is a beneficiary. The bonds will not be taken into account in calculating annual and lifetime RESP or CESG contribution limits. No CESG will be paid on CLB amounts placed in an RESP.

Example:

Mathieu is born in 2004 and is entitled to a $500 CLB at birth because his parents received the NCB supplement for that year. His parents continue to receive the NCB supplement for each year up to and including the year in which he reaches 15 years of age. This generates an entitlement to a $100 CLB for each of those years, and these funds are invested as they become available in Mathieu's RESP. Mathieu's RESP holdings earn an annual average real rate of return of 3.5 per cent. By the time Mathieu is ready to begin post-secondary education at age 18, the CLB will have grown to $3,000 in the RESP to help fund his post-secondary education.

Canada Education Savings Grant

The budget proposes changes to the CESG matching rate for contributions made to RESPs by low- and middle-income families on or after January 1, 2005. Where a child who is under 18 years of age throughout a year is the beneficiary of an RESP, the first $500 contributed to the RESP in the year will attract:

- a 40 per cent CESG matching rate, if the child's family has qualifying net income in respect of the year of $35,000 or less;

- a 30 per cent CESG matching rate, if the child's family has qualifying net income in respect of the year greater than $35,000 but not exceeding $70,000.

All other contributions eligible for the CESG will continue to qualify for the 20 per cent matching rate. The $35,000 and $70,000 thresholds are in 2004 dollars and will be indexed to inflation for 2005 when this program comes into effect.

New Support Deduction for Persons with Disabilities

The budget proposes to substitute the deduction for caregiver expenses offered to persons with disabilities for a more general deduction on support products and services for persons with disabilities, which will include both the caregiver expenses and the other support products and services fees incurred by persons with disabilities to hold a job or continue education.
The expenses deducted under the new deduction will not be eligible to a medical expenses tax credit.
In addition, starting in 2004, the value of the refundable medical expense tax credit will be equal to 25% of all allowable expenses claimed under to the medical expenses tax credit and the new disability support deduction, up to $562. The deduction ceiling will be indexed in 2005.

Increased Eligible Medical Expenses for Natural Caregivers

Starting in 2004, natural caregivers will be able to claim more of the medical and disability-related expenses they incur on behalf of dependent relatives.

Specifically, medical expense claims made on behalf of minor children will be pooled with the medical expenses of the taxpayer and his or her spouse or common-law partner, subject to the taxpayer's minimum expense threshold (the lesser of 3 per cent of the taxpayer's net income and $1,813), without regard to the income of the minor child.

For medical expenses paid on behalf of other dependent relatives (e.g., grandparent, niece, nephew, etc.), taxpayers will be able to claim qualifying medical expenses paid on behalf of such a dependant that exceed the lesser of 3 per cent of the dependant's net income and $1,813. The maximum eligible amount that can be claimed on behalf of dependent relatives will be $5,000.

Education Tax Credit

Starting in 2004, students who pursue post-secondary education that is related to their current employment will be able to claim the education tax credit if no part of the costs of education is re-imbursed by the employer. The education amounts, upon which the education tax credit is calculated, are $400 per month of full-time study and $120 per month of part-time study.

Mineral Exploration Tax Credit

The budget proposes to extend to December 31, 2005 the expiry date of the temporary tax credit of 15% granted for the purchase of flow-though shares of mineral exploration expenses incurred in Canada by a corporation and renounced to an individual under a flow-through share agreement.

Taxpayer-Requested Adjustments

The fairness issue put forward by the federal government in 1991 allows an individual to ask the Minister of National Revenue to accept a late-filed return for a taxation year, or reassess an income tax return beyond the normal reassessment period for a taxation year.

Given the administrative problems that the department had to deal with, the budget proposes that the adjustments requested after 2004 be limited to taxation years that end in any of the ten preceding calendar years.

Tax Relief for Canadian Forces Personnel and Police

The members of the Canadian forces and of a Canadian police force deployed in international operational missions of level three or higher will be able to deduct from the taxable income their related employment earnings from this mission.

This measure will apply to the 2004 taxation year.

MEASURES AFFECTING BUSINESSES

GST Rebate for Municipalities

As was indicated in the Throne Speech, the government proposes that the rebate in respect of the goods and services tax (GST) for municipalities be increased to 100 per cent from 57.14 per cent. In addition, municipalities are eligible for the increased 100-per-cent rebate effective February 1, 2004.

Patronage Dividends by Businesses Other than Cooperatives or Credit Unions

The government fears that some companies, other than cooperatives and credit unions, agree to pay patronage dividends in order to reduce or eliminate their tax. The budget proposes to amend the Tax Act to prevent persons other than cooperatives and credit unions to deduct the patronage dividends paid to non-arm's length persons after March 22, 2004.

Reforming the Rules of Registered Charities

Charities that do not comply with the law have their registration revoked. The new compliance regime provides for taxes and minor measures before resorting to revocation. These measures will apply to taxation years beginning after March 22, 2004.

Currently, when a charity wants to challenge a Canada Revenue Agency (CRA) decision, it must turn to the Federal Court of Appeal. The budget proposes to extend to charities the objection process granted to other taxpayers. Afterwards, the appeals on taxes and penalties could be directed to the Federal court of Appeal. These measures will apply to notices of decisions issued after December 31, 2004.

The budget proposes to further enhance transparency and accessibility by making new information available on registered charities, such as the financial statements, the annual information returns and the CRA decisions.

For the official receipts issued after 2004, the name and Internet address of the CRA must appear on the receipts.

The disbursement quota rules will be amended so that charities are able to effectively manage the donations they receive. The amended rules will apply to taxation years beginning after March 22, 2004.

SR & ED Refundable Investment Tax Credit

To improve the growth outlook of companies, this budget proposes to amend the refundable tax credit rules for scientific research and experimental development (SR & ED).

Small Canadian-controlled private companies with a common group of investors who, according to the Minister of National Revenue, was not incorporated to gain access to multiple expenditure limits will not have to share the $2 million expenditure limit solely because two or more investors collectively have a majority interest in the shares of each corporation. Each small business will, in such a case, have access to its own $2 million expenditure limit, thus continuing to provide each business with access of up to $700,000 in SR&ED assistance.

This change will apply to taxation years that end after March 22, 2004.

Carry-Forward Period for Business Losses

In order to increase fairness and smooth out the impact of economic cycles, it is proposed to extend from seven to ten years the carry-forward period for non-capital losses for taxpayers who incur such losses in a business context.

This measure applies to losses and credits that arise in taxation years that end after March 22, 2004.

Limitation Periods for the Collection of Federal Tax Debts

On March 4, 2004, the Minister of Finance announced his intention to propose changes to the Income Tax Act and other acts that will, among other things, establish a 10-year limitation period for the collection of federal tax debts. The proposed new limitation period responds to a Supreme Court of Canada decision that the collection of federal income tax debts was subject to the 6-year limitation period set out in the Crown Liability and Proceedings Act.

Deductibility of Fines and Penalties

Recent jurisprudence has held that deductibility generally extends to fines and penalties incurred in the ordinary course of earning income, with some exceptions. The government considers that such a deduction does not have the deterrent effect it is looking for.

Accordingly, it is proposed to deny the deduction of any fine or penalty imposed after March 22, 2004 in pursuance of an Act. However, this rule will not apply to penalties paid under the terms of a private contract or relatively to the GST/HST.

Desjardins
Economic Studies
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March 23, 2004

Comments on the 2004 Federal Budget

A budget aimed at strengthening governance … and the image of the Liberals

Gilles Soucy
Vice president and Chief Economist

Benoit P. Durocher
Economist

François Dupuis
Deputy Chief Economist and Strategist

Francis Généreux
Economist

(418) 835-2450

1 866 835-8444 ext. 2450

Highlights

The new Minister of Finance, Ralph Goodale, gave his first budget speech today. First and foremost, the goal of the budget is to strengthen the governance of the federal government by reinforcing the principles of fiscal accountability and integrity. The second goal is to implement the commitments in the Throne Speech of February 2, especially as regards health care and financial support for municipalities. Lastly, the budget was also designed to enhance the image of the new Liberal government in the eyes of the population with the elections deadline approaching.

- Despite the modest progress of the economy in 2003, this will be a seventh consecutive balanced budget in 2003-2004. It is a first in the history of Confederation.
- A balanced or surplus budget is also anticipated for the 2004-2005 and 2005-2006 years. According to the latest OECD forecasts, Canada is again slated to be the only G-7 country with a surplus budget in 2004.
- The federal-debt-to-GDP ratio should go from 42% in 2003-2004 to 38% in 2005-2006. This is a clear drop in comparison with its 68% peak in 1995-1996. The government is aiming to bring the ratio down to 25% in ten years, i.e. the same level it was in the mid-70s. The public-debt-charge-to-revenue ratio, at 20% today, will be brought down to 12% in ten years (it stood at 39% in 1990-1991).
- Program spending should increase by 7.6% in 2003-2004, in part due to the increase in health-care expenses and the new assistance measures for the agricultural industry. Budgetary revenues are estimated at 14.9% of GDP in 2003-2004, which represents the lowest rate since the early 60s.
- Lastly, the government plans to liquidate its shares of Petro-Canada in 2004-2005. This decision should generate net revenues between $2B and $3B.

Analysis

A Firm Commitment Toward Sound Financial Management

With respect to budget management and economic assumptions, the first budget of the new Liberal administration follows the guidelines established during the Paul Martin's time as Minister of Finance: a prudent budget intent on continuing the improvement of the government's fiscal situation.

However, following the sponsorship disclosures, the government had to take steps to disassociate itself form the previous administration and the smell of corruption it left in its trail. In an effort to prevent such abuses, Mr. Goodale announced a series of measures aimed at bringing back budget discipline and reviewing the rules of

Summary of Budgetary Transactions

In Billions of $	2002-2003	2003-2004f	2004-2005f	2005-2006f
Budgetary Transactions:				
Revenues	177.6	181.1	187.2	195.8
- Variation (%)	3.4	2.0	3.4	4.6
Program Spending	(133.3)	(143.4)	(147.9)	(156.1)
- Variation (%)	6.6	7.6	3.1	5.5
Operating Balance	**44.2**	**37.7**	**39.3**	**39.7**
Public Debt Charges	(37.3)	(35.8)	(35.4)	(35.7)
- Variation (%)	(6.0)	(3.9)	(1.1)	0.8
Contingency Reserve	---	(1.9)	(3.0)	(3.0)
Economic Prudence Reserve	---	---	(1.0)	(1.0)
Budget Balance	**7.0**	**0.0**	**0.0**	**0.0**
Non-Budgetary Transactions	0.7	2.0	(4.5)	(4.0)
Resources or Financial Needs	7.6	2.0	(4.5)	(4.0)
Program Spending-to-GDP Ratio (%)	11.5	11.8	11.7	11.7
Budget Balance-to-GDP Ratio (%) (excl. prudence measures)	0.6	0.2	0.3	0.3
Debt Charges-to-Budgetary-Revenues Ratio (%)	21.0	19.8	18.9	18.2
Debt Representing Accumulated Deficits	510.6	510.6	510.6	510.6
Debt-to-GDP Ratio (%) (without reduction)	44.2	42.0	40.4	38.4
Debt Representing Accumulated Deficits (with application of the reserve)	510.6	508.7	505.7	502.7
Debt-to-GDP Ratio (%) (with application of the reserve)	44.2	41.9	40.0	37.8

Source: Department of Finance of Canada f: forecasts governance of the departments and federal agencies. The government will be implementing a detailed plan to improve transparency, under the guidance of the Treasury Board:

- Re-establishing the Office of the Comptroller General of Canada responsible for overseeing all public spending;
- Nominating accredited comptrollers, in charge of signing off any new expense in each department;
- Strengthening internal audits throughout the federal administration;
- Setting up new governance rules in Crown corporations that will require special audits to be tabled before Parliament.

In addition, the government plans to free $1B per year by eliminating programs that are deemed less important and reallocating the funds to priority programs. Lastly, the government will undertake a thorough review of all public spending. This will be conducted by a Cabinet committee responsible for reviewing spending. The committee will have to find $3B per year over the next few years. These funds will be reinvested in more essential priorities at the national level.

As for the rest, the budget is based on a scenario with realistic economic forecasts, moderately conservative even. The growth projections for real GDP are established at 2.7% for 2004 and 3.3% for 2005. Our own forecasts are counting on 2.8% and 3.6% growth respectively for the two same years. The forecasts on interest rates are very similar to our own (see chart below).

Economic and financial forecast

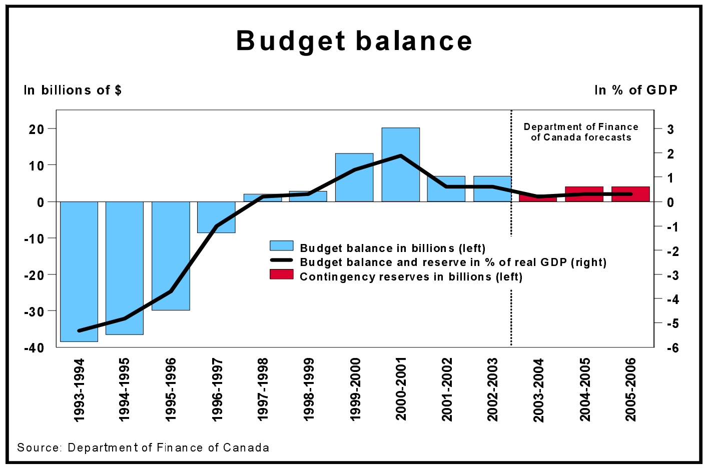
	2003	2004		2005	
	Realised	Federal budget*	Desjardins Group	Federal budget*	Desjardins Group
Nominal GDP (%)	5.2	4.1	4.5	5.1	5.5
Real GDP (%)	1.7	2.7	2.8	3.3	3.6
Canadian 3-month treasury bonds (%)	2.9	2.2	2.0	3.1	3.0
Canadian 10-year bond (10 %)	4.8	4.8	4.6	5.4	5.4

* Average consensual forecasts of the Canadian private sector.

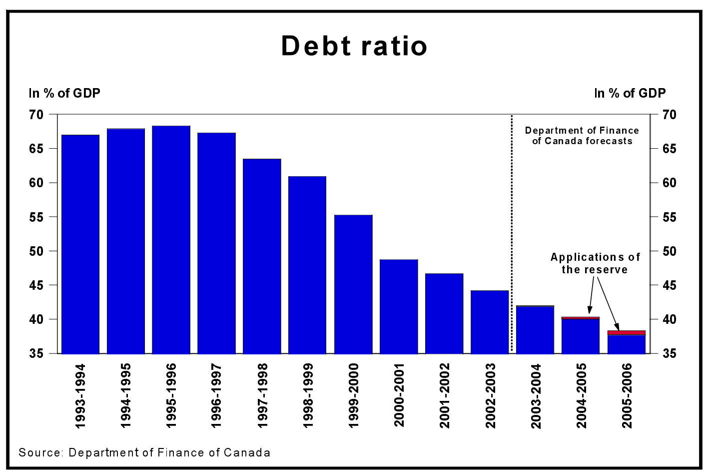
Sources: Department of Finance of Canada and Desjardins, Economic Studies

As was the case for the last seven years, the government is tabling a balanced budget in which spending will grow at a slower rate than nominal GDP for fiscal 2004-2005 and 2005-2006, or so it says. In addition, the government gives itself a contingency reserve (bad economic conditions etc.) and a measure of economic prudence totalling $4B for each of the next two financial years. If the funds are not used, they will be allocated to debt reduction, as was the case in the past.

So, the fiscal situation of the government visibly continues to improve. For instance, the ratio of debt servicing costs/ total revenues, which reached a peak of 37.6% in 1995-1996, dropped to 19.8% at the end of fiscal 2003-2004 and will decrease to 18.2% in 2005-2006. As for the debt-to-GDP ratio, it went down from 68.4% in 1995-1996 to 42.0% in 2003-2004. It will be under 40% at the end of fiscal 2005-2006, i.e. 38.4%.



Source: Department of Finance of Canada



Source: Department of Finance of Canada

Small Budgetary Measures

As we expected, the increased control of budgetary spending announced by the Martin team provides less leeway for implementing new budgetary initiatives. So, even if Canadians will again reap the benefits of the tax cuts implemented during the previous years (including the indexation of the tax tables), there are no additional cuts to the tax burden in the first Goodale budget. However, thanks to an increase control of budgetary spending that provides the government annual savings of $1B from the current expenses, and especially the reallocating of $3B per year to priority sectors, the federal government managed to introduce several measures. However, bear in mind that most new measures in today's budget had already been announced during the past few weeks.

Health Remains the Number One Priority for the Government

- The budget confirms the additional $2B payment promised to the provinces and territories as part of the Canadian Health and Social Transfer (CHST). The provinces and territories will be able to use their share immediately or at any time during the next two fiscal years.
- The Department of Finance also announces several measures to strengthen the Canadian health-care system and improve the integration of persons with disabilities. The creation of a new public health agency whose mission will be to increase domestic emergency response capacities and develop national strategies for infectious and chronic diseases. Federal commitments should total just over $700M for fiscal 2003-2004 and fiscal 2005-2006.

A New Agreement for Communities

- As was announced several weeks ago, the municipalities are entitled to a full rebate of the GST as of February 1. The municipalities will then benefit from a financial support of roughly $580M in 2004-2005 and $605M in 2005-2006.
- On the environment front, some $4B over ten years will be earmarked for cleaning up contaminated sites.
- Other measures will also be implemented to assist the social economy, community and non profit organizations, the Métis and First Nations as well as the development of oil resources.

Measures for Education

- A learning grant of up to $2,000 will be offered to each child born after January 1, 2004, whose parent receives the National Child Benefit supplement.
- The rate of the Canadian grant for the Canada Education Savings Grants will be increased from 20% to 40% for low-income families and to 30% for middle-income families.
- The government will create new post-secondary education grants for low-income families and students with disabilities.
- Some changes will also be brought to the Canada Student Loans Program to improve its effectiveness.
- The government also wants to improve economic opportunities for First Nations and raise their standard of living.
- Finally, the federal government is quite ambitious as regards education. Even if the money allocated for each of these measures is modest, all the initiatives will total close to $700M over the next two budgets.

Business Assistance

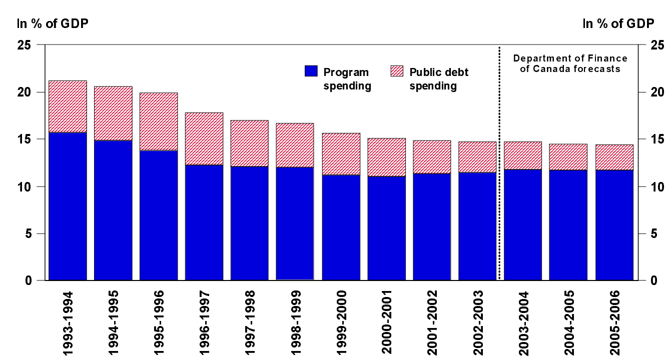
- The Prime Minister announced it yesterday, cattle producers should be receiving an assistance package of $1B from the federal government in the near future. This financial assistance should lessen the negative impact of the embargo decided by many countries, including the United States, on Canadian beef following the recent discovery of two cases of mad-cow disease.
- Several other measures will also affect businesses, but they are not very significant. The Department of Finance will allocate $293M in 2004-2005 and $367M in 2004-2005 to research and risk-capital financing.

Canada's Relationships with the Rest of the World

- The defence budget will increase by $300M over two years to fund Canadian peace missions in Afghanistan and Haiti, and fight terrorism.
- An additional $605M over five years will be earmarked for the security reserve. In addition to the general contingency reserve of $3B for fiscal 2004-2005 and 2005-2006, an additional annual $115M will be used to respond to security priorities.
- International assistance will be increased by nearly $250M in 2005-2006.

The review of the initiatives proposed in today's budget allows us to acknowledge that even if there seems to be

Budget expenses



Source: Department of Finance of Canada

Measures Proposed in the Budget - March 2004

In millions of $	2003-2004f	2004-2005f	2005-2006f
Health Care	**2,500**	**131**	**143**
Additional Transfers to the Provinces	2,000	---	---
Other	500	131	143
Agreement for the Communities	**100**	**913**	**776**
Full GST Rebate to the Municipalities	100	580	605
Environment and Sustainable Development	---	205	10
Other	---	128	161
Education	**---**	**251**	**466**
Assistance to Businesses	**1,000**	**293**	**367**
Assistance to the Agricultural Sector	1,000	---	---
Other	---	293	367
Relationships with the Rest of the World	**---**	**397**	**458**
Other	**---**	**231**	**301**
Total Measures Announced Including:	**3,600**	**2,216**	**2,511**
Spending Measures	3,500	1,486	1,621
Revenue Measures	100	730	890

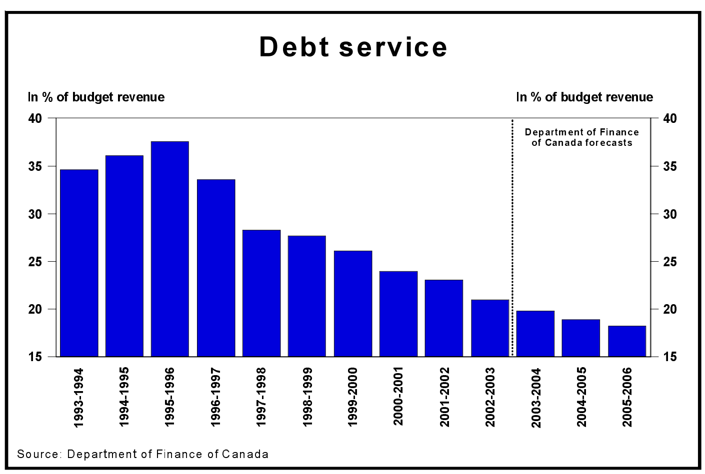
Source: Department of Finance of Canada f: forecasts

many new measures, they are not very significant financially. All spending and revenue measures will total $2.2B in 2004-2005 and $2.5B in 2005-2006. In comparison, all new measures announced in last year's budget totalled $6.5B for fiscal 2004-2005. In addition, if one disregards the minor initiatives, only a few measures are left (transfers to the provinces, assistance to cattle producers, GST rebate for the municipalities etc.) and they were announced prior to the tabling of the budget.

Impact on the Financial Markets

The financial markets will appreciate the first Goodale budget. Indeed, the budget that was tabled today demonstrates a constant improvement of Canada's financial results. In addition, the new measures on the strengthening of the principles of fiscal responsibility and integrity will reassure the markets. Canada will continue to benefit from its new status as a "Maple Leaf Miracle", which is not negligible given the large deterioration of public finances among other G-7 countries.

Since the mid-90s, Canada's economic and financial situation has greatly improved. The country now enjoys low and stable interest rates and inflation, a lower foreign debt and a current account surplus. As for federal public finances, the debt went down by $52.3B from its peak in 1996-1997. Compared to the size of the economy, it now stands at its lowest point in nearly 20 years. During this period, the debt contracted on markets decreased by $37.1B. The reduction of the debt coincided with a rapid drop of the federal-debt-to-GDP ratio, which went from 68.4% in 1995-1996 to 42% in 2003-2004. The ratio could even drop to 25% in ten years. The reduction of the debt has undeniably provided the federal government with greater financial stability, reduced Canada's vulnerability to foreign shocks and allowed Canada to regain an AAA credit rating. In addition, the risk premium on our interest rates in comparison with their American equivalents decreased considerably.



New CHST Transfers - March 2004

In billions of $	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
CHST before the 2003 Agreement	**19,100**	**19,100**	**19,100**	**19,100**	**19,100**	**19,100**
Additional Funding (2003 Agreement)		**2,700**	**4,800**	**6,900**	**7,000**	**8,600**
Increase of CHST Cash Transfers		700	1,300	1,900	2,500	3,100
CHST 2003 Supplement		1,000	1,000	500		
2004 CHST Health Supplement			1,000	1,000		
Health-Care Reform Transfer		1,000	1,500	3,500	4,500	5,500
Additional Funding (learning and day-care service)		**25**	**150**	**225**	**300**	**350**
Total of New Cash Transfers	**19,100**	**21,825**	**24,050**	**26,225**	**26,400**	**28,050**
Total of Tax Point Transfers	**15,900**	**16,700**	**17,500**	**18,700**	**19,900**	**21,250**
Total	**35,000**	**38,525**	**41,550**	**44,925**	**46,300**	**49,300**

Source: Department of Finance of Canada

The only downside for the markets is the following question: how will Canada manage to strike a balance between the rise of the loonie and the improvement of the competitiveness of our economy? Fortunately, this question remains, for the time being, a long-term concern for the markets. Nevertheless, Canada is positioning itself better and better to resolve the issue.

Conclusion

A Budget Guided by a Firm Resolve to Rebuild the Trust

Content-wise, the first Martin government budget is nothing like a typical pre-election budget, i.e. a budget overflowing with an assortment of measures, often badly chosen, whose goal is to appeal to electors. Congratulations are in order. Clearly, the new government chose to disassociate itself from the Chrétien era and regain the trust of Canadians.

That is undoubtedly the best facet of the Goodale budget of March 23:

1. a permanent review process of each federal-government expenditure;
2. the establishment of governance rules, not only for the departments, but also for the Crown corporations;
3. a review of fiscal priorities.

In addition, the government is aiming to find funds in the savings measures and/or elimination of programs deemed less important and then reallocate them to priority items in the eyes of the population. We will however have to wait to see if it will carry through.

The government is maintaining its goal of constantly improving its financial situation by giving itself a long-term vision. By trying to bring back the debt-to-GDP ratio from 41.9% today to 25% by 2010, it wants to cut debt-servicing charges in half and in so doing, give itself some leeway that will allow it to better support the increase in health-care costs that the provinces will be faced with due to the aging population.

Compared to other large industrialized countries, Canada is now a “star” with respect to the management of its public finances. To keep its top-of-the-class ranking, it will however have to see that the increase in program spending does not exceed the growth of the economy, i.e. the nominal GDP, as was sometimes the case over the last four years.

Finally, we must be thankful that the federal government finally decided to review the equalization method of calculation. The formula used up to now gave results that were so volatile and unforeseeable that it was difficult for many provinces to have a reliable budget plan.