Canadian Minister of Finance John Manley continued the Liberal tradition of presenting an economic and financial update to the House of Commons Standing Committee on Finance. The document is designed to provide a mid-year update of the situation of public finances in light of recent events.

**Highlights**

- The Canadian economy overcame several shocks in 2003. These shocks obviously slowed the progress of our economy. As a result, the expected growth for 2003 and 2004 is lower than anticipated in the last budget in February 2003. Most private-sector analysts now agree that real GDP will grow by 1.9% in 2003 and 3% in 2004.
- Accordingly, the $4B surplus anticipated for 2003-2004 in last February’s budget is now reduced to $3.5B due to the impact of a worsening economic outlook.
- In addition, the Federal government was forced to initiate new spending measures to counteract the negative effects of SARS and the mad cow disease. Taking into account the added costs associated with Canada’s international obligations (Afghanistan for instance) and other smaller initiatives, the Federal government expenditures in 2003-2004 will be $1.2B higher than anticipated.
- So, the estimated budget surplus for 2003-2004 now stands at $2.3B, an amount that is completely allocated to the Contingency Reserve.

- Last February, the Prime Minister of Canada agreed to provide the provinces with added healthcare funding of up to $2B, if the budget surplus realized in 2003-2004 exceeded the Contingency Reserve ($3B). The Prime Minister informed the provinces that this new contribution to healthcare by the Federal government will be available even if the budget surplus does not reach $3B. It will be necessary to wait for the release of the final results for the current budget year, i.e. fall of 2004, to know the exact size of the surplus.

**Conclusion**

As expected, the balancing of Federal public finances will again be successful despite weaker economic conditions. In the current context, this is a significant achievement when one compares it with the worsening budget situation in many countries, including the United States. The conservative approach to budgeting has undeniably stood the test of time and helped Canada take an enviable place on the world stage in matters of public debt.

Yet, there are still many challenges to meet. For instance, there still is a significant gap between the productivity levels in Canada and the United States, as the country’s economic and financial background needs to be strengthened even more. In addition, the Federal government must quickly and adequately renew the equalization program with the provinces, while gradually withdrawing from their jurisdictions.

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**Average of private sector projections**

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Source: Department of Finances of Canada

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