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## UPDATE 1-Canada distances itself from U.S. troubles

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OTTAWA, Oct 3 (Reuters) - Canadian Finance Minister Jim Flaherty delivered a harsh assessment of the U.S. economy on Friday, saying Canada's banks and households showed few signs of the troubles seen south of the border.

In a bid to calm domestic markets and deflect criticism in the current election campaign that the Conservative government was not doing enough to confront economic turmoil, Flaherty said that, unlike Canada, many households in the United States faced tragic outlooks,

He added the U.S. federal government kept on piling on debt, and U.S. banks were more exposed to bad mortgages and were not as well-capitalized as those in Canada.

"We point out the inadequate fiscal steps economically in the United States in recent years," said Flaherty, speaking in London, Ontario, ahead of the Oct. 14 general election.

"Obviously, it had some banks that were not adequately capitalized, including obviously investment banks. The situation in Canada is quite different. We have the most solid fiscal fundamentals in the G7 (Group of Seven leading industrialized nations)."

The \$700 billion U.S. bailout package is necessary and Canada supports it, Flaherty said.

Canada's subprime mortgage sector represents only 5 percent of the total, he said, and the ratio of mortgages to home values was only 30 percent in Canada, just over half the 55 percent figure in the United States.

"This is a dramatic difference," Flaherty said. "We are in much better shape. The leveraging that went on in United States households is quite regrettable, really."

Canadians can afford their mortgages, the country's housing market is stable and it did not go through the bubble that the United States did, he added.

He also said the regulatory capital requirements for banks were among the strictest in the world, adding he is in regular contact with Bank of Canada Governor Mark Carney.

Flaherty repeated assurances by Carney that there are few signs that banks are restricting credit to households and that there is no evidence companies are facing unusual credit restrictions.

However, he conceded: "Canada is not an island and we are not immune to the slowdown in consumer spending in the United States." (Reporting by Randall Palmer; editing by Rob Wilson)

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