The services deficit slipped $40 million as declines to the travel and transportation balances outweighed the $100 million narrowing of the commercial and other services deficit. The investment income deficit widened $238 million over the year: bilateral inflows of direct investment profits fell while outflows increased, and the direct investment income deficit with Japan widened $498 million. The deficit on portfolio investment income fell $160 million last year, largely the result of falling interest and dividend payments to Japanese investors.

Other OECD countries and all other countries

The bilateral current account deficits between Canada and the other OECD countries and all other countries fell $0.5 billion and $1.6 billion, respectively last year, to $8.5 billion and $11.0 billion. In both cases, declines to the goods deficits (wider by $753 million and by $3.4 billion, respectively) and services deficits (wider by $35 million and by $451 million, respectively) were only partially offset by improvements to the investment income surpluses (up by $264 million and by $2.4 billion, respectively).

Since the mid-1970s, Canada has consistently run current account deficits, coinciding with rising levels of government debt. At the same time, however, the share of private savings in Canadian GDP has been trending downward, falling as low as 17.0 per cent in 1998 from a rate as high as 24.3 per cent in 1985 (Table 3-1). As a result, Canada has relied on net borrowing from abroad to finance domestic investment throughout much of the past 30-or-so years. Since the mid-1990s, Canada has made concerted efforts to reduce public-sector deficits and has, in the past six years, registered federal budget surpluses. In turn, Canada has achieved the sharpest decline in the debt burden among the G7 countries since the mid-1990s: between 1995 and 2002, the net debt-to-GDP ratio was reduced by 26.8 percentage points to 41.1 per cent of GDP, resulting in Canada's debt burden being now below the G7 average. The improvement in Canada' budgetary surpluses implies a corresponding reduction in debt-servicing costs. It has also permitted the government room to lower taxes, which has likely had positive effects on savings rates. These factors in combination have contributed favourably to Canada's current account balances in recent years.

Table 3-1: Domestic savings and investment, as share of GDP, 1981 to 2002

	Private			Public	
	Saving	Investment	Excess saving over investment	Budget surplus (+) Budget deficit (-)	Current acount balance
1981-1985	23.4	18.0	5.5	-5.1	-1.2
1986-1990	21.1	19.3	1.8	-4.0	-3.3
1991-1995	19.9	15.6	4.2	-6.7	-2.8
1996	19.1	15.7	3.4	-2.5	0.5
1997	17.4	18.5	-1.0	0.2	-1.3
1998	17.0	18.2	-1.2	0.0	-1.2
1999	17.3	18.1	-0.8	1.7	0.2
2000	18.8	18.2	0.6	3.3	2.6
2001	18.5	16.8	1.7	2.0	2.8
2002	18.5	17.5	1.0	1.6	1.5

Source: Statistics Canada, National Income and Expenditure Accounts, Catalogue No. 13-001-PPB, 4th Quarter 2002..

Note: due to the statistical discrepancy in the nation accounts, the sum of the share of excess private saving over private investment and budget surplus or deficit in GDP may not add to share of current account deficit in GDP.

[1] When the current account is in deficit, for example, it measures the extent to which Canada is drawing on the resources of the rest of the world for current consumption and investment; when the current account is in surplus, it measures the extent to which Canada is providing such resources to the rest of the world. In other words, a surplus on the current account indicates that a country has earned (or obtained via transfers) more money abroad than it has paid out and is, thus, a net saver internationally. This surplus is mirrored by a deficit on the capital and financial account and requires a net outflow of capital. Likewise, a current account deficit means that a country is a net borrower internationally, as reflected in a net inflow of capital and thus a surplus on the capital and financial account. In an accounting sense, a current account deficit reflects a shortage of domestic savings relative to domestic investment.