EXECUTIVE SUMMARY

Farms debt persists as a major structural problem for Canadian farmers. The amount of debt outstanding to agricultural producers remains over $22 billion, only marginally lower than the peak level of $23.2 billion in 1987.

The Standing Committee on Agriculture notes that there has been some marginal financial improvement since the publication of its 1988 report, "The $22 Billion Problem: Options for the Financial Restructuring of Farm Debt". Nevertheless, the persistence of the debt problem is particularly obvious when compared to the United States farm sector, which has managed to reduce its overall farm debt by 40 percent over the 1980's.

The objective of the present study is to provide an update of the Committee's previous report on farm debt. It examines the current level of farm debt, the factors which maintain the current level of debt, and looks ahead to determine how future economic conditions could affect farm debt and its impact on farmers.

The characteristics of farm debt are examined in Chapter Two to help explain why that debt remains at its current level. Farm debt has remained high in Canada primarily due to the propensity of lenders, both private and government, to refinance overdue or delinquent debt. While market interest rates have been generally higher in Canada, the effective interest rates paid have been lower than in the United States not only because of direct interest subsidies, but also because overdue interest costs have been amortized into new loans. For example, it is estimated that close to $5 billion in overdue interest expense has been refinanced since 1975. This is equal to the amount of excess debt or non-serviceable debt revealed by this study. The data suggest that the debt and capital values of Canadian farm businesses have been maintained at artificial levels at least in part by previous income and credit policies.

The regional distribution of farm debt, examined in Chapter Three, shows an increase in the average debt per farm in all provinces, with the exception of British Columbia, Saskatchewan and Manitoba. Alberta, in particular, leads all provinces in average debt per farm.

The financial risk position of farmers is compared between 1987 and 1989 from the perspective of their debt relative to assets, and their ability to service debt (debt service ratio). The financial risk of farmers has improved marginally. The beef, hog and supply-managed enterprises showed increases in risk while others have improved. On the basis of income, low income enterprises have generally a lower level of risk than the higher income groups.