Current Account

The current account balance is the sum of the balances on trade (merchandise and services), investment income and transfers. Analytically, 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 (which is mirrored in a net outflow of capital and thus a deficit on the capital account). By the same token, 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 account). In an accounting sense, a current account deficit reflects a shortage of domestic savings relative to domestic investment.

Since the early 1970s, Canada has consistently run deficits on the current account. In good measure, the emergence of a structural deficit in the current account coincided with the emergence of a structural deficit in public-sector finances. In the 1990s, Canada has brought the public sector deficit down (the share of government budget deficit as a proportion of GDP reached its highest level of 8 percent in 1992, before turning into a surplus in 1997 and the years since). At the same time, however, the share of private savings in Canadian GDP has fallen continuously, to 16.4 percent in 1999 from 22 percent in the first half of the 1980s. As a result, Canada has consistently required net borrowing from abroad to finance domestic investment.

Table 15: Domestic Savings and Investment, as Share of GDP, 1981-1999

	Private			Public	
	Saving (%)	Investment (%)	Excess saving over investment	Budget surplus (+) Budget deficit (-)	Current account balance
1981-1985	22.2	17.8	4.4	-5.6	-1.3
1986-1990	19.8	18.9	0.9	-4.2	-3.3
1991-1995	18.5	15.2	3.4	-6.5	-2.9
1996	18.7	15.2	3.5	-0.6	0.6
1997	17.0	18.2	-1.2	2.0	-1.7
1998	16.3	17.9	-1.6	1.9	-1.9
1999	16.4	17.8	-1.4	3.6	-0.4

Source: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-001-PPB, 1st Quarter 2000. Note: Due to the statistical discrepancy in the national accounts, the sum of the shares of excess private saving over private investment and budget surplus or deficit in GDP may not add to the share of current account deficit in GDP.

In 1999, as in each year of the 1990s except 1996, Canada had a deficit on the current account. However, the level of deficit — $3.4 billion or 0.4 percent of GDP — was down significantly from $16.3 billion or 1.9 percent of GDP in 1998 (Figure 10). The contraction in the current account deficit in 1999 was largely driven by an increase in the goods surplus.