The rest of the world

The bilateral current account deficits between Canada and the other OECD countries and between Canada and all other countries moved in opposite directions last year, with the former narrowing slightly (by $0.3 billion to $6.4 billion) and the latter widening (by $3.4 billion to $13.7 billion). In the case of the other OECD countries, Canada's exports to these countries advanced $0.4 billion while imports edged back $0.1 billion resulting in a $0.4 billion narrowing in the goods deficit with this region. Similarly, investment incomes posted gains (up $0.1 billion) while payments fell nearly the same (down $0.1 billion), resulting in a $0.2 billion widening (to $1.3 billion) of the bilateral investment income surplus that Canada enjoys with this region. However, the services deficit expanded from $0.4 billion in 2002 to $0.7 billion in 2003, thereby limiting the overall improvements to Canada's current account balance with these countries.

As regards the all other countries region, each of the principal components experienced a deterioration in their balances over the year: the goods deficit expanded $1.5 billion; that for services grew by nearly $1.0 billion; and the surplus in the investment income balance narrowed by $0.3 billion.

Since the mid-1970s, Canada has mainly run current account deficits, coinciding with rising levels of government debt. (It is only more recently that we have run a series of current account surpluses.) 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, over the past seven fiscal 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 2003, the net debt-to-GDP ratio was reduced by 25.2 percentage points to 43.5 per cent of GDP, resulting in Canada's debt burden being now the second-lowest amongst the G7. The improvement in Canada's budgetary surpluses implies a corresponding reduction in debt-servicing costs. It has also permitted the government room to lower taxes, which 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 saving and investment, as share of GDP, 1980s to 2003

Year	Private			Public	
	Saving (%)	Investment (%)	Excess saving over Investment	Budget surplus(+) Budget deficit (-)	Current Account 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	17.1	18.0	-0.9	1.6	0.3
2000	18.6	18.0	0.6	3.3	2.9
2001	18.8	16.9	1.8	1.7	2.4
2002	18.8	17.3	1.5	1.3	2.0
2003	18.6	17.5	1.1	1.7	2.1

Source: Statistics Canada, National Income and Expenditure Accounts, Catalogue No. 13-001-PPB, 4th Quarter 2003.

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.