IV. CURRENT ACCOUNT

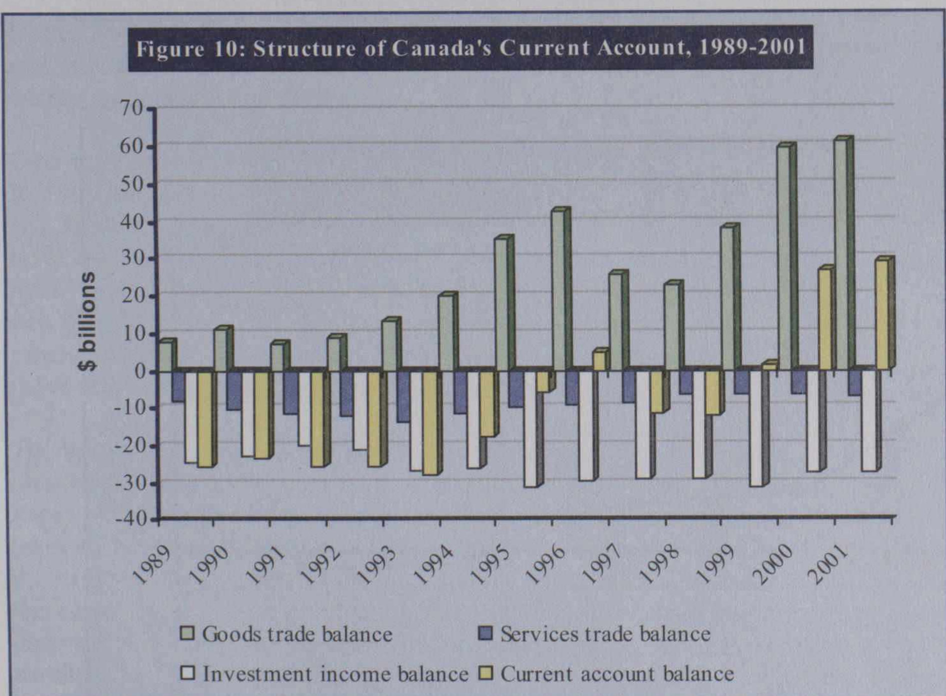
Through most of the period since the early 1970s, Canada has run deficits on the current account, coinciding with the emergence of a structural deficit in its public-sector finances.[16] At the same time, however, the share of private savings in Canadian GDP has fallen continuously, to a low of 16.8 percent in 1998, from 23.4 percent in the first half of the 1980s. As a result, Canada has consistently required net borrowing from abroad to finance domestic investment through much of the last three decades. In the 1990s, Canada brought the public-sector deficit down dramatically (at the fastest pace among the G7 economies) and, since 1997, has turned the balance into a surplus. The improvement in the budget surpluses implies a corresponding reduction in debt-servicing costs and has contributed favourably to Canada's current account balances in recent years.

Table 15: Domestic Savings and Investment, as Percent of GDP, 1981–2001

	Private			Public	
	Saving	Investment	Excess saving over investment	Budget surplus (+) Budget deficit (-)	Current account balance
1981-1985	23.4	17.9	5.5	-5.1	-1.2
1986-1990	21.0	19.2	1.8	-4.0	-3.3
1991-1995	19.8	15.6	4.2	-6.7	-2.8
1996	19.1	15.7	3.4	-2.5	0.5
1997	17.4	18.4	-1.0	0.1	-1.3
1998	16.8	18.3	-1.5	0.4	-1.3
1999	17.3	18.0	-0.7	1.5	0.2
2000	18.0	18.1	-0.1	3.6	2.5
2001	17.5	16.8	0.6	2.8	2.7

Source: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue no. 13-001-PPB, 4th Quarter 2001.

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.



Source: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 4th Quarter 2001.

For 2001, Canada had a surplus on the current account of $29.1 billion, representing 2.7 percent of GDP (see Table 15 and Figure 10). The improvement in the current account in 2001 was largely driven by an increase in the merchandise surplus with the United States, to a record high of $95.4 billion.

During 1994-2001, Canada's growing current account surplus with the U.S was partly offset by a rising deficit with the EU. The balance with Japan has tended to be small, with some cyclical variation (see Figure 11). Canada's current account surplus with the United States—$66.8 billion in 2001—was the largest ever on this account. Canada's current account deficit with the EU widened to $16.1 billion in 2001 from $14.9 billion in 2000. With respect to Japan, Canada

[16] The current account balance is the sum of the balances on trade (in merchandise and services), investment income and transfers. 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, which is mirrored in a deficit on the capital and financial accounts, requires a net outflow of capital. Theoretically, the cumulation through time of the current account is equivalent to the net international investment position. 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 and financial accounts). In an accounting sense, a current account deficit reflects a shortage of domestic savings relative to domestic investment.