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 public-sector finances.[18] At the same time, however, the share of private savings in Canadian GDP has fallen continuously, to 16.3 percent in 1998 from 22.2 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, and has turned the balance into a surplus since 1997. The improvement in the budget surpluses has contributed favourably to Canada's current account balances in recent years.

Table 15: Domestic Savings and Investment, as Share of GDP, 1981-2000

	Private			Public	
	Saving (percent)	Investment (percent)	Excess saving over investment	Budget surplus (+) Budget deficit (-)	Current account balance
1981-1985	23.2	17.8	5.5	-5.1	-1.2
1986-1990	20.8	18.9	1.8	-4.0	-3.3
1991-1995	19.5	15.2	4.3	-6.8	-2.8
1996	18.7	15.2	3.4	-2.5	0.6
1997	17.0	18.2	-1.2	0.1	-1.6
1998	16.3	17.9	-1.6	0.0	-1.8
1999	16.4	17.8	-1.4	1.8	-0.4
2000	17.1	17.8	-0.7	3.5	1.8

Source: Statistics Canada, *National Income and Expenditure Accounts,* Catalogue no. 13-001-PPB, Fourth 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.

For 2000, Canada had a surplus on the current account of $18.9 billion, representing 1.8 percent of GDP (Figure 10). The improvement in the current account in 2000 was largely driven by an increase in the merchandise surplus with the United States.

[18] 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. 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.