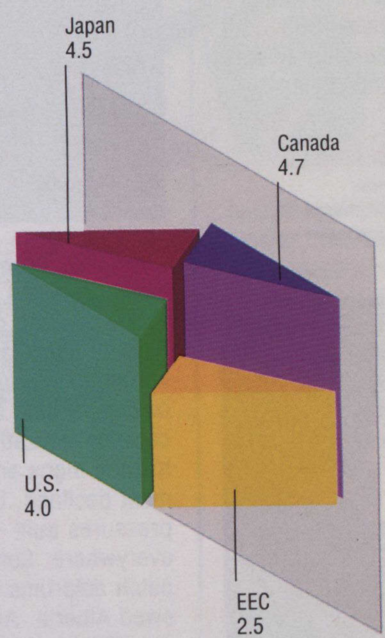
Geared for Growth: A Snapshot of Canada's Economy

The Canadian economy is one of the soundest in the world. Fully integrated into the global system, Canada is the seventh-largest trading nation among the industrialized market economies and an active partner in international investment. Between 1984 and 1988, Canada's gross domestic product (GDP) grew at an annual average rate of 4.7 per cent — faster than any of the other economies of the Organization for Economic Co-operation and Development (OECD). And although growth slowed in 1989, GDP still continued to expand at rates of 3.6 per cent in the first half and 2.3 per cent in the third quarter of the year. Canadian exports also experienced very strong growth during the 1984-88 period, with some slowdown occurring in 1989.

Canada has long been an importer of investment capital, but growth of Canadian direct investment abroad has increased significantly in recent years. In fact, from 1983 to 1988, the stock of Canadian direct investment abroad rose by 60 per cent — from $37.8 billion to $60.5 billion, according to preliminary figures.

While growth today is not what it was during the sparkling 1983-88 phase, Canada's economy still continues to come up with many pleasant surprises — even after seven years of expansion.

Real GDP / GNP Growth 1984-1988: The European Economic Community (EEC), United States, Japan and Canada



Average annual growth rates (%)

Source: OECD

Attractive to Investors

One thing is certain: international investors appear to like Canada's prospects as they continue to bid up the Canadian dollar by investing in Canadian equities, debt instruments and real estate. Much of this activity appears to be grounded in a belief that Canada is poised to gain from its preferred access to the United States market, a result of the year-old Canada-U.S. Free Trade Agreement (FTA), and from improved long-term prospects for many of Canada's exports.

Fighting Inflation

But there are uncertainties. The Bank of Canada has been trying to contain some worrisome inflationary pressures. As a result, interest rates have risen substantially during the course of 1989.

Fiscal policy has also been used as an anti-inflationary tool, but its use has been constrained. The Canadian government, for example, has applied spending restraint across the board. But much federal spending takes the form of statutory transfer payments to provinces or to individuals, making restraint politically difficult.

Nonetheless, the federal spending deficit as a percentage of gross national product (GNP) has been reduced significantly. In fact, excluding the actual cost of carrying the debt, Canada's ''primary deficit'' — the annual gap between revenues and expenditures — fell steadily from a high of $20.1 billion in fiscal 1984/85 to $2.0 billion for 1988/89. But net debt charges, payable on cumulative debt (of $321.1 billion at year end 1988/89, or 53.6 per cent of GDP), have continued to rise.

Enhancing Industry Competitiveness

In the face of a tight monetary policy and tight fiscal stances by the federal and provincial governments, Canada's private sector remains remarkably robust. In part, business observers attribute this to efforts by government to disentangle itself from the marketplace — through deregulation, privatization, tax reform and freer international trade. Each area has seen significant developments due to the privatization of 187 enterprises previously owned by government and because of the Canada-U.S. Free Trade Agreement.

Strong Economic Growth Since 1983

Encouraged in large part by a predominantly export-led recovery, and then by booming investment, the Canadian economy has been internationalizing itself, from government and industry on down.