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Canada's deficit and debt
challenge

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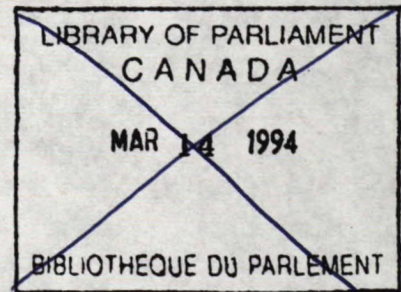


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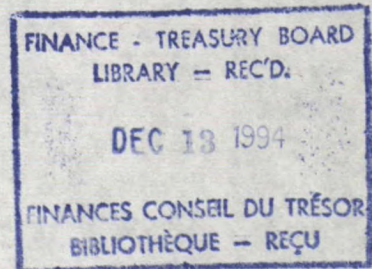
Canada's Deficit and Debt Challenge

A Graphical Exposition

March 1994



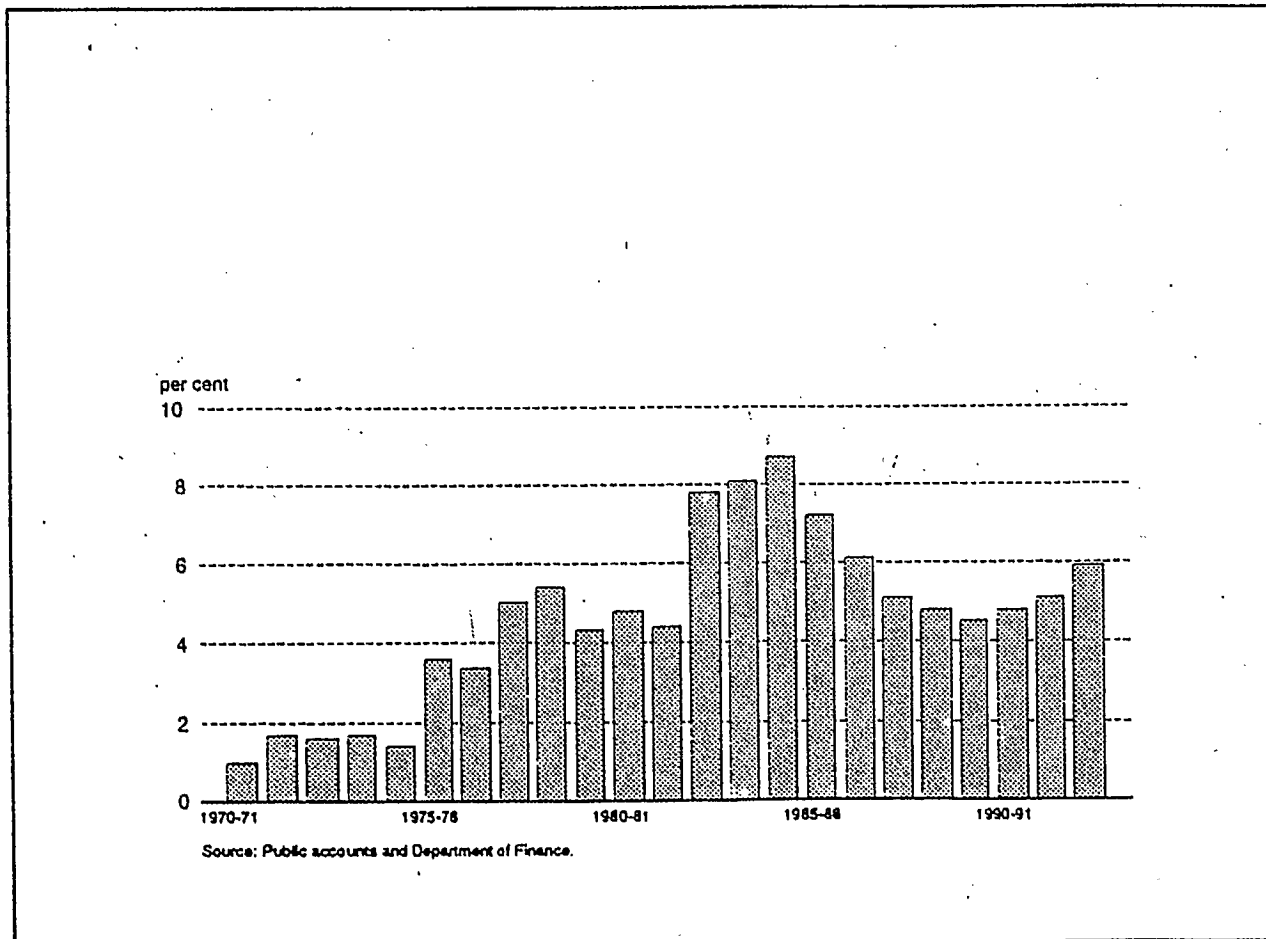
Department of Finance
Government of Canada



The Federal Deficit Remains Very High

- The federal government has been consistently running a deficit on a public accounts basis since the beginning of the 1970s.
- While improvement was made in lowering the deficit during the second half of the 1980s, not enough was done.
- The deficit never got below 4.5 per cent of GDP even when the economy was performing at full utilization of its resources. It has since risen again with the recession but not to the same extent as occurred coming out of the recession of 1981-82.

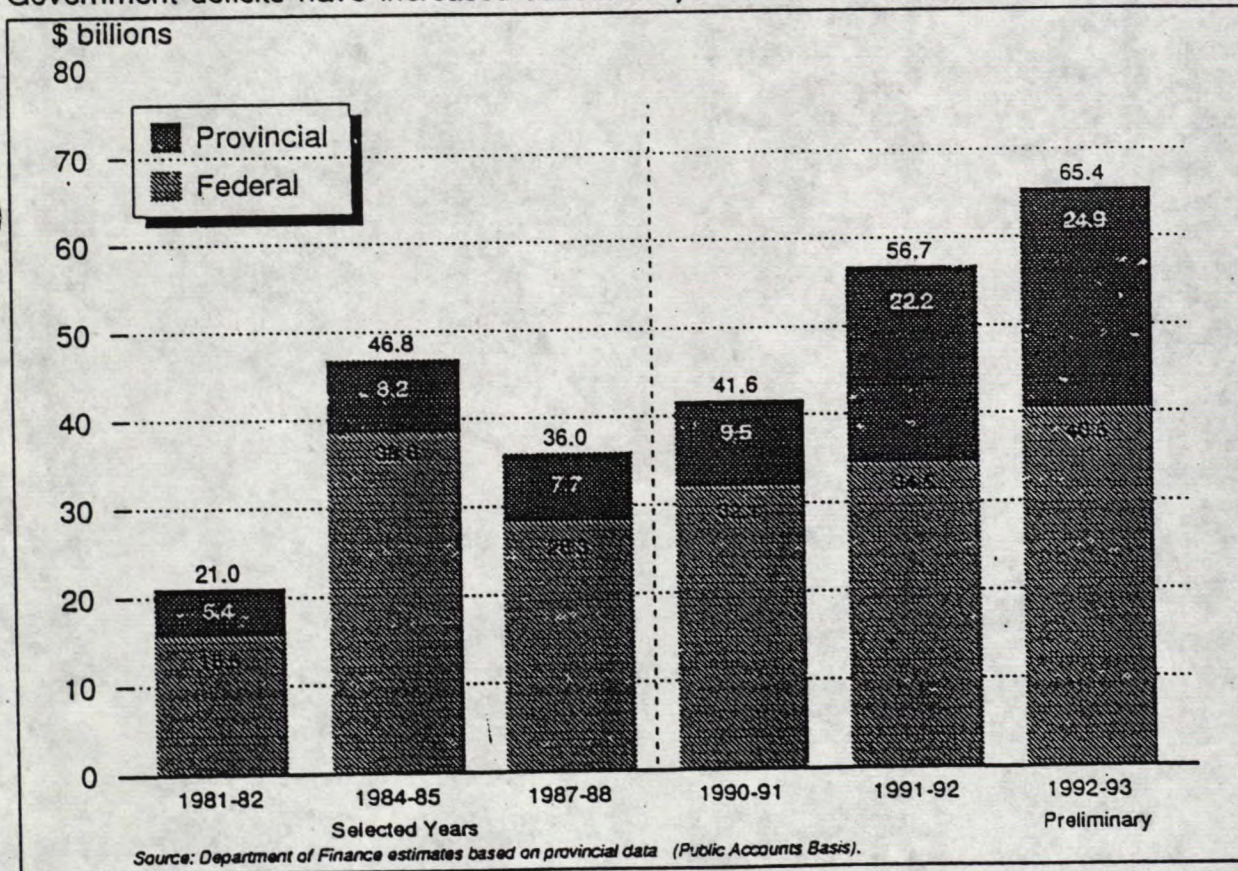
Chart 1
Deficit to GDP ratio



Deficits are a National Problem

- Deficits are no longer just a federal problem. Provincial governments now make a large and growing contribution to the total government deficit.
- In 1992-93 provincial deficits totalled \$25 billion.
- This combined provincial deficit was over 60 per cent of the \$40.5 billion federal deficit.
- The combined federal and provincial deficits totalled over \$65 billion (on a public accounts basis) -- 9.5 per cent of Canada's GDP.

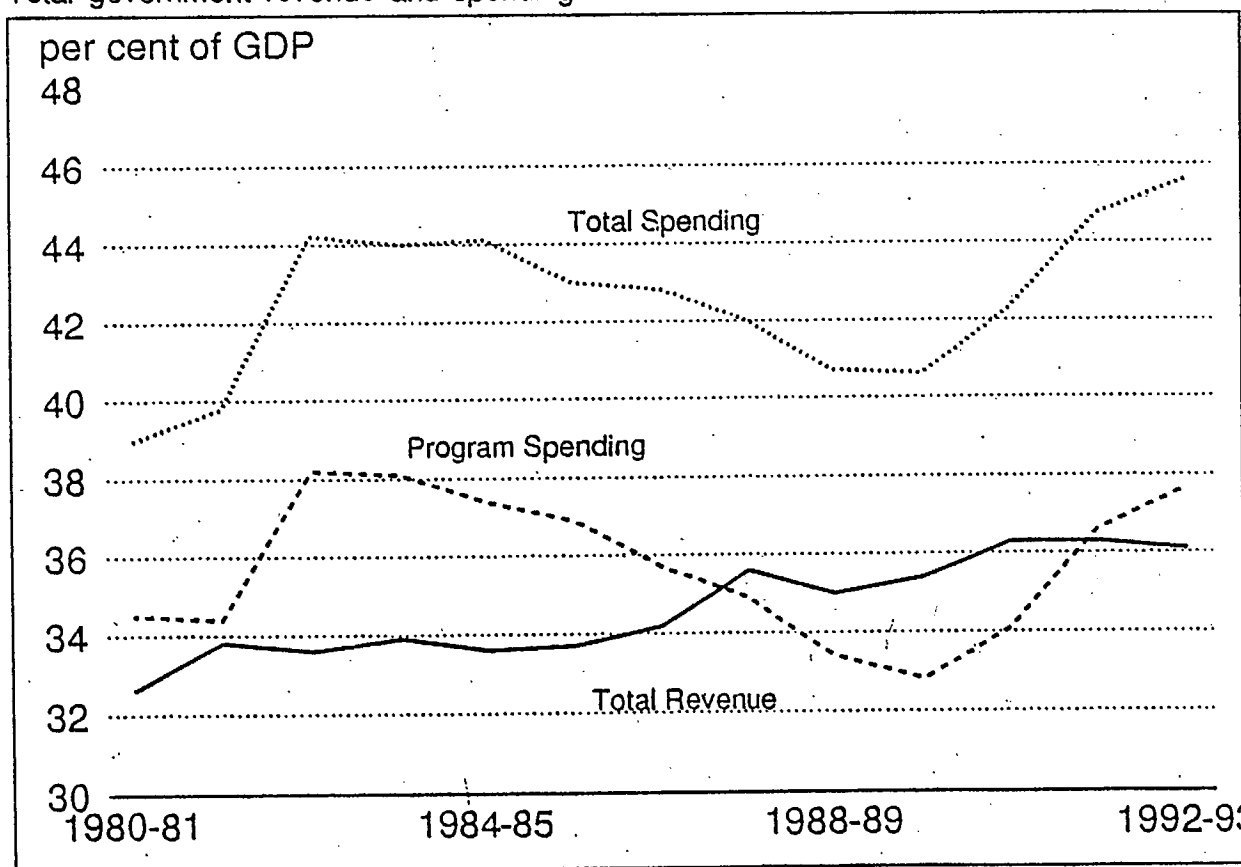
Chart 2
Government deficits have increased substantially



Governments Stopped Paying Their Way

- Structural imbalances in the 1970's coupled with weakness in economic growth in the early 1980's resulted in very large operating deficits. As a result, the deficit soared.
- Large deficits mean heavy borrowing and burgeoning debt. Canadian debt soared relative to the economy. This was not sustainable.

Chart 3
Total government revenue and spending

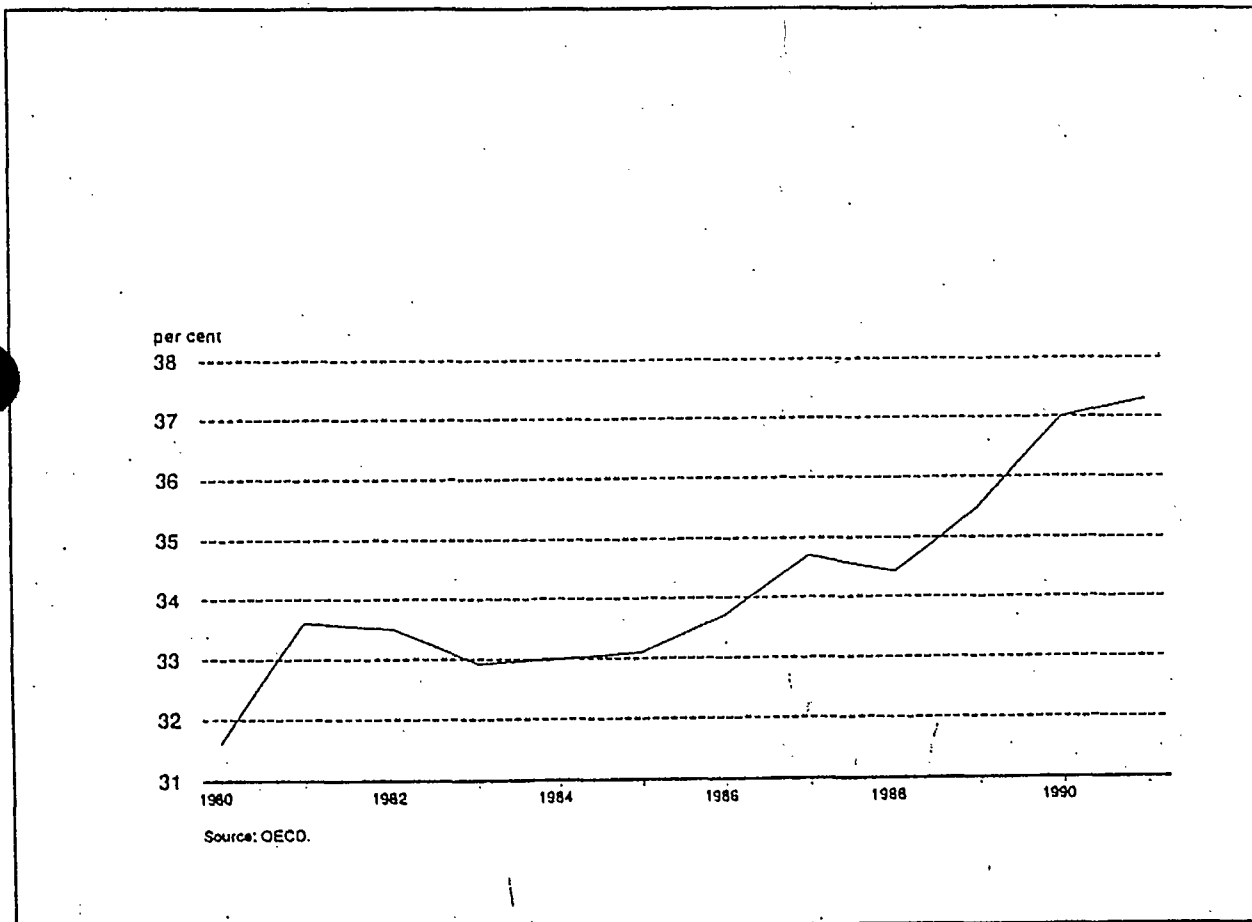


Source: Public Accounts

Canada's Tax Burden Has Been Steadily Increasing

- Since the early 1980s total government taxes as a share of GDP have risen significantly.
- Deficits have risen sharply despite the rise in the overall tax burden.

Chart 4
Canada's total tax revenue as a per cent of GDP - 1980-1991



The High Tax Burden in Canada Reflects a High Level of Spending

- The tax burden in Canada is significantly higher than in our major trading partners -- the United States and Japan.
- The high tax burden in Canada reflects a high level of spending.
- High tax rates impede Canadian competitiveness -- raising them more is not an option.

Chart 5

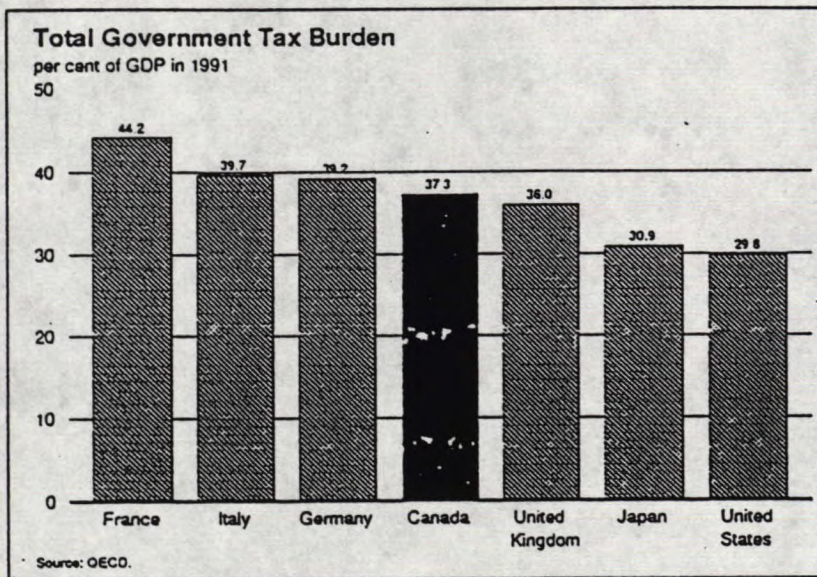
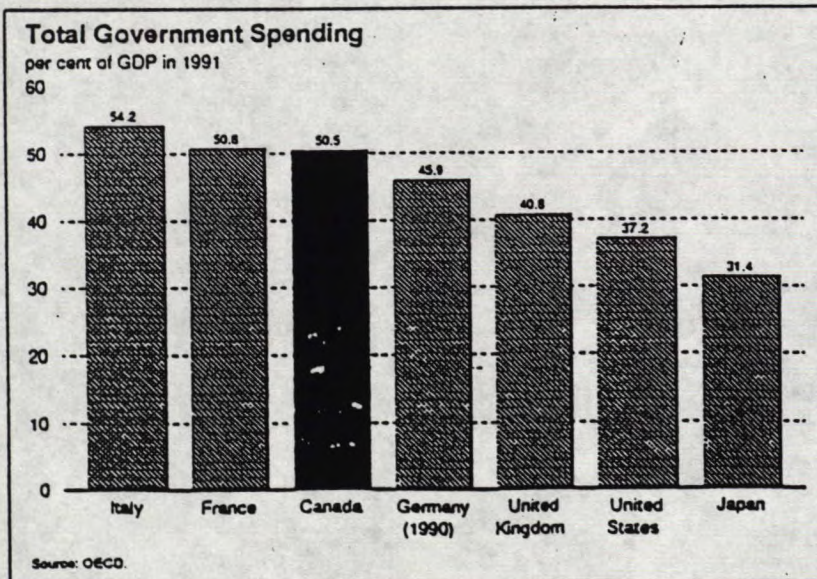


Chart 6

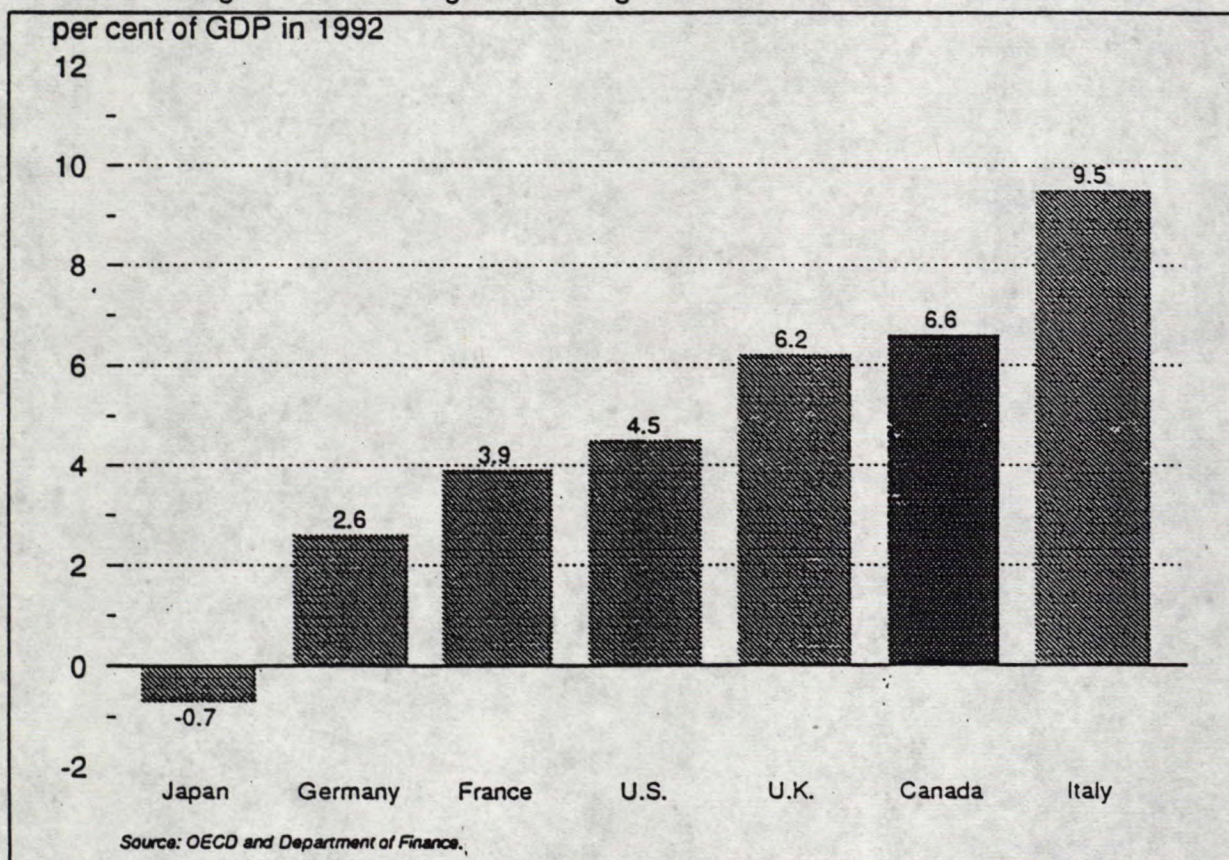


Canada's Borrowing is Second-worst in the G-7

- In 1992 Canada's total government borrowing was 6.6 per cent of GDP (on a national accounts basis).
- Only Italy was higher among the G-7 countries.

Chart 7

Canada's total-government budget borrowing is the second worst in the G-7

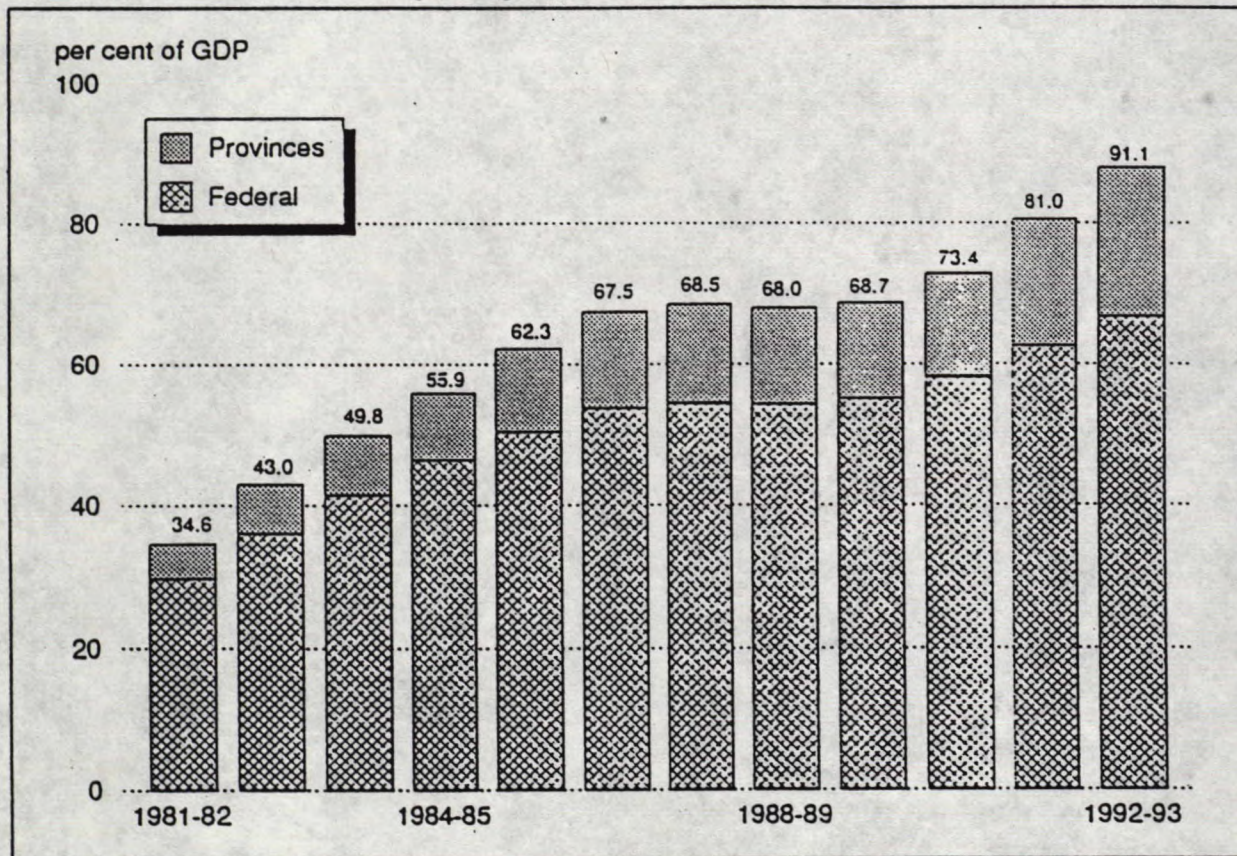


Canada's Fiscal Debt is Growing Rapidly

- In relation to GDP, combined federal and provincial debt (on a public accounts basis) has increased two and a half times since 1981-82.
- The combined net debt in 1992-93 of \$627 billion is over \$22 thousand for every man, woman and child in Canada.

Chart 8

Government debt has been growing faster than the economy



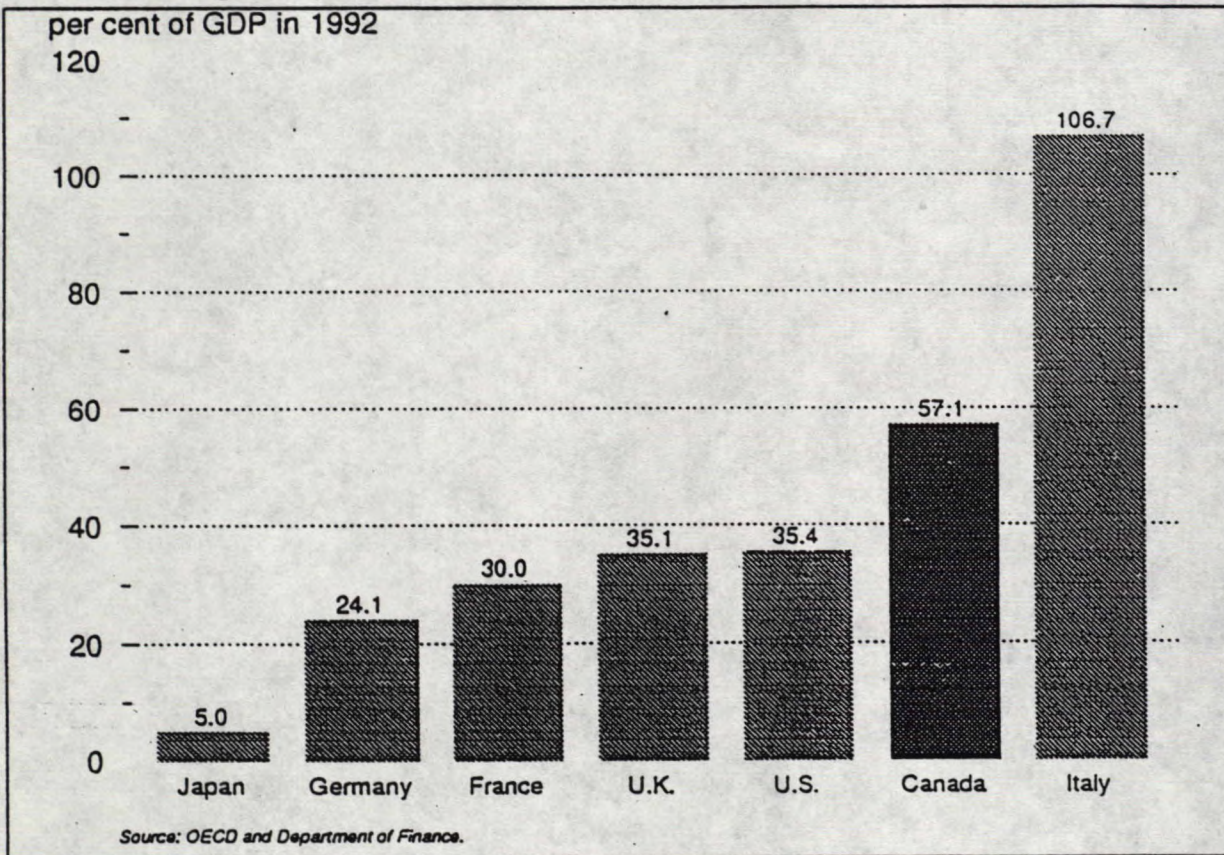
Source; Public Accounts and Provincial Estimates

Canada's Fiscal Debt is Second-worst in the G-7

- Canada's total public debt of 57.1 per cent of GDP, on a national accounts (cash) basis, is also the second largest among the G-7 countries.
- This high debt level makes Canada very vulnerable to interest-rate developments.

Chart 9

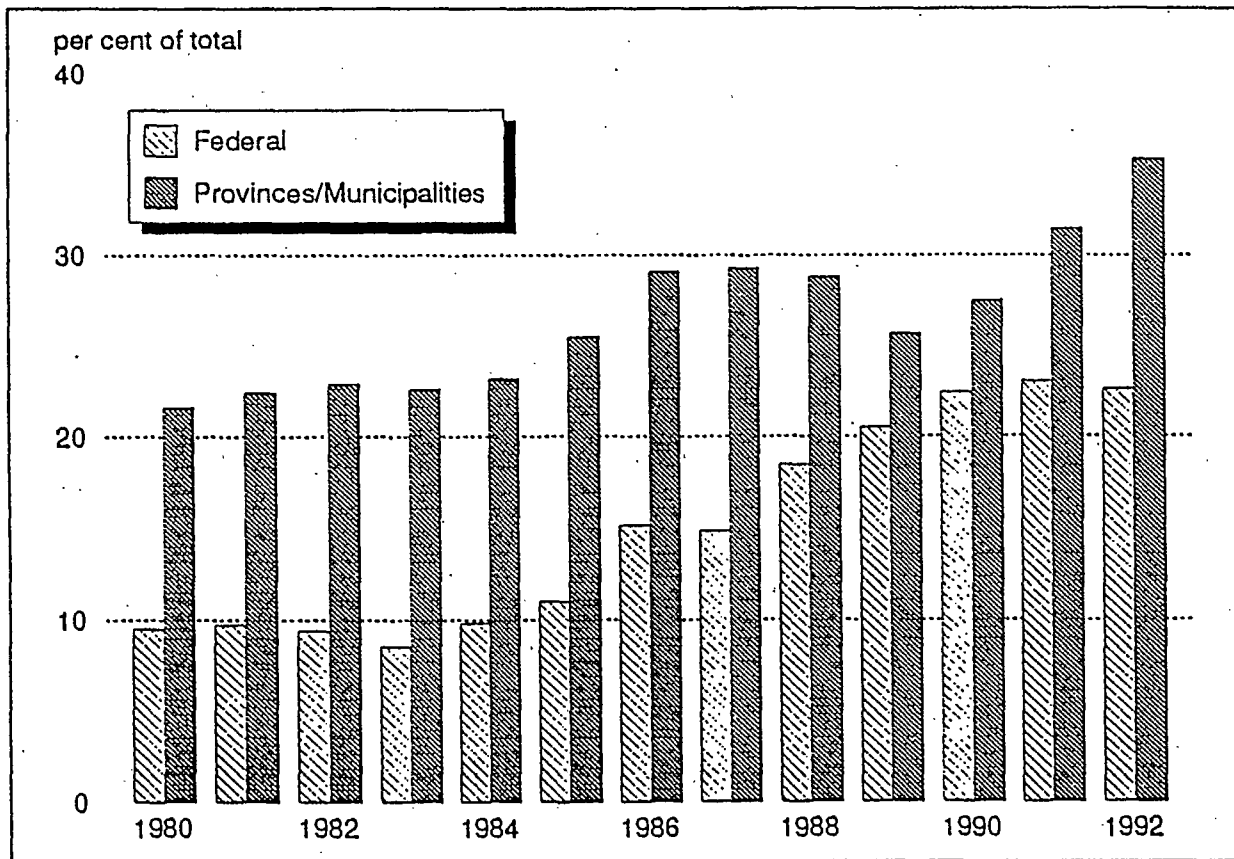
Canada's total-government net fiscal debt is also the second worst in the G-7



We Don't Owe the Debt Only to Ourselves

- Some people argue that the debt is not a problem because we owe it to ourselves.
- This is simply not so. The provinces and municipalities have always relied heavily on foreign borrowing. More recently, foreigners have also been buying a large share of federal bonds.

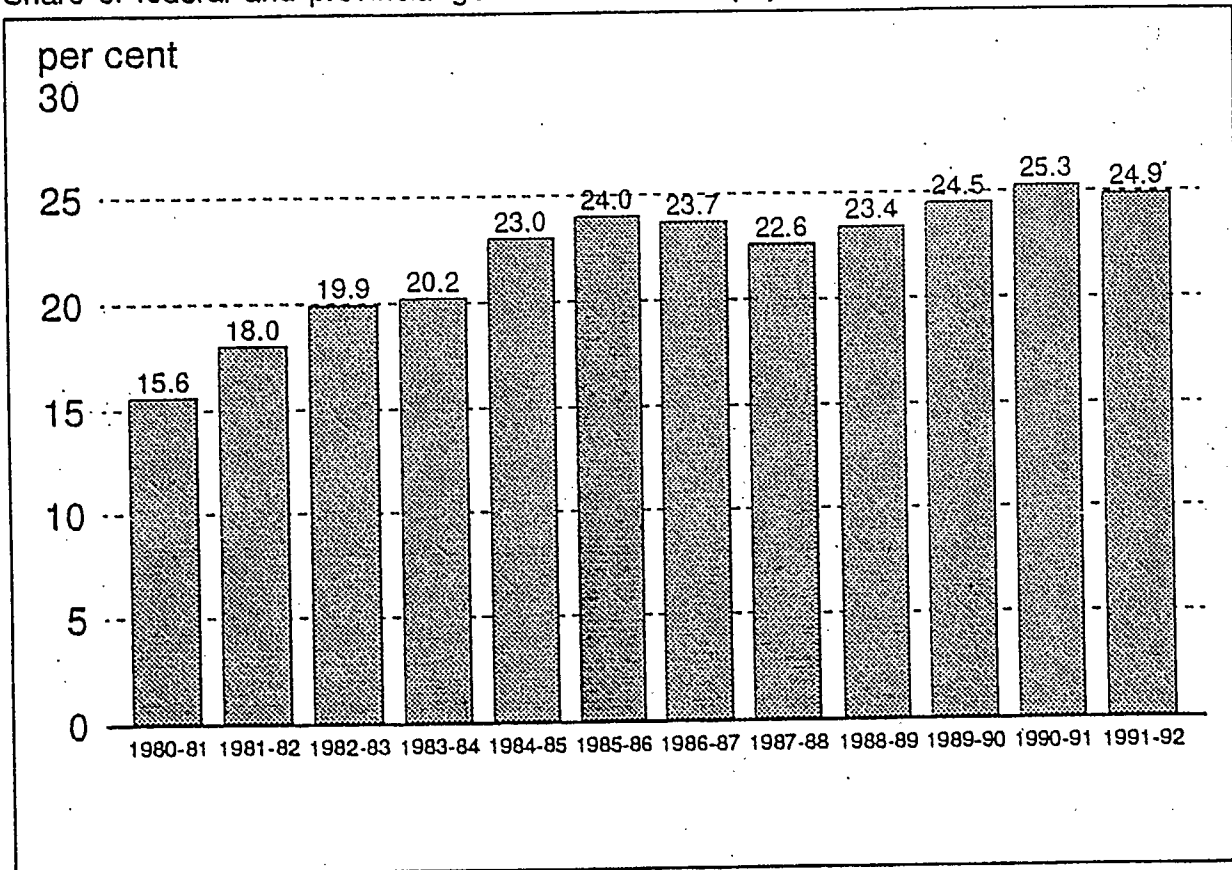
Chart 10
Debt Securities Held by Non-Residents



Rising Interest Costs Reduce Fiscal Flexibility

- The high and rising levels of debt have also robbed the federal and provincial governments of fiscal flexibility.
- In 1991-92, almost 25 cents of every dollar of federal and provincial revenue went to pay interest on the existing debt rather than for needed programs.
- The share of revenues used to pay for interest is up 9 percentage points since 1980-1981.

Chart 11
Share of federal and provincial government interest payments in total revenue

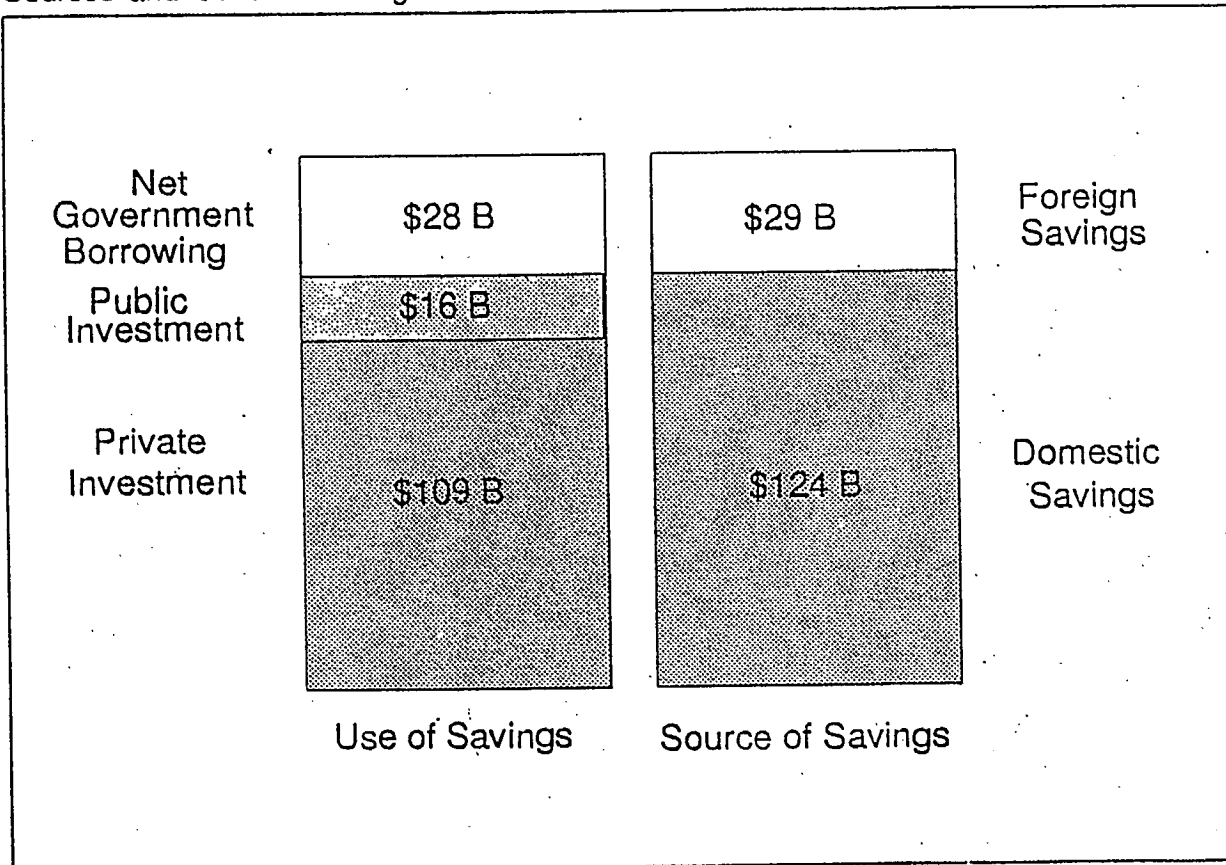


Source: Public Accounts and Provincial Estimates

Fiscal Deficits Absorb Domestic Savings

- Domestic savings could completely satisfy Canada's private investment needs if there were no government deficits. Instead, governments soak up over a third of Canada's savings.
- To finance needed investment, we are pushed to a heavy reliance on foreign savings.
- This competition for savings also puts upward pressure on real interest rates.

Chart 12
Sources and Uses of Savings in Canada in 1992

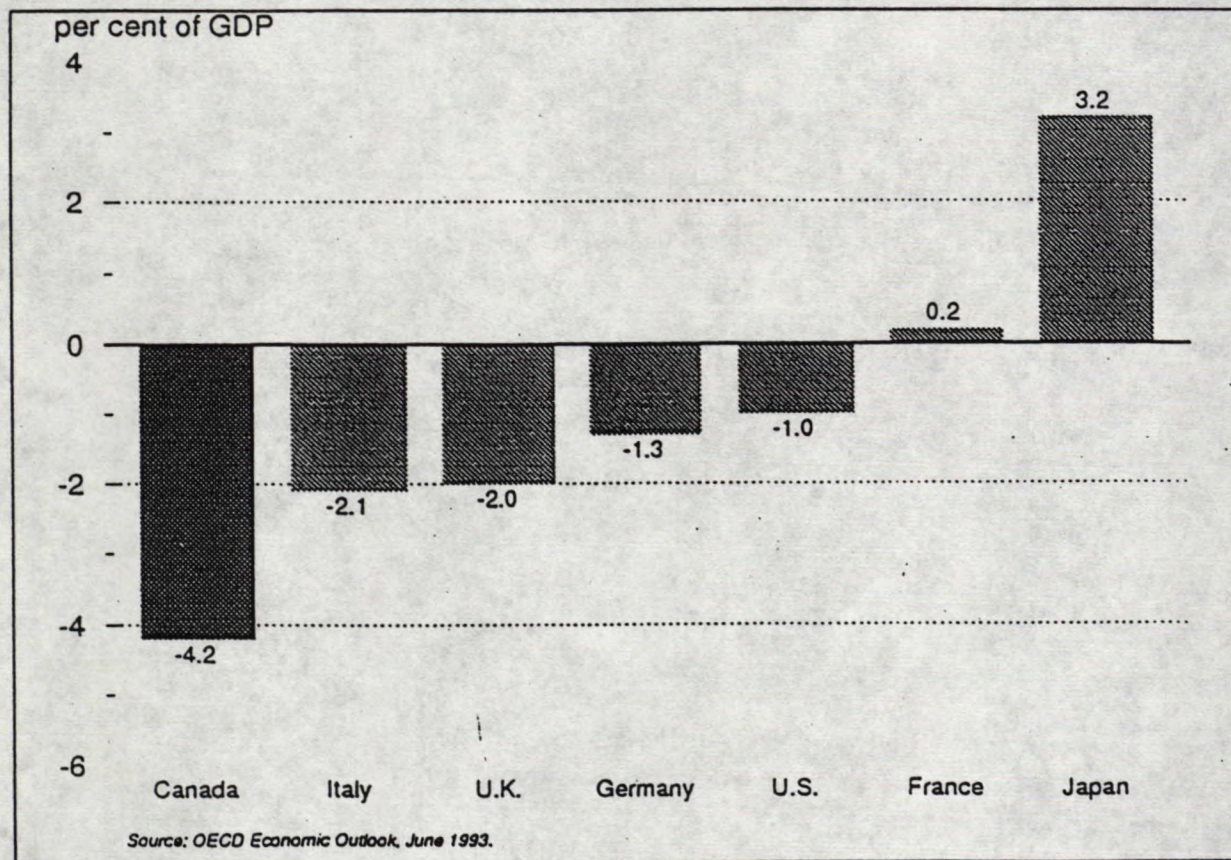


Source: Canada's Economic Challenges

Canada's Current Account Deficit is Worst in the G-7

- High investment demand coupled with large government deficits has resulted in Canada relying heavily on foreign savings.
- The current account deficit is a measure of how much we rely on foreign savings.
- Canada has the worst current account deficit, relative to GDP, in the G-7.

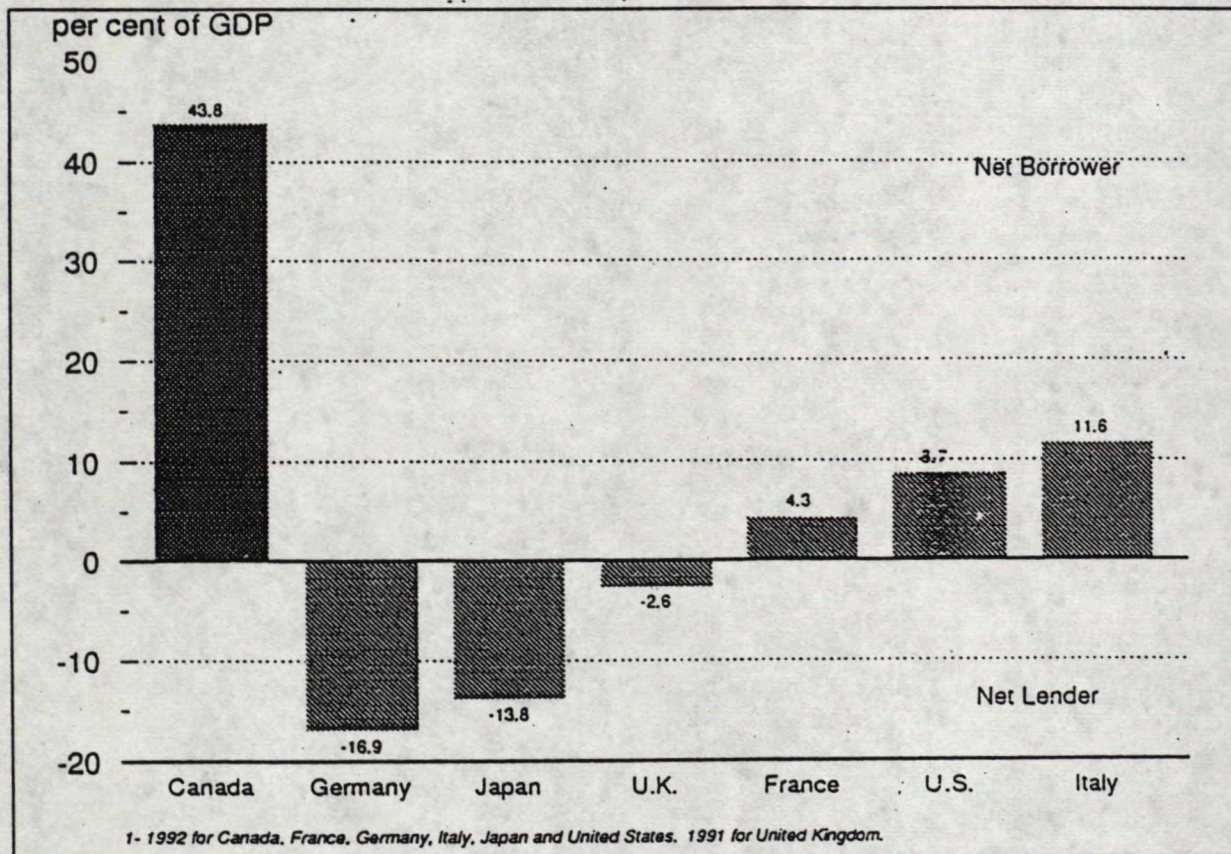
Chart 13
Current Account Balances of G-7 Countries - 1992



Canada's Foreign Debt is Worst in the G-7

- Canada has the highest level of foreign debt (both public and private) relative to GDP of all the G-7 countries.

Chart 14
G-7 Countries' net international investment position¹



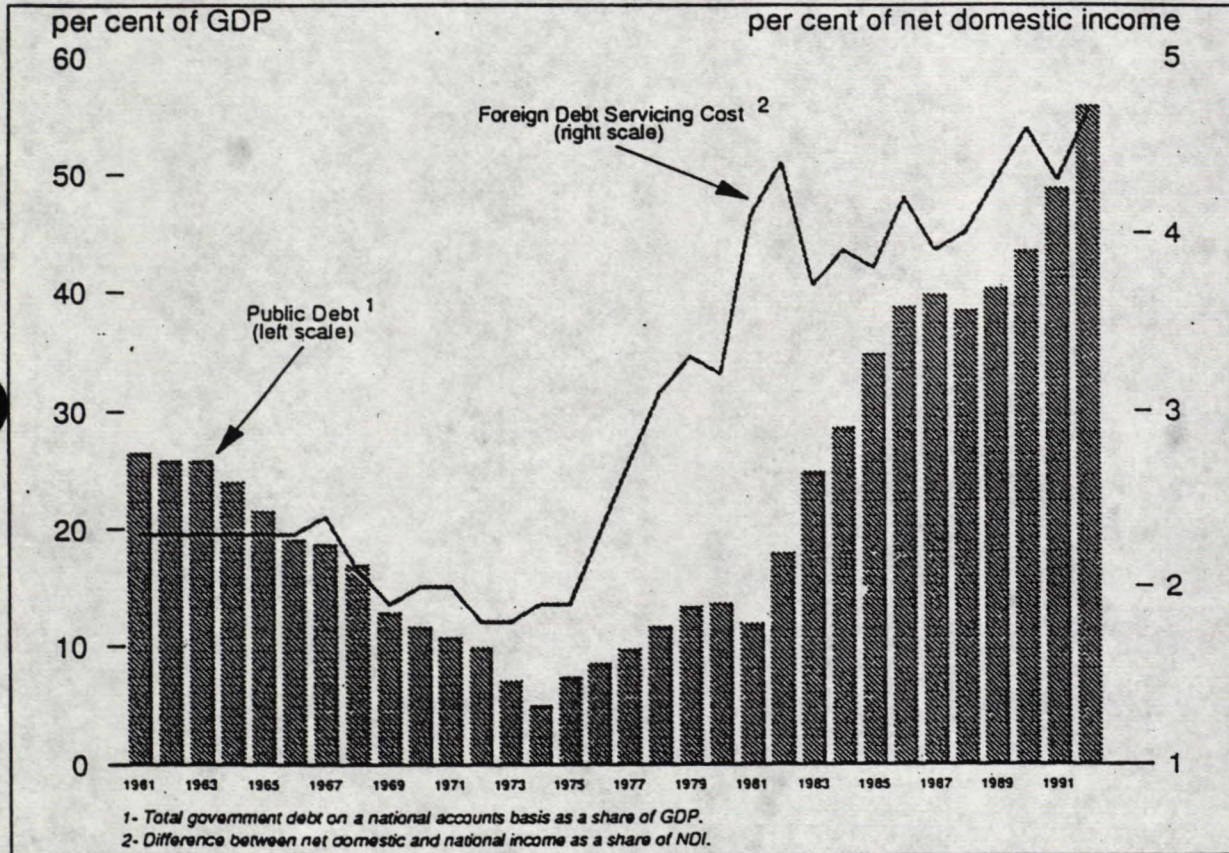
Source: Canada's Economic Challenges

Foreign Debt Service Reduces our National Income

- As a result of rising fiscal and national indebtedness, more and more of Canadian income must go to foreigners to service Canada's foreign debt.

Chart 15

Fiscal debt-to-GDP ratio and the cost of servicing the foreign debt



Source: Canada's Economic Challenges