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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1962

A variety of factors led to a marked improvement in Canada's foreign exchange position in the third quarter in contrast to the losses of exchange reserves in the second quarter. Contributing to the rise in official reserves of \$686 million in terms of Canadian dollars in the quarter were a seasonal reduction in the current account deficit to \$61 million from \$377 million in the second quarter, net inflows of capital in long-term forms of \$247 million compared with net outflows of \$13 million in the second quarter and net inflows of capital in short-term forms of \$500 million compared with net outflows of \$203 million in the second quarter.

These changes followed the official measures introduced towards the end of June and the stabilization of the foreign exchange value of the Canadian dollar in May which were described in the second quarter issue of this publication.

The sharp contraction in the current account deficit from the second quarter brought it to about the same overall size as in the third quarter 1961, but the sources were quite different as a reduced deficit this year from non-merchandise transactions largely offset a smaller surplus from merchandise trade. This change was mainly due to a significant expansion in the surplus on travel account from \$35 million in the third quarter of last year to \$89 million in this quarter of this year, together with some reductions in dividend transfers and in official contributions.

The resumption of net capital inflows in long-term forms included larger direct investment inflows, larger net new issues and other sales of bonds, and reduced outflows from transactions in both Canadian and United States stocks.

In large measure net movements of capital in short-term forms represented shifts by residents from Canadian into foreign currency in the second quarter, and the subsequent reverse flow in the third quarter, of some quarter of a billion dollars of balances, as well as increased borrowing in foreign currencies by residents in the third quarter.

Summary Statement

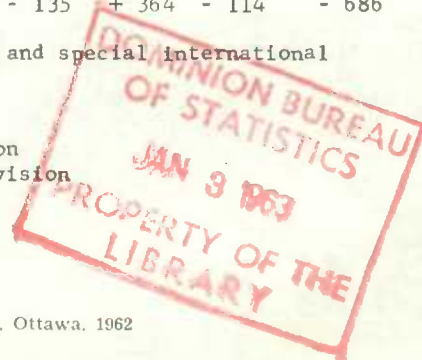
	1961			1962		
	II Q	III Q	IV Q	I Q	II Q	III Q
	(millions of dollars)					
Merchandise trade balance	- 31	+ 138	+ 60	- 5	- 45	+ 58
Deficit on non-merchandise transactions	- 280	- 200	- 332	- 348	- 332	- 119
Current account deficit	- 311	- 62	- 272	- 353	- 377	- 61
Capital movements:(1)						
Long term forms	+ 270	+ 199	+ 135	+ 35	- 13	+ 247
Short term forms	+ 92	- 199	+ 272	- 46	- 203	+ 500
Special international financial assistance	-	-	-	-	+ 707	-
Change in official holdings of gold and foreign exchange(2)	- 51	+ 62	- 135	+ 364	- 114	- 686

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

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National Accounts and Balance of Payments Division

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Small balance on merchandise trade

There was a continued rise in Canada's merchandise trade to a higher level in the 9 months of 1962, with imports recording a larger increase than exports both over this period and also in the third quarter. After adjustment for balance of payments purposes, merchandise exports rose nearly nine per cent from \$4,270 million to \$4,644 million, and imports expanded 11 1/2 per cent from \$4,157 million to \$4,636 million in the first three quarters of 1962. This resulted in cutting the surplus on merchandise trade from \$113 million to some \$8 million. In the third quarter there was a contraction in the export balance from \$138 million in 1961 to \$58 million in 1962.

Something less than one-half of the increases on both sides of trade in the 9 month period was ascribable to higher export and import prices, a reflection of the change in the foreign exchange value of the Canadian dollar.

Canada's usual favourable balance on merchandise trade with the overseas countries contracted about one-third from \$612 million to \$413 million, while the trade deficit with the United States was reduced 20 per cent from \$499 million to \$405 million. As a result of these shifts nearly 60 per cent of total Canadian exports went to the United States in the three quarters of 1962, as compared with 54 per cent in the same period of 1961. Imports from the United States in the two periods made up about the same proportion of 68 per cent. The share of total trade with the United Kingdom slipped down roughly one percentage point both in exports to 14 1/2 per cent and in imports to 9 1/2 per cent. While imports from Other Countries accounted for 22 per cent of the total in each period, the share of exports to this group of countries declined from 30 per cent to 26 per cent.

Substantial gains were recorded in exports of petroleum and natural gas, iron ore, aluminum, lumber and aircraft, and smaller increases in nickel and non-farm machinery. Shipments abroad of commodities such as wheat, uranium, newsprint and plastics and synthetic rubber were lower during the 9 months of 1962.

In the case of imports, automobiles and parts, non-farm machinery and electrical apparatus were featured prominently among commodities which were higher in 1962. The value of aircraft reported in import entries was also larger. After taking into account, however, of military aircraft received under mutual defence arrangements, which are not included in the balance of payments, and of civil aircraft whose purchases had previously been reflected on the basis of progress payments, there appeared to be a smaller change in payments for aircraft between the two periods.

Deficit in services and other non-merchandise items

While the surplus on merchandise trade narrowed by \$80 million, a reduction of a similar magnitude took place in net payments on non-merchandise transactions from \$200 million in the third quarter of 1961 to \$119 million in the same period of 1962. This represents a substantial relative drop of 40 per cent. Fully two-thirds of this amelioration originated in travel expenditures, with net receipts increasing from \$35 million to \$89 million. The improvement occurred in the travel account with the United States as there was a further rise in the travel deficit with overseas countries. There was a rise of \$34 million in expenditures in Canada by visitors from the United States together with a reduction of some \$27 million in spendings by Canadian travellers in the United

Income Account: Payments (millions of dollars)

Period		Total	Interest	Dividends
1960		653	239	414
1961		770	259	511
1960	III Q	157	53	104
	IV Q	190	67	123
1961	I Q	204	61	143
	II Q	174	68	106
	III Q	170	58	112
	IV Q	222	72	150
1962	I Q	179	67	112
	II Q	208	77	131
	III Q	164	62	102

States, following the further depreciation of Canadian currency in May and the reduction in June in the amount of duty-free tourist purchases. At the same time, levels were lower in the third quarter in transfers abroad of dividends and official contributions by the Canadian Government. After acceleration in the second quarter, business service payments relented somewhat in the third. The reduction in net payments of inheritances and migrants' funds, on account of increased immigration and of unusually high per capita funds of the arrivals in the current quarter, was counterbalanced by a larger deficit on freight and shipping services, associated with rising imports.

Receipts of interest and dividends were up respectively \$3 million and \$1 million in the third quarter of 1962. Interest payments abroad rose \$4 million, while dividend transfers declined \$10 million. These changes together

yielded a \$10 million amelioration in the income account deficit. The net effect of new issues, retirements and trade in outstanding securities was responsible for more than one-half of the \$4 million rise in interest payments, and the remainder was due to exchange rate variations. The payment of several large non-recurring dividends in the third quarter of 1961 and lowered remittances of dividends by subsidiaries in the current quarter combined to reduce dividend payments by \$10 million.

Major Components of the Balance on Non-Merchandise Transactions with All Countries

(millions of dollars)

	<u>First Nine Months</u>		
	1961	1962	Change
Gold production available for export	124	124	-
Travel expenditures	- 120	- 71	+ 49
Interest and dividends	- 413	- 423	- 10
Freight and shipping	- 52	- 76	- 24
Inheritances and migrants' funds	- 49	- 37	+ 12
All other current transactions	- 313	- 316	- 3
Balance on non-merchandise transactions	- 823	- 799	+ 24

Travel Account
(millions of dollars)

	<u>First Nine Months</u>		
	1960	1961	1962
<u>United States:</u>			
Receipts	311	358	419
Payments	373	372	353
Balance	- 62	- 14	+ 66
<u>Overseas:</u>			
Receipts	37	39	39
Payments	127	145	176
Balance	- 90	- 106	- 137
<u>All Countries:</u>			
Balance	- 152	- 120	- 71

Transactions by areas

In the bilateral distribution of the current account balance, the deficit with the United States declined \$61 million between the third quarters of 1961 and 1962, from \$151 million to \$90 million while the surplus with the United Kingdom rose from \$42 million to \$49 million. The current account balance with Other Countries, on the other hand, changed from a surplus of \$47 million to a deficit of \$20 million, or a turn-around of \$67 million.

A reduction of \$71 million in the quarter in net payments to the United States on non-merchandise transactions (largely attributable to travel, business service payments and migrants' funds) was offset by a widening of \$10 million in the merchandise trade deficit. Merchandise exports to the United Kingdom increased from \$236 million to \$245 million while imports remained unchanged at \$145 million, and net payments on services gained from \$49 million to \$51 million. In transactions with Other Countries, the merchandise trade balance was sharply cut by nearly \$80 million from \$120 million to \$41 million, but a smaller deficit on non-merchandise transactions moderated the deterioration in the current account balance by \$12 million to \$67 million. Within this group, only one-quarter of the negative change was ascribable to transactions with the Rest of the Sterling Area and the other OECD countries and 75 per cent to the remaining countries. Canadian exports to the latter countries fell sharply between the third quarters of 1961 and 1962, while imports rose more moderately.

Between the first three quarters of 1961 and 1962, net payments on non-merchandise transactions declined a little from \$823 million to \$799 million. A much larger gain in receipts on travel account from \$397 million to \$458 million than in payments from \$517 million to \$529 million contributed \$49 million towards reducing the deficit.

It is interesting to note that the improvements in the travel balances for the first three quarters of both 1961 and 1962 have occurred entirely vis-à-vis the United States. Between the three quarters of 1960 and 1962, receipts from American visitors climbed \$108 million, while Canadian travel expenditures in the United States declined \$20 million. Over the same period, receipts from overseas visitors were relatively unchanged while expenditures by Canadians abroad increased nearly \$50 million. Reductions of more modest proportions occurred in net payments of inheritances and migrants' funds, miscellaneous income and official contributions. Moderating this tendency to a lower deficit, however, were larger net payments on freight, interest and dividends, and business services. Gold production available for export remained unchanged at \$124 million. The percentage shares of the total "invisible" deficit accounted for by interest and dividends, travel expenditures, freight and business services in the 9 months of 1962 (corresponding estimates for the three quarters of 1961 being shown parenthetically) were respectively as follows: 53(50), 9 (15), 10 (6) and 23 (18).

Quarterly Current Account Balances
(millions of dollars)

	<u>I Q</u>	<u>II Q</u>	<u>III Q</u>	<u>IV Q</u>
<u>United States</u>				
1960	- 343	- 449	- 165	- 404
1961	- 433	- 435	- 151	- 367
1962	- 353	- 427	- 90	
<u>United Kingdom</u>				
1960	+ 28	+ 12	+ 48	+ 78
1961	+ 39	+ 27	+ 42	+ 79
1962	+ 1	+ 41	+ 49	
<u>Other Countries</u>				
1960	- 11	- 40	- 10	+ 13
1961	+ 57	+ 97	+ 47	+ 16
1962	- 1	+ 9	- 20	

In a comparison of the 9 months of 1961 and 1962 the bilateral breakdown of the change in the current account balance was similar to that of the third quarters of the two years. Canada's deficit in current transactions with the United States was cut nearly \$150 million, while the surplus with the United Kingdom was reduced moderately and the positive balance of about \$200 million with the Other Countries was turned into a deficit of \$12 million in the three quarters of 1962. Nearly 20 per cent of this deterioration originated from transactions with the Rest of the Sterling Area, 30 per cent with the other OECD Countries and 50 per cent with the remaining countries.

The current deficit with the United States for the 9 months of 1962 of \$870 million was 15 per cent smaller than the imbalance of \$1,019 million for the same period of 1961. Nearly two-thirds of this improvement lay with merchandise trade and the remainder with service transactions. Merchandise exports grew 20 per cent from

\$2,311 million to \$2,769 million, while imports advanced 13 per cent from \$2,810 million to \$3,174 million. Exports of iron ore to the United States increased more than \$70 million and of other metals and minerals (including nickel) over \$90 million. About \$85 million more petroleum and natural gas was shipped in the 9 months of 1962. Other examples of less sizable gains included lumber, pulp and aircraft, while exports of uranium dropped more than \$20 million. On the basis of detailed statistics for the first six months, imports of steel products, which include machinery and automobile parts, were higher in 1962 by more than \$150 million, or 20 per cent, and agricultural products, non-ferrous metal products and miscellaneous commodities (including aircraft) were above the first half of 1961 totals respectively by \$25 million, \$45 million and about \$80 million.

The decline of \$55 million in the "invisible" deficit with the United States from \$520 million to \$465 million between the first three quarters of 1961 and 1962 was made up largely of an improvement of \$80 million in the travel account balance, with an offset of \$30 million provided by larger net payments for business services. Much smaller and offsetting changes were recorded in the balances of shipping services, government expenditures and miscellaneous income.

Both exports to and imports from the United Kingdom were relatively stable between the 9 months of 1961 and 1962. Exports were down a shade from \$676 million to \$672 million, while imports edged up a little from \$438 million to \$441 million. Small declines in shipments of many commodities in the inedible crude materials group added up to a fall of \$22 million. Larger exports, on the other hand, of grains, bean products, canned fish, tobacco and some other commodities accounted for an increase of \$24 million. On the basis of incomplete import returns for the period under review in 1962, moderate changes covering many commodities were largely offsetting. Deliveries of aircraft from the United Kingdom during the nine months of 1961 had been reflected in the balance of payments previously as progress payments were made under contract.

As indicated before, about one-half of the sharp negative change from a surplus with Other Countries of about \$200 million to a deficit of \$12 million in the first three quarters of 1962 occurred in transactions with the countries other than those in the Rest of the Sterling Area and in the other OECD countries. Canadian exports to each of the three component groups of countries declined, while imports into Canada increased in varying degrees. The resulting decline of \$192 million in the merchandise trade surplus accounted for 90 per cent of the deterioration of the current account balance with the Other Countries, as the rise in net payments on service transactions amounted to some \$21 million. Shipments of Canadian commodities were lower to the U.S.S.R., Czechoslovakia, Japan and Cuba among other destinations. Wheat dominated the decline in exports to the Eastern European countries above as it did also in the case of a rise in exports to Mainland China in the three quarters of 1962.

Summary of Current Transactions with the United States,
United Kingdom and Other Countries, 1961 and 1962 and Change
Between the Periods
(millions of dollars)

<u>Third Quarter</u>	<u>All Countries</u>			<u>United States</u>		
	1961	1962	Change	1961	1962	Change
Merchandise exports (adjusted)	1,557	1,628	+ 71	864	962	+ 98
Merchandise imports (adjusted)	1,419	1,570	+ 151	937	1,045	+ 108
Balance on merchandise trade	+ 138	+ 58	- 80	- 73	- 83	- 10
Other current receipts	601	652	+ 51	466	515	+ 49
Other current payments	801	771	- 30	544	522	- 22
Balance on non-merchandise transactions	- 200	- 119	+ 81	- 78	- 7	+ 71
Current account balance	- 62	- 61	+ 1	- 151	- 90	+ 61

<u>January to September</u>						
Merchandise exports (adjusted)	4,270	4,644	+ 374	2,311	2,769	+ 458
Merchandise imports (adjusted)	4,157	4,636	+ 479	2,810	3,174	+ 364
Balance on merchandise trade	+ 113	+ 8	- 105	- 499	- 405	+ 94
Other current receipts	1,396	1,486	+ 90	1,004	1,109	+ 105
Other current payments	2,219	2,285	+ 66	1,524	1,574	+ 50
Balance on non-merchandise transactions	- 823	- 799	+ 24	- 520	- 465	+ 55
Current account balance	- 710	- 791	- 81	- 1,019	- 870	+ 149

<u>Third Quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
	1961	1962	Change	1961	1962	Change
Merchandise exports (adjusted)	236	245	+ 9	457	421	- 36
Merchandise imports (adjusted)	145	145	-	337	380	+ 43
Balance on merchandise trade	+ 91	+ 100	+ 9	+ 120	+ 41	- 79
Other current receipts	53	52	- 1	82	85	+ 3
Other current payments	102	103	+ 1	155	146	- 9
Balance on non-merchandise transactions	- 49	- 51	- 2	- 73	- 61	+ 12
Current account balance	+ 42	+ 49	+ 7	+ 47	- 20	- 67

<u>January to September</u>						
Merchandise exports (adjusted)	676	672	- 4	1,283	1,203	- 80
Merchandise imports (adjusted)	438	441	+ 3	909	1,021	+ 112
Balance on merchandise trade	+ 238	+ 231	- 7	+ 374	+ 182	- 192
Other current receipts	150	149	- 1	242	228	- 14
Other current payments	280	289	+ 9	415	422	+ 7
Balance on non-merchandise transactions	- 130	- 140	- 10	- 173	- 194	- 21
Current account balance	+ 108	+ 91	- 17	+ 201	- 12	- 213

Capital Movements

Summary	1961				1962		
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q
	(millions of dollars)						
Capital movements in long term forms	+ 186	+ 270	+ 199	+ 135	+ 35	- 13	+ 247
Capital movements in short term forms(1)	+ 256	+ 92	- 199	+ 272	- 46	- 203	+ 500
Balance on goods and services	- 337	- 311	- 62	- 272	- 353	- 377	- 61
Total of above	+ 105	+ 51	- 62	+ 135	- 364	- 593	+ 686
Special international financial assistance	-	-	-	-	-	+ 707	-
Change in official holdings of gold and foreign exchange(2)	- 105	- 51	+ 62	- 135	+ 364	- 114	- 686

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

As the summary shows, during the second quarter of 1962 Canada found it necessary to use some \$593 million of the official holdings of gold and foreign exchange which was, however, more than replenished by special international financial assistance extended to Canada in this quarter. In the third quarter, Canada was able to add \$686 million to the holdings. These unprecedented changes represented a swing of \$1,279 million from the second to the third quarters. The statement below shows the principal groups of transactions contributing to the swing.

Item	1962		
	II Q	III Q	Difference
	(millions of dollars)		
Balance on goods and services	- 377	- 61	+ 316
Capital movements in long term forms	- 13	247	+ 260
foreign currency holdings of residents(-)	- 245	257	+ 502
other short term forms excluding official reserve movements	42	243	+ 201
TOTAL	- 593	686	+ 1,279

Four features stand out. First, the substantial improvement in the current account deficit, which is seasonally characteristic.

Second, the re-emergence of a significant capital inflow in long term forms, reflecting a variety of investment and borrowing transactions, and including some take-over money and a loan prepayment to Canada by France. A great many factors undoubtedly influenced this group of transactions.

Among them the new exchange level for the Canadian dollar would enhance the attraction of investment in Canada, interest differentials were attractive, the reserve position of France enabled her to make prepayments to the United States and Canada, and confidence in Canada's foreign exchange position was restored by the measures taken in the second quarter and by subsequent developments.

The effects of the crisis of confidence in the second quarter were also evident in the third feature, the movement from Canadian to foreign currency in the second quarter, and the reverse movement in the third quarter, of approximately a quarter of a billion dollars of Canadian bank balances and other short term funds, amounting in all to a swing of more than half a billion dollars.

And fourth, there was a smaller but none the less significant change in capital movements in other short term forms, of which the largest part represented borrowing in foreign currency by residents of Canada in the third quarter.

It is not possible to separate quantitatively the effects of changing interest rate differentials, exchange rate expectations, and other developments and factors. Inferences from capital movements about the influences of exchange rate changes, actual or anticipated, are at times misleading because the existence of swap and other forward market facilities makes possible the creation or transfer of exchange positions between various sectors of the economy without reflection on the statements.

Nevertheless, it seems clear from analysis of the data available that a major part of the movements both from Canada in the second quarter and to it in the third represented the movement of Canadian capital. There is little evidence that the taking of short term Canadian dollar positions by non-residents contributed in any significant measure to the growth of Canada's official holdings of gold and foreign exchange in the quarter. This was in sharp contrast to the situation twelve years earlier when increases of official holdings of gold and foreign exchange (including float), represented a capital outflow of \$696 million, largely representing a run to the Canadian dollar by non-residents.

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have risen sharply from a revised figure of \$80 million in the second quarter to \$135 million in the third. At this level it was well above each of the preceding four quarters and was above the quarterly average for 1961.

Major variations in direct investment flows can be caused by transactions involving the acquisition of existing concerns or interests, or through refinancing operations etc., having no counterpart in current new capital formation in Canada. These transactions have been larger in 1962 than in 1961. If estimates of them are excluded from the totals, the remaining net inflows rose progressively through the three quarters of 1962, but averaged some 20 per cent below the rate through 1961.

Industrially, inflows to the petroleum and natural gas industry more than doubled from the levels of the first and second quarters, accounting for a substantially higher proportion of the net movement, with takeover money playing an important role in the increase. Inflows to mining, particularly iron ore projects, were also larger in value, but did not account for as large a share of the total as in the second quarter. There were also inflows to manufacturing and other industries in the third quarter; outflows had been substantial in the second quarter resulting in little net movement to this group.

The changing corporate structure in the Canadian petroleum industry has given overseas countries an enlarged role as a source of capital, and has contributed to a rising proportion of the net inflow of direct investment capital from overseas. The share of United States investors in the net inflow is estimated to have fallen in the successive quarters of 1962 from about four-fifths, to three-quarters, to two-thirds.

Net outflows of Canadian capital for direct investment abroad are placed at \$20 million in the third quarter, down \$5 million from the second and \$10 million from the first.

SECURITY TRANSACTIONS During the third quarter of 1962 all transactions in portfolio securities between Canada and other countries led to a net capital inflow of \$38 million. This was somewhat lower than the figure of \$55 million recorded for the second quarter which, however, included some \$125 million of new corporate borrowing applied to the refinancing of direct investment and other capital transactions. In the first quarter there was an outflow of \$53 million, while in the third quarter of 1961 there was an inflow of \$82 million.

Yields on Representative
Long Term Government Bonds

Last Wednesday		Canada(1)	United States(2)	Differential
1960	Dec.	5.41	3.80	1.61
1961	Mar.	5.18	3.80	1.38
	June	4.99	3.97	1.02
	Sept	5.02	4.03	.99
	Dec.	4.96	4.11	.85
1962	Mar.	4.86	3.99	.87
	June	5.23	3.91	1.32
	Sept.	5.38	3.91	1.47

(1) 3 3/4/15 Jan. 75-78

(2) 3 1/4/15 June 78-83

Sales by Canadians of outstanding Canadian bonds rose sharply to \$38 million in the third quarter. This was up \$34 million from the second quarter and was the highest quarterly level since early 1956. Net sales were made up mainly of Government of Canada direct and guaranteed issues and were on balance entirely to the United States as there were repurchases from residents of overseas countries.

While net sales to non-residents of outstanding bonds were rising, net repurchases from them of outstanding Canadian stocks were falling. The capital outflow for these repurchases fell from \$46 million in the second quarter to \$25 million in the third. The change occurred entirely in transactions with overseas investors, net repurchases from them falling from \$41 million to \$20 million.

Sales to non-residents of new issues of Canadian securities produced \$78 million in the third quarter compared with \$52 million in the first and \$200 million in the second quarter, but it has already been noted that the latter figure included some \$125 million of special refinancing. Municipal issues accounted for \$31 million of the third quarter inflow, with corporate, provincial and Government of Canada bonds accounting for most of the rest. Retirements of foreign-held Canadian issues totalled \$44 million, led by some \$20 million of corporate and \$11 million of Government of Canada bonds.

Price of United States Stocks in terms of
Canadian Stocks

Year	Month	At Cdn. \$1 = U.S. \$1	At market exchange rate
1961	December	100	100
1962	March	98	99
	June	94	98
	September	96	99

Based on "DBS Investors" and "Standard and Poor's 500" Indexes.

The acquisition by residents of Canada of foreign securities fell to \$9 million in the third quarter, a sharp reduction from the outflows for this purpose of \$27 million and \$35 million in the first and second quarters respectively. Canadians acquired some \$14 million of foreign equities in the quarter but sold other foreign securities.

The reduced outflows covering the purchase of Canadian and foreign stocks by residents from non-residents were consistent with the relative improvement of Canadian stock prices in relation to those in the United States.

OFFICIAL TRANSACTIONS Official loan transactions in the third quarter include Canada's subscription of \$6,240,000 in United States funds for part of an issue of 2% 25-year bonds of the United Nations. This represented a capital outflow in Canadian dollar terms of \$7 million.

During July the Government of France paid in advance of maturity \$67.6 million representing one-half of the remaining debt owed by France to Canada for credits received immediately following World War II. France has been accelerating the repayments of foreign loans and credits received in the post war period, and a simultaneous prepayment was made to the United States. The total credits extended by Canada to France as a part of the post-war Canadian programme to assist in the reconstruction of the economies of various European countries amounted to \$254.8 million. Repayments by France to the end of March 1962 had reduced the amount outstanding to \$135.2 million.

Other official capital transactions included elsewhere in the estimates of the balance of the payments for the third quarter are the participation of non-residents in new issues of Government of Canada bonds and treasury bills, retirements of these securities, and changes in official holdings of gold and foreign exchange. Included among other capital movements are transactions with international financial agencies and the export credits extended under government guarantee, some of which now involve direct government financing.

OTHER CAPITAL MOVEMENTS Canadian dollar holdings of non-residents fell sharply in the third quarter. This capital outflow, amounting to \$58 million, more than offset the inflow reflected by increased holdings of \$34 million in the second quarter. Most of the decline was in deposits, and foreign holdings of Government of Canada treasury bills fell only \$8 million. Over the first three quarters of 1962, non-residents increased their holdings of treasury bills by \$59 million but decreased their deposits in Canadian dollars by \$114 million.

The major part of the third quarter reduction in Canadian dollar holdings of foreigners was attributable to residents of the United States whose holdings fell by \$43 million. Residents of the United Kingdom and other overseas countries also reduced their holdings during the quarter.

Turning to the final category of the basic balance of payments presentation there is recorded a capital inflow of \$591 million, following an outflow of \$367 million in the second quarter. Both these totals were extraordinarily large. The largest figure recorded in any previous quarter since the commencement of official quarterly estimates of capital movements in 1950 was \$261 million, reached in the first quarter of 1961. In the speculative atmosphere of the third quarter of 1950 the total reached only \$153 million, but the underlying conditions then were greatly different.

Details of the quarterly movements for the last seven quarters are given in a statement on this page. This shows the return to Canada of some \$257 million of Canadian-owned bank balances and other short term funds in foreign currencies. The outward movement of these funds in the second quarter had amounted to \$245 million. These movements were unprecedented in size.

Change in Canadian dollar holdings
of foreigners
(millions of dollars)

	Quarter	Total	Treasury Bills	Deposits etc.
1960	II	- 2	- 10	+ 8
	III	+ 45	+ 27	+ 18
	IV	+ 79	+ 47	+ 32
1961	I	- 5	+ 32	- 37
	II	- 72	- 76	+ 4
	III	- 1	- 34	+ 33
	IV	+ 44	+ 18	+ 26
1962	I	- 31	+ 17	- 48
	II	+ 34	+ 50	- 16
	III	- 58	- 8	- 50

Among capital outflows in the third quarter was the payment by Canada to the International Bank for Reconstruction and Development of nearly \$7 million necessary, because of the reduced exchange value of the Canadian dollar, to maintain the gold value of the subscriptions in Canadian dollars to the capital of the Bank. A small inflow of \$1 million was reflected in increased short term holdings of Canadian dollars by international financial agencies, leaving a net outflow of \$6 million from transactions with these institutions in the quarter.

Other long term transactions gave rise to a capital inflow of \$33 million in the third quarter, compared with an outflow of \$130 million in the preceding quarter which, however, reflected mainly repayments of bank loans financed from the sale to non-residents of a new corporate bond issue. Mortgage and bank borrowing contributed to the net inflow which was reduced by some long and medium

term export financing.

Further resources were made available to Canada through borrowings from non-residents by finance companies and net sales of minor amounts of commercial and finance paper, amounting in all to \$50 million in the third quarter. The second quarter movement in these liabilities produced an inflow of \$8 million.

Composition of "Other Capital Movements"
(millions of dollars)

Transactions with all countries	1961				1962		
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
International Financial Agencies(1)							
Canadian dollar subscriptions	-	- 9	-	- 8	- 22	- 13	- 7
Short-term Canadian dollar holdings	2	-	- 52	7	33	54(2)	1
Other long-term capital transactions	-	- 22	12	22	5	- 130	33
Bank balances and other short-term funds abroad (excluding official reserves)	127	54	- 140	72	49	- 245	257
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper	71	23	- 1	19	28	8	50
All other transactions including changes in loans and accounts receivable and payable(3)	61	96	- 5	138	- 103	- 41	257
TOTAL (Item D 17)	261	142	- 186	250	- 10	- 367	591

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Excludes counterpart of special financial assistance to Canada which is included in D 15.

(3) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.

The final category of the statement covers all other transactions including changes in loans and accounts receivable and payable. It includes also the balancing item representing the difference between direct measurements of the current and capital accounts. Following outflows of \$103 million and \$41 million in the first and second quarters respectively, this group of movements showed an inflow of \$257 million in the third quarter. The largest part of this represented borrowings of foreign currencies by residents.

OFFICIAL HOLDINGS OF GOLD
AND FOREIGN EXCHANGE

The capital export reflected in the growth of Canada's gold and foreign exchange holdings totalled \$686 million in the third quarter, more than offsetting the use by Canada of \$593 million of these holdings in the second quarter. All of the movement in the third quarter reflected changes in holdings of gold or United States dollars.

Within the limits applicable to the exchange rate established on May 3, the Canadian dollar tended to strengthen, with the closing quotation for the United States dollar in Canada declining each month from the end of May. The trading range during the third quarter was a little over one-half cent.

Official Holdings of
Gold and United States dollars
(millions of United States dollars)

United States Dollar in Canada
(Canadian cents)

End of		Amount	Change in Period	Period		High	Low	Close	Noon Average
1961	II Q	1,985	+ 50	1961	II Q	103.53	98.59	103.50	99.42
	III Q	1,924	- 61		III Q	104.00	103.00	103.00	103.21
	IV Q	2,056	+ 132		IV Q	104.37	103.00	104.34	103.61
1962	I Q	1,709	- 346	1962	I Q	105.03	104.34	105.00	104.77
	II Q	1,809*	+ 99*		II Q	109.00	104.87	108.19	107.42
	III Q	2,445*	+ 636		III Q	108.19	107.66	107.66	107.78
1962	July	2,114*	+ 306	1962	July	108.19	107.81	107.81	107.89
	Aug.	2,331*	+ 216		Aug.	107.84	107.72	107.72	107.76
	Sept.	2,445*	+ 114		Sept.	107.72	107.66	107.66	107.68

* Includes (+) 650 special international financial assistance.

On later pages of this report there are reproduced Table I and part of Table IV A of the forthcoming report "The Canadian Balance of International Payments, 1961 and International Investment Position", (D.B.S. Catalogue No. 67-201). These give revised annual estimates of the Canadian balance of international payments for 1960 and 1961 with bilateral detail, and revised quarterly estimates for 1960.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

	Revised estimates for 1960	I	II	III	IV
A	Current Receipts				
1	Merchandise exports (adjusted)	1,281	1,321	1,398	1,392
3	Gold production available for export	44	35	42	41
4	Travel expenditures	36	91	221	72
5	Interest and dividends	34	39	35	65
6	Freight and shipping	102	115	118	107
7	Inheritances and immigrants' funds	18	29	31	24
11	All other current receipts	100	107	111	101
12	Total Current Receipts	1,615	1,737	1,956	1,802
B	Current Payments				
1	Merchandise imports (adjusted)	1,324	1,508	1,316	1,392
4	Travel expenditures	119	168	213	127
5	Interest and dividends	145	161	157	190
6	Freight and shipping	114	137	141	141
7	Inheritances and emigrants' funds	38	43	50	50
9	Official contributions	10	10	17	24
11	All other current payments	191	187	189	191
12	Total Current Payments	1,941	2,214	2,083	2,115
	Balance on Merchandise Trade	- 43	- 187	+ 82	-
	Balance on Other Transactions, excluding B 9	- 273	- 280	- 192	- 289
	Official Contributions	- 10	- 10	- 17	- 24
C	Current Account Balance	- 326	- 477	- 127	- 313
D	Capital Account				
	Direct Investment				
1	Direct Investment in Canada	+ 205	+ 147	+ 159	+ 139
2	Direct investment abroad	- 7	- 13	- 21	- 9
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 19	+ 15	- 19	- 12
3b	Trade in outstanding common and preference stocks	+ 13	+ 25	+ 10	+ 3
4	New issues	+ 212	+ 143	+ 52	+ 40
5	Retirements	- 58	- 80	- 34	- 93
	Foreign Securities				
6	Trade in outstanding issues	+ 7	- 5	+ 3	- 24
7	New issues	- 3	- 2	- 3	- 10
8	Retirements	+ 6	+ 3	+ 7	+ 2
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	-	+ 7	-	+ 25
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	- 1	- 2
14	Change in Canadian dollar holdings of foreigners	- 2	- 2	+ 45	+ 79
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 11	+ 82	- 40	- 14
17	Other capital movements	- 77	+ 157	- 31	+ 189
E	Net Capital Movement	+ 326	+ 477	+ 127	+ 313

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on

B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transact-

B 11) ions, and business services.

D A minus sign indicates an outflow of capital from Canada.

D12 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1962 are preliminary and

		1960		1961	
		III	IV	I	II
A	Current Receipts				
1	Merchandise exports (adjusted)	1,398	1,392	1,266	1,447
3	Gold production available for export	42	41	41	42
4	Travel expenditures	221	72	39	103
5	Interest and dividends	35	65	36	59
6	Freight and shipping	118	107	102	120
7	Inheritances and immigrants' funds	31	24	19	28
11	All other current receipts	111	101	103	103
12	Total Current Receipts	1,956	1,802	1,606	1,902
B	Current Payments				
1	Merchandise imports (adjusted)	1,316	1,392	1,260	1,478
4	Travel expenditures	213	127	129	168
5	Interest and dividends	157	190	204	174
6	Freight and shipping	141	141	116	142
7	Inheritances and emigrants' funds	50	50	35	43
9	Official contributions	17	24	13	8
11	All other current payments	189	191	186	200
12	Total Current Payments	2,083	2,115	1,943	2,213
	Balance on Merchandise Trade	+ 82	-	+ 6	- 31
	Balance on Other Transactions, excluding B 9	- 192	- 289	- 330	- 272
	Official Contributions	- 17	- 24	- 13	- 8
C	Current Account Balance	- 127	- 313	- 337	- 311
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 159	+ 139	+ 140	+ 158
2	Direct investment abroad	- 21	- 9	- 29	- 21
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	- 19	- 12	+ 31	+ 34
3b	Trade in outstanding common and preference stocks	+ 10	+ 3	+ 13	+ 32
4	New issues	+ 52	+ 40	+ 101	+ 190
5	Retirements	- 34	- 93	- 73	- 92
	Foreign Securities				
6	Trade in outstanding issues	+ 3	- 24	+ 3	-
7	New issues	- 3	- 10	- 5	- 18
8	Retirements	+ 7	+ 2	+ 2	+ 2
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10.11	Repayments	-	+ 25	+ 3	+ 7
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 1	- 2	-	-
14	Change in Canadian dollar holdings of foreigners	+ 45	+ 79	- 5	- 72
15	Special international financial assistance	-	-	-	-
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 40	- 14	- 105	- 51
17	Other capital movements	- 31	+ 189	+ 261	+ 142
E	Net Capital Movement	+ 127	+ 313	+ 337	+ 311

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

ata for 1961 are subject to revision.

1961		1962			Annual Totals		Four quarters ended		
III	IV	I	II	III	1959	1960	1961	Sept. 30, 1962	
(millions of dollars)									
1,557	1,619	1,396	1,620	1,628	5,150	5,392	5,889	6,263	A
41	38	43	42	39	148	162	162	162	1
255	85	43	126	289	391	420	482	543	3
40	74	31	50	44	182	173	209	199	4
135	129	105	129	131	420	442	486	494	5
31	25	19	32	42	109	102	103	118	6
99	98	106	104	107	392	419	403	415	7
									11
2,158	2,068	1,743	2,103	2,280	6,792	7,110	7,734	8,194	12
1,419	1,559	1,401	1,664	1,570	5,572	5,540	5,716	6,194	B
220	125	141	188	200	598	627	642	654	1
170	222	179	206	164	671	653	770	771	4
151	159	126	157	158	525	533	568	600	5
49	47	38	44	49	165	181	174	178	6
15	20	6	7	4	72	61	56	37	7
196	208	205	214	196	693	758	790	823	9
									11
2,220	2,340	2,096	2,480	2,341	8,296	8,353	8,716	9,257	12
+ 138	+ 60	- 5	- 44	+ 58	- 422	- 148	+ 173	+ 69	
- 185	- 312	- 342	- 326	- 115	-1,010	-1,034	-1,099	-1,095	
- 15	- 20	- 6	- 7	- 4	- 72	- 61	- 56	- 37	
- 62	- 272	- 353	- 377	- 61	-1,504	-1,243	- 982	-1,063	C
									D
+ 117	+ 100	+ 110	+ 80	+ 135	+ 550	+ 650	+ 515	+ 425	1
- 12	- 18	- 30	- 25	- 20	- 80	- 50	- 80	- 93	2
- 12	+ 10	- 3	+ 4	+ 38	+ 91	+ 3	+ 63	+ 49	3a
-	- 5	- 7	- 46	- 25	+ 110	+ 51	+ 40	- 83	3b
+ 125	+ 117	+ 52	+ 200	+ 78	+ 707	+ 447	+ 533	+ 447	4
- 29	- 103	- 68	- 68	- 44	- 258	- 265	- 297	- 283	5
+ 2	- 10	- 31	- 37	- 9	- 32	- 19	- 5	- 87	6
- 7	- 7	- 1	- 3	- 5	- 13	- 18	- 37	- 16	7
+ 3	+ 2	+ 5	+ 5	+ 5	+ 12	+ 18	+ 9	+ 17	8
-	-	-	-	- 7	- 1	-	-	- 7	9
-	+ 27	+ 3	+ 7	+ 68	+ 34	+ 32	+ 37	+ 105	10,11
-	-	-	-	-	- 59	- 3	-	-	13
- 1	+ 44	- 31	+ 34	- 58	+ 13	+ 120	- 34	- 11	14
-	-	-	+ 707	-	-	-	-	+ 707	15
+ 62	- 135	+ 364	- 114	- 686	+ 70	+ 39	- 229	- 571	16
- 186	+ 250	- 10	- 367	+ 591	+ 360	+ 238	+ 467	+ 464	17
+ 62	+ 272	+ 353	+ 377	+ 61	+1,504	+1,243	+ 982	+1,063	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

TABLE 1. Current and Capital Account of the Canadian Balance of International Payments, 1960 and 1961

No.	Account	All countries		United States		United Kingdom		Other sterling area		Other OEEC countries		All other countries	
		1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P
		millions of dollars											
A	Current receipts:												
1	Merchandise exports (adjusted)	5,392	5,889	3,040	3,213	924	924	340	331	591	618	497	803
2	Mutual Aid to NATO countries	43	35	..	..	..	..	..	..	..	..	..	..
3	Gold production available for export	162	162	162	162	—	—	—	—	—	—	—	—
4	Travel expenditures	420	482	375	435	20	21	6	7	13	13	6	6
5	Interest and dividends	173	209	102	109	32	34	18	43	12	13	9	10
6	Freight and shipping	442	486	220	230	93	100	31	27	57	67	41	62
7	Inheritances and immigrants' funds	102	103	50	51	26	25	6	6	15	15	5	6
11	All other current receipts	419	403	330	310	50	49	8	10	19	21	12	13
12	Total current receipts	7,153	7,769	4,279	4,510	1,145	1,153	409	424	707	747	570	900
B	Current payments:												
1	Merchandise imports (adjusted)	5,540	5,716	3,713	3,828	611	593	284	298	371	416	561	581
4	Travel expenditures	627	642	462	459	70	71	14	21	65	72	16	19
5	Interest and dividends	653	770	531	642	83	86	1	1	36	39	2	2
6	Freight and shipping	533	568	324	333	89	93	4	4	99	114	17	24
7	Inheritances and emigrants' funds	181	174	141	134	25	23	2	4	11	11	2	2
9	Official contributions	61	56	—	—	3	—	42	49	4	1	12	6
10	Mutual Aid to NATO countries	43	35	..	..	..	..	..	..	..	..	..	..
11	All other current payments	758	790	469	500	98	100	19	20	135	125	37	45
12	Total current payments	8,396	8,751	5,640	5,896	979	966	366	397	721	778	647	679
	Balance on merchandise trade	- 148	+ 173	- 673	- 615	+ 313	+ 331	+ 56	+ 33	+ 220	+ 202	- 64	+ 222
	Balance on other transactions, excluding B9	- 1,034	- 1,099	- 688	- 771	- 144	- 144	+ 29	+ 43	- 230	- 232	- 1	+ 5
	Official contributions	- 61	- 56	—	—	- 3	—	- 42	- 49	- 4	- 1	- 12	- 6
C	Current account balance	- 1,243	- 982	- 1,361	- 1,386	+ 166	+ 187	+ 43	+ 27	- 14	- 31	- 77	+ 221
D	Capital account:												
	Direct investment:												
1	Direct investment in Canada	+ 650	+ 515	+ 446	+ 335	+ 115	+ 127	+ 6	+ 2	+ 82	+ 49	+ 1	+ 2
2	Direct investment abroad	- 50	- 80	- 19	- 26	- 14	- 14	- 3	- 29	- 16	+ 7	+ 2	- 18
	Canadian securities:												
3a	Trade in outstanding bonds and debentures	+ 3	+ 63	- 9	+ 76	- 13	- 12	—	—	+ 25	+ 1	—	- 2
3b	Trade in outstanding common and preference stocks	+ 51	+ 40	+ 56	+ 120	- 17	- 61	—	—	+ 12	- 19	—	—
4	New issues	+ 447	+ 533	+ 381	+ 473	+ 27	+ 25	—	—	+ 38	+ 20	+ 1	+ 15
5	Retirements	- 265	- 297	- 214	- 215	- 27	- 42	—	—	- 23	- 23	- 1	- 17
	Foreign securities:												
6	Trade in outstanding issues	- 19	- 5	+ 5	+ 6	- 2	- 9	—	—	- 1	- 2	- 21	—
7	New issues	- 18	- 37	- 13	- 18	—	- 2	- 1	- 13	—	—	- 4	- 4
8	Retirements	+ 18	+ 9	+ 12	+ 5	—	—	+ 1	+ 1	—	—	+ 5	+ 3
	Loans by Government of Canada:												
9	Drawings	—	—	—	—	—	—	—	—	—	—	—	—
10	Repayment of post-war loans	+ 32	+ 37	—	—	+ 17	+ 17	—	+ 5	+ 15	+ 15	—	—
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 3	—	- 3	—	—	—	—	—	—	—	—	—
14	Change in Canadian dollar holdings of foreigners	+ 120	- 34	+ 60	- 23	+ 9	+ 1	- 3	+ 4	+ 7	+ 21	+ 47	- 37
16	Change in official holdings of gold, U.S. dollars and sterling (increase, minus) ..	+ 39	- 229	+ 39	- 227	—	- 2	—	—	—	—	—	—
17	Other capital movements	+ 238	+ 467	+ 285	+ 682	- 36	+ 23	- 9	- 7	+ 18	- 17	- 20	- 214
E	Net capital movement	+ 1,243	+ 982	+ 1,026	+ 1,188	+ 59	+ 51	- 9	- 37	+ 157	+ 52	+ 10	- 272
G	Balance settled by exchange transfers	—	—	+ 335	+ 198	- 225	- 238	- 34	+ 10	- 143	- 21	+ 67	+ 51
	Total financing of current account balance (item C)	+ 1,243	+ 982	+ 1,361	+ 1,386	- 186	- 187	- 43	- 27	+ 14	+ 31	+ 77	- 221

Notes:

A2, B10 Mutual Aid is not included in figures for countries or areas, but is included in total receipts and total payments with all countries.

D A minus sign indicates an outflow of capital from Canada. Some capital transactions with other sterling area are included under the United Kingdom, and with other overseas countries under the United States.

D13 International Bank for Reconstruction and Development, International Monetary Fund, International Finance Corporation and International Development Association.

D17 Also includes balancing item representing unrecorded capital movements and errors and omissions.

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