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67-001

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QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
SECOND QUARTER 1963

Published by Authority of
The Minister of Trade and Commerce

DOMINION BUREAU OF STATISTICS

National Accounts and Balance
of Payments Division

Balance of Payments Section

September 1963
2206-502

Price: \$2.00 per year

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OUR FIRST FIVE YEARS OF LIFE
FACULTY OF THE UNIVERSITY OF

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

SECOND QUARTER 1963

Canada's current account deficit covering net purchases from non-residents of goods and services contracted in the second quarter to \$193 million. In the corresponding quarter of 1962, when there was probably some acceleration of payments coincidentally with concern over Canada's foreign exchange position, the deficit on current account was \$362 million. A year earlier it had been \$311 million.

The reduction of the imbalance from the second quarter of 1962 amounted to \$169 million of which more than two-thirds reflected an improvement in the commodity balance caused largely by a significant increase of \$145 million in exports. The balance of the reduction occurred in the non-merchandise items with receipts larger by \$28 million and payments smaller by \$24 million; half this improvement occurred in the travel account.

Capital in long term forms continued to come into Canada on a large scale, although the flows both for direct investment and for portfolio investment were smaller than in the first quarter. The largest part of the net movement in the second quarter covered receipts from the sale of new security issues to non-residents in earlier periods for delivery in the second quarter. Official holdings of gold and foreign exchange continued to grow during the first two months of the quarter, but declined moderately over the month of June.

Summary Statement

	1962				1963	
	I Q	II Q	III Q	IV Q	I Q	II Q
	millions of dollars					
Merchandise trade balance	- 7	- 45	+ 69	+ 138	+ 63	+ 72
Deficit on non-merchandise transactions	- 326	- 317	- 103	- 257	- 309	- 265
Current account deficit	- 333	- 362	- 34	- 119	- 246	- 193
Capital movements:(1)						
Long term forms	+ 16	- 16	+ 248	+ 445	+ 384	+ 236
Short term forms	- 47	- 215	+ 472	+ 152	- 72	+ 68
Special international financial assistance	-	+ 707	-	- 377	-	-
Change in official holdings of gold and						
foreign exchange(2)	+ 364	- 114	- 686	- 101	- 66	- 111

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

(2) Increase (-).

The quarter was one of continued economic advance in both Canada and her leading trading partners. This was also the first period free of the surcharges on certain imports which had been introduced in June 1962, following the removal at the end of the first quarter 1963 of the remaining group of commodities subject to these taxes. There was also a reduction in the bank rate during the period. And in making comparisons with the second quarter 1962, it should be recalled that that was the period of large declines in exchange reserves, when a programme was introduced to stabilize Canada's international transactions and to strengthen the reserves. The second quarter of last year was also a period of rapid exchange rate changes in which the rate for the Canadian dollar was stabilized early in May, and consequently the average rates of exchange in the second quarters of the two years were relatively close. The June quarter of this year was also the period in which a change in government in Canada took place, followed by the introduction of a new budget with a programme designed to influence the balance of payments.

Export balance on merchandise trade

Nearly 70 per cent of the \$169 million improvement in Canada's current account balance with foreign countries originated in merchandise trade, as a deficit of \$45 million in the second quarter of 1962 turned into a surplus of \$72 million in the same period of 1963. After adjustment for balance of payments purposes, exports advanced \$145 million, or 9 per cent, from \$1,620 million to \$1,765 million, while imports increased under 2 per cent from \$1,665 million to \$1,693 million in the June quarter of 1963. Nickel shipments accounted for more than one-fifth of the substantial rise in exports, and other commodities which also contributed to the increment included wheat, lumber, aluminum, crude petroleum and a variety of products of secondary manufacturing.

Taking the first two quarters of the year together, merchandise exports were up \$226 million, or more than 7 per cent, to \$3,241 million. Imports also increased, but at a less vigorous rate, from \$3,067 million to \$3,106 million in the first half of 1963. An import balance of \$52 million was converted into a surplus of \$135 million. Led by exports of nickel and aluminum, which were about \$25 million and \$19 million higher, respectively, shipments of other metals and minerals, including iron ore, copper, petroleum and natural gas, were also up in the 6 months of 1963. Agricultural and non-farm machinery, including specialized control equipment, was another group whose value was noticeably higher. Exports of wheat, lumber, wood pulp, fertilizers, railway rolling stock and road motor vehicles were also larger, but shipments of barley, newsprint and aircraft were down from the first half of 1962.

The removal of the remaining import surcharges at the end of the first quarter was a factor likely to have been of some significance in the increased volume of goods imported in the second quarter in comparison with immediately preceding quarters. But details are not available to make feasible an assessment of the effects.

A gain of nearly \$50 million in imports of automobile parts was the most significant increase, on the basis of detailed record for the first 5 months of 1963, but the decline in arrival of automobiles was even more substantial. Increased imports were noted in the cases of sugar, vegetables, meat, farm machinery, engines and crude petroleum, while imports of cotton, non-farm machinery and aircraft were reduced.

In an over-the-year comparison, a 2 per cent rise occurred in export prices in the first quarter followed by a fractional increase in the second quarter. Import prices rose more than 3 per cent in the March quarter and the gain in the succeeding period was estimated to have been somewhat smaller. Notwithstanding the relatively minor importance of sugar among import commodities, the sharp rise in the price of sugar on the world market left its impact on the average price level in the second quarter. In consequence, a deterioration occurred in Canada's terms of trade.

Deficit on services and non-merchandise items

The deficit of \$265 million on non-merchandise transactions in the second quarter of 1963 was \$52 million, or about 16 per cent, below that of the same period of 1962. For the most part, this reduction originated in the travel account, interest and dividends and in "miscellaneous current transactions".

Travel Account

	First Half Year			
	1960	1961	1962	1963
	millions of dollars			
<u>United States:</u>				
Receipts	106	120	149	159
Payments	222	222	230	192
Balance	- 116	- 102	- 81	- 33
<u>Overseas:</u>				
Receipts	21	22	23	23
Payments	65	75	78	83
Balance	- 44	- 53	- 55	- 60
<u>All Countries:</u>				
Balance	- 160	- 155	- 136	- 93

Net payments on travel account were halved to \$26 million in the quarter, as payments declined more than 10 per cent while receipts rose slightly between the second quarters of 1962 and 1963. Travel receipts were estimated at \$126 million and \$132 million in the two periods, while payments fell from \$178 million to \$158 million. The effects of the stabilization of the Canadian dollar at a lowered value in terms of foreign currency continued to be felt, as did the additional restriction in June 1962 to the privilege of duty-free purchases by Canadians abroad. Travel receipts from overseas visitors remained just about unchanged, while expenditures in Canada by American visitors rose moderately. A fall of nearly 20 per cent in travel disbursements by Canadians in the United States was offset by a slight rise in Canadian expenditures overseas.

million. The reduction in the deficit was due to a drop in payments, from \$205 million to \$191 million, together with a slight increase in receipts. Payments of interest rose from \$76 million to \$89 million, while transfers of dividends fell more than 20 per cent from \$129 million to \$102 million. Contributing

Interest and Dividends: Payments

Period		Total	Interest	Dividends
millions of dollars				
1960		653	239	414
1961		770	259	511
1962		781	285	496
1961	III Q	170	58	112
	IV Q	222	72	150
1962	I Q	179	67	112
	II Q	205	76	129
	III Q	163	62	101
	IV Q	234	80	154
1963	I Q	194	70	124
	II Q	191	89	102

Net payments of interest and dividends narrowed by \$16 million, or 10 per cent, to \$137 million. The decline in dividend payments was primarily due to a drop of about 30 per cent in transfers on direct investment, as dividend payments on portfolio investments and transfers of profits of unincorporated branches in Canada remained materially unchanged between the second quarters of 1962 and 1963. True to the variegated pattern of dividend remittances characteristic of subsidiaries in Canada, a number of these paid substantial dividends in the second quarter of 1962, but did not pay or greatly reduced their payments in the June quarter of 1963, or paid in the preceding quarter.

An improvement of \$10 million in the deficit on government expenditures tallied with the reduction in the deficit for the whole group of miscellaneous current transactions, including official contributions. The latter item declined from \$12 million to \$10 million. Other government expenditures were slightly lower with re-

duced transfers to international agencies while receipts on government account were moderately larger. Changes in net payments of personal and institutional remittances, for business services and of miscellaneous income were small and offsetting.

With increases of similar magnitude in receipts and payments, the deficit on freight and shipping services slipped down \$1 million to \$24 million in the June quarter of 1963, while net payments of migrants' funds and inheritances remained unchanged between the two periods at \$9 million. The value of gold production available for export at \$41 million was smaller by \$1 million.

In a comparison of the first six months of 1962 and 1963, the deficit on non-merchandise transactions narrowed more than 10 per cent from \$643 million to \$574 million. Nearly every item among the "invisibles" contributed to this improvement, with the exception of official contributions, business services and miscellaneous income, whose net payments increased moderately. About three-fifths of the reduction in the deficit on service transactions was derived from the travel account, where receipts rose \$10 million to \$182 million and payments fell from \$308 million to \$275 million. The travel deficit of \$160 million in the first half of 1960 has been progressively lessened to that of \$93 million

in the corresponding period of 1963. The reductions of about 12 per cent in 1961 and more than 20 per cent in 1962 in the deficit with the United States was accelerated to that of about 60 per cent in

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

	First Half Year		
	1962	1963	Change
	millions of dollars		
Gold production available for export	85	86	+ 1
Travel expenditures	- 136	- 93	+ 43
Interest and dividends	- 299	- 288	+ 11
Freight and shipping	- 46	- 38	+ 8
Inheritances and migrants' funds	- 23	- 22	+ 1
All other current transactions	- 224	- 219	+ 5
Balance on non-merchandise transactions	- 643	- 574	+ 69

1963. On the other hand net travel payments to overseas countries averaged \$53 million in the period under comparison, and rose \$5 million to \$60 million in the first two quarters of 1963. Accordingly in the latest period, the overseas deficit on travel account became larger for the first time in the four years than that with the United States. An \$11 million decline in net payments of interest and dividends to \$288 million was mainly due to increased earnings on official account. A rise in receipts on freight and shipping services from \$232 million to \$246 million, larger than that in payments from \$278 million to \$284 million, had the effect of lightening the deficit from \$46 million to \$38 million. The Canadian Government raised payments of official contributions \$6 million to \$25 million. As a result of the substantial contraction in net payments on travel account, its share of the deficit on "invisible" transactions fell from 21 per cent in the half year 1962 to 16 per cent in the same period in 1963. At the same time the proportion ascribable to interest and dividends rose from more than 46 per cent to 50 per cent, notwithstanding the absolute decline in the deficit on interest and dividends mentioned before.

Transactions by areas

Over two-fifths of the narrowing in the current account deficit in the second quarter of 1963 took place in Canada's transactions with the United States, more than one-third with the United Kingdom and the remaining one-fifth with other countries. Within the latter group most of the improvement originated in transactions with the Rest of the Sterling Area.

The reduction in the current account deficit with the United States from \$425 million to \$351 million resulted from a better than 6 per cent gain in total receipts on goods and services from \$1,281 million to \$1,363 million and a fractional increase in total payments to \$1,714 million in the second quarter of 1963. A rise in exports, in part offset by that in imports less than one-half as large, accounted for somewhat over 40 per cent of the decline in the current account deficit, while larger receipts together with lowered payments for services contributed the remainder. As referred to before in comments on non-merchandise transactions with all countries, increases in receipts on travel and income accounts and decreases in payments for travel, interest and dividends were to a considerable extent responsible for the improvement in the deficit on non-merchandise transactions with the United States.

With the United Kingdom about an 11 per cent increment in total receipts from \$296 million to \$330 million and a similar percentage decline in payments from \$248 million to \$221 million combined to more than double the current account surplus with that country from \$48 million to \$109 million. Most of this gain was attributable to merchandise trade, with exports increasing more than 12 per cent to \$268 million and imports declining about the same percentage to \$140 million.

The entire rise in the current account surplus with other countries originated in merchandise trade, with a sizable growth in exports, including manufactured materials and products, which was offset by a much smaller increase in imports.

In a comparison of first half-year balances in the Sixties, the current account deficit with the United States has been narrowing, with the exception of the first six months of 1961. With overseas countries movements in balances have been more irregular. Following a deficit in 1960, which was ascribable to overseas countries other than the United Kingdom, surpluses have been recorded with this area and with the United Kingdom. The largest surplus occurred in transactions with the United Kingdom in the first half of 1963 and with other countries in the same period of 1961.

Summary of Current Transactions with the United States,
United Kingdom and other Countries 1962 and 1963,
and Change between the Periods

	1962	1963	Change	1962	1963	Change
	millions of dollars					
	All countries			United States		
<u>Second quarter</u>						
Merchandise exports (adjusted)	1,620	1,765	+ 145	945	1,002	+ 57
Merchandise imports (adjusted)	1,665	1,693	+ 28	1,136	1,162	+ 26
Balance on merchandise trade	- 45	+ 72	+ 117	- 191	- 160	+ 31
Other current receipts	483	511	+ 28	336	361	+ 25
Other current payments	800	776	- 24	570	552	- 18
Balance on non-merchandise transactions	- 317	- 265	+ 52	- 234	- 191	+ 43
Total receipts	2,103	2,276	+ 173	1,281	1,363	+ 82
Total payments	2,465	2,469	+ 4	1,706	1,714	+ 8
Current account balance	- 362	- 193	+ 169	- 425	- 351	+ 74
<u>January to June</u>						
Merchandise exports (adjusted)	3,015	3,241	+ 226	1,803	1,881	+ 78
Merchandise imports (adjusted)	3,067	3,106	+ 39	2,130	2,193	+ 63
Balance on merchandise trade	- 52	+ 135	+ 187	- 327	- 312	+ 15
Other current receipts	836	895	+ 59	596	631	+ 35
Other current payments	1,479	1,469	- 10	1,037	1,024	- 13
Balance on non-merchandise transactions	- 643	- 574	+ 69	- 441	- 393	+ 48
Total receipts	3,851	4,136	+ 285	2,399	2,512	+ 113
Total payments	4,546	4,575	+ 29	3,167	3,217	+ 50
Current account balance	- 695	- 439	+ 256	- 768	- 705	+ 63
	United Kingdom			Other countries		
<u>Second quarter</u>						
Merchandise exports (adjusted)	238	268	+ 30	437	495	+ 58
Merchandise imports (adjusted)	160	140	- 20	369	391	+ 22
Balance on merchandise trade	+ 78	+ 128	+ 50	+ 68	+ 104	+ 36
Other current receipts	58	62	+ 4	89	88	- 1
Other current payments	88	81	- 7	142	143	+ 1
Balance on non-merchandise transactions	- 30	- 19	+ 11	- 53	- 55	- 2
Total receipts	296	330	+ 34	526	583	+ 57
Total payments	248	221	- 27	511	534	+ 23
Current account balance	+ 48	+ 109	+ 61	+ 15	+ 49	+ 34
<u>January to June</u>						
Merchandise exports (adjusted)	430	481	+ 51	782	879	+ 97
Merchandise imports (adjusted)	297	243	- 54	640	670	+ 30
Balance on merchandise trade	+ 133	+ 238	+ 105	+ 142	+ 209	+ 67
Other current receipts	98	112	+ 14	142	152	+ 10
Other current payments	177	169	- 8	265	276	+ 11
Balance on non-merchandise transactions	- 79	- 57	+ 22	- 123	- 124	- 1
Total receipts	528	593	+ 65	924	1,031	+ 107
Total payments	474	412	- 62	905	946	+ 41
Current account balance	+ 54	+ 181	+ 127	+ 19	+ 85	+ 66

Between the first 6 months of 1962 and 1963, the deficit with the United States contracted \$63 million to \$705 million, the surplus with the United Kingdom showed a three-fold gain from \$54 million to \$181 million, and the surplus with other countries increased \$66 million to \$85 million.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q
	millions of dollars			
<u>United States:</u>				
1960	- 343	- 449	- 165	- 404
1961	- 433	- 435	- 151	- 367
1962	- 343	- 425	- 66	- 282
1963	- 354	- 351		
<u>United Kingdom:</u>				
1960	+ 28	+ 12	+ 48	+ 78
1961	+ 39	+ 27	+ 42	+ 79
1962	+ 6	+ 48	+ 49	+ 110
1963	+ 72	+ 109		
<u>Other countries:</u>				
1960	- 11	- 40	- 10	+ 13
1961	+ 57	+ 97	+ 47	+ 16
1962	+ 4	+ 15	- 17	+ 53
1963	+ 36	+ 49		

deficit with the United Kingdom fell \$22 million to \$57 million as a result of higher receipts and reduced payments on freight and shipping services, larger receipts of immigrants' funds and inheritances and lower net payments on government account.

The entire enlargement of \$66 million in the surplus with other countries originated in merchandise trade, as increases both in receipts and payments on "invisible" transactions offset one another. A jump of 35 per cent in shipments of Canadian commodities to the Rest of the Sterling Area, offset only in part by increased imports, accounted for more than one-half of the gain in the surplus with overseas countries other than the United Kingdom. A further improvement of nearly 40 per cent resulted from a moderate rise in exports plus a small decline in imports from the other OECD countries. An increase of about 8 per cent both in exports and imports, the former however being from a larger base, from the remaining countries accounted for the remainder of the rise in the surplus on current transactions. Among countries in the Rest of the Sterling Area, the Republic of South Africa bought more than \$15 million worth of Canadian wheat in the first six months of 1963. Larger shipments were recorded to India of wheat, newsprint, copper and rails, among other commodities. Exports of metals were moderately higher to Pakistan, and increased shipments of motor vehicles and parts and electrical equipment left for Australia. Among countries in the remaining group, the largest increase of nearly \$30 million, or more than 25 per cent, occurred in exports to Japan, covering such commodities as wheat, oil seeds, lumber, pulp, copper and iron ore. Shipments of Canadian wheat to Mainland China fell nearly 25 per cent between the first halves of 1962 and 1963, but moderate-sized shipments of wheat to Czechoslovakia reappeared in the June quarter.

Capital Movements

The inflow of capital into Canada in long term forms has moderated somewhat from the very high levels of late 1962 but has continued to be greater than the current account deficit incurred in the period, thereby allowing some further increase in official holdings of gold and foreign exchange. The growth of these holdings ceased in June when there was a modest reduction. While the inflows in long term forms have exceeded the current account deficits to date in 1963, this was not the case in the years from 1957 to 1962 and over the period as a whole there has been a large net inflow in the form of net short term liabilities.

Non-merchandise transactions accounted for at least three-quarters of the reduction in the current deficit with the United States, since gains of similar magnitude in merchandise exports and imports lessened the contribution of trade to lowering the deficit. Smaller net payments on travel alone accounted for the entire decline of \$48 million in the "invisible" deficit with the United States. The reduction of \$21 million in net payments of interest and dividends together with a rise of \$1 million in the value of gold production available for export were counter-balanced by enhanced net payments on other items.

More than four-fifths of the \$127 million rise in the surplus on current transactions with the United Kingdom originated in merchandise trade, with exports advancing more than \$50 million and imports declining by a similar amount, or over 18 per cent. Commodities which contributed to the export rise to the United Kingdom were wheat, lumber, metals and minerals, including aluminum, nickel, and uranium, while diminished exports of automobiles was one of the main factors behind the drop in imports. The non-merchandise

Summary	1962				1963	
	I Q	II Q	III Q	IV Q	I Q	II Q
	millions of dollars					
Capital movements in long term forms	+ 16	- 16	+ 248	+ 445	+ 384	+ 236
Capital movements in short term forms(1) ..	- 47	- 215	+ 472	+ 152	- 72	+ 68
Balance on goods and services	- 333	- 362	- 34	- 119	- 246	- 193
Total of above	- 364	- 593	+ 686	+ 478	+ 66	+ 111
Special international financial assistance	-	+ 707	-	- 377	-	-
Change in official holdings of gold and foreign exchange(2)	+ 364	- 114	- 686	- 101	- 66	- 111

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

(2) Increase (-).

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have totalled \$55 million in the second quarter. This was some \$25 million lower than in the first quarter but a part of the decline is accounted for by the incidence of takeover and refinancing transactions.

The petroleum and natural gas industry attracted the largest share of the net inward movement in the quarter, despite some outflows in connection with takeover transactions. Mining followed in size but did not give rise to inflows on the scale of the first quarter due to the phasing out of some capital projects. There were relatively small net inflows to manufacturing enterprises in contrast to the first quarter when the total was inflated by the transfer of funds for takeovers.

About three quarters of the net inflow for direct investment in Canada in the first half of the year appears to have originated in the United States.

The net outflow of Canadian capital for direct investment abroad is estimated to have contracted from \$15 million in the first quarter to \$5 million in the second. Most of the change reflected the disposal of existing investment in the United States.

SECURITY TRANSACTIONS The net capital movement into Canada from transactions in bonds and stocks during the second quarter of 1963 amounted to \$212 million. This represented a substantial reduction from the very high level of \$329 million established in the first quarter of the year. While the second quarter inflow was large by historical standards it could be more than accounted for by some \$232 million net received from deliveries of bonds whose sale had been arranged earlier. Unusually large retirements of foreign-held Canadian securities contributed to this result.

New Issues of Canadian Bonds Sold to United States Residents

Period		Contracts	Deliveries
		millions of dollars	
1961	Year	355	437
1962	Year	936	668
1962	I Q	133	33
	II Q	78	194
	III Q	355	73
	IV Q	370	368
1963	I Q	531	401
	II Q	134	366

Net sales in the quarter of \$212 million included \$390 million proceeds of new Canadian issues of bonds and stocks, and \$12 million from net transactions in foreign securities. On the other hand there were net repurchases from non-residents of \$13 million of outstanding Canadian securities, and retirements of foreign-held Canadian securities led to a capital outflow of \$177 million.

More than two-thirds of the proceeds of new issues in the quarter arose from corporate borrowing with natural gas pipelines, other utilities, petroleum and finance companies all contributing in important measure. At mid-year the total of bonds sold to residents of the

United States but undelivered was \$189 million. Retirements of foreign-held Canadian securities included major amounts covering stocks of utility companies acquired by the Quebec Hydro-Electric Commission, as well as government and corporate bonds.

Net Sales (+) of Outstanding Canadian Stocks to Non-residents

Period	Total	United States	Other Countries
millions of dollars			
1962 I Q	- 14	15	- 29
II Q	- 44	- 3	- 41
III Q	- 26	- 6	- 20
IV Q	- 32	- 18	- 14
1963 I Q	- 57	- 30	- 27
II Q	- 44	- 29	- 15
April	- 19	- 13	- 6
May	- 19	- 12	- 7
June	- 6	- 4	- 2

The net outflow of \$13 million covering the repurchase from non-residents of outstanding Canadian securities concealed net sales of \$31 million of bonds and debentures, and net repurchases of \$44 million of stocks. The inflow from trading in bonds was higher, and the outflow from trading in stocks was smaller, than in the first quarter, and the net outflow was \$21 million smaller.

In June trade in all outstanding issues gave rise to a net capital inflow of \$3.7 million. For the first time since October of last year trade in outstanding Canadian issues contributed a small inflow. There were net sales of outstanding Canadian and foreign issues to United States residents aggregating \$4.6 million in June; this was larger than in recent months.

OTHER CAPITAL MOVEMENTS During the second quarter Canada received repayments aggregating \$6 million on loans to other governments.

Change in Canadian Dollar Holdings of Foreigners

Period	Total	Treasury bills	Deposits etc.
millions of dollars			
1962 I Q	- 32	+ 18	- 50
II Q	+ 34	+ 50	- 16
III Q	- 54	- 3	- 51
IV Q	+ 24	- 61	+ 85
1963 I Q	- 21	+ 9	- 30
II Q	+ 24	- 19	+ 43

Canadian dollar holdings of foreigners rose by \$24 million in the second quarter following a slightly smaller decline in the first quarter. With a declining yield differential between treasury bills in Canada and in the United States, foreign holdings of Canadian treasury bills fell by \$19 million but the increase in deposits of non-residents was much larger than this leading to the net inflow of capital. Most of the net increase in these short term Canadian liabilities was on account of residents of the United States.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1962				1963	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
millions of dollars						
International financial agencies (1)						
Canadian dollar subscriptions	- 22	- 12	- 7	- 8	-	-
Short-term Canadian dollar holdings	33	54(2)	1	10	1	- 6
Long-term capital transactions n.i.e.	6	- 127	26	- 15	- 10	- 32
Bank balances and other short-term funds abroad (excluding official reserves)	49	- 245	257	17	- 59	- 58
Canadian commercial paper					(- 39	15
Canadian finance paper	28	15	35	52	(8	- 3
Canadian finance company obligations n.i.e.)					(3	7
All other transactions including changes in loans and accounts receivable and payable(3)	- 103	- 61	240	57	35	89
Total (Item D 17)	- 9	- 376	552	113	- 61	+ 12

(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.

Among the movements shown separately in the supplementary statement of "other capital movements" were outflows of \$58 million to finance increased private and banking holdings of foreign exchange by residents; the corresponding movement in the first quarter was \$59 million. There were outflows of \$32 million for long term capital transactions not included elsewhere; a substantial part of this figure covered repayments of bank loans which were refinanced by the issue of securities, and extensions of export credits also contributed. There were net sales to non-residents of \$15 million of Canadian commercial paper in contrast to the substantial net repayment of \$39 million in the first quarter. On balance, changes in loans and accounts receivable and payable appear to have led to an inflow of \$89 million. Inflows of this order of magnitude are typical of the second quarter.

Official Holdings of
Gold and United States Dollars

United States Dollar in Canada

End of Period	Amount	Change in period
	millions of U.S.A. dollars	
1962 I Q	1,709	- 346
II Q	1,809(1)	+ 99
III Q	2,445(1)	+ 636
IV Q	2,539(2)	+ 95
1963 I Q	2,600(2)	+ 61
II Q	2,692(2)	+ 92
April	2,671(2)	+ 71
May	2,712(2)	+ 41
June	2,692(2)	- 20

Period	High	Low	Close	Noon average
	Canadian Cents			
1961 IV Q	104.37	103.00	104.34	103.61
1962 I Q	105.03	104.34	105.00	104.77
II Q	109.00	104.87	108.19	107.42
III Q	108.19	107.66	107.66	107.78
IV Q	107.81	107.53	107.72	107.63
1963 I Q	107.94	107.59	107.81	107.76
II Q	107.97	107.59	107.81	107.74

(1) Includes (+) 650 special international financial assistance.

(2) Includes (+) 300 special international financial assistance.

The Canadian Balance of International Indebtedness

The accompanying statement, showing the Canadian balance of international indebtedness, presents estimates of the various external assets and liabilities relating to the nation's international investment position.(1) The difference between assets and liabilities is described as the Canadian balance of international indebtedness. This balance arises from the amount by which foreign investments in Canada and other kinds of liabilities abroad exceed external assets owned by Canadians.

At the end of 1961 the balance of Canadian indebtedness to other countries amounted to \$17.9 billion, an increase of \$1.1 billion or 6 1/2% from the end of 1960. This is less of an increase than in preceding years. One factor contributing to the more moderate rise has been a higher value of Canada's external assets resulting from the reduced foreign exchange value of the Canadian dollar at the end of 1961. Reduced capital inflows and less income of non-residents reinvested in Canada also contributed to the smaller increase in 1961. This balance of indebtedness compares with one of \$5.0 billion one decade earlier, in 1951. The major contributor to the increased balance of indebtedness in both the year and the decade has been the expansion in foreign long-term investments in Canada, described in the note which follows.

(1) This statement is identified as "Table V" and represents advance publication of a part of the forthcoming report "The Canadian Balance of International Payments 1961 and 1962, and International Investment Position" (DBS Catalogue No. 67-201).

Investments of Foreign Long-Term Capital in Canada

Foreign long-term investments in Canada have been rising over a long period, being a prominent source of the financing of investment in Canada. The total value of foreign long-term investments which had been \$20,857 million in 1959, rose to \$22,214 million in 1960 and \$23,570 million by the end of 1961. These rates of increase of over 6% in each year are less than in some earlier periods of even greater rise. The largest parts of the rises in the value of this group of investments have come from inflows of capital to Canada which are reflected in the capital account of the balance of payments. In addition, other significant parts of the growth have originated in the retention of parts of the earnings on investments in Canada which accrue to non-residents.

Most of the above increases in this two-year period, as in preceding years, have been due to the expansion in direct investments in business enterprises in Canada which are controlled abroad. Increases in this group are distributed among primary and secondary industries with gains in manufacturing being almost as large as in the petroleum and mining industries. There were also sizable rises in the financial field, but in merchandising and in utilities other than pipelines, the gains were more moderate. There was a proportionately large gain in non-resident holdings of government and municipal bonds, mainly arising from sales of new issues outside of Canada. But in the case of other portfolio investments the increase was relatively small except in the case of miscellaneous investments which are mainly held through intermediaries.

Investments owned in the United States accounted for most of the increase in the total, rising to \$17,966 million at the end of 1961 from \$15,826 million in 1959. The direct investment group with a book value of \$11,284 million at the end of 1961 was again the main source of the rise, with other substantial gains in United States holdings of Canadian government and municipal bonds, other portfolio holdings and miscellaneous investments.

Investments owned in the United Kingdom rose from \$3,199 million in 1959 to \$3,385 million in 1961 due to a higher total of direct investments, a figure which, however, was partly influenced by changes in company classifications in 1960.

Investments owned in other countries showed a sharp gain from \$1,832 million in 1959 to \$2,219 million in 1961, a figure which is also affected by changes in company classifications in 1960. Besides concentrated gains in direct investments, there are also significant rises in holdings in these countries of government and municipal bonds and miscellaneous investments.

Foreign Capital Invested in Canada, 1959-61

Item	Owned by all non-residents			Owned in United States		
	1959	1960	1961	1959	1960	1961
millions of dollars						
Direct investments	11,906	12,872	13,737	9,912	10,549	11,284
Government and municipal bonds ...	3,112	3,269	3,438	2,764	2,903	3,049
Other portfolio investments	4,554	4,645	4,714	2,563	2,613	2,799
Miscellaneous investments	1,285	1,428	1,681	587	653	834
Total long-term investments	20,857	22,214	23,570	15,826	16,718	17,966
Owned in United Kingdom			Owned in all other countries			
Direct investments	1,384	1,535	1,613	610	788	840
Government and municipal bonds ...	141	127	147	207	239	242
Other portfolio investments	1,474	1,486	1,402	517	546	513
Miscellaneous investments	200	211	223	498	564	624
Total long-term investments	3,199	3,359	3,385	1,832	2,137	2,219

TABLE V. The Canadian Balance of International Indebtedness, Selected Year Ends, 1926-61¹

Item	1926	1930	1933	1939	1945	1949	1951	1954	1955	1956	1957	1958	1959	1960	1961 ^P
billions of dollars															
Canadian liabilities:															
Direct investments VIII, X.....	1.8	2.4	2.4	2.3	2.7	3.6	4.5	6.0	7.7	8.9	10.1	10.9	11.9	12.9	13.7
Government and municipal bonds IX.....	1.4	1.7	1.7	1.7	1.7	1.8	2.1	2.1	1.9	2.1	2.3	2.6	3.1	3.3	3.4
Other portfolio investments VIII.....	2.5	3.2	3.0	2.6	2.4	2.3	2.5	3.1	3.1	3.5	3.9	4.1	4.2	4.4	4.4
Income accumulating investment funds.....	—	—	—	—	—	—	—	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Miscellaneous investments VIII.....	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.6	0.6	0.8	0.9	1.1	1.3	1.4	1.7
Foreign long-term investments in Canada VIII, IX.....	6.0	7.6	7.4	6.9	7.1	8.0	9.5	12.5	13.5	15.6	17.5	19.0	20.9	22.2	23.6
Equity of non-residents in Canadian assets abroad.....	..	..	..	0.2	0.2	0.3	0.4	0.6	0.7	0.8	0.8	0.9	1.0	1.1	1.2
Canadian dollars holdings of non-residents.....	..	..	..	0.3	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Canadian short-term assets of international financial agencies.....	—	—	—	—	—	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4
Gross liabilities¹.....	6.4	8.0	7.7	7.4	7.6	8.9	10.6	13.7	14.8	17.0	18.9	20.6	22.7	24.3	25.7
United States ²	3.5	4.9	4.7	4.5	5.4	6.4	7.9	10.3	11.1	12.6	14.2	15.5	17.0	18.0	19.3
United Kingdom ²	2.7	2.9	2.8	2.6	1.8	1.8	1.9	2.3	2.5	2.8	3.1	3.2	3.4	3.5	3.5
Other countries ^{2,3}	0.2	0.2	0.2	0.3	0.4	0.7	0.8	1.0	1.2	1.5	1.7	1.9	2.4	2.8	2.8
Short-term payables ⁴.....	..	..	..	..	0.4	0.4	0.7	0.4	0.5	0.7	1.0	1.2	1.6	1.7	2.1
Gross liabilities.....	6.4¹	8.0²	7.7²	7.4²	8.0	9.3	11.3	14.1	15.3	17.7	19.9	21.8	24.3	26.1	27.8
Canadian assets:															
Direct investments VII.....	0.4	0.4	0.4	0.7	0.7	0.9	1.2	1.6	1.7	1.9	2.1	2.1	2.3	2.5	2.6
Portfolio investments VII.....	0.5	0.8	0.9	0.7	0.6	0.6	0.6	0.9	1.0	1.0	1.1	1.1	1.2	1.3	1.5
Government of Canada loans and advances VII.....	—	—	—	—	0.7	2.0	1.9	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4
Government of Canada subscriptions to international financial agencies.....	—	—	—	—	—	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6
Canadian long-term investments abroad.....	0.9	1.3	1.3	1.4	2.0	4.0	4.1	4.6	4.7	4.8	5.0	5.1	5.5	5.8	6.1
Government of Canada holdings of gold and foreign exchange VI.....	..	..	..	0.5	1.7	1.2	1.8	1.9	1.9	1.9	1.8	1.9	1.8	1.8	2.2
Bank balances and other short-term funds abroad.....	..	..	..	—	0.1	0.1	0.1	0.4	0.3	0.6	0.9	1.0	1.0	1.2	1.1
Gross assets².....	1.3	1.5	1.4	1.9	3.8	5.2	6.0	6.9	7.0	7.3	7.7	8.0	8.4	8.8	9.4
Government of Canada holdings of gold and foreign exchange.....	—	—	—	0.5	1.7	1.2	1.8	1.9	1.9	1.9	1.8	1.9	1.8	1.8	2.2
United States ^{2,5}	0.7	0.9	0.8	0.9	0.9	1.1	1.4	2.1	2.2	2.6	3.0	3.1	3.3	3.7	3.8
United Kingdom ^{2,5}	0.1	0.1	—	0.1	0.7	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Other countries ^{2,3}	0.5	0.5	0.6	0.4	0.5	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.9	1.9	1.9
Short-term receivables ⁴.....	..	..	..	..	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5
Gross assets.....	1.3¹	1.5¹	1.4²	1.9²	4.0	5.5	6.3	7.2	7.4	7.7	8.1	8.4	8.8	9.3	9.8
Canadian net international indebtedness:															
Net liabilities.....	5.1¹	6.5¹	6.3²	5.5²	4.0	3.8	5.0	6.8	7.8	10.0	11.8	13.4	15.4	16.8	17.9
Government of Canada holdings of gold and foreign exchange.....	—	—	—	-0.5	-1.7	-1.2	-1.8	-1.9	-1.9	-1.9	-1.8	-1.9	-1.8	-1.8	-2.2
United States ^{2,5}	2.8	4.0	3.9	3.6	4.6	5.3	6.5	8.2	8.8	10.0	11.1	12.4	13.6	14.4	15.5
United Kingdom ^{2,5}	2.6	2.8	2.8	2.5	1.1	0.2	0.4	0.9	1.1	1.4	1.7	1.9	2.0	2.1	2.1
Other countries ^{2,3}	-0.3	-0.3	—	-0.1	-0.1	-0.6	-0.5	-0.4	-0.2	—	0.1	0.3	0.5	0.9	0.9
Short-term indebtedness ⁴.....	..	..	..	..	0.3	0.2	0.5	0.1	0.2	0.3	0.7	0.7	1.1	1.3	1.6

¹ For missing years after 1945 see Tables II and III in "Canada's Short-Term External Assets and Liabilities 1945-1957" (DBS catalogue No. 67-504).

² Excludes short-term commercial indebtedness.

³ Includes international financial agencies.

⁴ Country distribution not available.

⁵ Net external assets of the Chartered Banks of Canada amounted to \$370 million in 1926, \$180 million in 1930, and \$91 million in 1933.

⁶ Excludes Government of Canada holdings of gold and foreign exchange.

Note: As figures are rounded, totals do not necessarily equal the sum of their component parts. Roman numerals refer to tables with further detail.

General note applicable to all statistics of foreign investments in Canada

Common and preference stocks are included at book (equity) values as shown in the balance sheets of the issuing companies, bonds and debentures are valued at par, liabilities in foreign currencies being converted into Canadian dollars at the original par of exchange.

Investments in Canadian companies have been classified according to principal activities in Canada.

Investments in Canada shown as owned by residents of the United States and the United Kingdom include some investments held for residents of other countries.

For more detailed explanations see "Canada's International Investment Position, 1926-1954".

TABLE VI. Canada's Official Holdings of Gold and United States Dollars,¹ 1951-62

At end of	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
millions of U.S. dollars												
March.....	1,653.4	1,787.2	1,845.3	1,827.2	1,871.5	1,871.4	1,923.6	1,867.7	1,888.3	1,856.1	1,934.9	1,709.4
June.....	1,683.0	1,827.7	1,750.1	1,863.3	1,930.4	1,899.5	1,941.8	1,921.4	1,934.2	1,773.9	1,985.2	1,808.7 ²
September.....	1,610.1	1,855.6	1,787.3	1,898.6	1,936.7	1,903.5	1,889.9	1,888.2	1,938.3	1,813.0	1,924.3	2,444.6 ²
December.....	1,776.6	1,860.2	1,818.5	1,942.6	1,900.8	1,936.2	1,828.3	1,939.1	1,869.2	1,829.2	2,055.8	2,539.4 ³

¹ Gold, United States dollars and short-term securities of the United States Government held by the Exchange Fund Account and other Government accounts, and net holdings of the Bank of Canada.

² Includes \$650 million special international financial assistance.

³ Includes \$300 million special international financial assistance.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1962 are preliminary and 1963

		1961			1962
		II	III	IV	I
A	Current Receipts				
1	Merchandise exports (adjusted)	1,447	1,557	1,619	1,395
3	Gold production available for export	42	41	38	43
4	Travel expenditures	103	255	85	46
5	Interest and dividends	59	40	74	33
6	Freight and shipping	120	135	129	104
7	Inheritances and immigrants' funds	28	31	25	20
11	All other current receipts	103	99	98	107
12	Total Current Receipts	1,902	2,158	2,068	1,748
B	Current Payments				
1	Merchandise imports (adjusted)	1,478	1,419	1,559	1,402
4	Travel expenditures	168	220	125	130
5	Interest and dividends	174	170	222	179
6	Freight and shipping	142	151	159	125
7	Inheritances and emigrants' funds	43	49	47	34
9	Official contributions	8	15	20	7
11	All other current payments	200	196	208	204
12	Total Current Payments	2,213	2,220	2,340	2,081
	Balance on Merchandise Trade	- 31	+138	+ 60	- 7
	Balance on Other Transactions, excluding B 9	-272	-185	-312	-319
	Official Contributions	- 8	- 15	- 20	- 7
C	Current Account Balance	-311	- 62	-272	-333
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+158	+117	+100	+110
2	Direct investment abroad	- 21	- 12	- 18	- 30
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 34	- 11	+ 9	- 3
3b	Trade in outstanding common and preference stocks	+ 32	-	- 5	- 14
4	New issues	+190	+125	+117	+ 47
5	Retirements	- 92	- 29	-103	- 74
	Foreign Securities				
6	Trade in outstanding issues	-	+ 2	- 10	- 32
7	New issues	- 18	- 7	- 7	- 2
8	Retirements	+ 2	+ 3	+ 2	+ 5
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 7	-	+ 27	+ 3
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	-	-
14	Change in Canadian dollar holdings of foreigners	- 72	- 1	+ 44	- 32
15	Special international financial assistance	-	-	-	-
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 51	+ 62	-135	+364
17	Other capital movements	+142	-187	+251	- 9
E	Net Capital Movement	+311	+ 62	+272	+333

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

data for 1961 are subject to revision.

1962			1963		Annual Totals		Four Quarters ended		
II	III	IV	I	II	1960	1961	1962	June 30, 1963	
(millions of dollars)									
1,620	1,628	1,721	1,476	1,765	5,392	5,889	6,364	6,590	A
42	39	41	45	41	162	162	165	166	1
126	294	94	50	132	420	482	560	570	3
52	44	82	43	54	173	209	211	223	4
128	133	133	110	136	442	486	498	512	5
31	42	31	27	36	102	103	124	136	6
104	108	107	109	112	419	403	426	436	7
									11
2,103	2,288	2,209	1,860	2,276	7,110	7,734	8,348	8,633	12
									B
1,665	1,559	1,583	1,413	1,693	5,540	5,716	6,209	6,248	1
178	200	102	117	158	627	642	610	577	4
205	163	234	194	191	653	770	781	782	5
153	158	152	124	160	533	568	588	594	6
40	44	45	40	45	181	174	163	174	7
12	5	8	15	10	61	56	32	38	9
212	193	204	203	212	758	790	813	812	11
2,465	2,322	2,328	2,106	2,469	8,353	8,716	9,196	9,225	12
- 45	+ 69	+138	+ 63	+ 72	-148	+173	+155	+342	
-305	- 98	-249	-294	-255	-1,034	-1,099	-971	-896	
- 12	- 5	- 8	- 15	- 10	- 61	- 56	- 32	- 38	
-362	- 34	-119	-246	-193	-1,243	-982	-848	-592	C
									D
+ 80	+145	+190	+ 80	+ 55	+650	+515	+525	+470	1
- 30	- 15	- 25	- 15	- 5	- 50	- 80	-100	- 60	2
+ 4	+ 39	+ 24	+ 23	+ 31	+ 3	+ 63	+ 64	+117	3a
- 44	- 26	- 32	- 57	- 44	+ 51	+ 40	-116	-159	3b
+201	+ 81	+381	+412	+390	+447	+533	+710	+1,264	4
- 71	- 54	-123	- 53	-177	-265	-297	-322	-407	5
- 37	- 9	- 5	+ 5	+ 10	- 19	- 5	- 83	+ 1	6
- 4	- 5	- 5	- 6	- 3	- 18	- 37	- 16	- 19	7
+ 5	+ 5	+ 5	+ 5	+ 5	+ 18	+ 9	+ 20	+ 20	8
-	- 7	-	-	-	-	-	- 7	- 7	9
+ 7	+ 68	+ 51	-	+ 6	+ 32	+ 37	+129	+125	10,11
-	-	- 1	-	-	- 3	-	- 1	- 1	13
+ 34	- 54	+ 24	- 21	+ 24	+120	- 34	- 28	- 27	14
+707	-	-377	-	-	-	-	+330	-377	15
-114	-686	-101	- 66	-111	+ 39	-229	-537	-964	16
-376	+552	+113	- 61	+ 12	+238	+467	+280	+616	17
+362	+ 34	+119	+246	+193	+1,243	+982	+848	+592	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.

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