

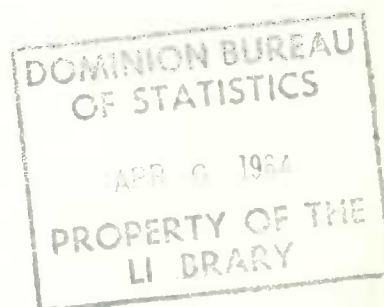
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**QUARTERLY ESTIMATES OF THE CANADIAN  
BALANCE OF INTERNATIONAL PAYMENTS  
FOURTH QUARTER 1963**

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# QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

## FOURTH QUARTER 1963 AND PRELIMINARY ESTIMATES FOR THE YEAR 1963

There was a further contraction in the size of the deficit in Canada's international current account to \$521 million in 1963 from \$848 million in 1962. This improvement was distributed over each quarter of the year. It was brought about by a tripling in the size of the export balance from merchandise trade with the larger expansion in exports than in imports. This export balance of \$484 million was close to half as much as the deficit of \$1,005 million from all non-merchandise transactions. The latter balance was virtually unchanged from 1962 because of offsetting movements in leading components. While a further improvement in travel led to a small credit balance, there were in the opposite direction larger transfers of interest and dividends and an increased volume of exports financed by official contributions.

A significant part of the expansion in exports in 1963 was the larger sale of wheat which made up more than \$200 million of the total rise of \$700 million in the year. The major new element in this rise was the deliveries to the Soviet Union which were concentrated in the final quarter of the year. Larger and more diversified exports of manufactured goods made up another significant part of the export rise, and there were also varied gains in sales of various metals, forest products and other primary products. In the fourth quarter the current account deficit was slightly reduced to \$108 million from the deficit in the same quarter of 1962. A larger export balance on merchandise account which reflects large sales of wheat to the U.S.S.R. was partly offset by larger transfers of interest and dividends and increased official contributions.

Among leading factors in the economic background influencing the balance of payments were rising economic activity in North America and in major markets abroad such as the United Kingdom, Japan and some countries of Western Europe. Along with this combination of strong influences was an apparent improvement in the competitive position of Canadian industry. Besides the increased export of many products there has been an extension in the range of Canadian consumption which has been met from production in Canada. This has had the effect of replacing merchandise imports which represented a smaller ratio of national expenditure than in similar stages of earlier periods of expansion. The devaluation of the Canadian dollar in 1962 together with tendencies to rising relative prices and costs in manufacturing countries abroad, has contributed to these changes. Official measures such as export credits, industry policies, defence sharing and the temporary import surcharges which were still in effect in the early months of 1963 have also contributed to the change.

### Summary Statement

	1959	1962	1963	1962	1963				
				IV Q	I Q	II Q	III Q	IV Q	
	millions of dollars								
Merchandise trade balance ...	- 422	+ 155	+ 484	+ 138	+ 70	+ 72	+ 144	+ 198	
Deficit on non-merchandise transactions .....	- 1,082	- 1,003	- 1,005	- 257	- 308	- 261	- 130	- 306	
Current account balance .....	- 1,504	- 848	- 521	- 119	- 238	- 189	+ 14	- 108	
Capital movements(1) .....	+ 1,493	+ 1,004	+ 667	+ 597	+ 304	+ 300	- 73	+ 136	
Long-term forms .....	+ 1,148	+ 672	+ 584	+ 458	+ 373	+ 200	+ 34	- 23	
Short-term forms .....	+ 345	+ 332	+ 83	+ 139	- 69	+ 100	- 107	+ 159	
Change in official exchange holdings(2) .....	- 11	+ 156	+ 146	+ 478	+ 66	+ 111	- 59	+ 28	

(1) Excluding change in official exchange holdings.

(2) Gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance.

Capital movements in 1963 were influenced by various new background factors. Among these was the interest equalization tax legislation announced by the President of the United States in July. This affected the investment climate immediately and contributed to the very different patterns of capital flows in the second half from those in the earlier part of the year. Whereas in the first two quarters there were substantial inflows in long-term forms, mainly arising through a concentration of borrowing in the United States, in the third quarter the net inflow in these forms was sharply reduced and was accompanied by net outflows in short-term forms. In the fourth quarter the net movement in long-term forms was outward while short-term movements were inward. Another influence on the size of some capital flows like direct investments was the existence of fewer very large investment projects financed by this type of movement and of fewer "takeovers".

The current account deficit in 1963 was approximately one-third of the peak imbalance of \$1,504 million which occurred in 1959. In that year there was a large negative balance on merchandise account in contrast to the positive balance which featured 1963, and the favourable change in the balances between the two years was \$906 million due to a much larger rise in exports than in imports. On non-merchandise account there has been a reduction since 1959 of \$77 million in the overall deficit, which was mainly the result of the improvement on travel account. But while there was a favourable change in the travel balance of \$220 million in this period, this was partly offset by larger payments of interest and dividends and for business services. Important elements in the rise in exports between 1959 and 1963 from \$5,150 million to \$7,064 million have been increased sales of wheat, metals, forest products, petroleum and natural gas, and manufactured goods.

Canada's balance of international indebtedness continues to rise, although at a somewhat reduced rate. This measure is the amount by which the value of foreign investments in Canada and other kinds of liabilities abroad exceeds external assets owned by Canadians. By the year end it was of the order of \$19 1/2 billion. This rise from \$17.9 billion at the end of 1961 reflects principally the net capital inflow in the two-year period and the net undistributed earnings accruing to non-residents during it, tempered by increases in the value of Canada's external assets arising from the increased value of foreign currencies in terms of Canadian funds. At \$19 1/2 billion the balance has grown in the last seven years nearly as much as the total accumulated balance of indebtedness up to that time.

#### The fourth quarter

Canada's deficit with all countries narrowed about 10 per cent from \$119 million to \$108 million between the December quarters of 1962 and 1963. This change was brought about by an increase from \$138 million to \$198 million in the commodity surplus, counterbalanced by a widening in the non-merchandise deficit from \$257 million to \$306 million. As the deficit with the United States on merchandise account more than doubled from \$78 million to \$162 million, the amelioration occurred wholly in trade with overseas countries. Within this group, huge shipments of wheat to the U.S.S.R. represented one outstanding element in the favourable trade situation in the closing quarter of 1963. The merchandise trade balance with the United Kingdom was unchanged while the balances with the Rest of the Sterling Area and other OECD countries deteriorated moderately in comparison with the final quarter of 1962.

Most of the \$49 million expansion in the deficit on "invisibles" occurred in transactions with the United States. A substantial rise in interest and dividend payments, particularly on direct investment, and more moderately higher net payments on other items such as freight services and migrants' funds and inheritances contributed to widening the over-all deficit on non-merchandise transactions with the United States. Increases in receipts of interest and dividends and in net travel receipts provided minor offsets.

After allowance for normal seasonal variations, the deficit with the rest of the world in the fourth quarter stood almost 20 per cent below the level for 1963 as a whole, but was substantially less than the high rate in the third quarter. In the last quarter, the surplus on merchandise account was some 20 per cent above the 1963 level. During the year, the merchandise surplus was highest in the June and December quarters, but changes in the individual balances of service items were generally not pronounced. Freight and shipping recorded the widest deficit in the September quarter and net payments of interest and dividends increased appreciably in the same quarter.

The shape of the capital account in the fourth quarter was greatly altered, reflecting in part at least the continuation of trends established earlier and the impact of previous developments. Long-term capital inflows continued to contract from the low levels (apart from deferred deliveries of new issues) characteristic after the first quarter of 1963. The phasing out of some direct investment projects played a part, and the bite of the United States interest equalization tax proposal became increasingly felt in the figures, although a number of other influences can also be pointed to,



including the earlier prepayment of intergovernmental debt. The result was a small outflow in long-term forms. Movements in short-term forms, on the other hand, were inwards and large. Commercial and finance company paper was one important form of inflow. It seems clear that some major re-evaluations of economic and financial prospects followed the announcement in September of the new wheat contracts and were a pervasive influence in the international movement of short-term capital quite apart from the actual export transactions themselves.

#### Export balance on merchandise trade

The surplus on Canada's merchandise trade tripled from \$155 million in 1962 to \$484 million in 1963. In current dollars, this positive balance just about equalled an exceptional surplus in 1952. After adjustment for balance of payments purposes, exports expanded \$700 million, or 11 per cent, from \$6,364 million in 1962 to \$7,064 million in 1963. At the same time imports rose from \$6,209 million to \$6,580 million, or up 6 per cent. Both trade totals stood at the highest recorded levels, following uninterrupted gains in exports after 1959 and with imports increasing in successive years after 1960.

Export gains were widespread over many commodities, and significant declines in shipments during 1963 were seen for a relatively small number of commodities. Shipments of wheat recorded the sharpest increase of well over \$200 million, due mainly to large sales to the U.S.S.R. and to some other countries in Eastern Europe. Exports of lumber and other wood materials advanced \$70 million, those of railway rolling stock, automobiles and other vehicles over \$50 million, and those of iron ore about the same amount. Shipments of machinery rose about \$45 million and those of wood pulp and semi-fabricated steel each about \$35 million. The value of exports of navigational systems and electronic control equipment almost doubled to \$64 million in 1963. Gains covering aluminum, newsprint and other paper materials, and fertilizers were smaller, with aluminum increasing over \$20 million and the other two groups each about \$15 million. While recorded exports of aircraft declined from the unusually high level of 1962, there were offsetting prepayments referred to later in connection with adjustments to merchandise trade for balance of payments purposes. In 1962 there had been deliveries abroad of a large number of Canadian-built swing-tail jet cargo aircraft. The decline in uranium exports was extended in 1963 with a reduction of nearly \$30 million. Shipments of cattle to the United States were valued at about \$25 million below 1962.

On account of the huge Russian wheat purchase, the proportion accounted for by the group covering food, beverage and tobacco of total Canadian commodities exported rose from 19 per cent to over 21 per cent in 1963. The share of this group in 1961 was nearly 21 per cent. The proportion for crude and fabricated materials declined from 69 per cent in 1961 and 1962 to 66 per cent in 1963, while that for manufactured products rose from nearly 9 per cent to 10 1/2 per cent and to almost 11 1/2 per cent during the three-year period.

Adjustments to regular statistics on the Trade of Canada added in excess of \$80 million to the export trade total, in comparison with about \$15 million in the preceding year; and they covered in 1963 items such as progress payments on manufacture in Canada of aircraft for overseas NATO countries under United States military assistance, clearances of wheat and shipments from custom warehouses. The positive adjustment to the import trade aggregate, analyzed below, was much smaller, and comprised among other items imports into custom warehouses and progress payments on civil aircraft and for defence. The corresponding adjustment for 1962 was a sizable negative one to take account primarily of non-cash acquisition of defence goods.

As indicated earlier the rise in imports has been relatively less than in former periods of general business expansion. There has been an evident tendency for more import replacement by Canadian producers than formerly, which has been encouraged by exchange devaluation and temporary import surcharges still in effect in the first quarter of 1963.

The 6 per cent expansion in imports from \$6,209 million to \$6,580 million in 1963 was distributed over industrial materials, machinery and consumer goods. In a comparison of 11-month totals of the two years, imports of raw sugar were about \$60 million higher in 1963, and the increase covering fruits and fresh meat was about half as large. Imports of farm equipment and tractors rose over \$60 million, of crude petroleum and products more than \$30 million. Less substantial increases occurred in imports of iron ore and scrap iron; semi-fabricated steel; tools; and engines. A gain in 1963 in imports of automobile parts slightly exceeded the decline in purchases from abroad of automobiles. Following an increase of some 20 per cent between 1961 and 1962 in the imports of automobiles, automobile parts and other vehicles, the rise for this group in 1963 was only about 1/10 as great. After appreciable increases in 1962 of about \$60 million and \$70 million respectively in the imports of electrical apparatus and non-farm machinery, imports of some commodities within these groups declined moderately in 1963. With adjustment for balance of payments use, imports of aircraft were also moderately lower in 1963.

As there was only a small rise in export prices of around one per cent in 1963 most of the increase in export values was in the volume of exports. In comparing corresponding months of the two years, most of the price rise was seen during the first half year. The Canadian dollar was devalued and stabilized in May 1962. With imports on the other hand there were more significant price increases within the year, but these were concentrated in the prices of sugar and a few other primary commodities. In addition there were the effects of the devaluation of the Canadian dollar upon import prices in comparisons with earlier months of 1962. Consequently only a part of the increased value of imports for the year as a whole reflects a rise in volume, although gains in volume were general in the latter part of the year.

#### Deficit on services and other non-merchandise items

The imbalance on non-merchandise transactions was practically unchanged at a deficit of \$1,005 million in 1963, following a 13 per cent decline in the deficit on these transactions from the peak of

#### Major Items in the Balance on Non-Merchandise Transactions

	1961	1962	1963	Change in 1963
	millions of dollars			
Gold production available for export .....	+ 162	+ 165	+ 166	+ 1
Travel .....	- 160	- 50	+ 13	+ 63
Interest and dividends ...	- 561	- 570	- 614	- 44
Freight and shipping .....	- 82	- 90	- 85	+ 5
Inheritances and migrants' funds .....	- 71	- 39	- 33	+ 6
Official contributions ...	- 56	- 32	- 61	- 29
All other current transac- tions .....	- 387	- 387	- 391	- 4
Balance on non-merchandise transactions .....	- 1,155	- 1,003	- 1,005	- 2

\$1,155 million in 1961 to \$1,003 million in 1962. Among service items, the most noteworthy change in the year was a turn-around of \$63 million in the travel balance from a deficit of \$50 million to a surplus of \$13 million in 1963. Although the improving trend was evident since 1960, this betterment was less than in 1962. On the other hand, net payments of interest and dividends increased \$44 million, or by 8 per cent, and official contributions at \$61 million, up \$29 million from \$32 million in 1962, were restored to the average level of contributions for recent years. Deficits on freight and shipping and on inheritances and migrants' funds narrowed moderately, and the value of gold production

available for export at \$166 million was a shade higher in 1963, while a small rise took place in the deficit on all other current transactions.

The proportion of the "invisible" deficit attributable to interest and dividends expanded from 57 per cent in 1962 to 61 per cent in 1963. The changes in the shares of other items were smaller, except travel expenditures, which accounted for 14 per cent and 5 per cent of net service payments in 1961 and 1962 respectively, but which yielded a small surplus in 1963.

#### Travel Expenditures

	1960	1961	1962	1963	Change in 1963
	millions of dollars				
Receipts:					
United States .....	375	435	510	549	+ 39
Overseas .....	45	47	50	53	+ 3
All countries .....	420	482	560	602	+ 42
Payments:					
United States .....	462	459	420	392	- 28
Overseas .....	165	183	190	197	+ 7
All countries .....	627	642	610	589	- 21
Balance					
United States .....	- 87	- 24	+ 90	+ 157	+ 67
Overseas .....	- 120	- 136	- 140	- 144	- 4
All countries .....	- 207	- 160	- 50	+ 13	+ 63

Successive improvements in the travel balance from the record level deficit of \$207 million in 1959 and 1960 was extended in 1963, with the emergence of a small surplus of \$13 million, the first since 1950. This improvement has been concentrated in transactions with the United States as the deficit with the overseas has risen very gradually over the three recent years, with the Canadian expenditures for travel overseas increasing slightly more than receipts in Canada from visitors from overseas countries. Canadian travel expenditures overseas however have not risen proportionately as much as the volume of this group of travellers.



In transactions with the United States, expenditures by American visitors have increased nearly 50 per cent from \$375 million in 1960 to \$549 million in 1963, while travel outlays by Canadians in the United States have declined, but less substantially from \$462 million in 1960 to \$392 million in 1963. In this year alone the rise in receipts amounted to \$39 million, or over 7 per cent, while the contraction in payments was estimated at \$28 million, or nearly 7 per cent. Visitors to Canada arriving by automobile accounted for most of the gain in receipts, and longer visits as well as more visitors contributed to this gain. On the other hand, although more Canadians visited the United States, average expenditures tended to be lower than in the previous year. Duty-free tourist purchases in the United States declined well over \$10 million, and as the privilege was curtailed at the end of June 1962, the contraction in these imports occurred between the first halves of 1962 and 1963.

The deficit on interest and dividends widened nearly 8 per cent from \$570 million to the highest recorded level of \$614 million in 1963. Both receipts at \$228 million and payments at \$842 million were higher than ever before, but the absolute increase in payments was more than three times as large as

Interest and Dividends: Payments			
Period	Total	Interest	Dividends
millions of dollars			
1961	770	259	511
1962	781	285	496
1963	842	317	525
1962 I Q	179	67	112
II Q	205	76	129
III Q	163	62	101
IV Q	234	80	154
1963 I Q	196	70	126
II Q	192	89	103
III Q	181	70	111
IV Q	273	88	185

that in receipts during 1963. The latter rose from \$211 million to \$228 million, from enhanced receipts of interest, which were largely represented by increased earnings on official account. Payments of interest and dividends advanced nearly 8 per cent from \$781 million to \$842 million, with the increase distributed nearly evenly between the two components. Interest payments rose over 10 per cent to \$317 million. Sales to non-residents of new bonds were the largest factor in enhanced interest payments. Trade in outstanding securities accounted for a much smaller increment, but retirements of Canadian bonds had the effect of partially offsetting the increase. Roughly 90 per cent of the additional interest, arising from new sales of bonds, was paid in the last three quarters of 1963. Large sales of Government of Canada and provincial issues and corporation bonds in 1962 produced increased interest payments in the second quarter of 1963, and in addition substantial sales of corporate bonds in the June quarter yielded higher interest payments in the last quarter of 1963.

Dividend payments rose nearly 6 per cent from \$496 million in 1962 to \$525 million in 1963; and under two-thirds of this increase was attributable to dividends on direct investment. The remainder of the rise was divided about equally between dividends paid on portfolio investment and net profits of unincorporated branches in Canada of foreign companies. Transfers of dividends by subsidiaries followed an irregular course during the year. Payments in the second quarter were much less than in the previous year while the first, third and fourth quarters were higher, with the main increase occurring in the final quarter.

A new factor applying to transfers in the second half was introduced in the June Budget with the lowering in the withholding tax rate from 15% to 10% on dividends paid to non-residents by certain Canadian companies. On the other hand non-resident holdings of stocks have been reduced by persistent liquidations over the past several years.

With expanding exports and imports, both receipts and payments on freight and shipping services rose, the former by 10 per cent to \$550 million and the payments by 8 per cent to \$635 million. The deficit on transportation accordingly narrowed \$5 million to \$85 million. Higher receipts of inland freight on exports accounted for a large proportion of the gain in freight receipts, and expenditures of foreign ships in Canada were also greater, but more moderately so. Likewise, inland freight on imports from the United States and expenditures abroad of Canadian shipping lines accounted for most of the additions to freight payments.

Increases of \$25 million and \$19 million respectively in receipts and payments of migrants' funds and inheritances raised these totals to \$149 million and \$182 million, and reduced the deficit \$6 million to \$33 million. The rise in receipts was attributable to a 25 per cent gain in the number of immigrants in 1963, offset by slightly lower per capita funds from the unusually high average of the preceding year. An increase in the number of Canadians leaving the country for residence abroad brought about the rise in payments. Following an increase of \$1 million to \$166 million, the value of gold production available for export in 1963 stood slightly above the average for this item in the sixties.

Among the other "invisibles", so far not described, official contributions registered the largest change in expanding from an unusually low level of \$32 million in 1962 to \$61 million in 1963.

#### Miscellaneous Current Transactions

	Receipts		Payments	
	1962	1963	1962	1963
	millions of dollars			
Government, excluding official contributions ..	114	120	149	161
Personal and institutional remittances .....	26	26	91	94
Miscellaneous income .....	102	94	143	140
Business services .....	184	204	430	440
Total .....	426	444	813	835
Balance .....	-	-	- 387	- 391

The provision of capital assistance and technical aid under the Colombo Plan doubled in the year to nearly \$50 million. Fairly small and offsetting changes in net payments on other items such as other government expenditures, business services, miscellaneous income and personal remittances raised the deficit from \$387 million to \$391 million in 1963.

#### Transactions by areas

A sharp rise in the surplus on current transactions of \$369 million, or nearly 140 per cent, with overseas countries, offset in part by a slight widening in the deficit with the United States of less than 4 per cent, or \$42 million, combined to produce the fall in Canada's overall deficit on current account from \$848 million to \$521 million in 1963. This was the reversal of the change that took place in 1962, when the deficit with the United States narrowed about one-fifth and the surplus with

overseas countries fell about a third. Within the overseas group, about one-half of the change was ascribable to transactions with the United Kingdom alone. Increased shipments of wheat to the U.S.S.R. were large enough to account for the remainder of the expansion in the overseas surplus.

#### With the United States

The small increase in the deficit on Canada's transactions with the United States from \$1,116 million to \$1,158 million followed about a 5 per cent increase in both receipts and payments for goods and services. Total receipts were up \$291 million to \$5,474 million in 1963, while total payments grew \$333 million to \$6,632 million. Both merchandise exports and imports rose nearly 6 per cent, the former from \$3,742 million to \$3,952 million, up \$210 million. Merchandise imports increased \$247 million to \$4,464 million. Among exports to the United States, shipments of iron ore and concentrates advanced over 20 per cent to \$214 million. Shipments of softwood lumber rose 10 per cent to over \$313 million, those of aluminum 18 per cent to \$120 million, and those of wood pulp 4 per cent to \$310 million. More moderate increases were recorded in exports of a variety of other commodities such as whisky, nickel ores, farm machinery, electronic equipment and fertilizers. A sizable fall of over \$50 million took place in shipments of uranium; and exports of cattle declined more moderately.

A large part of the \$247 million increase in merchandise imports from the United States covered commodities of iron and steel, such as automobile parts, farm equipment and tractors and parts. On the basis of 11-month totals, imports of automobiles and some types of non-farm machinery were lower in 1963.

The deficit on non-merchandise transactions with the United States increased \$5 million to \$646 million. A substantial expansion of roughly 75 per cent on net travel receipts was more than counterbalanced by widened deficits on some other non-merchandise items. References to these changes appear in the section on an overall consideration of service transactions.

#### With the United Kingdom

The rising course since 1959 of Canada's surplus in transactions with the United Kingdom was extended in 1963, when the largest expansion in this recent period of \$181 million occurred. The surplus of \$394 million, arising from total receipts of \$1,279 million and payments of \$885 million, was the highest since 1949, and stood slightly above that of \$388 million in 1952. Nearly 80 per cent of the improvement was ascribable to merchandise trade, the surplus going up some 40 per cent to \$492 million.



Summary of Current Transactions with the United States, United Kingdom and  
Other Countries 1962 and 1963, and Changes Between the Periods

	1962	1963	Change	1962	1963	Change
	millions of dollars					
	All countries			United States		
<u>Fourth quarter</u>						
Merchandise exports (adjusted) .....	1,721	2,009	+ 288	978	1,030	+ 52
Merchandise imports (adjusted) .....	1,583	1,811	+ 228	1,056	1,192	+ 136
Balance on merchandise trade .....	+ 138	+ 198	+ 60	- 78	- 162	- 84
Other current receipts .....	488	529	+ 41	327	345	+ 18
Other current payments .....	745	835	+ 90	531	593	+ 62
Balance on non-merchandise transactions	- 257	- 306	- 49	- 204	- 248	- 44
Total receipts .....	2,209	2,538	+ 329	1,305	1,375	+ 70
Total payments .....	2,328	2,646	+ 318	1,587	1,785	+ 198
Current account balance .....	- 119	- 108	+ 11	- 282	- 410	- 128
<u>Calendar year</u>						
Merchandise exports (adjusted) .....	6,364	7,064	+ 700	3,742	3,952	+ 210
Merchandise imports (adjusted) .....	6,209	6,580	+ 371	4,217	4,464	+ 247
Balance on merchandise trade .....	+ 155	+ 484	+ 329	- 475	- 512	- 37
Other current receipts .....	1,984	2,139	+ 155	1,441	1,522	+ 81
Other current payments .....	2,987	3,144	+ 157	2,082	2,168	+ 86
Balance on non-merchandise transactions	- 1,003	- 1,005	- 2	- 641	- 646	- 5
Total receipts .....	8,348	9,203	+ 855	5,183	5,474	+ 291
Total payments .....	9,196	9,724	+ 528	6,299	6,632	+ 333
Current account balance .....	- 848	- 521	+ 327	- 1,116	- 1,158	- 42
	United Kingdom			Other countries		
<u>Fourth quarter</u>						
Merchandise exports (adjusted) .....	249	266	+ 17	494	713	+ 219
Merchandise imports (adjusted) .....	131	147	+ 16	396	472	+ 76
Balance on merchandise trade .....	+ 118	+ 119	+ 1	+ 98	+ 241	+ 143
Other current receipts .....	75	84	+ 9	86	100	+ 14
Other current payments .....	83	86	+ 3	131	156	+ 25
Balance on non-merchandise transactions	- 8	- 2	+ 6	- 45	- 56	- 11
Total receipts .....	324	350	+ 26	580	813	+ 233
Total payments .....	214	233	+ 19	527	628	+ 101
Current account balance .....	+ 110	+ 117	+ 7	+ 53	+ 185	+ 132
<u>Calendar year</u>						
Merchandise exports (adjusted) .....	924	1,017	+ 93	1,698	2,095	+ 397
Merchandise imports (adjusted) .....	575	525	- 50	1,417	1,591	+ 174
Balance on merchandise trade .....	+ 349	+ 492	+ 143	+ 281	+ 504	+ 223
Other current receipts .....	227	262	+ 35	316	355	+ 39
Other current payments .....	363	360	- 3	542	616	+ 74
Balance on non-merchandise transactions	- 136	- 98	+ 38	- 226	- 261	- 35
Total receipts .....	1,151	1,279	+ 128	2,014	2,450	+ 436
Total payments .....	938	885	- 53	1,959	2,207	+ 248
Current account balance .....	+ 213	+ 394	+ 181	+ 55	+ 243	+ 188

Merchandise exports increased from \$924 million to \$1,017 million, up 10 per cent, while merchandise imports contracted nearly 10 per cent from \$575 million to \$525 million. In 1963, shipments of uranium rose \$24 million, followed by those of wheat, which advanced about \$20 million. Following a fairly sizable decline in 1962, exports of iron ore gained more than \$11 million. Other increases were recorded in exports of oil cake and meal, lumber, wood pulp, copper and nickel, while declines occurred in exports of tobacco and newsprint. Most of the \$50 million reduction to \$525 million in imports from the United Kingdom occurred in commodities of iron and steel, and in particular, automobiles.

Current Account Balances with  
Principal Countries and Areas

	1961	1962	1963	Change in 1963
	millions of dollars			
United States .....	- 1,386	- 1,116	- 1,158	- 42
Overseas: .....	+ 404	+ 268	+ 637	+ 369
United Kingdom .....	+ 187	+ 213	+ 394	+ 181
Other Sterling Area .....	+ 27	+ 11	- 20	- 31
Other OECD countries .....	- 31	- 70	- 86	- 16
Other countries .....	+ 221	+ 114	+ 349	+ 235
All countries .....	- 982	- 848	- 521	+ 327

The deficit of \$136 million in 1962 on non-merchandise transactions with the United Kingdom was reduced nearly 30 per cent to \$98 million. This change of \$38 million was derived from increased net receipts amounting together to \$30 million on freight and shipping services and migrants' funds and inheritances. In addition there was a cut of some \$20 million in the deficit on "miscellaneous current transactions", which was in part offset by a widening by a smaller degree in net payments on travel, interest and dividends. Expenditures on government account, including defence, were down, and the deficits on other items of miscellaneous current transactions were also lower.

With "other countries"

The substantial improvement in Canada's surplus in transactions with other countries took place with countries outside the Sterling Area and other OECD groups. With respect to the two latter areas, there was a deterioration amounting to \$47 million. With the remaining countries, however, the surplus tripled from \$114 million to \$349 million; and nearly 90 per cent of this gain was concentrated in commodity trade. Merchandise exports increased about 40 per cent from \$736 million to \$1,024 million, while imports rose over 10 per cent from \$628 million to \$706 million. In reflection of poor crop conditions overseas, clearances of wheat to Russia alone in 1963 amounted to nearly \$180 million, with none being shipped in 1962, but shipments of wheat to Mainland China declined almost \$50 million from the peak in 1962. In addition barley exports to China were more than \$10 million lower in 1963. Exports to Japan, on the other hand, rose nearly 40 per cent to a shade under \$300 million. Exports to Latin America were up about \$50 million, or 20 per cent, to almost \$290 million. Within this area the largest gains appeared in exports to Argentina and Mexico, and smaller increases to Colombia, Peru, Venezuela and Cuba. The rise to Argentina was mainly in locomotives, and this commodity was featured also in increased exports to Mexico. About one-half of the \$78 million increase in imports from the other countries group was accounted for by larger imports of raw sugar from Cuba and greater purchases of crude petroleum from countries including Iran, Saudi Arabia and Venezuela. A sizable gain in earnings on inland freight on exports accounted for an appreciable share of the \$25 million expansion to \$31 million in the surplus on service transactions.

With Rest of the Sterling Area and other OECD countries

A slow deterioration since 1960 in the balance of current transactions with the Rest of the Sterling Area and the other OECD countries continued in 1963. A surplus with the former area of \$11 million in 1962 changed into a deficit of \$20 million in 1963, while the deficit with the latter group rose slightly from \$70 million to \$86 million. Most of the change with the Rest of the Sterling Area was due to larger official contributions, and with the OECD group, a greater expansion in net payments on service transactions outweighed the gain in commodity surplus. The swing from a near balance in service transactions with the Rest of the Sterling Area to a deficit of \$20 million was attributable to higher official contributions, in particular to the recovery of disbursements financing exports under the Colombo Plan. The change in merchandise trade balance with the RSA, which resulted from over 20 per cent rises in both exports and imports in 1963, was only slight, but a factor in the former was the financing by official contributions of a larger volume of goods. Largest gains took place in exports to the Republic of South Africa and to India. Wheat accounted for most of the increase to the former but shipments of lumber, automobiles and trucks were up as well. Larger exports to India included

rails, copper, asbestos, turbines and wheat. Raw sugar was the most important single commodity contributing to enhanced imports from the RSA with prices considerably higher in 1963.

On merchandise account with the other OECD countries, a 6 per cent advance in exports offset by that of over 3 per cent in imports added some \$20 million, or 13 per cent, to the surplus. On the other hand, the deficit from non-merchandise transactions with the other OECD countries rose to a new peak and continued to exceed the merchandise surplus by a wide margin. With the exception of slightly larger receipts of migrants' funds and inheritances, the deficits on other non-merchandise items, in particular government expenditures, widened in 1963.

### Capital Movements

The effects of some of the developments described earlier can be readily identified in the statistics of capital movements between Canada and other countries in 1963. Capital in long term forms began to flow into Canada again on a substantial scale following the crisis of mid-1962. It continued to do so on a reducing scale until the final quarter of 1963 being equivalent over the year as a whole to 112 per cent of the current account deficit. Portfolio investment, mainly taking the form of purchases by non-residents of new issues of Canadian securities, accounted for a major part of the inflow in 1963, supplanting direct investment which had held prime place since 1950 with the exception of the four years from 1956 to 1959.

A series adjusting the inflows to reflect the timing of contracts for the sale of new issues of Canadian bonds and debentures rather than deliveries made in subsequent quarters (at which time actual capital movements occur) shows them to have been heavily concentrated in the last half of 1962 and the first quarter of 1963. It is perhaps to this series that one should relate the Canadian budgetary measures introduced in mid-June and the special message to Congress by the President of the United States in mid-July. These policy measures no doubt also contributed to the swings in movements of capital in short-term forms, as did the announcement in mid-September of major wheat export contracts. The impact of the latter transactions themselves and of their contribution to the general economic outlook was clearly diffused through a number of the short-term capital items.

Movements of capital for direct investment, portfolio stocks and bonds, official loans, and other long-term investments resulted in a net inflow of \$584 million in 1963. Their total was smaller than in 1962, and indeed less than for any year since 1955, but for the first time since 1956 they were greater than the current account deficit incurred in the year. In 1956 the inflows in long-term forms aggregated a record \$1,424 million while the current account deficit was \$1,366 million, a figure subsequently exceeded on two occasions. In 1962 the inflow of \$672 million in long-term forms was equivalent to about 80 per cent of the current account deficit of \$848 million in that year.

Summary	1962				1963			
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q
	millions of dollars							
Capital movements in long-term forms .....	+ 5	- 29	+ 238	+ 458	+ 373	+ 200	+ 34	- 23
Capital movements in short-term forms(1) .....	- 46	- 243	+ 482	+ 139	- 69	+ 100	- 107	+ 159
Balance on goods and services .....	- 333	- 362	- 34	- 119	- 238	- 189	+ 14	- 108
Change in official holdings of gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance .....	- 374	- 634	+ 686	+ 478	+ 66	+ 111	- 59	+ 28

(1) Excluding items in final line.

In contrast to 1962 when the capital inflows in long-term forms occurred entirely in the second half of the year, following the action taken to restore balance in Canada's external finances, the inflows in 1963 were largely confined to the first half of the year. Broadly speaking it may be said that 1962 was divided by the exchange crisis which occurred in June, while the year 1963 found a dividing point in the announcement of tax measures in Canada and in the United States. But these watersheds represent an oversimplification which may conceal or obscure both the interaction of developing situations and the lags between decisions and flows which were of some real significance in these years.



# Capital Inflows in Long-Term Forms

Period	Actual Inflow	Adjusted to reflect timing of security contracts
	millions of dollars	
1962 First Quarter	+ 5	+ 107
Second "	- 29	- 140
Third "	+ 238	+ 534
Fourth "	+ 458	+ 460
1963 First Quarter	+ 373	+ 503
Second "	+ 200	- 38
Third "	+ 34	- 42
Fourth "	- 23	- 35

Geographically net capital inflows in long-term forms are attributed wholly to the United States in 1963. Although aggregating about \$800 million, they fell well short of the current account deficit with the United States. The outflows of some two hundred million dollars to overseas countries reflected primarily continued disposal by overseas residents of Canadian securities together with the extension by Canada of export credits.

Capital inflows in short-term forms produced \$83 million, net, in contrast to the very substantial inflow of \$332 million in 1962. These capital movements together provided the financing for the current account deficit of \$521 million in 1963 and also permitted an improvement of \$146 million in Canada's official reserve position.

## DIRECT INVESTMENT

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1963 is estimated to have totalled \$210 million, or about 38 per cent of the \$555 million recorded in 1962. This was a lower level than had prevailed during and since the 1950's. In the main the inflows in 1963 reflect additional investment by foreign corporations in their Canadian subsidiaries or branches, contributing to new capital formation in Canada. On balance outflows from Canada covering the repurchase of Canadian enterprises exceeded inflows for the take-over of existing concerns by non-residents. This is a reversal of the situation in recent years, particularly 1962, when net inflows for the take-over of Canadian enterprises and for refinancing etc., having no counterpart in current new capital formation in Canada, accounted for more than a quarter of the net movement. Indeed the swing in this type of transaction serves to explain half the decline in the inflow from 1962 to 1963.

Approximately one third of the net movement, or about \$75 million, occurred in the first quarter of the year while the remainder was spread evenly over the last three quarters with successive quarterly totals of \$40 million, \$50 million and \$45 million. The decrease in importance of take-overs contributed to the more even inflow of direct investment funds throughout 1963 than in the previous year. Apart from the special transactions the inflows have declined moderately in each of the last five quarters. It should be noted that the net movement of direct investment capital reflects very much larger flows in both directions. There have been sizable outward movements in recent years by companies whose operations are well established and successful. Such movements frequently do not reflect any reduction in the value of foreign investment in Canada but may merely represent the transfer of cash resources generated from current operations. To the extent that this is the case such transfers may take the place of dividends which would have appeared as a current account payment.

Petroleum and natural gas still appears to be the industry receiving the largest proportion of net direct investment inflows although at a considerably reduced rate from previous years when the influence of take-overs was more prominent. A significant development however is that for the first time in recent years the manufacturing industry appears to have supplanted mining as the second largest recipient of foreign capital. The main reason for this change was a sharp drop in net inflows for mining, but the absence in 1963 of some major outflows which reduced the net movement into manufacturing in 1962 also contributed to this result. The generation of funds internally by foreign-owned branches and subsidiaries seems to have reduced reliance on net direct investment inflows while changes in corporate structure have also been important in the petroleum industry.

Geographically, direct investment inflows from each area decreased sharply from 1962 levels, with inflows from the United States falling by about half and inflows from other areas falling by much larger proportions. As a result the proportion provided by residents of the United States rose from 64 per cent in 1962 to about 80 per cent in 1963.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$80 million compared with \$125 million in 1962. Perhaps one third of the 1963 net outflow was for manufacturing while outflows for investment in merchandising and financial concerns each represented approximately one quarter of the total. Roughly half of the net movement appears to have been to the United Kingdom.

**SECURITY TRANSACTIONS** A capital inflow of \$527 million resulted from transactions in portfolio securities between Canada and other countries during 1963. It was the largest since 1959, greatly exceeding the inflow for direct investment in foreign-controlled enterprises - usually the major type of capital inflow. By mid-year the net inflows totalled \$552 million but transactions over the latter half produced a small net outflow of \$25 million.

The main factors responsible for an increase of \$252 million in the net capital inflow over 1962 were a growth of \$246 million in new borrowings from non-residents by Canadian governments and corporations and a swing of \$90 million in capital flows from transactions in foreign securities from purchases by Canadians in 1962 to sales in 1963. These changes were tempered by an increase of \$84 million in the net repatriation of outstanding Canadian securities held abroad.

Net sales (+) or purchases (-) by Canadians	I	II	III	IV	Year
millions of dollars					
<b>Canadian securities:</b>					
Outstanding - Bonds ...	+ 23	+ 27	- 7	- 4	+ 39
Stocks ..	- 56	- 44	- 27	- 42	- 169
New issues .....	+ 411	+ 393	+ 109	+ 51	+ 964
Retirements .....	- 54	- 174	- 34	- 65	- 327
<b>Foreign securities:</b>					
Outstanding issues ....	+ 4	+ 21	- 4	+ 19	+ 40
New issues .....	- 6	- 3	- 5	- 26	- 40
Retirements .....	+ 5	+ 5	+ 5	+ 5	+ 20
<b>Total - All countries</b>	<b>+ 327</b>	<b>+ 225</b>	<b>+ 37</b>	<b>- 62</b>	<b>+ 527</b>
United States .....	+ 350	+ 264	+ 65	- 41	+ 638
United Kingdom .....	- 15	- 33	- 28	- 10	- 86
Other countries .....	- 8	- 6	-	- 11	- 25

arrangements and of resulting capital flows. In fact the sale to non-residents of new issues of Canadian securities, on a contractual timing basis, was drastically curtailed between the first and second quarters, although deliveries were little changed. Late in June the Canadian budget introduced a number of measures designed to influence the balance of payments, including a measure to relieve certain non-resident purchasers of Canadian bonds of the burden of Canadian withholding tax. The effect of this measure was nullified by the proposal to the United States Congress in early July to introduce an interest equalization tax designed to increase by about one per cent the per annum cost to most foreigners of long-term borrowing in that country. Although an intention of exempting Canadian borrowers was announced shortly thereafter, the existing uncertainty largely dominated the United States capital market as a source of long-term financing for Canada in the rest of the year.

**New Issues of Canadian Bonds Sold to  
United States Residents**

Period	Contracts	Deliveries	Undelivered*
millions of dollars			
1962 Year	960	671	312
1963 Year	714	910	116
1963 I Q	530	400	442
II Q	131	369	204
III Q	28	104	128
IV Q	25	37	116

\* At end of period.

A summary shows the composition of the transactions in 1963. The proceeds of new issues reached an unprecedented total of \$964 million. This exceeded by \$166 million the previous record set in 1957. In the four quarters ending September 30, the capital inflows in this form fell just short of \$1,300 million. These movements were dominated by two major borrowings arranged in the United States market. The first was an issue of US \$250 million placed by Government of Canada for delivery in equal instalments in the final quarter of 1962 and the first quarter of 1963. The second was an issue of US \$300 million placed by Quebec Hydro in the first quarter of 1963 of which US \$200 million had been delivered by the year-end. These and other issues contributed to wide disparities between the timing of contractual

Trade in outstanding issues was dominated in 1963 by the repatriation of \$169 million Canadian common and preference stocks held abroad. Canadians on balance sold \$39 million Canadian bonds and debentures and relinquished \$40 million of foreign portfolio securities. In 1962 the net capital outflow of \$126 million resulted from net purchase balances of \$116 million for the repurchase of Canadian common and preference stocks and \$74 million for the acquisition



of foreign securities from non-residents (including \$69 million for foreign stocks), while Canadians sold on balance \$64 million of Canadian bonds, debentures and other securities.

By mid-1963 net sales of outstanding Canadian bonds and debentures had attracted about \$50 million from abroad but trade over the latter half of the year led to a repurchase balance of \$11 million.

Net repurchases of outstanding Canadian common and preference stocks held abroad continued during each quarter of 1963. The capital outflow of \$169 million for the year as a whole topped the record net capital outflow of \$116 million set in 1962. Net repurchases of \$98 million, \$54 million and \$17 million were made from residents of the United States, the United Kingdom and other overseas countries respectively. Net repurchases from the United States were very much larger than in 1962, when they first appeared in the second quarter after a long series of sales balances. The net repurchases from the United Kingdom and from other overseas countries each fell in 1963. Repurchases from these areas have been characteristic since 1960.

After net purchases of outstanding foreign securities every year since 1959, Canadians resold on balance \$40 million in equal amounts of their holdings of stocks and bonds and debentures to non-residents in 1963. Some of the proceeds appear to have been employed in the purchase of new issues.

Retirements of Canadian securities held by non-residents involved outflows of \$327 million, only slightly higher than in 1962. A large and rising volume of retirements is to be expected in the light of the substantial increasing holdings of Canadian bonds and debentures by non-residents. The series also reflect retirements of preferred stocks and special repurchases of some common stocks such as those arising from the acquisition by provincial authorities of private utility companies.

For the third successive year the United States was the sole net provider of portfolio security capital contributing \$638 million in 1963 compared with \$445 million in 1962. Net outflows of \$86 million and \$25 million to the United Kingdom and other overseas countries respectively, compared with \$91 million and \$79 million to the same countries in 1962.

Notwithstanding the absorption by non-residents of \$139 million of Government of Canada direct and guaranteed issues during 1963, \$20 million more than in 1962, their net acquisition of the net new supply of these securities fell by almost five percentage points to 18 per cent of the larger amounts raised. The net acquisitions by non-residents of provincial, municipal and corporate securities were equal to about a third of the net new supply. This was about the level which prevailed between 1956 and 1959 and about twice as high as percentages in the intervening years since.

A more extended review of international security movements in 1963 will be found in the December issue of "Sales and Purchases of Securities between Canada and Other Countries". (DBS Catalogue No. 67-002).

#### OTHER CAPITAL FLOWS IN LONG TERM FORMS

As in previous years Canadian Government non-military aid abroad in 1963 took the form largely of payment of the regular assessments from international agencies of which Canada is a member, official contributions and the extension or guarantee of export credits. While assessments and contributions form a part of Canada's current payments, the latter transactions, which give rise to claims on non-residents, are reflected in the capital account under item D 17.

In addition in 1963 the Government of Canada made loans totalling \$10 million to other national governments while receiving repayments of \$25 million. The new loans represented advances to India in connection with the purchase of aircraft. Re-payments dropped sharply below the \$129 million in the previous year when accelerated prepayments of principal amounting to \$91 million served to ease Canada's international financial position. The accelerated prepayments made in 1962 have had the long-term effect of reducing prematurely inflows of capital from this source.

The major repayment in 1963 was received from the United Kingdom with other amounts coming from India, Belgium and Ceylon. After the unusual transactions of 1962 which upset the seasonal variation of repayments the normal pattern is apparent again in 1963 with repayments concentrated in the second and particularly the fourth quarters of the year. In addition to these principal repayments, there were receipts of \$26 million on account of interest in 1963; these are a part of the item in the current account covering Canada's receipts of interest and dividends.

Among other movements of official capital in long-term forms was the regular subscription payment by Canada to the International Development Association of \$8 million made in the fourth quarter.



This institution was established to assist in economic development in less developed countries whose ability to make good use of capital exceeds their capacity to service loans extended on conventional terms. To date Canada has paid in to the Association about \$33 million. Not all of these funds have yet been used by the Association, and the offsetting liability appears mainly in the item for Government of Canada demand liabilities.

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

Transactions with all countries	1961	1962	1963	1963			
				I Q	II Q	III Q	IV Q
millions of dollars							
Subscriptions to international investment agencies(1) .....	- 8	- 15	- 8	-	-	-	8
Long-term capital transactions n.i.e. ....	132	- 140	- 80	- 4	- 46	- 30	-
Bank balances and other short-term funds abroad (excluding official reserves) .....	140	94	- 252	- 59	- 80	- 136	23
Canadian commercial paper .....			( - 23	- 39	15	- 11	12
Canadian finance paper .....	100	146	( 47	8	- 3	11	31
Canadian finance company obligations n.i.e. ....			( 49	- 12	24	11	26
All other transactions including changes in loans and accounts receivable and payable(2) .....	148	104	248	53	126	12	57
Total (Item D 17) .....	512	189	- 19	- 53	36	- 143	141

(1) International Bank for Reconstruction and Development, International Development Association, and International Finance Corporation.

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

The remaining capital movements in long-term forms led in 1963 to an outflow of \$80 million most of which occurred in the second and third quarters. In 1962 there was an outflow of \$140 million following an inflow of \$132 million from this group of transactions in 1961. The composition of these movements was somewhat more diverse in 1963 than in 1962 when about four-fifths of the total covered substantial re-payments of bank loans which were financed from the sale to non-residents of a new corporate bond issue. Apart from the effects of this transaction about half the change from 1962 to 1963 is estimated to have covered a reversal in the direction of capital flows associated with uranium, which gave rise to outflows in 1963 in contrast to the inflows which occurred in the earlier phases of the stretch-out agreements. Also contributing to the outflows have been the extension by Canada of medium and long-term export credits, repayments by Canadian corporations on foreign bank loans and the flows of capital between branches and home offices of insurance companies in Canada and abroad.

The net export credits extended by Canada directly or indirectly under guarantee or at risk of the Government of Canada, as measured for balance of payments purposes, and including both long and short term credits, amounted to about \$25 million in 1963. Although the figure is well below the totals of about \$60 million for 1962 and \$130 million for 1961 it may be noted that most of the reductions reflect substantial repayments, some of which have been made in advance of their due dates. Net capital outflows originating from these trade credits are smaller than the net credits extended because some paper is rediscounted with non-residents or into Canadian banking assets abroad, while additional amounts are financed by borrowing abroad; such types of financing are estimated to have accounted for the total in 1963 and for about two-fifths in 1962 and 1961. The net movements remaining after the above financing are included in the items of "other capital movements" appropriate to their term, contributing between \$40 and \$50 millions to the outward movement in long term forms in 1962 and 1963, and somewhat less than half this amount in 1961.

CAPITAL MOVEMENTS IN SHORT TERM FORMS Capital movements in short-term forms, apart from changes in official holdings of gold, foreign exchange and net International Monetary Fund position, led to a net inflow of \$83 million in 1963. In 1962 the comparable group of movements led to an inflow of \$332 million.

Canadian dollar deposits of non-residents rose by \$40 million in 1963 as a result of large increases in the second and fourth quarters, partially offset by decreases in the first and third quarters. About seventy per cent of the increase was in deposits of residents of the United States but it may be noted that there was a decrease nearly as large in holdings of Canadian treasury bills by residents of that country. Canadian dollar deposits of non-residents at the year end were of the order of \$520 million. These deposit liabilities included about \$320 million payable to residents of the United States, \$60 million payable to residents of the United Kingdom and about \$70 million payable to residents of Continental Europe.

Government of Canada demand liabilities payable to non-residents rose during the year by \$1 million. The amount outstanding at the year end totalled \$26 million, mainly in the form of interest free demand notes issued to international investment agencies.

Holdings by non-residents of Canadian treasury bills were reduced by \$27 million in 1963. By the end of the year the holdings had been reduced to \$39 million of which \$21 million were those of residents of the United States. More than half the remainder were obligations to international investment agencies. The year end holdings were lower than for any month-end in the past five years. At their month-end peak in April 1961 they reached \$163 million.

Sales to non-residents of Canadian treasury bills aggregated \$312 million in 1963, with repurchases and maturities totalling \$339 million. In 1962 when the volume was at peak levels, the corresponding totals were \$460 million and \$456 million. Outflows in the second and fourth quarters of 1963 were partially offset by inflows in the other quarters.

Other types of Canadian money-market instruments which were important in short-term capital movements between Canada and other countries in 1963 included Canadian commercial and finance paper. Some \$138 million of the former was reported to have been sold to non-residents, but repurchases and maturities are estimated to have totalled \$161 million, giving rise to a net capital outflow of \$23 million. Transactions in Canadian finance paper, on the other hand, gave rise to an inflow of \$47 million reflecting gross sales to non-residents of \$340 million and repurchases and maturities totalling \$293 million. Additionally Canadian finance companies borrowed some \$49 million in forms not shown elsewhere in the balance of payments. A related form of capital movement (which is not shown separately in the tables) was the net sale to non-residents on a buy-back basis of about \$9 million of Government of Canada obligations of an original term of over one year. The volume of such transactions was of the order of \$40 million in 1963 in contrast to 1962 when it exceeded \$350 million.

Capital movements of a money market character are determined primarily by short-term interest rates. Money market instruments vary as to term, currency, credit risk, etc, while the lenders vary also in character, requirements and relationships. A wide variety of interest differentials may, therefore, be appropriate to a consideration of the capital flows, but treasury bill yields in Canada and in the United States may serve as a bell-wether.

Yields on 91-day Canadian treasury bills were at their highest in the early part of the year as they continued their descent from the very high level of 5.51 per cent per annum established on July 19, 1962. By January 3, 1963 the yield was 3.94 per cent and it trended downward to 3.19 per cent on May 30 and again on June 13. Consonant with later developments, to some of which reference has already been made, the yield then rose, reaching 3.78 per cent on September 12. With the announcement of major wheat export contracts yields showed some tendency to decline until mid-October but by the end of the year they had regained the level of mid-September. The range through the year was three-quarters of one per cent. In contrast to the situation in Canada where yields were at their highest at the beginning of the year, yields on 3-month treasury bills of the United States were at their lowest point. From 2.83 per cent yields tended to rise through the year, reaching 3.52 per cent in November and closing the year near that figure. The differential in favour of Canadian bills, without allowance for the cost of exchange protection, was at its high of 1.11 per cent at the beginning of the year, nearly disappearing in October and then rising to 0.27 per cent at the year-end.

The cost of forward exchange cover for United States dollars ranged between one half and one per cent in the first four months of the year but then declined to negligible proportions except for a period in the summer. The protected differential exceeded one-half of one per cent only briefly in January and April. Theoretically movements of interest arbitrage capital should continue to a point where the cost of exchange protection offsets any remaining interest differential. In practice nominal differentials are often too narrow to motivate transactions. Moreover, not all purchases by non-residents of Canadian money market instruments are hedged by forward exchange contracts. Some investors may choose to accept the risk of exchange rate fluctuations; others may have an ultimate use for the currency and may therefore not be concerned with the repatriation of maturities.

The bank balances and other short-term funds held abroad by Canadian residents increased during 1963 leading to a net capital outflow of \$252 million. This movement is in accordance with the trend since World War II which was reversed in 1961 and 1962 by capital inflows of \$140 million and \$94 million respectively. Holdings of these assets in 1963 advanced to a record year-end total of about \$1.3 billion. There were wide fluctuations in movements throughout 1963 with capital outflows rising steeply up to the end of the third quarter when a reversal occurred resulting in a small inflow of \$23 million.

Apart from the items specified, the final category "all other transactions including changes in loans and accounts receivable and payable" also covers flows in the short-term element of export credits and includes the balancing item representing the difference between direct measurements of the current and capital accounts. The net balance for these items in 1963 was an inflow of \$248 million, half of which was concentrated in the second quarter with the remainder largely split between the first and fourth quarters of the year.

#### Official Holdings of Gold and Foreign Exchange

Canada's external reserves rose by a smaller amount in 1963 than in either 1961 or 1962. Official holdings of gold and foreign exchange increased by \$60 million and Canada's net International Monetary Fund position by \$86 million.

##### United States Dollar in Canada

Period	High	Low	Close	Noon average
	Canadian cents			
1962 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
III Q	108.57	107.63	107.78	108.08
IV Q	108.09	107.72	108.06	107.83

Most of Canada's official holdings of gold and foreign exchange take the form of gold and United States funds. Expressed in terms of United States dollars, these holdings rose from \$2,539 million at the end of 1962 to \$2,595 million at the end of 1963. The peak month-end was May when holdings totalled \$2,712 million. A sharp drop from \$2,692 million to \$2,501 million occurred in July. In that month Canada made a partial repayment of nearly \$80 million to the International Monetary Fund, but the greater part of the decline occurred in a short period following the Presidential proposal to the United States Congress for the imposition of the "Interest Equalization Tax" and prior to the announcement that Canadian new issues were to be exempted. Later in the third quarter major contracts for the sale of Canadian wheat were announced, and by the end of the quarter official holdings of gold and foreign exchange were rising rapidly.

On a quarterly basis, and expressed in Canadian funds, official holdings of gold and foreign exchange rose by \$66 million and \$111 million in the first and second quarters respectively, fell by \$145 million in the third quarter, and rose by \$28 million in the final quarter of the year. Offsetting part of the decline in the third quarter was an increase of \$86 million in Canada's net position in the International Monetary Fund. Details of those transactions were given in the report for the third quarter.

#### Official Holdings of Gold and United States Dollars, and Related Items

End of period	Official holdings of Gold and United States Dollars	Net International Monetary Fund Position	Other Special International Financial Assistance(1)	Total of Foregoing Items
millions of United States dollars				
1962 I Q	1,709	202	-	1,911
II Q	1,809	- 138	- 350	1,321
III Q	2,445	- 138	- 350	1,957
IV Q	2,539	- 138	-	2,401
1963 I Q	2,600	- 138	-	2,462
II Q	2,692	- 138	-	2,554
III Q	2,568	- 58	-	2,510
IV Q	2,595	- 58	-	2,537
October	2,581	- 58	-	2,523
November	2,631	- 58	-	2,573
December	2,595	- 58	-	2,537

(1) A minus sign (-) indicates assistance to Canada.



QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1962 are preliminary and data for 1961 are subject to revision

		1961	1962		
No.		IV	I	II	III
		millions of dollars			
A	Current receipts:				
1	Merchandise exports (adjusted).....	1,619	1,395	1,620	1,628
3	Gold production available for export.....	38	43	42	39
4	Travel expenditures.....	85	46	126	294
5	Interest and dividends.....	74	33	52	44
6	Freight and shipping.....	129	104	128	133
7	Inheritances and immigrants' funds.....	25	20	31	42
11	All other current receipts.....	98	107	104	108
12	Total current receipts.....	2,068	1,748	2,103	2,288
B	Current payments:				
1	Merchandise imports (adjusted).....	1,559	1,402	1,665	1,559
4	Travel expenditures.....	125	130	178	200
5	Interest and dividends.....	222	179	205	163
6	Freight and shipping.....	159	125	153	158
7	Inheritances and emigrants' funds.....	47	34	40	44
9	Official contributions.....	20	7	12	5
11	All other current payments.....	208	204	212	193
12	Total current payments.....	2,340	2,081	2,465	2,322
	Balance on merchandise trade.....	+ 60	- 7	- 45	+ 69
	Balance on other transactions, excluding B9.....	- 312	- 319	- 305	- 98
	Official contributions.....	- 20	- 7	- 12	- 5
C	Current account balance.....	- 272	- 333	- 362	- 34
D	Capital account:				
	Direct investment:				
1	Direct investment in Canada.....	+ 106	+ 114	+ 87	+ 147
2	Direct investment abroad.....	- 17	- 29	- 31	- 25
	Canadian securities:				
3 a	Trade in outstanding bonds and debentures.....	+ 9	- 3	+ 4	+ 39
3 b	Trade in outstanding common and preference stocks.....	- 5	- 14	- 44	- 26
4	New issues.....	+ 118	+ 53	+ 194	+ 85
5	Retirements.....	- 106	- 72	- 71	- 53
6,7,8	Foreign securities.....	- 15	- 26	- 34	- 7
	Loans by Government of Canada:				
9	Drawings.....	-	-	-	- 7
10	Repayments.....	+ 27	+ 3	+ 7	+ 68
	Change in Canadian dollar holdings of foreigners:				
14 a	Deposits.....	+ 35	- 45	- 13	- 46
14 b	Government of Canada demand liabilities.....	- 2	- 3	- 2	- 3
14 c	Canadian treasury bills.....	+ 18	+ 18	+ 50	- 3
17	Other capital movements.....	+ 239	- 37	- 419	+ 551
E	Net capital movement, exclusive of change in official holdings of gold and foreign exchange.....	+ 407	- 41	- 272	+ 720
H	Official holdings of gold and foreign exchange:				
1	Change in holdings.....	+ 135	- 364	+ 114	+ 686
2	Net International Monetary Fund position.....	-	- 10	- 367	-
3	Other special international financial assistance.....	-	-	- 381	-

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

B 1) the annual reports on "The Canadian Balance of International Payments".

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

B 11) Insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1962 are preliminary and data for 1961 are subject to revision  
1963

1962	1 9 6 3				Annual Totals				
IV	I	II	III	IV	1960	1961	1962	1963	No.
millions of dollars									
A									
1,721	1,482	1,772	1,801	2,009	5,392	5,889	6,364	7,064	1
41	45	41	38	42	162	162	165	166	3
94	50	132	320	100	420	432	560	602	4
82	43	56	43	86	173	209	211	228	5
133	114	139	143	154	442	486	498	550	6
31	27	38	48	36	102	103	124	149	7
107	110	111	112	111	419	403	426	444	11
2,209	1,871	2,289	2,505	2,538	7,110	7,734	8,348	9,203	12
B									
1,583	1,412	1,700	1,657	1,811	5,540	5,716	6,209	6,580	1
102	117	158	207	107	627	642	610	589	4
234	196	192	181	273	653	770	781	842	5
152	125	160	175	175	533	568	588	635	6
45	38	42	49	53	181	174	163	182	7
8	15	17	15	14	61	56	32	61	9
204	206	209	207	213	758	790	813	835	11
2,328	2,109	2,478	2,491	2,646	8,353	8,716	9,196	9,724	12
+ 138	+ 70	+ 72	+ 144	+ 198	- 148	+ 173	+ 155	+ 484	
- 249	- 293	- 244	- 115	- 292	-1,034	-1,099	- 971	- 944	
- 8	- 15	- 17	- 15	- 14	- 61	- 56	- 32	- 61	
- 119	- 238	- 189	+ 14	- 108	-1,243	- 982	- 848	- 521	C
D									
+ 207	+ 75	+ 40	+ 50	+ 45	+ 650	+ 520	+ 555	+ 210	1
- 40	- 25	- 25	- 15	- 15	- 50	- 75	- 125	- 80	2
+ 24	+ 23	+ 27	- 7	- 4	+ 3	+ 61	+ 64	+ 39	3 a
- 32	- 56	- 44	- 27	- 42	+ 51	+ 39	- 116	- 169	3 b
+ 386	+ 411	+ 393	+ 109	+ 51	+ 447	+ 538	+ 718	+ 964	4
- 125	- 54	- 174	- 34	- 65	- 265	- 300	- 321	- 327	5
- 3	+ 3	+ 23	- 4	- 2	- 19	- 34	- 70	+ 20	6,7,8
-	-	-	- 8	- 2	-	-	- 7	- 10	9
+ 51	-	+ 6	-	+ 19	+ 32	+ 37	+ 129	+ 25	10
+ 92	- 29	+ 38	- 12	+ 43	+ 79	+ 34	- 12	+ 40	14 a
+ 4	-	- 3	- 1	+ 5	- 12	- 2	- 4	+ 1	14 b
- 61	+ 9	- 17	+ 19	- 38	+ 56	- 58	+ 4	- 27	14 c
+ 94	- 53	+ 36	- 143	+ 141	+ 232	+ 512	+ 189	- 19	17
E									
+ 597	+ 304	+ 300	- 73	+ 136	+1,204	+1,272	+1,004	+ 667	
H									
+ 101	+ 66	+ 111	- 145	+ 28	- 39	+ 229	+ 537	+ 60	1
-	-	-	+ 86	-	-	+ 61	- 377	+ 86	2
+ 377	-	-	-	-	-	-	- 4	-	3

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

D 1,2 Exclusive of undistributed profits.

D 17 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.

H 3 A minus sign indicates a receipt by Canada.

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