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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FOURTH QUARTER, 1955, AND  
PRELIMINARY ESTIMATES, CALENDAR YEAR 1955

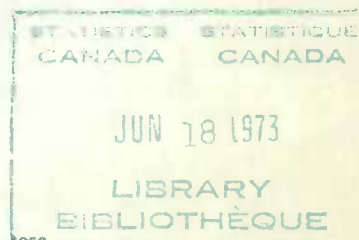
Canada's current account deficit from transactions in goods and services with other countries increased in 1955 to \$665 million from \$431 million in 1954. A greater growth in imports of merchandise than of exports made up \$198 million of the widening of \$234 million in the gap between all imports of goods and services and exports. The remaining \$36 million of the increase was from all other current transactions which, however, constituted almost three quarters of the current deficit, mainly due to large deficits on account of income, travel, transportation, and miscellaneous services.

Accompanying the enlarged deficit were new peak levels of both gross international receipts and payments and internal economic activity in Canada. While this recent current deficit is larger in absolute terms than deficits in earlier periods of rapid Canadian development it represented only 11.5% of total current receipts in 1955 compared with the deficit in 1930 which was 26% of current receipts in that year. But the deficit in 1955 represented a higher proportion of total current receipts than the previous peak deficit of \$517 million in 1950 which was some 8% of current receipts in that year as were the deficits in 1953 and 1954. And the deficit accumulated in the six years 1950 to 1955 of some \$2 1/4 billion has been around 7% of current receipts in the same period.

The growth in the deficit occurred in the second half of the year, following a small reduction in the first half. There was an increase of \$105 million in the deficit in the third quarter and \$173 million in the fourth quarter, as the current deficits rose to unprecedented levels for each of those periods. In the second half year as a whole this was entirely due to the increased deficit on merchandise trade which resulted from a greater growth in imports than in exports. This contrasts with the normal pattern of commodity trade in the second half of the year when there is usually an export balance. The widely diffused growth in imports generally reflected new peak levels of economic activity in Canada and was most pronounced in the second half of the year when more than 53% of the year's imports were received. This compares with a usual import movement in that period of less than half the year's total. At the same time Canadian exports were less concentrated in the second half than has usually been the case, partly because of recent changes in the composition of trade. Nevertheless, the growth in Canadian exports throughout the year of some 10% was exceptionally large and even more pronounced in the widening range of industrial materials sold abroad.

The sharp rise in Canadian exports and the increased pace of Canadian economic development accompanied by new high levels of economic activity and incomes in Canada appear to have given the underlying impetus to growth in the deficit in 1955. Investment and consumption in Canada rose to new peaks and defence expenditures continued high. The increase in exports was particularly strong in the forest and mineral and metal industries and reflects unusually high levels of industrial demands for materials in the United States, the United Kingdom and Western Europe.

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Among the changing features of the current account in 1955 was an increased imbalance in current transactions with Canada's principal trading partners. Most of the increase in imports was concentrated in larger purchases from the United States while the increased exports were distributed among more of Canada's trading partners. The deficit with the United States grew almost as much as that with all countries and was not far from the peak in 1947. While the surplus with overseas countries as a group was a little less than in 1954, there was also a sharp rise in the surplus with the United Kingdom and a moderate increase in that with the remainder of the sterling area. But these latter were more than offset by a reduced surplus with other O.E.E.C. countries and the appearance of a deficit with other countries.

The year 1955 was the first in the recent period of deficits in which Canada experienced a current account deficit greater than the net inflow of capital from direct investment, portfolio security transactions, and amortization of official loans. These movements of a predominantly long-term nature totalled \$276 million. Most of the change from the total of \$529 million in 1954 occurred in portfolio security transactions, mainly as a result of reduced sales abroad of new issues of Canadian securities and increased repatriation of foreign-held Canadian bonds and debentures through repurchases of outstanding issues. Other types of capital movement which served to finance the current account deficit in 1955 included a sharp growth in Canadian dollar holdings by non-residents, a moderate reduction in official holdings of gold and foreign exchange which contrasted with the growth in 1954, a considerable reduction of private holdings of foreign exchange by Canadians, and changes in international commercial receivables and payables. Thus the excess of the predominantly long-term inflows over Canada's current physical needs in earlier years was used in part by the Canadian economy to obtain additional physical resources from outside Canada in 1955.

The price of the United States dollar in Canada rose from 96 19/32 cents at the end of 1954 to 99 29/32 cents at the end of 1955, moving through a low of 96 15/32 cents in January and a high of 100 1/16 cents in November. By the year end, the external value of the Canadian dollar had fallen to the levels prevailing during the first quarter of 1952 when the Canadian dollar moved above the traditional parity for the first time in the post-war period. The trading range of 3.59 cents in 1955 was larger than in either 1953 or 1954. Most of the change occurred in the first and last quarters of the year. The average price of the United States dollar in Canada in the final quarter of 1954 had been 96.90 cents, and it rose in the successive quarters of 1955 to 97.60 cents, 98.54 cents, 98.58 cents, and 99.81 cents. Over the year 1955 as a whole, the average price was 98.63 cents compared with 97.32 cents in 1954.

The record current account deficit which Canada incurred in 1955 added materially to Canada's international indebtedness, as did such other factors as the retention in Canada of earnings accruing to non-residents. Foreign long-term investment of all types in Canada had a book value of \$12.5 billion at the end of 1954 and was in excess of \$13 billion at the end of 1955. Canada's net balance of international indebtedness which was reduced to \$3.7 billion in 1948 and 1949 has been growing, and is now of the order of \$7 1/2 billion, or perhaps \$1 billion higher than was recorded in 1930. When viewed in the perspective of the great developments which have occurred in the intervening years, it will be apparent that this balance of indebtedness represents a much lighter burden, relatively, than in the earlier period. But foreign capital plays a dominant and growing role in a number of spheres of Canadian economic activity. For a detailed review of Canada's international investment position and of the place of foreign capital in the Canadian economy the reader is referred to a new D.B.S. report on "Canada's International Investment Position, 1926 - 1954" which will be published within the next few months.

#### Greatly increased deficit in Fourth Quarter

New records for the fourth quarter were reached by the current deficit of \$259 million and each of the totals of current transactions receipts of \$1,527 million and payments of \$1,786 million. This record deficit occurred in a quarter when the more usual result is either a surplus or no more than a small deficit as the usual pattern of commodity trade is to show an export surplus in the final quarter. But instead a large import balance of \$113 million occurred due to the extraordinary strength of import demands combined with lighter than normal exports of grains.

But the deficit from invisible transactions of \$146 million, although seasonally high in the fourth quarter, was some \$18 million less than in the same quarter of 1954. At the same time this deficit from invisibles was higher than in any fourth quarter prior to 1954 except in 1950 when dividends paid by Canadian subsidiaries to parent companies abroad were abnormally high. The reduction in this deficit compared with the fourth quarter of 1954 was mainly due to several rather sporadic factors including large receipts of dividends and miscellaneous income in a period when income payments happened to be less than in the previous year.



The principal changes in the bilateral distribution in the quarter were an increase in the deficit with the United States and a contraction in the surplus with overseas.

The financing demands of the record current account deficit in the fourth quarter were reinforced by a record outflow for direct investment abroad. The net inflow of foreign capital for direct investment in Canadian enterprises remained at about the same level as in preceding quarters. Transactions in portfolio securities were in near balance, as sales of Canadian securities were mainly offset by purchases of new foreign issues. The usual large repayments on official loans to overseas governments occurred in the quarter, but capital movements of all the types mentioned amounted to only \$88 million compared with the current account deficit of \$259 million. The remainder of the net financing was provided mainly through a decline in private and banking holdings of foreign exchange, apparent changes in international commercial open accounts, and a relatively modest reduction in Canada's official holdings of gold and foreign exchange. The adjustments were effected with only a relatively moderate decline in the external value of the Canadian dollar.

#### Rapid increase in import balance during year

The rates of increase of both imports and exports were unusually high in 1955 due to the strong demands both at home and abroad. But as the greater increase was in imports there was an import balance of \$185 million compared with an export surplus of \$13 million in 1954 shown by the adjusted figures for merchandise trade used in the statements. This only represents some 4% of merchandise exports, although it is the largest import balance in absolute amount appearing in the balance of payments in any year for which official statements are available. And like the current deficit this is relatively small when compared with the size of import balances in relation to exports in earlier decades. The change in commodity balance shown between 1954 and 1955 would have been still greater had the balance shown in 1954 not been influenced adversely by a non-recurring change in statistical practice in that year which increased the import total in 1954. Likewise the trends in export and import prices in 1955 tended to moderate the change shown in the commodity balance. As average export prices were approximately 2% higher than in 1954 while import prices were close to 1% there was an improvement in Canada's terms of trade of a little over 1% in 1955.

#### Growth in Canadian exports

The value of exports in 1955 was some 10% higher than in 1954 and the volume close to 8% higher as there was a rise in average export prices. This value was almost as high as the peak value in 1952 and the volume in 1955 attained a new peace-time record as export prices were higher in that earlier year than in 1955.

The growth in exports has been particularly impressive in the sphere of industrial materials. Increased shipments of a number of these commodities accounted for new records in exports in 1955 particularly among forest products, minerals, metals and chemicals. New peak levels reached by these groups of commodities more than offset declines in shipments of grains and some manufactured goods between 1954 and 1955. The same groups of commodities were responsible for the volume of exports for 1955 exceeding even the volume in the previous record year of 1952. A considerable part of the earlier peak was due to the exceptionally high sales of grains in 1952. Thus the value of exports of forest products and metals and minerals was more than \$400 million higher than in 1952 and exports of chemicals were higher by some two-thirds. These increases generally offset declines in farm products and in certain groups of manufactured products like automobiles which were also exceptionally high in 1952. The increases also offset other declines in certain groups of other manufactured products.

Making possible this rapid growth in exports of industrial materials has been the widespread expansion in Canadian productive capacity that has been underway in recent years. Not only has the basic capacity and productivity of many of the great existing staple export industries been increasing but new commodities not formerly exported in substantial volume became significant contributors to the totals of trade in 1955. Illustrating the recent development in new industries are certain commodities which became more prominent among exports in 1955 such as iron ore, crude petroleum, and some chemicals.

A considerable amount of the new production went to the United States. This along with the recovery from the recession of 1953 and 1954 had the effect of raising Canadian exports to the United States by over 10% to a new peak of more than \$2,600 million. The proportion of Canadian exports to the United States continued at about 60%. Increases were greatest in lumber, pulp and paper, non-ferrous metals, iron ore, primary steel, petroleum, and some chemicals, but exports of agricultural products to the United States were lower.

Exports to the United Kingdom rose even more rapidly, the increase being about 18% bringing the total to \$774 million which is the highest value in the post-war period, comparing with \$727 million in 1952. Strong demands for industrial materials in the forest products and metals group continued to be the basis for the largest part of the exports to that country. There were further increases in these commodities shipped to the United Kingdom, but almost one-half of the increased exports to that country was brought about by larger shipments of grains.

Exports to all countries other than the United Kingdom and the United States as a group were only moderately higher as there were mixed trends to different areas. Increases occurred in shipments to the countries of the rest of the sterling area and to other O.E.E.C. countries but there was a decline to all other countries. Partly responsible for the latter was a sharp drop in sales to Brazil, which more than offset general gains to other Latin American countries, and a drop in exports of grain to some countries in Asia. Larger exports of metals, forest products and chemicals were the main factors more than offsetting lower sales of agricultural products to this group of countries as a whole.

#### New peaks in Canadian imports

An even more striking rise occurred in Canadian imports. These increased by some 15% in value from 1954 to a new peak of \$4,520 million when adjusted for use in balance of payments statements which compares with the previous peak of \$4,210 million in 1953. The rise in volume was about 14% as there was a slight rise in average import prices.

The increase in imports from the United States of almost 17% accounts for most of the rise although increases from other sources were also general. The increases from the previous year were greatest in the latter half of 1955 being 23% and 28% in the third and fourth quarters respectively. Both the value and volume of imports reached new records in the final quarter, being above the previous peak which occurred in the second quarter of 1953, when a particularly large proportion of a year's total is usually imported. Another contrast is that in the earlier peak period there was a substantial general rise in inventories in Canada whereas in the second half of 1955 business inventory increases were much more moderate.

The wide range of commodities which show increases suggest the breadth of demands underlying the growth in imports to a new peak. Substantial increases were spread over most types of commodities. In only a few instances were there declines and these were usually due to special circumstances affecting some agricultural products. Generally the increases were indicative of the record levels of consumption and investment reached in Canada during the past year and included both finished goods and industrial materials and components used by Canadian industry. The largest absolute increases were in metal products ranging from primary steel to industrial machinery and equipment, automobiles and parts, aircraft, electrical apparatus and other kinds of hard goods. But imports of both textile materials and products were also substantially higher as were many other groups of consumer goods. There were also increases in imports of crude petroleum and products.

As already indicated most of the increased purchases were from the United States which rose to a new peak well above 1953. But although imports from the United Kingdom rose they were considerably under the level of 1953 partly due to the effects of industrial disputes in that country as well as increased competition. Imports of automobiles and certain types of machinery and equipment were lower but there were gains in textiles and such important items as aircraft, chemicals and electrical apparatus. While imports from the rest of the sterling area were higher than in 1954 the value was still much less than in 1950 and 1951 when some commodity prices were unusually high. Imports from other O.E.E.C. countries were also moderately higher and imports from Latin America and other countries showed some appreciable rises mainly because of more petroleum from some countries among these groups and a doubling of imports from Japan.

As a result of the above changes in trade there were increases in deficits from trade with the United States and the residual group of other foreign countries of \$216 million and \$91 million respectively and a reduction of \$10 million in the surplus with other O.E.E.C. countries in contrast to increases in surpluses on commodity account with the United Kingdom and other sterling area of \$101 million and \$18 million respectively.

#### Larger Deficit from Invisibles

The deficit from invisible transactions continued to grow at an appreciable rate in 1955, rising by \$36 million to a new peak of \$480 million. Both receipts and payments in the wide range of services covered were higher than ever before but the growth in the latter has been greatest. There



were a variety of changes giving rise to the above result. While there were increases in deficits on travel and income accounts and from inheritances and migrants' funds and official contributions of \$32 million, \$19 million, \$9 million, and \$11 million respectively these were partly offset by reductions in deficits from freight and shipping and from all other current transactions of \$10 million and \$25 million respectively. The value of gold production available for export remained unchanged.

Changes in Principal Elements of the Current Account

with All Countries in 1955

(Millions of dollars)

	1954	1955	Change (1) in 1955
Commodity trade			
Exports adjusted	3,929	4,335	+ 406
Imports adjusted	<u>3,916</u>	<u>4,520</u>	<u>- 604</u>
Balance	+ 13	- 185	- 198
Gold production available for export	+ 155	+ 155	-
Travel expenditures	- 80	- 112	- 32
Interest and dividends	- 288	- 307	- 19
Freight and shipping	- 46	- 36	+ 10
Inheritance and migrants' funds	- 5	- 14	- 9
Official contributions	- 11	- 22	- 11
All other current transactions	- 169	- 144	+ 25
Current account balance	<u>- 431</u>	<u>- 665</u>	<u>- 234</u>

(1) A minus sign (-) indicates a change contributing to the enlarged current deficit.

The growth in the deficit from invisibles all occurred in the first three quarters. In the final quarter the deficit was less mainly because of a reduction in the deficit on income account in that period.

The chief contributors to the deficits continued to be in the accounts covering income, travel and current transactions. In the case of the two former accounts a substantial rise in receipts was more than offset by increased payments. On income account the chief rise in receipts was in dividends from companies in the United States and overseas, while the higher payments were mainly dividends to the United States paid by both subsidiaries and public companies. But interest paid to bondholders in the United States declined chiefly through the effect of repatriations. Receipts from travellers from other countries at \$329 million were higher than ever before mainly from the rise in the number and expenditures of United States visitors to Canada. But a greater growth continued in expenditures by Canadian travellers both in the United States and overseas countries.

Transactions by areas

The enlarged deficit of \$1,030 million with the United States was almost all the result of the greater increase in imports of merchandise than of exports which has been described above.

The deficit with that country from all other current transactions was only slightly higher as larger deficits on travel and income accounts were generally offset by a rise in receipts from all other current transactions.

The growth in the current surplus with the United Kingdom to \$348 million was primarily the result of the greater increase in Canadian exports than in imports, but a fall in the deficit from invisible transactions contributed mainly through the larger surplus on freight and shipping account and changes in defence expenditures.

The increase in the current surplus with other sterling area countries to \$54 million was the result of a larger export balance and larger receipts from income and other services, partly offset by an increase in official contributions financed during the year under the Colombo Plan. The reduction in the current surplus with other O.E.E.C. countries to \$53 million was due to a combination of a reduced export balance and a much larger deficit from invisibles. Larger Canadian defence expenditures were an important contributor to the latter rise. The appearance of a substantial deficit of \$90 million with other countries was chiefly due to the reduction in exports combined with an increase in imports with this region.

Summary of Current Transactions with the United States,  
United Kingdom and Other Countries, 1954 and 1955

(Millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1954	1955	1954	1955	1954	1955	1954	1955
<u>Calendar Year</u>								
Exports (adjusted)	3,929	4,335	2,355	2,602	660	772	914	961
Imports (adjusted)	3,916	4,520	2,800	3,263	391	402	725	855
Balance on trade	+ 13	- 185	- 445	- 661	+ 269	+ 370	+ 189	+ 106
Other current receipts	1,296	1,447	946	1,061	176	204	174	182
Other current payments	1,740	1,927	1,311	1,430	213	226	216	271
Balance on invisibles	- 444	- 480	- 365	- 369	- 37	- 22	- 42	- 89
Current account balance	- 431	- 665	- 810	- 1,030	+ 232	+ 348	+ 147	+ 17
<u>Fourth Quarter</u>								
Exports (adjusted)	1,062	1,143	620	704	193	189	249	250
Imports (adjusted)	984	1,256	700	896	92	108	192	252
Balance on trade	+ 78	- 113	- 80	- 192	+ 101	+ 81	+ 57	- 2
Balance on invisibles	- 164	- 146	- 154	- 128	+ 8	+ 9	- 18	- 27
Current account balance	- 86	- 259	- 234	- 320	+ 109	+ 90	+ 39	- 29

Capital inflow for direct investment and security transactions below 1954

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises in 1955 is tentatively placed at \$350 million, or slightly below the figure of \$376 million for 1954. Both estimates are subject to revision. The quarterly movements were remarkably stable in total. The petroleum industry continued to attract more than one-half of the total inflow, and mining about one-fifth. The inflow from the United Kingdom was probably again of the order of \$60 million. The inflow from other overseas countries appears to have been larger than in 1954 but there was a contraction in the net movement from the United States. Contributing to this reduction were several major withdrawals of capital.

Preliminary estimates of the movement of capital from Canada for direct investment abroad indicate a net outflow of \$70 million in 1955. Between \$45 million and \$50 million of this



outflow was to the United States, and the balance was to overseas countries, including the United Kingdom. Canadian investment in the food and beverage industry accounted for between \$35 million and \$40 million of the net movement to all countries, and the remainder was spread over a variety of different enterprises.

Portfolio security transactions of all types between Canada and other countries in 1955 resulted in a net capital outflow of \$73 million in contrast to the inflow of \$155 million recorded in 1954. Trade in outstanding Canadian securities led to a net export from Canada of \$19 million of capital. There was an outflow of \$64 million to the United States, but this was offset in part by inflows of \$26 million from the United Kingdom and \$19 million from other overseas countries. As has been the case each year since 1950, Canadians repurchased bonds of Canadian debtors but sold stocks of Canadian corporations. Repatriation of Canadian bonds and debentures amounted to \$166 million comparing with only \$66 million in 1954 and equalling the record level set in 1952 when strength in the balance of payments set off a sharp climb of the Canadian dollar to its highest value in history. The largest part of the movement, amounting to \$69 million was in Government of Canada direct issues. Net repatriation in 1955 of provincial issues totalled \$59 million. The next largest group of net repurchases were of Government of Canada guaranteed issues although the figure of \$22 million was well below the total of \$31 million for 1954. Unlike 1954, net repatriation resulted from trade in both Canadian municipal and corporation bonds in 1955.

The trading of Canadian bonds and debentures was no doubt influenced in part by the narrowing of the margin between interest rates in Canada and in the United States. Rates in both countries rose over 1955 as a whole. The differential between yields on two representative Canadian and United States long-term Government issues was 56 base points in mid-December 1955 compared with 43 base points one year earlier. But on three occasions in 1955, April, July, and August, the mid-month differential was 5 base points or less, and the average mid-month differential in 1955 was only 16 base points compared with 64 base points in 1954. The declining premium on the Canadian dollar in terms of foreign currencies was also no doubt a factor in the capital import which occurred in the last quarter of the year.

While Canadians were repatriating outstanding Canadian bonds and debentures at a near record rate, they were selling outstanding Canadian stocks on an unprecedented scale. The net capital inflow from the trade in Canadian common and preference stocks amounted to \$147 million in 1955, which followed inflows of \$121 million in 1954 and \$21 million in 1953. On balance, a very substantial part of the net sales since mid-1954 reflects the transactions of seven investment funds established as Canadian diversified management investment companies following a change in United States administration arrangements which facilitated their formation. These funds provide important advantages to United States investors under the tax structure in effect in that country. By the end of 1955, the aggregate investment in Canada of these funds exceeded \$200 million. Part of these investments had been acquired by merger, however, while a part of the value represented market appreciation of the portfolios, and another part represented short-term holdings of Canadian dollars.

The general pattern of trading over 1955, reviewed on a quarterly basis, was somewhat more complex than in 1954 when it could be described simply as increasing volume and increasing disparity between the balances on account of transactions in Canadian stocks and in Canadian bonds and debentures. Repatriation of Canadian bonds and debentures reached a record of \$82 million in the first quarter of the year, but declined in the second and third quarters. A capital import appeared for the first time in 1955 in September, and for the final quarter of the year there were net sales of \$14 million.

Net sales of Canadian common and preference stocks which had amounted to some \$47 million in the fourth quarter of 1954 continued at a rate of between \$50 and \$60 million in the first and second quarters of 1955, but then declined by about half in the third and by about three-quarters in the final quarter of the year. In the fourth quarter of 1954 the net capital movement as a result of trade in all outstanding Canadian securities, had been an inflow of \$17 million. This was succeeded by an outflow of \$31 million in the first quarter of 1955 as repatriation of bonds and debentures reached unprecedented levels. As the rate of repatriation contracted in the next quarter, a capital import of \$7 million occurred. In the third quarter, the net sale abroad of Canadian stocks fell, as has been noted, and a capital outflow of \$22 million occurred from trading in all Canadian securities. In the fourth quarter of 1955, for the first time since early 1951, the capital movements from trading in Canadian bonds and debentures were in the same direction as those in Canadian stocks, and despite a further decline in net sales of stocks, there was a capital inflow of \$27 million.

The proceeds of new issues of Canadian securities sold abroad amounted to \$148 million compared with \$326 million in 1954. These movements were influenced by the changes in interest rate differentials to which reference has already been made. Reflecting not only the increase in the interest rate differential in the latter part of the year but also the smaller discount on the United States dollar in Canada, negotiations were completed late in the year with United States

underwriters for the sale in that country in 1956 of new issues of several Canadian debtors. More than two-thirds of the sales in 1955 occurred in the first quarter of the year when there were several municipal issues floated in the New York market as well as participation by foreign investors in issues of corporate bonds payable in Canadian dollars floated in Canada. Also important were subscriptions from non-resident shareholders to new issues of industrial and bank stocks. Sales of stocks accounted for more than four-tenths of all new issues sold abroad during 1955. Retirements were heavily concentrated in the first and second quarters of the year. A negotiated repurchase by the Government of Canada of Canadian bonds and the maturity in non-resident hands of substantial holdings of Government guaranteed bonds accounted for more than one-half of the total of \$190 million.

Transactions in outstanding foreign securities resulted in a net capital inflow for the year of \$18 million. There were net inflows in each quarter of 1955 except the second. Thus the trend towards liquidation by Canadians of holdings of foreign securities, which has been typical of most of the war and post-war period, was re-established in 1955. In the preceding year net purchases of foreign securities by Canadians had occurred in the last two quarters. The exceptional purchase balance recorded in the second quarter of 1955, was entirely the product of sudden interest by Canadian investors in the securities of certain United Kingdom companies. Purchases by Canadians of new issues of foreign securities represented a capital outflow of \$47 million. Included were a number of new issues floated in the Canadian market. The two largest borrowers were the International Bank for Reconstruction and Development and the Commonwealth of Australia. Retirements totalling \$17 million were dominated by the call in advance of maturity of an issue floated in Canada several years ago by the International Bank for Reconstruction and Development.

Additional material on international security transactions in 1955 will be found in the D.B.S. report "Sales and Purchases of Securities between Canada and Other Countries, December, 1955, and Review of Security Trading during 1955".

Repayments on the war and post-war loans made by Canada to overseas governments totalled \$69 million in 1955 compared with \$68 million in 1954. The United Kingdom repaid \$45 million, and there were also receipts from Belgium, Czechoslovakia, France, Indonesia, the Netherlands, and the U.S.S.R. At the end of 1955 the outstanding balances on Canada's war and post-war loans of \$2,450 million amounted to \$1,601 million.

#### Increased inflows of other types of capital financed balance of current deficit

Another form of capital inflow in 1955 was the increase in holdings of Canadian dollars by non-residents, which amounted to \$91 million. This was the largest annual change in any post-war year except 1950 and 1951 when exchange rate expectations led to an extraordinarily large inflow and subsequent reflux. More than two-thirds of the increase in 1955 occurred in holdings of United States residents. A significant part represented short-term holdings of investment trusts awaiting suitable investment opportunities.

In the course of the operations of the Exchange Fund Account and the other exchange transactions of the Government during the year, the authorities reduced official holdings of gold and foreign exchange by \$44 million. Of this \$2 million covered holdings of sterling, and the balance holdings of gold and United States dollars which fell, in terms of United States dollars, from \$1,943 million at the end of 1954 to \$1,901 million at the end of 1955. A month-end low point of \$1,840 million was recorded in February, and in July the holdings reached a month-end peak of \$1,938 million, only slightly below the record holdings with which the year began. The largest change, a reduction of \$94 million, occurred in February. The Minister of Finance revealed that part of the amount had been used for the purchase of \$50 million of Canadian bonds held in the United States and payable in United States currency.

Other capital movements were on balance an important element in balancing Canada's international accounts in 1955. The net inward movement for the year as a whole amounted to \$254 million, equivalent to more than a third of the total financing of the current account deficit. Details for 1955 are not yet completed but this inflow appears to have been attributable about equally to a reduction of Canadian private holdings of foreign exchange and to changes in international accounts receivable and payable. In 1954 the net inflow from these types of transactions was \$4 million and there were substantial outflows in 1952 and 1953 following inflows of the two preceding years when exchange rate considerations and credit stringency in Canada were dominant factors. Over the six year period from 1950 to 1955 inclusive capital movements in this category have amounted on balance to an outflow of \$100 million. This net movement reflects a growth in working balances of foreign exchange held by Canadians of the order of \$200 million, and a net reduction by the International Bank for Reconstruction and Development and the International Monetary Fund of short-term



Canadian dollar holdings by about \$50 million. On the other hand there were net inflows from long-term capital transactions not shown elsewhere and from borrowings by Canadian finance companies to offset all but \$100 million of these outflows.

Summary of Capital Movements

1952 - 1955

(Millions of dollars)

	1952	1953	1954	1955	Total 1952 - 1955	Change 1955 from 1954
Direct investment in Canada	+ 346	+ 426	+ 376	+ 350	+ 1,498	- 26
Direct investment abroad	- 77	- 63	- 74	- 70	- 284	+ 4
Canadian securities						
Trade in outstanding stocks	+ 72	+ 21	+ 121	+ 147	+ 361	+ 26
Trade in outstanding bonds	- 166	- 52	- 66	- 166	- 450	- 100
New issues	+ 316	+ 335	+ 326	+ 148	+ 1,125	- 178
Retirements	- 89	- 146	- 202	- 190	- 627	+ 12
Foreign securities	- 8	-	- 24	- 12	- 44	+ 12
Official loan repayments	+ 56	+ 87	+ 72	+ 69	+ 284	- 3
Canadian dollar holdings of foreigners	- 66	- 18	+ 22	+ 91	+ 29	+ 69
Official holdings of gold and foreign exchange (increase, -)	- 37	+ 38	- 124	+ 44	- 79	+ 168
Other capital movements	- 511	- 185	+ 4	+ 254	- 438	+ 250
Net capital movement financing current account balance	- 164	+ 443	+ 431	+ 665	+ 1,375	+ 234

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1955 are preliminary and

		1953		1954		
		III	IV	I	II	III
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,077	1,044	872	993	1,002
3	Gold production available for export .....	30	29	35	43	39
4	Travel expenditures .....	172	47	24	59	170
5	Interest and dividends .....	24	81	24	33	23
6	Freight and shipping.....	81	85	70	78	82
7	Inheritances and immigrants' funds .....	26	23	18	28	24
11	All other current receipts .....	94	83	64	72	81
12	<b>Total Current Receipts</b> .....	<b>1,504</b>	<b>1,392</b>	<b>1,107</b>	<b>1,306</b>	<b>1,421</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,053	994	923	1,068 <sup>x</sup>	941
4	Travel expenditures .....	124	78	66	98	131
5	Interest and dividends .....	83	133	89	95	86
6	Freight and shipping.....	107	92	70	93	99
7	Inheritances and emigrants' funds .....	23	25	21	23	25
9	Official contributions .....	3	2	4	2	2
11	All other current payments.....	126	116	110	116	117
12	<b>Total Current Payments</b> .....	<b>1,519</b>	<b>1,440</b>	<b>1,283</b>	<b>1,495</b>	<b>1,401</b>
	Balance on Merchandise Trade .....	+ 24	+ 50	- 51	- 75	+ 61
	Balance on Other Transactions, excluding B 9 .....	- 36	- 96	- 121	- 112	- 39
	Official Contributions.....	- 3	- 2	- 4	- 2	- 2
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 15</b>	<b>- 48</b>	<b>- 176</b>	<b>- 189</b>	<b>+ 20</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 106	+ 114	+ 83	+ 88	+ 67
2	Direct investment abroad .....	- 11	- 31	- 9	- 18	- 28
	Canadian Securities					
3	Trade in outstanding issues .....	- 5	- 1	+ 16	+ 21	+ 1
4	New issues.....	+ 14	+ 132	+ 174	+ 93	+ 35
5	Retirements .....	- 9	- 19	- 25	- 75	- 48
	Foreign Securities					
6	Trade in outstanding issues .....	+ 2	+ 15	+ 4	+ 9	- 1
7	New issues.....	- 1	- 19	- 2	- 26	- 3
8	Retirements .....	-	-	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	-	+ 24	+ 2	+ 11	+ 3
11	Repayment of war loans.....	+ 39	-	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners...	- 71	- 11	- 18	+ 13	+ 10
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 35	- 34	- 4	- 37	- 38
17	Other capital movements .....	- 14	- 122	- 52	+ 102	- 25
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 15</b>	<b>+ 48</b>	<b>+ 176</b>	<b>+ 189</b>	<b>- 20</b>

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

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

data for 1954 are subject to revision.

1954	1955				Annual Totals				
IV	I	II	III	IV	1952	1953	1954	1955	
(millions of dollars)									
1,062	967	1,098	1,127	1,143	4,339	4,152	3,929	4,335	A
38	39	39	37	40	150	144	155	155	1
49	26	66	183	54	275	302	302	329	3
63	25	34	23	73	145	165	143	160	4
79	77	91	95	96	383	318	309	359	5
19	16	25	25	20	85	91	89	86	6
81	73	89	90	101	281	319	298	358	7
									11
1,391	1,228	1,442	1,585	1,527	5,658	5,491	5,225	5,732	12
									B
984	961	1,143	1,160	1,256	3,850	4,210	3,916	4,520	1
87	76	119	151	95	341	365	382	441	4
161	120	101	89	157	413	404	431	467	5
93	74	98	106	117	375	374	355	395	6
25	22	24	27	27	94	91	94	100	7
3	5	4	7	6	16	25	11	22	9
124	125	119	130	128	405	465	467	502	11
1,477	1,383	1,608	1,670	1,786	5,494	5,934	5,656	6,447	12
+ 78	+ 6	- 45	- 33	- 113	+ 489	- 58	+ 13	- 185	
- 161	- 156	- 117	- 45	- 140	- 309	- 360	- 433	- 458	
- 3	- 5	- 4	- 7	- 6	- 16	- 25	- 11	- 22	
- 86	- 155	- 166	- 85	- 259	+ 164	- 443	- 431	- 665	C
									D
+ 133	+ 80	+ 90	+ 90	+ 90	+ 346	+ 426	+ 376	+ 350	1
- 19	- 5	- 10	- 15	- 40	- 77	- 63	- 74	- 70	2
+ 17	- 31	+ 7	- 22	+ 27	- 94	- 31	+ 55	- 19	3
+ 24	+ 108	+ 19	+ 14	+ 7	+ 316	+ 335	+ 326	+ 148	4
- 54	- 85	- 74	- 13	- 13	- 89	- 146	- 202	- 190	5
- 5	+ 13	- 8	+ 4	+ 9	+ 12	+ 22	+ 7	+ 18	6
- 2	- 5	- 16	- 4	- 22	- 20	- 23	- 33	- 47	7
+ 2	+ 3	-	+ 14	-	-	+ 1	+ 2	+ 17	8
+ 26	-	+ 10	+ 2	+ 27	+ 33	+ 37	+ 42	+ 39	10
+ 8	+ 7	+ 8	+ 7	+ 8	+ 23	+ 50	+ 30	+ 30	11
+ 17	+ 30	+ 40	+ 6	+ 15	- 66	- 18	+ 22	+ 91	14
- 45	+ 71	- 56	- 7	+ 36	- 37	+ 38	- 124	+ 44	16
- 21	- 31	+ 156	+ 9	+ 120	- 511	- 185	+ 4	+ 254	17
+ 86	+ 155	+ 166	+ 85	+ 259	- 164	+ 443	+ 431	+ 665	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.

x Raised significantly by procedural change (see text, Vol. 2, No. 2.)

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