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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1957, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1957

In 1957 Canada's deficit on international current account of \$1,383 million was slightly higher than the previous peak of \$1,372 million reached in 1956 after a sharp increase from the imbalance of 1955 and earlier years. Although this excess of international expenditures for goods and services over receipts was close to the same magnitude as in 1956, the sources showed some significant changes. Most important among the changes was a reduction of \$156 million in the import balance on commodity account to \$578 million as imports fell while exports showed a further gain. But this change was more than offset by a rise of \$167 million in net payments for all other current transactions to \$805 million. The largest part of the latter rise was due to a further expansion in payments of interest and dividends on non-resident investments in Canada and to gains in net expenditures for transportation, other transactions in services, and larger official contributions to other countries. During the year the imbalance from commodity trade declined while that from other transactions was higher than the previous year in each quarter. But the growth in the total deficit occurred in the first half of the year with the deficit in the second half being at a considerably lower level.

The above trends were particularly pronounced in the fourth quarter of 1957 when virtually all of the change in the balance on commodity account occurred. In that period the imbalance on commodity account all but disappeared but the deficit from other current transactions and official contributions widened further. At \$250 million the imbalance from these latter transactions was higher than ever before, but the final quarter of the year has been customarily a season when some of these types of imbalance are high. The substantial decline in merchandise imports was chiefly responsible for the rapid change in the commodity balance in the fourth quarter. This was apparently a reflection of a moderating in some of the underlying pressures which had been so pronounced early in the year, particularly those related to business investment.

When the results of the year 1957 are taken as a whole, certain similarities with 1956 are apparent, although different underlying factors had become prominent in the latter part of the year. In both years the degree of imbalance has been exceeded only in a few earlier periods of exceptional growth. A high level of investment activity in Canada has been a feature of the period and in both years there was exceptional reliance upon foreign resources to finance investment in Canada. In 1956 approximately one-third of net capital formation was financed by the use of foreign resources, and it does not seem likely that the ratio was very much less in 1957. In both years the imbalance has been chiefly financed by net inflows of capital for long-term investment of unprecedented size. These inflows of capital have also been broadly similar in each year, although the proportion of the inflow invested in equity forms was somewhat less in 1957 with more being in bonds and debentures. In both years Canada's balance of indebtedness to other countries has risen sharply with further significant increases in non-resident ownership and control of Canadian industry as well as increases in Canadian funded debt owned abroad. By the end of 1957 the balance of indebtedness to other countries had risen to over \$11 billion compared with \$3.7 billion in 1949, mainly because of the rise in non-resident long-term investments in Canada to a total of around \$17 billion which is not far from twice the value in 1949.

The net inflow of direct and portfolio investment capital from the United States was larger than in 1956 when it amounted to some \$867 million. In 1957 it accounted for nearly three-quarters of the total movement of some \$1,250 million in these forms (including repayments on official loans to overseas governments), compared to about two-thirds of more than \$1,300 million in the previous year. The capital import in these forms from all countries was equivalent to more than 90 per cent of the current account deficit in 1957, and to more than 95 per cent in 1956.

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Over the year as a whole portfolio security transactions were by far the most important type of capital movement, reaching a record net inflow of \$316 million in the second quarter. But they then contracted sharply to \$135 million in the third quarter and \$45 million in the fourth quarter, chiefly because of reductions in inflows from new issues abroad. Declines in actual sales of new issues in these quarters were even greater as funds were received from new issues which had been arranged for earlier on a deferred delivery basis. In contrast there was a striking stability in movements of direct investment capital. The fourth quarter inflow of capital for direct investment in foreign-controlled enterprise in Canada amounted to \$155 million which was the same level as in the second quarter and was exceeded only in two quarters in earlier years.

The price of the United States dollar in Canada rose from 95.97 cents at the end of 1956 to 98.41 cents at the end of 1957. It moved through a low of 94.22 cents in August and a high of 98.62 cents in December, a trading range of 4.40 cents which was slightly wider than in 1956 and wider than for any earlier year since 1952. In general the United States dollar tended to decline moderately into the third quarter. The trading range in the first quarter was only 0.84 cents and in the second quarter only 1.00 cents. By mid-year the quotation for the United States dollar in Canada had fallen 0.63 cents to 95.34 cents. This trend continued through July and the early part of August when the rate of decline accelerated and a new low for the century of 94.22 cents was established on August 20. Following this the value of the United States dollar in Canada showed a generally rising trend for the balance of the quarter, closing at 96.44 cents, having traded within a range of 2.34 cents in the quarter. In the latter part of November and through December, the Canadian dollar weakened and the United States dollar in Canada closed the year at 98.41 cents; the trading range for the quarter was 2.93 cents. The noon averages for the four quarters of 1957 were 95.84 cents, 95.62 cents, 95.25 cents, and 96.82 cents respectively. The noon average of 95.88 cents for the year as a whole compared with 98.41 cents in 1956.

Import balance on commodity trade contracts during 1957

One of the more striking aspects of the rising deficit throughout 1955 and 1956 had been the growth in the deficit on commodity trade. In the latter year this imbalance contributed over half of the current account deficit. The growth continued in the early months of 1957 and for the first six months of the year the commodity trade deficit was substantially above that for the comparable period of 1956. The increase in the first quarter deficit came about as a result of a larger gain in imports than in exports; however at that time it was apparent that the rate of growth of both imports and exports was moderating. In the second quarter, the deficit increased further as both imports and exports fell as compared to 1956, but the latter relatively more. By the last half of 1957, there were numerous indications of declines in imports, and in the final quarter, total imports were 10 per cent lower than in 1956. In the third quarter exports continued relatively strong, but by the fourth quarter the increase was only some 1 per cent over the same period in 1956. As a result of these contrary movements, the deficit on commodity trade declined from \$529 million in the first six months of 1957 to \$49 million in the last six months. The annual changes in total values were relatively minor; exports rose by more than 1 per cent, and imports declined by close to the same amount, and the trade deficit declined from \$734 to \$578 million to constitute well under half of the current account deficit.

Import prices rose unevenly through 1957 to a level averaging 3 to 4 per cent above 1956, and export prices averaged about the same as in 1956, although they declined some 2 per cent within the year. As a result, the terms of trade, which had improved during 1956, deteriorated by close to 3 per cent in 1957. The effect of these price changes has been that figures shown for declines in the value of imports understate the extent of the drop in the volume of imports. The drop in the deficit in real terms would therefore be somewhat larger than the value figures indicate.

Although total imports in 1957 were only slightly lower in value than the record level in 1956, the unusual flexibility of this item continued to be a characteristic. The broad similarity in total and composition in the two years as a whole conceals the main trends which were under way during the period, and which served to distinguish the two years. While in 1956 the trend was generally upward, the opposite was the case during 1957. The unusually high levels at the close of the previous year had carried over into the early part of 1957, but there was subsequently a levelling off with a substantial decline having occurred by the final quarter of 1957.

The declines which became more pronounced in the latter part of 1957 were most evident in imports of the types of commodities which had undergone the greatest expansions in 1956 and which continued at most exceptional levels into 1957. For example, the decline in the total value of imports which occurred between the closing months of 1957 and the period earlier in the year when imports had been at their highest level, was largely concentrated in a few groups of commodities. Among the commodities showing this trend were those closely related to investment in Canada. For example, most kinds of machinery and equipment, particularly those types which are used in industry, declined in the latter months of the year, although for the year as a whole the total imports of non-farm machinery were not very different from the previous year. Imports of many kinds of steel also fell off sharply in the latter half of the year, and in the year as a whole were less than in 1956. Declines also occurred in other industrial materials towards the close of the year. Generally imports affected by levels of personal consumption in Canada either rose or were well maintained as in the case of some kinds of food and textiles and other consumer goods.

In contrast to the declines which appeared in some commodities in the second half, was a general maintenance of exceptional levels of imports in the first half of 1957 compared with the same period in 1956. While this stability was general in that period of 1957 some of the groups which had been showing exceptional strength reached their highest levels, the best examples being again supplied by machinery and steel rolling mill products. At the same time there were some notable reductions in imports of automobiles which had been exceptionally high in the previous year due to special circumstances. As a result of these trends the level of imports in the last quarter of 1957 was not far above that in the same period of 1955 before the more exceptionally high levels reached in 1956 and in earlier quarters of 1957. But it should be noted that even the level of the last half of 1955 was well above that in earlier periods.

Changes in the sources of Canadian imports in 1957 were in the direction of a reduction in the total imported from the United States partly offset by increases from overseas. Increases from overseas were widely distributed including manufactured goods from the United Kingdom and leading suppliers in Western Europe, and primary products from parts of the rest of the Sterling Area and other countries of the world including petroleum from Venezuela.

While Canada's exports rose only moderately in total in 1957, there continued to be more substantial increases in certain commodities. These included some like uranium and petroleum where production increased substantially and others like cattle and old ships where sales were unusually high. Other substantial increases occurred in seeds and iron and steel, but rises were not as general as in preceding years and some appreciable declines occurred in exports of various commodities such as lumber and copper, in addition to sharp declines in sales of wheat and other grains. And there were other smaller reductions which appeared in other commodities, particularly in the latter part of the year, in contrast to the rising trends of earlier years.

Summary of Current Transactions with the United States,

United Kingdom, and Other Countries, 1956 and 1957

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1956	1957	1956	1957	1956	1957	1956	1957
<u>Calendar Year</u>								
Exports (adjusted)	4,833	4,909	2,850	2,931	818	749	1,165	1,229
Imports (adjusted)	5,567	5,487	4,023	3,879	493	519	1,051	1,089
Balance on trade	- 734	- 578	-1,173	- 948	+ 325	+ 230	+ 114	+ 140
Other current receipts	1,604	1,586	1,148	1,130	196	199	260	257
Other current payments	2,242	2,391	1,615	1,732	267	285	360	374
Balance on "invisibles"	- 638	- 805	- 467	- 602	- 71	- 86	- 100	- 117
Current account balance	-1,372	-1,383	-1,640	-1,550	+ 254	+ 144	+ 14	+ 23
<u>Fourth Quarter</u>								
Exports (adjusted)	1,273	1,284	758	758	219	194	296	332
Imports (adjusted)	1,434	1,290	1,037	876	119	130	278	284
Balance on trade	- 161	- 6	- 279	- 118	+ 100	+ 64	+ 18	+ 48
Balance on "invisibles"	- 209	- 250	- 174	- 201	- 18	- 25	- 17	- 24
Current account balance	- 370	- 256	- 453	- 319	+ 82	+ 39	+ 1	+ 24

Canada's capacity to export has grown substantially during the recent period of industrial and resource development. As well as the appearance of new export industries there has been an addition to the capacity of existing export industries. Exports from this new industrial capacity have been mainly responsible for a steady rise in exports of industrial materials which has been particularly substantial each year since 1954 with demand being generally strong and rising. In 1957 a further gain occurred in total exports of industrial materials but this was less in total than in the previous year, and was more concentrated in a few commodities than was the case earlier with declines appearing in exports and prices of some commodities for which demand had been strong earlier. In addition, sales of wheat and other grains were considerably lower in 1957 than in 1956 when they had been higher than in any other post-war year except 1952 and 1953.

Changes in the direction of Canadian exports were also for the most part relatively moderate with about 60 per cent of the total again going to the United States. There was a small increase of some 2 per cent in exports to the United States with little net change in the total overseas. But relative changes in exports to different overseas destinations were greater. Increases to the OEEC countries, Latin America, and Japan were mainly offset by declines to the United Kingdom, the rest of the Sterling Area, and Eastern Europe. The composition of overseas trade also underwent considerable change with reduced exports of grains being offset by rises in a variety of other commodities chiefly industrial materials.

Rising deficit from transactions in services and other non-merchandise items

A significant feature of the current account deficit in 1957 was the continued growth of the deficit on non-merchandise transactions in each quarter and in the year. From 1956 to 1957, the deficit on "invisible" items rose by some 26 per cent, from \$638 million to \$805 million. In view of the small rise in the overall current account deficit, this gain in the non-merchandise deficit indicated a substantial increase in the relative importance of the imbalance on "invisibles". Not since the first quarter of 1955 has the merchandise trade deficit played such a minor role in the overall deficit as it did in the final quarter of 1957.

The growth in the "invisible" deficit in 1957 was the result of continued increases in payments (almost 7 per cent) and a small decline in receipts (1 per cent). By the fourth quarter of the year the non-merchandise deficit had reached a new peak of \$250 million, some 20 per cent above the final quarter of 1956. Payments in this quarter had the smallest increase as compared to the same quarter a year earlier as there has been for some time, although the level was slightly above that incurred in the fourth quarter of 1956; receipts fell some 7 per cent below the level in the same quarter of 1956.

All but two of the main categories of non-merchandise transactions moved to widen the deficit in 1957. The two exceptions were travel and inheritances and migrants' funds. As more people chose to take holidays outside their own country, both receipts and expenditures for travel rose, and the deficit remained virtually unchanged at \$161 million. This contrasts with substantial increases in the deficit in each of the three previous years, and results from a greater rise in receipts than in payments. Receipts from travel expenditures in Canada by visitors from the United States rose at about twice as fast a rate as the rise in Canadian travel expenditures in that country. With higher average expenditures in Canada as well as a larger number of visitors, there was consequently a contraction in the deficit on travel account with the United States. But while this contraction was offset by a further gain in net payments to overseas countries by Canadian travellers abroad, the rise in this latter group of expenditures was less than in the previous year.

The increase in personal mobility was also reflected in transfers of migrants' funds. The growth in emigration by Canadians to the United States and the United Kingdom resulted in a larger outflow of migrants' funds. However, the flood of immigration to Canada was so large in 1957 that receipts of migrants' funds exceeded payments, and the normal net deficit on inheritances and migrants' funds was wiped out. Gold production available for export was somewhat smaller at \$147 million in 1957; the setback in the third quarter of the year which related to refining facilities, was almost caught up in the fourth quarter when the amount available for export rose to \$50 million.

The deficit on the income account has been increasing every year since 1953, and each successive increase has been larger than its predecessor. From 1956 to 1957 the deficit rose from \$390 to \$462 million, as payments increased by \$83 million and receipts by only \$11 million. Almost a third of the increase in payments related to larger interest remittances arising out of recent issues of bonds by Canadian companies in the United States. A major part of the rest of the increase reflected larger dividend payments by Canadian subsidiaries to their non-resident parents, as well as greater non-resident ownership of Canadian assets. It should be pointed out that in recent years of general industrial expansion, earnings of these subsidiaries have been well in excess of dividend transfers to parent companies and other shareholders, since large amounts of earnings have been retained for further investment in Canada during that period.

On freight and shipping account there was a further increase in the deficit to \$72 million from \$48 million in 1956. A larger contraction in receipts than in payments brought about this result. Most of the drop in receipts was in shipping revenues with fewer vessels operated by Canadian concerns and lower revenues. There was also some decline in inland freight on Canadian exports. Less inland freight was also paid on the reduced volume of Canadian imports from the United States, but total expenditures by Canada were largely maintained by high transportation costs in importing larger cargoes from overseas. Official contributions increased in 1957 to \$38 million, largely as a result of higher expenditures out of Canada's Colombo Plan

contribution. The deficit on account of other non-merchandise transactions rose by some 50 per cent in 1957. The major factor contributing to this greatly increased imbalance was a falling off in United States government expenditures in Canada on defence installations. In addition there was considerable upward pressure on miscellaneous income and personal remittances, as well as on payments for a wide variety of business services.

Transactions by area

The \$11 million increase in the current account deficit from 1956 to 1957 was the result of two contrary movements, a decline in the deficit with the United States of \$90 million, and a decline in the surplus with overseas countries of \$101 million. This small increase in the deficit in 1957 as compared to 1956 was the net effect of larger deficits in both the first and second quarters, and smaller deficits in the third and fourth. The \$114 million decline in the overall deficit in the final quarter of 1957 consisted of a \$134 million drop in the deficit with the United States from \$453 million to \$319 million, and a decline in the surplus with overseas countries from \$83 million to \$63 million.

The decrease in the deficit with the United States of \$90 million from 1956 to 1957 was the result of a \$225 million drop in the deficit on commodity trade partially offset by an increase of \$135 million in the non-merchandise deficit. Both the third and fourth quarter deficits in 1957 were substantially smaller than those of the same period in 1956, and for the most part, the declines were related to commodity trade. For the year as a whole the \$225 million decline in the commodity trade deficit with the United States was the result of a \$144 million drop in imports from, and an \$81 million increase in exports to that country. The contraction of imports as reflected in declines in imports of automobiles and parts, and industrial machinery and equipment accompanied a tapering off in the rate of business expansion in Canada in the latter part of the year. The rise in commodity exports to the United States of resource commodities and primary products such as petroleum, uranium, and cattle was sufficiently large to offset the impact of reduced demands in that economy for other exports from Canada. The increase of \$135 million in the deficit for non-merchandise items with the United States relates to both a small decline in receipts and rise in payments. The \$18 million drop in receipts from "invisible" transactions is after including increases in tourist receipts, income remittances, and immigrants' funds, which were more than offset by declines in receipts from gold available for export, freight and shipping earnings, and miscellaneous items including the United States defence expenditures in Canada, mentioned above. The \$117 million rise in payments for "invisible" items covers each of the main categories including travel, income remittances, inheritances and migrants' funds, and miscellaneous business service and other payments. The largest increase in payments was \$71 million in income account; this rise reflects the increased United States investment in Canada, in both equities and bonds.

Changes in Principal Elements of the Current Account with all Countries, 1956 and 1957

(millions of dollars)

	1956	1957	Change in 1957
Commodity trade			
Exports adjusted	4,833	4,909	+ 76
Imports adjusted	5,567	5,487	- 80
Balance	- 734	- 578	+ 156
Gold production available for export	+ 150	+ 147	- 3
Travel expenditures	- 162	- 161	+ 1
Interest and dividends	- 390	- 462	- 72
Freight and shipping	- 48	- 72	- 24
Inheritances and migrants' funds	- 14	-	+ 14
Official contributions	- 30	- 38	- 8
All other current transactions	- 144	- 219	- 75
Current account balance	-1,372	-1,383	- 11

Canada's surplus position with overseas countries declined by \$101 million to \$167 million in 1957 with \$69 million of this on commodity account and \$32 million from other transactions. This decrease is more than accounted for by a \$110 million decline in the surplus of Canada with the United Kingdom. In every quarter of 1957, the surplus with the United Kingdom was smaller than for the corresponding quarter of 1956. Of the total decline in 1957 \$95 million relates to a smaller surplus on merchandise trade, as imports from the United Kingdom of pipe and tubing, automobiles, and some kinds of machinery rose and as exports such as wheat and some non-ferrous metals declined. The remainder of the \$110 million decline in surplus relates to a larger deficit in non-merchandise items, and reflects for the most part, increased net payments by tourists and larger income remittances.

The current account balance with other overseas countries moved in a variety of ways in 1957. The surplus of the rest of the Sterling Area declined to \$9 million. The surplus with the OEEC countries rose by \$29 million to \$43 million, and the deficit with all other countries fell from \$48 million to \$29 million. The decline in the surplus with other Sterling Area countries to a level of \$9 million in 1957 resulted from a decline in receipts and a rise in payments for both commodities and non-merchandise items. Exports to these Sterling Area countries were for the most part maintained, but the total for the area declined in 1957 from the level in 1956 which included some special exports of aircraft to South Africa. In addition there was a substantial rise in imports of alumina arising from the increased use of Jamaica as a source of supply. This tendency towards a smaller surplus was reinforced by an increase in exports financed by Colombo Plan contributions. The larger surplus with other OEEC countries arose out of bigger net receipts for imports and smaller net payments for invisible items. While payments to OEEC countries rose on account of larger travel expenditures and income remittances, these were more than offset by a decline in Canadian defence expenditures in conjunction with the NATO commitments. The current account deficit with all other countries fell to \$29 million in 1957 primarily as a result of increased exports to countries such as Japan, Israel, Korea, and to Latin America which more than offset declines to Eastern Europe. These increased receipts on commodity account were somewhat offset by larger payments for a variety of miscellaneous services, including Canadian participation in the U.N. Emergency Force in the Middle East.

Capital movements

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises in 1957 is placed at \$525 million. This figure is some \$70 million below the record set in 1956, but is about \$100 million higher than for any earlier year. The level of inflows from the United States appears to have been little changed from the total of \$409 million recorded in 1956; this is particularly striking because the fourth quarter of 1956 included some extraordinarily large receipts which did not recur in 1957. Net inflows of capital for direct investment from both the United Kingdom and other overseas countries appear to have decreased.

A striking feature of capital movements in 1957 was the maintenance of inflows for direct investment at such a high level during a year in which economic activity showed some tendency to moderate. No less surprising was the fourth quarter inflow which amounted to \$155 million, compared to \$120 million in the third quarter. The fourth quarter inflow was equal to the inflow in the second quarter and was exceeded only on two earlier occasions.

Broadly speaking the industrial pattern of foreign direct investment inflows remained unchanged from 1956. Resource development and related industries continued to attract large amounts of foreign capital. On the basis of preliminary data nearly half the movement in each year went to the petroleum industry. The inflow to mining concerns appears to have more than maintained its relative position. Manufacturing inflows fell. Again in 1957 purchases by non-residents of interests in existing concerns represented a significant element in the inflow for investment in manufacturing. In 1957 such transactions appear to have been a somewhat higher proportion of the movement than in 1956.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$55 million in 1957. This figure is only half the amount recorded in 1956 and is the smallest annual movement since 1951. The record figure in 1956 included a number of transactions involving the transfer of ownership of major interests in existing enterprises abroad. More than half the decline in net outflows in 1957 is accounted for by these transactions.

As in 1956 portfolio security transactions were by far the largest source of foreign capital in 1957, being equivalent to more than one-half the current account deficit. The inflow reached a peak of \$316 million in the second quarter of the year shattering the record of \$304 million established in the third quarter of 1950 in a frenzy of exchange rate change expectations at that time. It then fell sharply to only \$45 million in the final quarter of 1957. The total of \$731 million for the year as a whole was only moderately below the record of \$760 million established in 1956, and was more than twice the amount of the previous record net inflow established in 1950. Residents of the United States provided some \$529 million of the net movement, compared with \$535 million in 1956. The net inflow from the United Kingdom rose from \$114 million in 1956 to \$127 million in 1957, but the inflow of \$75 million from other overseas countries fell well below the figure of \$111 million recorded in 1956.

Trade in outstanding Canadian issues was again dominated by the sale to non-residents of Canadian common and preference stocks, but unlike the three preceding years when successive new records reaching \$195 million in 1956 were established, the balance of \$140 million in 1957 represented a reduction of nearly 30

per cent from the previous year. On the other hand Canadians were net repurchasers of \$36 million of foreign-held Canadian bonds and debentures, and the balance from trade in all outstanding Canadian securities of \$104 million compared with \$207 million in 1956.

The proceeds of new issues of Canadian securities sold to non-residents again set a new record in 1957, amounting to \$762 million; this represented an increase of \$81 million or 12 per cent over the previous record established in 1956. The movement was heavily concentrated in the first half of the year, during which some 72 per cent of the inflow occurred. Corporations, provincial governments and municipalities were each important borrowers abroad. Retirements of foreign-held Canadian securities amounted during 1957 to \$152 million.

Transactions in foreign securities led to a net capital inflow of \$17 million. Canadians purchased \$21 million of new foreign issues, but holdings were reduced by the sale of \$32 million of outstanding issues and retirements of \$6 million.

Additional details of portfolio security transactions between Canada and other countries, including some special comment on deferred deliveries, will be found in the Dominion Bureau of Statistics report, "Sales and Purchases of Securities Between Canada and Other Countries, December 1957, and Review of Security Trading During 1957".

Repayments of principal on the war and post-war loans made by Canada to overseas governments totalled \$50 million in 1957 compared to \$69 million in 1956. The Government of the United Kingdom repaid \$30 million on the \$700 million interest-free loan of 1942, reducing the amount outstanding to \$30 million, and there were also principal repayments by Belgium, Czechoslovakia, France, the Netherlands, and Norway. The United Kingdom elected to defer the 1957 repayment of principal on the 1946 loan and this accounted for \$15 million of the decline in receipts compared with 1956. The repayment of \$2 million by Czechoslovakia was the final instalment due from that country. At the end of 1957 the outstanding balances on Canada's war and post-war loans of \$2,450 million amounted to \$1,481 million. There was in addition a further \$34 million owing to Canada on intergovernmental loans extended following World War I and on account of military relief settlements arising out of World War II. Principal is not currently being repaid on the inter-war loans or on the post-war loan made to China. These inactive loans totalled \$80 million.

An outflow of capital from Canada occurred from a reduction of \$35 million in holdings of Canadian dollars by non-residents. This outflow followed a similar movement of \$26 million in 1956, but there were inflows in each of the two preceding years. The reductions in 1957 occurred in the first half of the year, and there was an increase in non-resident holdings of Canadian dollars of \$25 million in the last half. About half the net decline over the year occurred in holdings of the United Kingdom; it will be recalled that at the end of 1956 these included \$22 million set aside to cover interest payable on the 1946 loan from Canada, payment of which was subsequently deferred.

Exchange transactions of the Government of Canada, including the operations of the Exchange Fund Account, led to a substantial inflow of capital as official holdings of gold and foreign exchange were reduced. The net inflow over the year amounted to \$105 million including \$104 million from reduced holdings of gold and United States dollars and \$1 million from reduced holdings of sterling. In terms of United States dollars official holdings of gold and United States funds fell from \$1,936 million at the end of 1956 to \$1,828 million at the end of 1957. Holdings at the end of 1956 were close to the record month-end figure and a new record of \$1,973 million was established at the end of July. By the end of 1957 holdings had been reduced to their lowest month-end level since May 1954.

Other capital movements although again inward in 1957 as a whole, were not on balance quantitatively as important an element in Canada's balance of payments as in either 1955 or 1956. The net inflow shown for the year was \$62 million. Canadians added substantially to their bank balances and other short-term holdings in foreign currencies, but the inward movements of other types more than offset these outflows of capital. As was the case in 1956 there were on balance inflows in the first two quarters of the year followed by outflows in the remainder of the year. The inflows appear to have been chiefly a further net accumulation of short-term indebtedness on commercial account.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1957 are preliminary and

		1955		1956		
		III	IV	I	II	III
A	Current Receipts					
1	Merchandise exports (adjusted).....	1,127	1,140	1,051	1,263	1,246
3	Gold production available for export	37	40	37	40	38
4	Travel expenditures	182	54	26	65	191
5	Interest and dividends	27	75	35	39	25
6	Freight and shipping.....	108	108	102	115	117
7	Inheritances and immigrants' funds	24	21	17	28	26
11	All other current receipts	105	104	91	112	108
12	Total Current Receipts	1,610	1,542	1,359	1,662	1,751
B	Current Payments					
1	Merchandise imports (adjusted).....	1,163	1,259	1,242	1,541	1,350
4	Travel expenditures	156	96	93	133	169
5	Interest and dividends	91	162	112	116	121
6	Freight and shipping.....	113	116	99	134	131
7	Inheritances and emigrants' funds	30	31	25	28	29
9	Official contributions	8	7	9	10	5
11	All other current payments.....	134	136	142	135	150
12	Total Current Payments	1,695	1,807	1,722	2,097	1,955
	Balance on Merchandise Trade	- 36	- 119	- 191	- 278	- 104
	Balance on Other Transactions, excluding B 9	- 41	- 139	- 163	- 147	- 95
	Official Contributions.....	- 8	- 7	- 9	- 10	- 5
C	Current Account Balance	- 85	- 265	- 363	- 435	- 204
D	Capital Account					
	Direct Investment					
1	Direct investment in Canada.....	+ 104	+ 113	+ 121	+ 169	+ 120
2	Direct investment abroad	- 12	- 39	- 66	- 5	- 24
	Canadian Securities					
3	Trade in outstanding issues	- 24	+ 25	+ 77	+ 43	+ 70
4	New issues.....	+ 17	+ 13	+ 111	+ 181	+ 178
5	Retirements	- 19	- 18	- 71	- 23	- 24
	Foreign Securities					
6	Trade in outstanding issues	+ 6	+ 11	- 16	+ 10	+ 10
7	New issues.....	- 4	- 22	- 1	- 5	- 3
8	Retirements	+ 14	-	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans	+ 2	+ 27	-	+ 13	-
11	Repayment of war loans.....	+ 7	+ 8	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners...+	6	+ 14	- 23	- 5	- 3
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 7	+ 36	+ 29	- 30	- 5
17	Other capital movements	- 5	+ 97	+ 195	+ 79	- 122
E	Net Capital Movement	+ 85	+ 265	+ 363	+ 435	+ 204

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 1956 are subject to revision.

1956	1957				Annual Totals				
IV	I	II	III	IV	1954	1955	1956	1957	
(millions of dollars)									
1,273	1,102	1,215	1,308	1,284	3,929	4,332	4,833	4,909	A
35	39	31	27	50	155	155	150	147	1
54	30	77	199	56	305	328	336	362	3
41	25	40	31	55	147	160	140	151	4
116	104	113	107	97	313	398	450	421	5
27	23	42	32	23	89	86	98	120	6
119	108	103	89	85	298	391	430	385	7
									11
1,665	1,431	1,621	1,793	1,650	5,236	5,850	6,437	6,495	12
1,434	1,328	1,518	1,351	1,290	3,916	4,543	5,567	5,487	B
103	100	143	177	103	389	449	498	523	1
181	129	148	136	200	423	483	530	613	4
134	109	143	129	112	356	415	498	493	5
30	27	30	31	32	94	105	112	120	6
6	5	8	7	18	11	24	30	38	7
147	150	155	148	151	479	529	574	604	9
									11
2,035	1,848	2,145	1,979	1,906	5,668	6,548	7,809	7,878	12
- 161	- 226	- 303	- 43	- 6	+ 13	- 211	- 734	- 578	
- 203	- 186	- 213	- 136	- 232	- 434	- 463	- 608	- 767	
- 6	- 5	- 8	- 7	- 18	- 11	- 24	- 30	- 38	
- 370	- 417	- 524	- 186	- 256	- 432	- 698	-1,372	-1,383	C
+ 185	+ 95	+ 155	+ 120	+ 155	+ 392	+ 417	+ 595	+ 525	D
- 15	- 20	- 15	- 15	- 5	- 81	- 74	- 110	- 55	1
+ 17	+ 33	+ 47	+ 30	- 6	+ 63	- 27	+ 207	+ 104	2
+ 211	+ 258	+ 293	+ 140	+ 71	+ 331	+ 166	+ 681	+ 762	3
- 22	- 42	- 40	- 44	- 26	- 203	- 184	- 140	- 152	4
+ 23	- 11	+ 17	+ 16	+ 10	+ 7	+ 25	+ 27	+ 32	5
- 6	- 4	- 3	- 8	- 6	- 33	- 48	- 15	- 21	6
-	+ 1	+ 2	+ 1	+ 2	+ 2	+ 17	-	+ 6	7
+ 26	-	+ 12	-	+ 8	+ 42	+ 39	+ 39	+ 20	8
+ 8	+ 7	+ 8	+ 7	+ 8	+ 30	+ 30	+ 30	+ 30	10
+ 5	- 33	- 27	+ 7	+ 18	+ 34	+ 89	- 26	- 35	11
- 27	+ 13	- 22	+ 53	+ 61	- 124	+ 44	- 33	+ 105	14
- 35	+ 120	+ 97	- 121	- 34	- 28	+ 204	+ 117	+ 62	16
+ 370	+ 417	+ 524	+ 186	+ 256	+ 432	+ 698	+1,372	+1,383	17
									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.

Summary of Capital Movements, 1954 to 1957

(millions of dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>Change 1957 from 1956</u>
Direct investment in Canada	+ 392	+ 417	+ 595	+ 525	- 70
Direct investment abroad	- 81	- 74	- 110	- 55	+ 55
Canadian securities:					
Trade in outstanding stocks	+ 129	+ 138	+ 195	+ 140	- 55
Trade in outstanding bonds	- 66	- 165	+ 12	- 36	- 48
New issues	+ 331	+ 166	+ 681	+ 762	+ 81
Retirements	- 203	- 184	- 140	- 152	- 12
Foreign securities	- 24	- 6	+ 12	+ 17	+ 5
Official loan repayments	+ 72	+ 69	+ 69	+ 50	- 19
Canadian dollar holdings of foreigners	+ 34	+ 89	- 26	- 35	- 9
Official holdings of gold and foreign exchange (increase, -)	- 124	+ 44	- 33	+ 105	+ 138
Other capital movements	- 28	+ 204	+ 117	+ 62	- 55
Net capital movement financing current account deficit	<u>+ 432</u>	<u>+ 698</u>	<u>+1,372</u>	<u>+1,383</u>	<u>+ 11</u>

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