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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1961

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Canada's current deficit from transactions in goods and services with other countries at \$80 million in the third quarter of 1961 was less than the deficit of \$122 million in the same period last year, or in any similar period since 1954. This was the result of merchandise exports rising more than imports with an export balance of \$120 million from merchandise trade, as the deficit from non-merchandise transactions at \$200 million in the quarter remained close to the deficit of \$204 million from similar transactions last year. Although this non-merchandise deficit was less than in either 1958 or 1959, it remained much more than in any third quarter before 1958. Various changes among sources of this deficit have occurred. A considerable improvement in 1961 in the balance on travel account offset increases in net payments on account of interest and dividends and a variety of other groups of transactions.

In the nine months of 1961 the current deficit was reduced to \$746 million from \$913 million in the same period of 1960. This change was entirely brought about by the swing from an import balance on merchandise account to an export balance as exports rose more than imports. The deficit from non-merchandise transactions of \$829 million was some 9 per cent higher mainly because of the sharp rise which occurred in the first quarter with an unusual concentration of dividend transfers for that period.

Capital inflows for both direct and portfolio investment were moderated in the third quarter under a variety of influences. The change in official holdings of gold and foreign exchange was relatively small apart from some special transactions with the United Kingdom in connection with that country's drawing from the International Monetary Fund. Private and banking holdings of foreign exchange by Canadians rose sharply. Overall, the inflows in long-term forms were substantially in excess of the current account deficit, as is characteristic of the quarter. For the year to date, they have been equivalent to about two-thirds of the current deficit.

Export balance on merchandise account

Continued strong demands from overseas together with a sizable increase in shipments to the United States led to a record level of exports in the third quarter. The substantial gain of 10 per cent over the same period of the previous year was spread among more commodities than in the case of the second quarter where the large gain was more concentrated in shipments of wheat. Part of the rise, however, reflects the effects on values of the lower foreign exchange value of the Canadian dollar. In the third quarter deliveries of aircraft to the United States were much larger and some gains appear in other commodities to that country, including petroleum and some other major export staples. An appreciable gain in exports to the United States contrasts with the earlier period of the year. At the same time a further substantial gain over last year occurred in exports to foreign countries overseas which continued around the high level of the second quarter and which again were featured by the heavy deliveries of wheat to Europe and Asia.

In the nine months' period of 1961 the gain in the value of exports was 6 per cent overall. But the increase was all concentrated in shipments to overseas countries as exports to the United States were slightly less in value because of declines early in the year. The value of shipments to the United Kingdom and the rest of the Commonwealth continued around the high levels of the previous year. The large gains were in exports to foreign countries mainly in Europe and Asia but also in Latin America. The rise in value exported to other foreign countries as a group amounted to about 26 per cent and of this the largest part was contributed by wheat, although some other commodities, mainly industrial materials, also were significantly higher than the high levels of the previous year.

Prepared in the Balance of Payments Section, International Trade Division.

Imports in the third quarter were 8 per cent higher than in the same period of last year. Being at a new peak for that quarter this marks a rising trend during 1961, although the change in the nine months' period was relatively slight. Some of the rise in the third quarter reflects the change in the foreign exchange value of the Canadian dollar. The adjusted figures used in the balance of payments have been influenced by special factors connected with some commodities like aircraft, with the continued delivery of commercial airliners. No pronounced changes in the pattern of imports so far have been evident in available details for either the third quarter or the nine-months' period. Increases in some commodities have been largely counterbalanced by reductions in others. No major changes occurred in sources of supply.

Deficit from services and non-merchandise items

While the third quarter surplus on merchandise trade at \$120 million was higher than that for the same quarter in any year in the post-war period, except 1946, the estimated deficit on "invisible" transactions at \$200 million in the third quarter of 1961 was a shade lower than in the same quarter of the preceding year and over 10 per cent smaller than in the corresponding periods of 1958 and 1959.

As compared with the September quarter of 1960, net payments were larger or unchanged for each of the items among non-merchandise transactions, except for the travel account, whose net receipts rose from \$8 million to \$30 million between the third quarters of 1960 and 1961.

The travel account has traditionally recorded surpluses in the third quarter of the post-war years, and the net payments in the third quarters of 1958 and 1959 were nominal in magnitude. The \$30 million surplus was, however, a fraction of those for the September quarter of the post-war years up to 1952, and approximated the average level for the third quarters of 1954 and 1955. A substantially augmented number of visitors from the United States during the summer months was the chief factor contributing to the surplus on travel account, as expenditures abroad by Canadian tourists were also slightly higher. While Canadian expenditures on overseas travel rose substantially there was a small decline in the total spent in the United States.

Gold production available for export, estimated at \$42 million and \$41 million, respectively, in the September quarters of 1960 and 1961 contributed to adding \$1 million to the deficit on non-merchandise transactions. A small rise likewise took place in the deficit on inheritances and migrants' funds as receipts remained unchanged while payments increased \$2 million.

The deficit on income account rose from \$125 million to \$131 million, as the increase of \$9 million in payments of interest and dividends was three times as large as that for receipts. This slightly larger total of receipts was accounted for by an augmented inflow of dividends from subsidiaries abroad of Canadian companies. The gain in income payments was distributed about evenly between interest and dividends, the advance in the former being attributable to the effect on foreign-pay bonds of the change in the exchange rate of the Canadian dollar from a premium to a discount between the third quarters of 1960 and 1961, to net sales of new provincial, municipal and corporation bonds in the third quarter of 1960 and in the first quarter of 1961, and to large net sales of outstanding bonds in the latter period. Higher dividend remittances by subsidiaries in Canada together with large non-recurring dividends also contributed to the increase, as net profits of unincorporated branches and returns on portfolio investments remained steady.

Concomitant with the expansion in merchandise trade, both receipts and payments for freight and shipping services increased about 7 per cent, thereby maintaining the deficit on this account just about unchanged at \$24 million.

A small increase in the deficit on government account resulted from declines in estimated receipts of \$10 million, in official contributions of \$4 million and in other payments of nearly \$4 million. At \$10 million, official contributions to the Rest of the Sterling Area were \$1 million higher in the current quarter under review, but comprised two gift vessels, valued at \$5½ million, presented to the West Indies Federation. Some contributions to the OEEC and Other Countries in the previous year had been non-recurring. Lower government expenditures in the United States represented smaller defence purchases of services; and a large non-recurring purchase of real estate in the United Kingdom fell in the third quarter of 1960. Miscellaneous income receipts were estimated to be lower in the third quarter of 1961; and fairly sizable compensation fees for contract cancellation did not recur in 1961. Deficits arising from business services and personal remittances remained materially unchanged over the period.

At \$829 million, net payments on non-merchandise transactions for the first 9 months of 1961 exceeded the current account deficit of \$746 million by an amount of \$83 million, representing the trade surplus. In most years since about the mid-fifties, the deficit on "invisibles" accounted for about four-fifths of the current account deficit for the first three quarters of the year, with the exception of 1956, 1957 and 1959, when net payments on services represented approximately 40 per cent, 50 per cent and 60 per cent, respectively. The 8½ per cent rise in the deficit on "invisibles" from \$764 million to \$829 million in the 9 months of 1960 and 1961 was attributable to large additions to net payments of interest and dividends and from "other current transactions", offset in part by a sizable reduction in the deficit on travel account. The net result of gains in income receipts and payments of \$18 million and \$73 million, respectively, was an increase of \$55 million, or 15 per cent, in the deficit on income account from \$362 million to \$417 million. The substantial expansion in payments was mainly due to the bunching of dividend remittances by some subsidiaries in Canada in the first quarter of the year rather than in the customary fourth. The negative balance of \$417 million on income account, which comprised about one-half of the deficit on non-merchandise transactions, compared with 47 per cent in the three quarters of 1960, 51 per cent in 1957, and substantially higher proportions in the same period in the early fifties.

Gains in receipts and payments on travel account of \$43 million and \$21 million, respectively, contributed to a decline of \$22 million in net payments for tourist expenditures from \$152 million to \$130 million, which represented about 15½ per cent of the deficit on "invisibles". This share compared with those of 20 per cent for the first 9 months of the three preceding years and higher proportions in 1956 and 1955. The increase of \$24 million in the deficit arising from "all other current transactions" from \$261 million to \$285 million, accounting for over one-third of total net payments on services, was ascribable to estimated declines in expenditures in Canada by the United States on account of defence and to lowered receipts of miscellaneous income, as payments remained unchanged at \$579 million in the two periods.

Transactions by areas

As seen from the summary statement on the following page, the improvement of \$42 million in the current account balance, from a deficit of \$122 million in the third quarter of 1960 to that of \$80 million in the same period of 1961, was concentrated in transactions with Other Countries, whose balance was transformed from a deficit of \$4 million to a surplus of \$40 million. The changes in the balance of payments, pertaining to both merchandise trade and non-merchandise transactions, with Canada's principal trading partners, the United States and United Kingdom, were quite moderate. The deficit with the United States was narrowed slightly from \$166 million to \$161 million, and the surplus with the United Kingdom was reduced from \$48 million to \$41 million. As the change in the balance with the Rest of the Sterling Area was slight and that with the OEEC switched from a modest surplus to a more sizable deficit, the improvement in the balance with Other Countries stemmed primarily from a substantial rise of some 70 per cent in merchandise exports to the remaining group of countries from \$135 million in the third quarter of 1960. A considerable share of the gain embodied expanded grain shipments to Communist China and to countries in Eastern Europe.

A 9 months' comparison indicates a widening in the current account deficit with the United States of 8½ per cent from \$954 million in 1960 to \$1,035 million in 1961, a small advance in the surplus with the United Kingdom from \$90 million to \$99 million, and an improvement with Other Countries of a substantial magnitude from a deficit of about \$50 million to a surplus of nearly \$200 million. Within the last-named area, it was again the sharp climb of roughly 70 per cent in merchandise exports to the "other countries" group which was the predominant cause for the rise in the Other Countries' surplus, as changes in the balances on both merchandise and non-merchandise accounts with the Rest of the Sterling Area and the OEEC and on "invisible" transactions with the "other countries" were of little consequence.

About one-third of the \$81 million addition to the deficit with the United States originated from merchandise trade, with exports declining a shade from \$2,303 million to \$2,290 million in the nine months of 1961, and with imports inching up from \$2,800 million to \$2,814 million. Fairly substantial declines were recorded in exports of iron ore, uranium, copper and semi-fabricated steel products, while exports of other commodities such as nickel, crude petroleum and aircraft grew. Higher imports were noted of commodities such as fresh pork, aircraft parts, chemicals and allied products, while some other imports were lower, of which examples are provided by many types of primary and secondary steel products and automobiles and parts. Some factors referred to above in the analysis of Canada's non-merchandise transactions with all foreign countries played an important part in widening the deficit on "invisibles" with the United States in the first three quarters of 1961 by \$54 million from \$457 million to \$511 million. These were the unusually heavy

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1960 and 1961
and Change between the Periods

(millions of dollars)

<u>Third Quarter</u>	<u>All Countries</u>			<u>United States</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	1,400	1,546	+ 146	769	855	+ 86
Merchandise imports (adjusted)	1,318	1,426	+ 108	853	942	+ 89
Balance on merchandise trade	+ 82	+ 120	+ 38	- 84	- 87	- 3
Other current receipts	559	586	+ 27	438	463	+ 25
Other current payments	763	786	+ 23	520	537	+ 17
Balance on non-merchandise transactions	- 204	- 200	+ 4	- 82	- 74	+ 8
Current account balance	- 122	- 80	+ 42	- 166	- 161	+ 5
<u>January to September</u>						
Merchandise exports (adjusted)	4,006	4,250	+ 244	2,303	2,290	- 13
Merchandise imports (adjusted)	4,155	4,167	+ 12	2,800	2,814	+ 14
Balance on merchandise trade	- 149	+ 83	+ 232	- 497	- 524	- 27
Other current receipts	1,312	1,359	+ 47	969	1,000	+ 31
Other current payments	2,076	2,188	+ 112	1,426	1,511	+ 85
Balance on non-merchandise transactions	- 764	- 829	- 65	- 457	- 511	- 54
Current account balance	- 913	- 746	+ 167	- 954	-1,035	- 81

<u>Third Quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	243	234	- 9	388	457	+ 69
Merchandise imports (adjusted)	140	140	-	325	344	+ 19
Balance on merchandise trade	+ 103	+ 94	- 9	+ 63	+ 113	+ 50
Other current receipts	53	52	- 1	68	71	+ 3
Other current payments	108	105	- 3	135	144	+ 9
Balance on non-merchandise transactions	- 55	- 53	+ 2	- 67	- 73	- 6
Current account balance	+ 48	+ 41	- 7	- 4	+ 40	+ 44
<u>January to September</u>						
Merchandise exports (adjusted)	683	674	- 9	1,020	1,286	+266
Merchandise imports (adjusted)	467	435	- 32	888	918	+ 30
Balance on merchandise trade	+ 216	+ 239	+ 23	+ 132	+ 368	+236
Other current receipts	151	144	- 7	192	215	+ 23
Other current payments	277	284	+ 7	373	393	+ 20
Balance on non-merchandise transactions	- 126	- 140	- 14	- 181	- 178	+ 3
Current account balance	+ 90	+ 99	+ 9	- 49	+ 190	+239

remittances of dividends by subsidiaries in the first quarter, lower United States defence expenditures in Canada, reduced receipts of miscellaneous income and the offsetting rise in tourist receipts. Net payments on freight account were moderately higher.

In transactions with the United Kingdom the decline in merchandise imports of \$32 million from \$467 million to \$435 million was more than three times as large as the minor dip in exports, which were estimated at \$683 million and \$674 million, respectively, in the 9 months of 1960 and 1961. Varied and offsetting changes took place among exports to the United Kingdom, while among imports automobiles were considerably fewer. Receipts on non-merchandise transactions declined by \$7 million from \$151 million to \$144 million, while payments rose by the same amount from \$277 million to \$284 million.

An important element in the phenomenal rise of exports to Other Countries has been the expanded grain shipments already referred to above. The Communist group of countries took more than one-half of the increased exports while Japan and Latin American countries (notably Argentina, Brazil and Cuba) were other principal destinations of larger shipments of Canadian goods in the first three quarters of 1961.

Capital movements

During the third quarter of 1961 capital inflows for both direct and portfolio investment moderated somewhat. In part the decline in direct investment reflected the absence of special transactions covering the acquisition of going concerns and in part the phasing of a few major projects. The portfolio movement was influenced by the receipt of smaller amounts from the sale to non-residents of new issues and by large repurchases of outstanding issues from overseas countries. Retirements of foreign-held Canadian issues of securities were, on the other hand, unusually low. Although there were large shifts in their composition and ownership, on balance there was little change in Canadian dollar holdings of foreigners in the quarter. Official holdings of gold and foreign exchange were reduced but most of this change was directly related to extension of credit by the International Monetary Fund to the United Kingdom and to this extent is offset in other capital movements. The largest single category of movement in the quarter was an outflow of \$140 million representing increased private and banking holdings of foreign exchange by Canadians.

Capital movements in the long-term forms shown separately in statements of the Canadian balance of international payments (including long-term transactions grouped with other capital movements) totalled \$148 million in the third quarter, which was of course substantially above the current account deficit in this period. This condition is seasonally characteristic. In the nine months of 1961 inflows in these forms have been equivalent to two-thirds of the current account deficit, while for the corresponding period of 1960 the proportion was nearly 90 per cent.

Geographically, in the nine months of 1961, the net capital inflow in these forms from the United States was somewhat larger than the overall movement. There have been significant outflows to overseas countries for direct investment, for the repurchase or retirement of Canadian securities, for trade financing, etc. which have been more than sufficient to offset inflows in other long-term forms.

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada in the third quarter is estimated to have been \$75 million compared with \$120 million and \$135 million in the first and second quarters respectively. A substantial amount of the decline from the second quarter reflected reduced net inflows for the acquisition of existing enterprises etc., and for a few large resource-based undertakings to which transfers were seasonally low or declining with the approaching completion of major projects.

As would be expected with the relative absence of large non-recurring type of transactions found in some earlier quarters, the continuing inflows to resource-based industries were of relatively greater importance in direct investment inflows in the third quarter, although in amount they were smaller. Petroleum, natural gas, and mining accounted for perhaps three quarters of the movement in the quarter. These industries have attracted a smaller proportion of the inflow in the three quarters of 1961 than they did in 1960 as a whole, but in that year they included some major acquisitions of existing enterprises.

Geographically, inflows from the United States made up a more important part of the total for direct investment in the third quarter than in the second, accounting for perhaps three-fifths of it. Over the three quarters only a slightly smaller proportion came from the United States, while in 1960 about 68 per cent of the net flows originated in that country.

The outflow of capital from Canada for direct investment in enterprises abroad during the third quarter is estimated at \$15 million. This figure was less than half the rate of outflow for either the first or second quarter, but it brought the net movement in the first nine months of 1961 to \$85 million, equal to the total for the whole of 1960. As in the second quarter some two thirds of the movement in the third was to overseas countries.

Transactions during the third quarter in long-term Canadian securities resulted in a net capital inflow of \$69 million. The net inflow of \$105 million from the sale to non-residents of new issues was partially offset by net outflows of Canadian capital for the repurchase of \$12 million outstanding bonds and debentures and for the retirement of \$24 million of issues held by non-residents.

Net Sales of Outstanding Canadian Stocks to Non-Residents
(millions of dollars)

<u>Quarter</u>		<u>Total</u>	<u>United States</u>	<u>Other Countries</u>
1960	I Q	13	5	8
	II Q	24	22	2
	III Q	10	14	- 4
	IV Q	2	13	- 11
1961	I Q	13	21	- 8
	II Q	32	46	- 14
	III Q	-	22	- 22

New Issues of Canadian Bonds Sold to United States Residents
(millions of dollars)

<u>Quarter</u>		<u>Contracts</u>	<u>Deliveries</u>
1960	I Q	182	185
	II Q	100	125
	III Q	53	33
	IV Q	103	26
1961	I Q	117	75
	II Q	69	137
	III Q	45	81

The direction of net trade in outstanding Canadian bonds and stocks was reversed in the third quarter. Inflows of \$44 million and \$66 million for the first and second quarters respectively have been replaced by an outflow of \$12 million in the third. Another feature of transactions in Canadian securities has been the persistence of sustained sales of outstanding Canadian stocks to residents of the United States and sustained repurchases of them from the United Kingdom and other overseas countries.

Sales of new issues of stocks and bonds to non-residents produced \$105 million in the third quarter including some deliveries on earlier contracts. The figure was well below the total of \$168 million in the second quarter but larger than for other quarters since the second quarter of 1960. Retirements of Canadian securities held by non-residents amounted to \$24 million, the smallest sum recorded for any quarter for a number of years.

Transactions in long-term foreign securities were unimportant on balance among capital movements in the quarter. A small outflow for the purchase of new issues was practically offset by repurchases and retirements by non-residents of outstanding issues held by Canadians.

By the close of the third quarter the year's total capital inflow from transactions in all portfolio securities was \$255 million as compared with \$322 million for the first nine months of 1960.

There were no changes during the quarter in loans by the Government of Canada to overseas countries or in Canada's subscriptions to international financial agencies. The Government facilitated some extensions of trade credits through the provision of export credits insurance and guarantees which are the subject of later comment.

Canadian dollar holdings of foreigners changed little on balance in the third quarter after declining \$72 million in the second. Their holdings of Government of Canada treasury bills declined by \$34 million but their deposits rose by \$33 million. Practically all the decline in treasury bill holdings was for the account of residents of overseas countries whose holdings had increased by \$26 million in the second quarter when holdings of United States residents fell by \$102 million. Non-residents' holdings at the end of September were \$44 million in sharp contrast with the total of \$163 million five months earlier. Throughout the third quarter yields on 3 month treasury bills in the United States were well below half of one per cent less than in Canada, and for eight successive weeks the differential was less than one quarter of one per cent. In the second quarter there were five successive weeks in which the differential was one per cent or more. After allowing for exchange protection there were only three weeks in the third quarter in which net yields in Canada exceeded those in the United States by as much as one quarter of one per cent, and the differential then did not exceed 40 base points, while in seven weeks it was less than one tenth of one per cent. In a few weeks in the second quarter it exceeded three quarters of one per cent.

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

Quarter	Total	Treasury Bills	Deposits etc.
1960 I Q	- 2	- 8	+ 6
II Q	- 2	-10	+ 8
III Q	+45	+27	+18
IV Q	+79	+47	+32
1961 I Q	- 5	+32	-37
II Q	-72	-76	+ 4
III Q	- 1	-34	+33

While Canadian dollar deposits of foreigners increased by about the amount of the decline in their holdings of Canadian treasury bills, the geographical distribution of the changes was quite different. Deposits of residents of the United States rose by about \$25 million and of residents of overseas countries by about \$9 million. As a result the Canadian dollar holdings in the form of both treasury bills and deposits rose in the case of United States residents by about \$25 million, and fell by slightly more than this amount in the case of residents of overseas countries; there was an increase of \$3 million in holdings by residents of the United Kingdom and a decrease of \$26 million in holdings by residents of Continental Europe.

Canada's official holdings of gold and foreign exchange were reduced during the third quarter but a large part of the change reflected transfers in connection with the arrangements involved in the extension of credit by the international Monetary Fund to the United Kingdom, discussed below. The decrease in these external assets represents a capital inflow of \$62 million in terms of Canadian dollars. The figure includes an outflow of about \$1 million to increase official holdings of sterling and an inflow of \$63 million from reduced official holdings of gold and United States dollars.

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

End of	Amount	Change in Period
1961 I Q	1,935	+106
II Q	1,985	+ 50
III Q	1,924	- 61(1)
July	1,960	- 25
Aug.	1,944	- 16(2)
Sept.	1,924	- 20(2)

Note: Includes special transactions under arrangements related to U.K. drawing from IMF. (1) -50 (2) -25

Some major changes are reflected in the capital account in the third quarter arising from the provision by the International Monetary Fund of support for the foreign payments position of the United Kingdom. In August arrangements were made for a drawing by the United Kingdom of the equivalent of US \$1,500 million in nine currencies held by the Fund, including \$75 million in Canadian dollars. At the same time the Fund replenished its holdings of each of these currencies in an amount equal to one-third of the drawings made by the United Kingdom, through sales of

gold. The net effect was that Canadian liabilities to the International Monetary Fund, which are a component of "other capital movements", fell by \$52 million and there was a decline of about the same amount in official holdings of gold and foreign exchange.

The composition of "other capital movements" in recent quarters is given in a statement. In total they gave rise to a substantial outflow of \$109 million in the third quarter. An outflow from this group of mixed transactions is characteristic of the third quarter; there have been outflows in this period with one exception each year since 1950.

Some special features stand out in this statement. There was a significant growth in private and banking holdings of foreign exchange. The capital outflow of \$140 million recorded for this movement followed three quarters of inflow aggregating \$255 million. Canadian holdings in these forms exceeded \$1.1 billion at the end of 1960 and, taking into account changes in the exchange value, were of roughly the same order of magnitude at the end of the third quarter.

Reference has already been made to the effects arising from the United Kingdom drawing on the International Monetary Fund.

Outstanding borrowings from non-residents by finance companies and non-resident holdings of Canadian commercial paper, which were important sources of external capital in the preceding quarters, declined very slightly in the third, new borrowing falling just short of repayments in this period. Some indication of money market conditions has been given in the paragraph dealing with foreign holdings of Canadian treasury bills.

Another factor which has played an increasing role in the capital account has been the extension of export credit facilities. Canada's Export Credits Insurance Corporation has long made

available insurance to Canadian exporters of goods and services to protect them against non-payment by foreign buyers due to credit and political risks involved in foreign trade. The existence of this insurance facilitated financing but did not itself, of course, provide it. In the spring of 1960 the Chartered Banks of Canada joined in setting up the Export Finance Corporation of Canada Ltd. to finance exports of capital goods through the provision of medium term credit ranging up to five years. Complementing these medium term arrangements, the guarantee facilities of the Export Credits Insurance Act were extended to long term credit and the Government agency, the Export Credits Insurance Corporation, was authorized to buy guaranteed instruments for direct financing of export sales.

Apart from these facilities the Government has guaranteed substantial credits for the Canadian Wheat Board to conclude sales of wheat and barley to Communist China on a short term credit basis.

The provision of export credits insurance does not in itself always imply a net extension of credit from Canadian sources. Many of the claims are receivable in United States funds. In some cases they may in effect be discounted with banks or affiliates outside Canada, and in others, they may be substituted temporarily for foreign cash investments with an immediate sale of the foreign exchange thereby released. Net capital outflows arising from these trade credits are a part of "other capital movements".

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

	1960				1961		
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
Transactions with all countries							
International Financial Agencies ⁽¹⁾							
Canadian dollar subscriptions	-	- 1	- 2	- 6	-	- 9	-
Short-term Canadian dollar holdings	-	3	2	-	1	-	- 52
Other long-term capital transactions	3	43	- 3	15	- 1	-29	20
Bank balances and other short-term funds abroad (excluding official reserves)	32	-79	-87	73	128	54	-140
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper (1961 only)	- 6	11	6	54	71	22	- 3
All other transactions including changes in loans and accounts receivable and payable ⁽²⁾	-100	185	45	55	110	169	66
TOTAL (Item D 17)	- 71	162	-39	191	309	207	-109

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

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

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

A minus sign indicates an outflow of capital from Canada.

United States Dollar in Canada
(Canadian Cents)

<u>Period</u>		<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Noon Average</u>
1961	I Q	99.69	98.25	98.91	98.99
	II Q	103.53	98.59	103.50	99.42
	III Q	104.00	103.00	103.00	103.21
	June	103.53	98.66	103.50	100.55
	July	104.00	103.00	103.09	103.41
	Aug.	103.41	103.00	103.12	103.15
	Sept.	103.16	103.00	103.00	103.08

Quotations for the United States dollar reported on transactions between banks in the Canadian exchange market are given in the accompanying statement. In the third quarter the rates for the United States dollar were higher than in any period since 1951. In that year the United States dollar traded at a high of 107.31 cents and the average noon rate for the year as a whole was 105.28 cents. In the intervening period the United States dollar had traded in Canada down to 94.22 cents.

The last page of this report reproduces Table I of the forthcoming report "The Canadian Balance of International Payments, 1960 and International Investment Position", D.B.S. Catalogue No. 67-201. The table gives revised annual estimates of the Canadian balance of international payments for 1959 and 1960 with bilateral detail.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961 are preliminary and

		1959		1960	
		III	IV	I	II
A	Current Receipts				
1	Merchandise exports (adjusted)	1,286	1,449	1,283	1,323
3	Gold production available for export	33	37	44	35
4	Travel expenditures	213	61	36	91
5	Interest and dividends	40	69	36	40
6	Freight and shipping	105	110	102	115
7	Inheritances and immigrants' funds	33	24	18	29
11	All other current receipts	106	97	100	107
12	Total Current Receipts	1,816	1,847	1,619	1,740
B	Current Payments				
1	Merchandise imports (adjusted)	1,380	1,423	1,327	1,510
4	Travel expenditures	216	121	119	168
5	Interest and dividends	151	222	149	164
6	Freight and shipping	149	144	114	137
7	Inheritances and emigrants' funds	47	48	38	43
9	Official contributions	22	19	10	10
11	All other current payments	173	173	183	178
12	Total Current Payments	2,138	2,150	1,940	2,210
	Balance on Merchandise Trade	- 94	+ 26	- 44	- 187
	Balance on Other Transactions, excluding B 9	- 206	- 310	- 267	- 273
	Official Contributions	- 22	- 19	- 10	- 10
C	Current Account Balance	- 322	- 303	- 321	- 470
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 85	+ 183	+ 196	+ 144
2	Direct investment abroad	- 24	- 18	- 15	- 25
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 32	+ 11	+ 19	+ 15
3b	Trade in outstanding common and preference stocks	+ 26	+ 19	+ 13	+ 24
4	New issues	+ 213	+ 197	+ 209	+ 146
5	Retirements	- 61	- 71	- 50	- 78
	Foreign Securities				
6	Trade in outstanding issues	- 7	- 8	+ 7	- 5
7	New issues	- 1	- 7	- 2	- 3
8	Retirements	+ 3	+ 4	+ 6	+ 3
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	-	+ 25	-	+ 7
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	- 59	-	-
14	Change in Canadian dollar holdings of foreigners	+ 22	- 44	- 2	- 2
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 3	+ 67	+ 11	+ 82
17	Other capital movements	+ 37	+ 4	- 71	+ 162
E	Net Capital Movement	+ 322	+ 303	+ 321	+ 470

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

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

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

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

BALANCE OF INTERNATIONAL PAYMENTS

data for 1960 are subject to revision.

1960		1961			Annual Totals			Four Quarters ending Sept. 30, 1961	
III	IV	I	II	III	1958	1959	1960		
(millions of dollars)									
1,400	1,394	1,262	1,442	1,546	4,887	5,150	5,400	5,644	A
42	41	41	42	41	160	148	162	165	1
221	72	38	101	252	349	391	420	463	3
36	66	35	56	39	168	182	178	196	4
118	107	99	116	127	401	420	442	449	5
31	24	19	28	31	97	109	102	102	6
111	102	99	99	96	375	392	420	396	7
									11
1,959	1,806	1,593	1,884	2,132	6,437	6,792	7,124	7,415	12
1,318	1,390	1,263	1,478	1,426	5,066	5,572	5,545	5,557	B
213	127	126	173	222	542	598	627	648	1
161	195	204	173	170	612	671	669	742	4
141	141	114	138	151	460	525	533	544	5
50	50	40	46	52	145	165	181	188	6
16	24	12	8	12	53	72	60	56	7
182	183	181	187	179	690	693	726	730	9
									11
2,081	2,110	1,940	2,203	2,212	7,568	8,296	8,341	8,465	12
+ 82	+ 4	- 1	- 36	+ 120	- 179	- 422	- 145	+ 87	
- 188	- 284	- 334	- 275	- 188	- 899	-1,010	-1,012	-1,081	
- 16	- 24	- 12	- 8	- 12	- 53	- 72	- 60	- 56	
- 122	- 304	- 347	- 319	- 80	-1,131	-1,504	-1,217	-1,050	C
+ 168	+ 137	+ 120	+ 135	+ 75	+ 420	+ 550	+ 645	+ 467	D
- 29	- 16	- 35	- 35	- 15	- 48	- 80	- 85	- 101	1
- 19	- 12	+ 31	+ 34	- 12	-	+ 91	+ 3	+ 41	2
+ 10	+ 2	+ 13	+ 32	-	+ 88	+ 110	+ 49	+ 47	3a
+ 52	+ 40	+ 85	+ 168	+ 105	+ 677	+ 707	+ 447	+ 398	3b
- 32	- 93	- 69	- 91	- 24	- 158	- 258	- 253	- 277	4
									5
+ 2	- 24	+ 3	-	+ 3	+ 13	- 32	- 20	- 18	6
- 2	- 11	- 5	- 18	- 6	- 17	- 13	- 18	- 40	7
+ 7	+ 2	+ 2	+ 2	+ 2	+ 7	+ 12	+ 18	+ 8	8
-	-	-	-	-	- 34	- 1	-	-	9
-	+ 25	+ 3	+ 8	-	+ 64	+ 34	+ 32	+ 36	10,11
- 1	- 2	-	-	-	-	- 59	- 3	- 2	13
+ 45	+ 79	- 5	- 72	- 1	+ 106	+ 13	+ 120	+ 1	14
- 40	- 14	- 105	- 51	+ 62	- 109	+ 70	+ 39	- 108	16
- 39	+ 191	+ 309	+ 207	- 109	+ 122	+ 360	+ 243	+ 598	17
+ 122	+ 304	+ 347	+ 319	+ 80	+1,131	+1,504	+1,217	+1,050	E

NOTES:

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

D1,2 Exclusive of undistributed profits.

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



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TABLE I. Current and Capital

International Payments, 1959 and 1960

No.	Account	All countries		United States		United Kingdom		Other sterling area		Other OEEC countries		All other countries	
		1959	1960 ^P	1959	1960 ^P	1959	1960 ^P	1959	1960 ^P	1959	1960 ^P	1959	1960 ^P
		millions of dollars											
A	Current receipts:												
1	Merchandise exports (adjusted)	5,150	5,400	3,191	3,039	781	924	288	340	449	599	441	498
2	Mutual Aid to NATO countries	63	43	..	..	..	..	..	..	..	..	..	..
3	Gold production available for export	148	162	148	162	—	—	—	—	—	—	—	—
4	Travel expenditures	391	420	351	375	18	20	6	6	11	13	5	6
5	Interest and dividends	182	178	99	105	35	34	28	18	11	11	9	10
6	Freight and shipping	420	442	228	220	80	93	26	31	49	57	37	41
7	Inheritances and immigrants' funds	109	102	52	50	26	26	7	6	16	15	8	5
11	All other current receipts	392	420	311	330	43	50	7	8	20	20	11	12
12	Total current receipts	6,855	7,167	4,380	4,281	983	1,147	362	409	556	715	511	572
B	Current payments:												
1	Merchandise imports (adjusted)	5,572	5,545	3,727	3,715	618	611	263	284	364	371	600	564
4	Travel expenditures	598	627	448	462	62	70	13	14	60	65	15	16
5	Interest and dividends	671	669	547	548	90	81	1	1	31	37	2	2
6	Freight and shipping	525	533	326	324	85	89	3	4	95	99	16	17
7	Inheritances and emigrants' funds	165	181	123	141	26	25	3	2	11	11	2	2
9	Official contributions	72	60	—	—	—	3	64	41	1	4	7	12
10	Mutual Aid to NATO countries	63	43	..	..	..	..	..	..	..	..	..	..
11	All other current payments	693	726	439	447	89	97	17	18	114	129	34	35
12	Total current payments	8,359	8,384	5,610	5,637	970	976	364	364	676	716	676	648
	Balance on merchandise trade	- 422	- 145	- 536	- 676	+163	+313	+25	+56	+ 85	+228	-159	-66
	Balance on other transactions, excluding B9	-1,010	-1,012	- 694	- 680	-150	-139	+37	+30	-204	-225	+ 1	+ 2
	Official contributions	- 72	- 60	—	—	—	- 3	-64	-41	- 1	- 4	- 7	-12
C	Current account balance	-1,504	-1,217	-1,230	-1,356	+ 13	+171	- 2	+45	-120	- 1	-165	-76
D	Capital account:												
	Direct investment:												
1	Direct investment in Canada	+ 550	+ 645	+ 424	+ 437	+ 87	+119	- 1	+ 5	+ 40	+ 83	—	+ 1
2	Direct investment abroad	- 80	- 85	- 7	- 48	- 44	- 15	- 8	- 4	- 5	- 15	- 16	- 3
	Canadian securities:												
3a	Trade in outstanding bonds and debentures	+ 91	+ 3	+ 19	- 9	+ 4	- 13	—	—	+ 64	+ 25	+ 4	—
3b	Trade in outstanding common and preference stocks	+ 110	+ 49	+ 75	+ 54	+ 7	- 16	—	—	+ 28	+ 11	—	—
4	New issues	+ 707	+ 447	+ 622	+ 381	+ 45	+ 26	—	—	+ 40	+ 39	—	+ 1
5	Retirements	- 258	- 253	- 211	- 200	- 30	- 27	—	—	- 16	- 25	- 1	- 1
	Foreign securities:												
6	Trade in outstanding issues	- 32	- 20	- 34	+ 4	+ 2	- 3	—	—	—	- 1	—	-20
7	New issues	- 13	- 18	- 8	- 13	—	—	—	- 1	—	—	- 5	- 4
8	Retirements	+ 12	+ 18	+ 6	+ 12	—	—	+ 2	+ 1	—	—	+ 4	+ 5
	Loans by Government of Canada:												
9	Drawings	- 1	—	—	—	—	—	- 1	—	—	—	—	—
10	Repayment of post-war loans	+ 34	+ 32	—	—	+ 16	+ 17	—	—	+ 18	+ 15	—	—
11	Repayment of war loans	—	—	—	—	—	—	—	—	—	—	—	—
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 59	- 3	- 59	- 3	—	—	—	—	—	—	—	—
14	Change in Canadian dollar holdings of foreigners	+ 13	+ 120	+ 8	+ 60	- 10	+ 9	- 9	- 3	+ 10	+ 7	+ 14	+47
16	Change in official holdings of gold, U.S. dollars and sterling (increase, minus) ..	+ 70	+ 39	+ 67	+ 39	+ 3	—	—	—	—	—	—	—
17	Other capital movements	+ 360	+ 243	+ 447	+ 265	+ 17	- 44	-23	+ 7	- 74	+ 23	- 7	- 8
E	Net capital movement	+1,504	+1,217	+1,349	+ 979	+ 97	+ 53	-40	+ 5	+105	+162	- 7	+18
G	Balance settled by exchange transfers	—	—	- 119	+ 377	-110	-224	+42	-50	+ 15	-161	+172	+58
	Total financing of current account balance (Item C)	+1,504	+1,217	+1,230	+1,356	- 13	-171	+ 2	-45	+120	+ 1	+165	+76

Notes: Other Sterling Area includes the countries of the Commonwealth, United Kingdom dependencies, and Ireland, Iraq, Iceland, Burma, Libya and Jordan. Other OEEC Countries includes all the countries participating in the Organization for European Economic Co-operation which are not also members of the sterling area: namely, Austria, Belgium, Luxembourg, Denmark, France, West Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and Turkey. The All other Countries group includes Latin America, non-sterling area countries in Asia, continental European countries not in OEEC, the IBRD, IFC and IMF and all other countries not specified above.

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

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

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

D 17 Also includes balancing item representing unrecorded capital movements and errors and omissions.