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THE CANADIAN BALANCE

OF

INTERNATIONAL PAYMENTS

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REVISED STATEMENT, 1939

AND

PRELIMINARY STATEMENT, 1940

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DEPARTMENT OF THE INTERIOR

UNITED STATES OF AMERICA

WATER RESOURCES DIVISION

REPORT OF THE COMMISSIONER OF THE GENERAL LAND OFFICE

TO THE SECRETARY OF THE INTERIOR

FOR THE YEAR 1913

AND FOR THE YEAR 1912

AND FOR THE YEAR 1911

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DEPARTMENT OF TRADE AND COMMERCE  
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ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Preliminary Statement for 1940

While the task of analyzing Canada's international receipts and payments was much more complex in 1940 than in previous years and information is not yet complete for some groups of transactions, the preliminary statement just released by the Dominion Bureau of Statistics is believed to be sufficiently complete to reveal the broad outlines of the balance of payments during 1940. The statement reveals the fact that the underlying strength of Canada's balance of payments with the rest of the world as a whole was even greater than before the war. Her net surplus on current account transactions with all other countries was \$176 million in 1940 compared with \$137 million in 1939.

As was to be expected, many of the component items were profoundly influenced by the war. Outstanding, of course, was the enormous increase in Canada's exports to the United Kingdom, and an even greater rise in imports from the United States. The latter was due to requirements for the Dominion's own war programme, to the substantial United States content in terms of materials and new capital equipment of British war purchases in Canada, and to the increased domestic demand for consumption goods from the United States caused by sharply rising national income.

Financial developments arising from the war have made it necessary to consider Canada's total balance of payments position in terms of two separate divisions; viz., transactions with the sterling area, and transactions with the rest of the world with which Canada's dealings are on a U.S. dollar basis. In more normal periods, Canada has had a deficiency in current transactions with the United States, which has been covered by her considerably larger surplus with sterling countries. The war has greatly increased both the sterling surplus and the deficiency of United States dollars, while at the same time it has interfered with the normal process of offsetting one against the other, since, because of the United Kingdom's exchange position, sterling is no longer freely convertible into United States dollars. Consequently, this preliminary report includes separate statements for Empire (i.e., sterling area) and Non-Empire (i.e., U.S. dollar area) countries as well as for the United Kingdom and the United States. Such regional statements, however, are subject to a wider margin of error than the general statement of the balance of international payments.

The first table in this statement compares the current account items for All Countries and separately for the United Kingdom and the United States in the years 1939 and 1940. It should be noted that all amounts are given in Canadian dollars. Comparisons between 1939 and 1940 should, of course, take account of differing exchange rates in the two years.

Current Transactions with the United Kingdom

There was a net credit balance on current account with the United Kingdom of \$347 million in 1940, compared with \$126 million in 1939, the increase being accounted for chiefly by the rise in exports from \$332 million in 1939 to \$551 million in 1940. These figures include exports to the United Kingdom on Canadian account, as, for example, equipment for the Canadian forces in England. Commodity imports from the United Kingdom were higher than in 1939, but they include goods owned by the Government of the United Kingdom and brought into Canada for its own use, (e.g., equipment for air training schools in Canada). Thus, the value of both export and import trade with the United Kingdom is overstated and has been offset by corresponding debit and credit entries under the heading, "All Other Current Transactions."

The decrease in net payments of interest and dividends is explained by repatriations of Canadian securities formerly held in the United Kingdom.

In 1940, there were credit balances for the freight and tourist items which contrast with debits in 1939. The war, of course, led to the curtailment of tourist visits to the United Kingdom.







The change in the freight item reflects heavier expenditures in Canadian ports by British ships, enhanced revenues of Canadian transportation companies due to increased exports, and the inclusion of some inland freight in export valuations in 1939, whereas in 1940, due to better statistical data, the inland freight could be segregated.

Figures in 1939 and 1940 for "All Other Current Transactions" are not comparable. In 1940, in addition to the normal service items, this category includes substantial amounts on government account; e.g., Dominion government expenditures in the United Kingdom in connection with the Canadian Active Army and United Kingdom expenditures in Canada in connection with the war. There are also included certain offsetting credits and debits in connection with merchandise trade, which are mentioned in the first paragraph of this section.

The statement showing transactions between Canada and the United Kingdom in 1940 does not cover all transactions on United Kingdom account. For example, some merchandise exported on U.K. account was shipped to Egypt and Other Empire Countries and is thus included in the "Other Empire" section of the balance of payments statement.

#### Current Transactions With Other Empire Countries

A larger credit balance is shown in the current account with Other Empire Countries in 1940 than in 1939. The net balance of approximately \$76 million in 1940 is largely attributable to commodity trade, but freight receipts and current government expenditures were also important. As mentioned in the preceding paragraph some of the transactions which are included in the statement for Other Empire Countries are, in fact, on United Kingdom account.

#### Current Transactions with the United States

Canada's debit balance on current transactions with the United States rose from \$89 million in 1939 to \$269 million in 1940, due mainly to greatly increased net commodity imports. Imports from that country increased from \$472 million in 1939 to \$717 million in 1940, while exports rose from \$344 million to \$424 million.

The value of net exports of non-monetary gold rose from \$184 million to \$203 million, mainly because of the premium on the U.S. dollar. In terms of quantity, the increase was from 5.1 million ounces in 1939 to 5.3 million ounces in 1940.

Net receipts from tourist trade were \$82 million in 1940 as compared with \$80 million in 1939. Although there was a sharp drop in receipts from United States tourists, this was offset by the lower expenditures of Canadians visiting the United States due to governmental restrictions on pleasure travel in that country in the latter half of 1940.

There was a small increase in net interest and dividend payments, which was accounted for by the premium on payments of U.S. dollar bond interest. Net interest and dividend payments were \$201 million in 1940 as compared with \$197 million in 1939. Freight payments to the United States were naturally heavier because of increased imports.

The figures shown in the item, "All Other Current Transactions" are not comparable in the two years because of certain credits which are included in 1940 as an offset to commodity imports from the United States into Canada which were British owned.

#### Current Transactions with Other Foreign Countries

Net credits from current transactions with Other Foreign Countries were much smaller in 1940 than in 1939, declining from \$63 million to \$22 million. A contraction in net credits from merchandise trade accounts for most of the reduction. The curtailment of trade with continental Europe and Japan was largely responsible, as this trade formerly produced a substantial credit balance. At the same time, imports from South American countries increased more than exports to that area.

#### Capital Account Transactions with Empire Countries

Gross capital receipts by Canada from Empire countries totalled \$116 million. This amount was made up chiefly of capital expenditures by the United Kingdom on war plants in Canada, but also includes capital receipts by Canada in respect of



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securities, mortgages, real estate, estates and trusts, insurance transactions, etc.

Apart from \$248 million paid for gold which was bought from Great Britain in part settlement of her deficiency with Canada, and which was used in turn to settle part of Canada's deficiency in the United States, Canada's gross capital payments to Empire countries totalled \$334 million. A reduction in Empire balances held in Canada, which repatriation operations late in 1939 had left at an unusually high level at the end of that year, plus sales of British-owned securities in Canada, plus private retirements of Canadian securities held in the United Kingdom, plus capital payments to Empire countries in respect of direct investments, mortgages, real estate, estates and trusts, insurance transactions, etc., accounted for \$111 million of this total.

The remaining amount of \$223 million represents the United Kingdom's residual requirements for Canadian dollars on current and capital account which were supplied by the Dominion government. Of the total, \$141 million was provided by official repatriation; i.e., by redemption in advance of maturity of certain Dominion and guaranteed C.N.R. bond issues held in the United Kingdom. The rest, amounting to \$82 million, was provided through accumulation of sterling balances by the Foreign Exchange Control Board.

#### Capital Account Transactions with Non-Empire Countries

Capital payments by Canada to non-Empire countries in 1940 were, of course, subject to the restrictions imposed by foreign exchange control. In general, payments were allowed only in the case of maturing contractual commitments, although certain other special types of capital transfers were permitted in minor amounts.

Gross capital payments by Canada to non-Empire countries were, therefore, unusually low in 1940, amounting to \$141 million. This includes redemptions of securities, mortgages and other types of obligations, and the estimated reduction of non-Empire balances held in Canada, as well as capital payments in connection with real estate, estates and trusts, insurance transactions, etc.

Apart from the \$248 million of gold received from Great Britain in part settlement of her deficiency with Canada which was used in turn to settle part of Canada's deficiency with the United States, gross capital credits in respect of non-Empire countries amounted to \$167 million. This was accounted for in part by sales of foreign securities (and some domestic securities) in the United States market, and by capital receipts in connection with direct investments, mortgages, real estate, estates and trusts, insurance transactions, etc. The rest was accounted for by a reduction in Canadian holdings of gold and U.S. dollar balances, and represents the means by which Canada covered her residual deficiency on current and capital account with non-Empire countries.

#### Notes on Items in 1940 Statement

##### Merchandise Trade

Recorded statistics of merchandise trade have been adjusted for balance of payments purposes to make them conform more closely to financial receipts and payments. Deductions were made from both exports and imports to remove normal non-commercial items. Adjustments are also made on account of wheat movements for storage purposes, overvaluations of imports, and certain unrecorded exports.

It should be noted, however, that statistics of merchandise trade include certain non-revenue items on government account; e.g., exports of equipment to the Canadian forces abroad. Corrections are made for such items by offsetting entries under the heading, "All Other Current Transactions."

##### Net Exports of Non-Monetary Gold

This item is the value of "Net Exports of Non-Monetary Gold" as computed by the Bank of Canada, and explained on page 152 of the September, 1939, Bank of Canada Statistical Summary. Roughly speaking, this figure corresponds to the value of current production in Canada.



The first of these is the fact that the United States has a long and distinguished history of leadership in the world. This leadership has been based on a number of factors, including the country's size, its economic power, and its military strength. The second factor is the country's political system, which is based on the principles of democracy and the rule of law. The third factor is the country's cultural and intellectual achievements, which have made it a center of world attention.

The fourth factor is the country's geographical location, which has made it a strategic center of the world. The fifth factor is the country's technological and scientific achievements, which have made it a leader in the world. The sixth factor is the country's diplomatic and international relations, which have made it a key player in the world.

### THE UNITED STATES AND THE WORLD

The United States has a long and distinguished history of leadership in the world. This leadership has been based on a number of factors, including the country's size, its economic power, and its military strength. The country's political system, which is based on the principles of democracy and the rule of law, is another factor.

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### Tourist Expenditures

The estimate of tourist expenditures is based upon a much greater volume of information than in previous years; this was made available through the cooperation of the Customs Division of the Department of National Revenue and the Immigration Branch of the Department of Mines and Resources. Some idea of the improvement in the data for estimation may be gathered from the fact that whereas in 1939 the expenditure sample for motor tourists constituted a fraction of 1 per cent of the numbers, the sample in 1940 was over 80 per cent for Canadian motorists and over 50 per cent for some groups of American motor tourists. The additional information which was obtained in 1940 indicates that previous estimates of the receipts and expenditures on account of tourist trade were too high. Revised estimates for 1939 are shown in the accompanying 1939 statement. These estimates were made by applying 1940 expenditures to the count of tourists for 1939.

### Interest and Dividends on Securities

Income received by residents of Canada from foreign securities has been calculated for 1940 from improved records of security holdings. Amounts representing income from British securities are somewhat larger than formerly estimated, while amounts representing income from foreign securities are lower.

Revenue accruing to residents of enemy occupied and proscribed territory from investment in Canada is entered as a debit in the interest and dividend item, and offset by a credit entry in the capital account.

It should be noted that some remittances of income on investments other than securities, for which data were available in 1940 for the first time, have been included in the item, "All Other Current Transactions."

### Freight and Shipping

This item includes estimates covering ocean shipping operations, freight paid to United States railways on imports, inland freight earned by Canadian transportation companies carrying exports to the United States border or Canadian ocean ports, revenue received by Canada from intransit traffic, and payments of premiums for marine and war-risk insurance on goods imported to Canada from overseas countries.

The estimate of inland freight to Canadian ocean ports is based on data available from April to December only. Prior to April some freight was included in the merchandise export valuations.

Ocean shipping transactions covered include: freight paid to British or foreign ships for imports, expenditures abroad on account of Canadian ships, payments by Canadian companies for the charter of British or foreign ships, earnings of Canadian ships on exports and on traffic between foreign ports, revenue of Canadian companies from the charter of ships and expenditures in Canada on account of British and foreign ships.

It should be noted that the freight item of the balance of payments represents the entire international exchange of transportation services since statistics of merchandise exports and imports exclude freight charges, with the exception noted above with respect to exports prior to April, 1940.

### All Other Current Transactions

This item includes government expenditures, certain entries offsetting movements of merchandise on government account and a wide range of miscellaneous transactions mostly in the field of services.

The cash expenditures of governments in Canada which have been entered as credits in the current account include: pensions paid to residents of Canada by British and foreign governments, normal expenditures of consular, diplomatic and commercial representatives in Canada, external revenue of the Dominion Government, and disbursements in Canada by the United Kingdom and Allied Governments on account of current war expenditures. This latter group of expenditures excludes, of course, payments for merchandise exported from Canada as these credits already appear in the item of merchandise exports.

Cash expenditures of the Dominion Government outside of Canada which appear as debit entries include: payments to pensioners resident outside of Canada, normal external expenditures of various departments, and the expenditures outside of Canada of the Department of National Defence on War Account, other than for goods imported into Canada which appear as merchandise imports.







This item does not include government transactions belonging to the capital account such as official repatriations, changes in official balances, capital expenditures by the United Kingdom Government, etc.

Besides the cash expenditure of governments, this item includes substantial offsets to merchandise movements on government account which appear in merchandise statistics of imports and exports. For example, as a credit entry there is included an amount to offset the import of goods owned by the United Kingdom or Allied Governments for use or processing in Canada. In the case of such imports, an offsetting credit, which is a purely statistical entry, is included. Similarly, to offset the value entered in export statistics of merchandise exported on Canadian Government account, a debit entry has been placed in the statement of transactions with Empire Countries.

This item also covers a heterogeneous range of transactions, which have been consolidated for simplicity in presentation. While a considerable amount of new data on some of these transactions have been secured, the balance of payments for these services as a group in 1940 is not very much different from estimates in previous years, although some have been affected by war conditions. Included in this group are: immigrant remittances, advertising transactions, motion picture royalties, religious and benevolent remittances, including remittances by individuals and organizations connected with the war, and a debit entry offsetting remittances in kind which are recorded in export statistics, capital of immigrants and emigrants, earnings of Canadian residents employed in the United States and United States residents employed in Canada, commercial and financial services, telegraphs and cables, artist and entertainment services, other professional, technical and management services, copyrights, royalties, etc., dues to trade and professional associations, operating expenses of offices and agencies, and other sundry services. This item also includes certain currency adjustments and railway expenditures in the United States of a current character, and new data on remittances of income made available from sources developed in 1940. These remittances cover interest on mortgages and loans, rents, crop share rentals, profits from speculation and certain types of business, income received by Canadians from foreign estates and trusts, etc.

#### Balancing Item

This is the balancing item between the current and capital accounts, and is a reflection of errors or omissions in the statement since in a perfect balance of payments statement, the net balances in the current account and the capital account would exactly offset one another. Owing to incomplete returns at the time the statement was drawn up, some transactions, mainly intercompany, have not been entered in the statement. There are other factors influencing the statement, which cannot be measured statistically, and, therefore, have not been accounted for. Among these are the changes which have taken place in the manner and period of payment for merchandise. Due to changes in practice since the war, the normal "lag" in international trade between shipments of goods and receipts of payments has been altered to an indeterminable extent.

#### Revised Statement, 1939

Table 3 presents a revised statement of the balance of payments in 1939. Among the more important revisions are new adjustments to statistics of merchandise exports and imports and revised estimates of tourist expenditures.



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Table 1.--Canadian Balance of International Payments  
Current Account Transactions, 1939 and 1940

(Millions of Canadian dollars)

	Credits		Debits		Net	
	1939	1940	1939	1940	1939	1940
<b>I. Canada and All Countries -</b>						
Merchandise trade-adjusted .....	906	1,212	713	1,046	+ 193	+ 166
Net exports of non-monetary gold .	184	203	-	-	+ 184	+ 203
Tourist expenditures .....	164	128	86	43	+ 78	+ 85
Interest and dividends .....	57	52	311	306	- 254	- 254
Freight and shipping .....	87	138	119	132	- 32	+ 6
All other current transactions ...	36	113	68	143	- 32	- 30
TOTALS--Current Account .....	1,434	1,846	1,297	1,670	+ 137	+ 176
<b>II. Canada and the United Kingdom -</b>						
Merchandise trade-adjusted .....	332	551	106	158	+ 226	+ 93
Tourist expenditures .....	7	5	11	2	- 4	+ 3
Interest and dividends .....	2	2	79	70	- 77	- 68
Freight and shipping .....	24	60	36	32	- 12	+ 28
All other current transactions ...	6	52	13	61	- 7	- 9
TOTALS--Current Account .....	371	670	245	323	+ 126	+ 347
<b>III. Canada and the United States -</b>						
Merchandise trade-adjusted .....	344	424	472	717	- 128	- 293
Net exports of non-monetary gold .	184	203	-	-	+ 184	+ 203
Tourist expenditures .....	152	122	72	40	+ 80	+ 82
Interest and dividends .....	27	29	224	230	- 197	- 201
Freight and shipping .....	46	49	61	78	- 15	- 29
All other current transactions ...	22	42	35	73	- 13	- 31
TOTALS--Current Account .....	775	869	864	1,138	- 89	- 269
<b>IV. Canada and Other Empire Countries -</b>						
Merchandise trade-adjusted .....	104	157	71	103	+ 33	+ 54
Tourist expenditures .....	2	1	2	1	-	-
Interest and dividends .....	3	1	2	2	+ 1	- 1
Freight and shipping .....	7	16	3	4	+ 4	+ 12
All other current transactions ...	(1)	11	1	(1)	- 1	+ 11
TOTALS--Current Account .....	116	186	79	110	+ 37	+ 76
<b>V. Canada and Other Foreign Countries -</b>						
Merchandise trade-adjusted .....	126	80	64	68	+ 62	+ 12
Tourist expenditures .....	3	(1)	1	(1)	+ 2	-
Interest and dividends .....	25	20	6	4	+ 19	+ 16
Freight and shipping .....	10	13	19	18	- 9	- 5
All other current transactions ...	8	8	19	9	- 11	- 1
TOTALS--Current Account .....	172	121	109	99	+ 63	+ 22

(1) Less than \$500,000.





Table 2.--Estimated Canadian Balance of International Payments

Preliminary Statement, 1940

(Millions of Canadian dollars)

	Credits	Debits	Net
<b>I. Canada and All Countries -</b>			
Current Account			
Merchandise trade-after adjustment .....	1,212	1,046	+ 166
Net exports of non-monetary gold .....	203	-	+ 203
Tourist expenditures .....	128	43	+ 85
Interest and dividends .....	52	306	- 254
Freight and shipping .....	138	132	+ 6
All other current transactions .....	113	143	- 30
TOTALS--Current Account .....	1,846	1,670	+ 176
Special Gold Transactions(1) .....	248	248	-
Capital Movements .....	283	475	- 192
Balancing Item(2) .....	-	-	+ 16
<b>II. Canada and Empire Countries -</b>			
Current Account			
Merchandise trade-after adjustment .....	708	261	+ 447
Tourist expenditures .....	6	3	+ 3
Interest and dividends .....	3	72	- 69
Freight and shipping .....	76	36	+ 40
All other current transactions .....	63	61	+ 2
TOTALS--Current Account - United Kingdom .....	670	323	+ 347
Other Empire Countries ....	186	110	+ 76
All Empire Countries .....	856	433	+ 423
Capital Credits .....	116	-	+ 116
Sub-total .....	972	433	+ 539
Special Gold Transactions(1) .....	-	248	- 248
Capital Debits .....	-	334	- 334
Balancing Item(2) .....	-	-	+ 43
<b>III. Canada and Non-Empire Countries -</b>			
Current Account			
Merchandise trade-after adjustment .....	504	785	- 281
Net exports of non-monetary gold .....	203	-	+ 203
Tourist expenditures .....	122	40	+ 82
Interest and dividends.....	49	234	- 185
Freight and shipping .....	62	96	- 34
All other current transactions .....	50	82	- 32
TOTALS--Current Account - United States .....	869	1,138	- 269
Other Foreign Countries ...	121	99	+ 22
All Non-Empire Countries ..	990	1,237	- 247
Capital Debits .....	-	141	- 141
Sub-total .....	990	1,378	- 388
Special Gold Transactions(1) .....	248	-	+ 248
Capital Credits .....	167	-	+ 167
Balancing Item(2) .....	-	-	- 27

(1) This represents gold received from the United Kingdom in part settlement of her deficiency with Canada, and used in turn to settle part of Canada's deficiency with the United States.

(2) This balancing item reflects possible errors and the omission of certain factors which cannot be measured statistically such as changes in the timing of payments for goods and services.





Canadian Balance of International Payments

Revised Statement, 1939

Table 3.

(Millions of Canadian dollars)

	ALL COUNTRIES			EMPIRE COUNTRIES			NON-EMPIRE COUNTRIES		
	Credits	Debits	Net	Credits	Debits	Net	Credits	Debits	Net
<u>Current Account</u>									
Merchandise Trade--after adjustment .....	906	713	+ 193	436	177	+ 259	470	536	- 66
Net Exports of Non-Monetary Gold(1) .....	184	-	+ 184	-	-	-	184	-	+ 184
Tourist Expenditures .....	164	86	+ 78	9	13	- 4	155	73	+ 82
Interest and Dividends .....	57	311	- 254	5	81	- 76	52	230	- 179
Freight and Shipping .....	87	119	- 32	31	39	- 8	56	80	- 24
Other Current Transactions .....	36	68	- 32	6	14	- 8	30	54	- 24
TOTALS--Current Account .....	1,434	1,297	+ 137	487	324	+ 163	947	973	- 26
<u>Capital Account</u>									
New Issues of Canadian Securities .....	155	)		-	)		155	)	
Sold Outside of Canada .....		)			)			)	
		)			)			)	
Retirements of Canadian Securities .....		)	- 96		)	- 120		)	+ 24
Owned Outside of Canada .....		251			120			131	
Sales and Purchases of Outstanding Securities ....	311	239	+ 72	32	38	- 6	279	201	+ 78
Other Transactions in Outstanding Securities .....	11	2	+ 9	-	-	-	11	2	+ 9
Net Capital Transactions of International Direct Investments, etc.(2) .....		73	- 73 )						
Insurance Transactions, n.o.p. ....	18	53	- 35 )	65	22	+ 43	16	200	- 184
Other Capital Movement, net .....		33	- 33 )						
TOTALS--Capital Account .....	495	651	- 156	97	180	- 83	461	534	- 73
Balancing Item .....			+ 19						

(1) "Net Exports of Non-Monetary Gold" includes domestic monetary purchases.

(2) Included in this item are the net movements of funds resulting from the operations of the branches, subsidiaries, etc., of British and foreign companies in Canada; subsidiaries etc., of Canadian companies operating outside of Canada and the net movements of funds resulting from the international transactions of Canadian trust companies. Although the more important current transactions of these concerns, such as dividends, have been included in the current account, various small items of current transactions that are difficult to segregate remain in this item.

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