

continued increase in non-resident capital invested in Canada.

The inflow of capital in such forms as direct investments, portfolio security transactions, and official loans, was adequate to finance practically the entire deficit on current account in 1958. In 1957 the corresponding inflows were equivalent to 91 per cent of the deficit.

A revealing feature of the capital account in 1958 was the decline in inflows involving investment in Canadian business. The net movement of capital into foreign-controlled concerns in Canada fell by \$120 million, and the net movement for the acquisition of securities of other Canadian companies fell by \$291 million. But despite this striking contraction, the inflows into these Canadian business investments in 1958 amounted to almost \$700 million, and the growth of non-resident investment in Canadian corporations was even larger, because of the reduced but nevertheless substantial amounts of earnings ploughed back into these firms. Associated with the decline in the rate of business investment was substantially increased activity on government account, reflected in the capital account of the balance of payments by net sales of securities of Canadian governments which totalled \$352 million, an increase of nearly 125 per cent over 1957.

As a result of these capital movements and of other factors, Canada's external long-term liabilities rose from \$17.1 billion at the beginning of the year to about \$18.5 billion at the end of 1958. Canada's net international indebtedness, exclusive of short-term commercial liabilities, rose during the same period from \$11.0 billion to well over \$12 billion. Despite the reduced pressures within the Canadian economy, the use of foreign resources as a proportion of net capital formation in 1958 was only slightly smaller than the one-third contributed in 1956-57, and was much higher than for the period 1950-1955. Direct foreign financing of net capital formation which exceeded 40 per cent in the years 1956-1957 was still about one-third under the conditions prevailing in 1958.

SHARP DROP IN DEFICIT

For the year 1958 as a whole, the import balance on merchandise trade was less than one-third that in 1957, owing to the much larger drop in imports than in exports. This change occurred in each of the first three quarters of 1958 following declines which had occurred in the latter part of 1957 in both imports and accompanying import balances. This trend altered, however, in the final quarter of 1958, as imports rose above the corresponding quarter of the previous year for the first time in over a year.

International current account transactions other than commodity trade in 1958 gave rise to an excess of payments over receipts of \$938

million. This record deficit was \$117 million greater than in the previous year, an increase of 14 per cent. While this rate of increase in imbalance was less than in 1956 and 1957, it persisted throughout each quarter and was in sharp contrast to the large reduction in the commodity trade deficit. Analysis shows reduced deficits on account of interest and dividends, freight and shipping, and the larger value of gold production available for export. These were more than offset, however, by higher net payments abroad on international travel, migrants' funds (including inheritances) and the remaining miscellaneous group of transfers.

TRANSACTIONS BY AREAS

While the current account deficit with the United States was reduced to \$1,204 million in 1958 from \$1,551 million in 1957, it was still higher than in any year before 1956. At the same time, a further contraction to \$92 million occurred in the surplus with all overseas countries. This compares to the historically small balance of \$151 million in the previous year, but is not as small as the surplus in the year 1950. With the United States, the change was owing to a greater reduction in current payments than in receipts, while with overseas countries the smaller surplus resulted from reduced receipts and increased payments.

Over one-half of the deficit of \$1,204 million with the United States originated from net payments for services and other non-merchandise transactions.

CAPITAL MOVEMENTS

The United States supplied an increased share of the capital imported in long-term forms in 1958. In amount, the net inflow of direct and portfolio capital from that country was well maintained during the year. Funds for direct investment were off somewhat, but security sales were higher than in 1957 and the net movement was only slightly below the total of \$930 million for the earlier year. In 1958 it accounted for between 80 per cent and 85 per cent of the total movement in these forms (including inter-governmental loans to overseas countries). This was about ten percentage points higher than in 1957, when net capital inflows from overseas countries were higher. The proportion of these movements originating in the United States has increased each year since 1955 when they accounted for less than half the total. In 1958 the inflows in these forms from the United Kingdom and from other overseas countries fell by about one-third and two-thirds, respectively. The inflow from portfolio security transactions with the United Kingdom was down sharply, but this decline was partly offset by the repayment on the Canadian loan of 1946, deferred in the previous year, and by somewhat higher inflows for direct investment. Receipts from