

## CANADA'S BALANCE OF PAYMENTS

Exceptional imbalance on current account and large inflows of capital for long-term investment were again in 1957 the outstanding features of Canada's balance of payments, according to a recent report of the Dominion Bureau of Statistics. The current account deficit rose to a new high of \$1,400 million in 1957 from \$1,366 million in 1956. This is the amount by which Canadian expenditures in other countries on goods and services exceeded Canadian receipts from the sale of exports of goods and services. The deficit in 1957 was double that in 1955 which in turn was higher than in any earlier year. At the same time capital inflows of the longer term variety totalled \$1,307 million, providing financing for most of the deficit.

Current deficits and capital movements of these magnitudes are closely related to high levels of economic activity and to the pressures of demands associated with the exceptional rate of growth and of investment outlays characteristic of the Canadian economy in recent years.

Although the current deficit rose only slightly in 1957, this was the result of more significant changes in the underlying sources. The import balance on merchandise account fell \$149 million from \$728 million to \$579 million, but this was more than offset by a rise of \$183 million in the deficit from non-merchandise transactions from \$638 million to \$821 million. The reduced merchandise balance was due to a decline in imports combined with a rise in exports. The greatest decline in imbalance on merchandise trade occurred in the final quarter of the year, whereas there was a continued increase in the deficit from all other current transactions throughout the year. This was distributed among a variety of groups of transactions but the rise was particularly significant in income payments and in payments for transportation and business services, and in larger official contributions by the Canadian Government. There was also a notable decline in receipts on defence account with the completion of some defence installations in northern Canada. Gross current transactions were slightly higher in value in 1957 than in 1956 in the case of both receipts and payments.

Wide imbalance from transactions with the United States was again the major source of the current deficit, although there was a small decline in imbalance with that country to a deficit of \$1,551 million. This decline in 1957 was less than a relatively large contraction in the current surplus with overseas countries to \$151 million, the lowest since 1950.

Inflows of capital for long-term investment were in 1956 and 1957 much higher than in any earlier year, although inflows in these forms

in the latter year at \$1,307 million were less than the total of \$1,423 million in 1956. Insufficient capital in Canada to finance the great volume of investment in the country was again an underlying factor, but some moderation in financial pressures occurred and there was a contraction in inflows in the latter part of 1957 from peak levels in the first half. About one-half of the drop in 1957 was in inflows for direct investment in Canada. Most of this decline was concentrated in capital for manufacturing, with inflows for resource development continuing high and constituting the major part of direct investment inflows. On the other hand, inflows from transactions in portfolio securities were higher with a rise in borrowing abroad through sales of new issues of Canadian securities. The latter more than offset reduced inflows of capital into outstanding Canadian securities. The remaining contractions in inflows occurred in repayments on government loans and in certain non-recurring types of long-term inflow. The outflow of capital in connection with Canadian direct investments abroad was considerably less in the latter year.

In addition to the above inflows of non-resident capital there were substantial reinvestments in Canada by non-residents of earnings on investments. Profits retained on foreign direct investments in Canada are estimated at \$2,645 million in the period from 1946 to 1956, rising to a peak of some \$435 million in 1956. In 1957, however, earnings were lower while dividends rose and it is clear that retained earnings dropped significantly in 1957. These figures do not include earnings retained on foreign portfolio investments in Canada which in some recent years were approaching \$100 million.

## INVESTMENT POSITION

Canada is by far the world's largest importer of private long-term capital, and the inflows of capital in recent years have added unprecedented amounts to Canada's external liabilities. These investments have contributed to a rapid rate of growth in the Canadian economy, particularly in the exploitation of natural resources, and they have added significantly to Canadian production, employment, and incomes. They have at the same time added substantially to the burden of Canada's external debt and to the proportion of Canadian industry controlled by non-residents.

Canada's net external indebtedness at the end of 1957 was \$11.0 billion, which was exclusive of short-term commercial liabilities amounting to some hundreds of millions of dollars. This net indebtedness has practically tripled in the eight years since 1949, and is 70 per cent higher than the amount at the end of the great investment boom of the twenties.