

## Introduction

### Organization of the Balance of Payments Accounts

The Balance of Payments has three principal components -- the current account, capital account and net official monetary movements. The current account is in turn split into merchandise trade (also called "visible" trade) and "invisible transactions". The term "invisible transactions" is used in the United Kingdom but is uncommon in North America. However, it is a very useful term as it in turn covers three constituent components: transfers; profit, interest and dividends (or factor income flows); services.

In the Canadian Balance of Payments, inheritances and migrants funds plus personal and institutional remittances make up the transfers component. Transfers are defined as transactions for which there is no quid pro quo. The Canadian Balance of Payments records interest and dividend flows but does not record unremitted profits, i.e. the portion of retained earnings of Canadian resident corporations attributable to non-resident shareholders and the portion of retained earnings of foreign corporations attributable to Canadian resident shareholders. By contrast, the U.K. and U.S. accounts are two of the few countries which do include these unremitted profits as entries in the current and capital accounts. Both countries enjoy a surplus of receipts over payments on this item, whereas Canada would show a deficit if data were available. This difference in treatment of unremitted profits creates an important problem for international comparability. It is common to see comparisons made among countries in terms of their balances on "services" account or "invisibles" account without any clear recognition of the conceptual differences in the official statistics. Other conceptual differences, especially with respect to freight and shipping, are discussed below.

In the Canadian Balance of Payments nomenclature, the services account comprises travel, interest and dividends, freight and shipping, other service receipts. This nomenclature is at variance with National Income and Expenditure Accounts terminology which classifies interest and dividends as primary factor income flows (i.e. return to investment or capital). Furthermore the Balance of Payments category "other service receipts" includes some elements which are investment earnings and some which are taxes. For these reasons it is useful to think of invisibles transactions as consisting of the three