

## Section 5.—Balance of International Payments.\*

Statements of the Canadian balance of international payments provide an annual summary of the current transactions in merchandise, gold, and services, and the movements of capital between Canada and other countries. Thus, besides the visible balance of merchandise trade, account is taken of the less apparent exchanges of services and capital frequently termed the 'invisible' items. The statement is divided into two accounts, the current account and the capital account, in order to distinguish current income and disbursements from transactions on capital account.

**Transactions on Current Account.**—The current account includes all current transactions in goods, gold, and services. The total credits in the account show estimates of credits received by Canada each year from the sale of merchandise, gold, and services to other countries, while total debits include estimated payments to other countries by the Dominion for purchases of merchandise or services, including payments of interest and dividends on British and foreign investments in Canada. Therefore, the current account furnishes a measure of the total external income and disbursements of the nation. It also indicates the net movement of capital between Canada and other countries each year, for any difference between current income and disbursements abroad must, in theory, reflect a movement of capital. For example, when credits on current account exceed debits there is a credit balance reflecting an outflow of capital from Canada, as current income from abroad is greater than all disbursements of a current character abroad under such circumstances, the resulting surplus supply of foreign exchange being utilized either to increase Canadian capital assets abroad or to reduce capital liabilities abroad. Conversely, when disbursements abroad on current account exceed external income there is a debit balance reflecting an import of capital. In other words, to obtain foreign exchange under the latter circumstances to meet the excess of current disbursements over income, Canada either has borrowed capital abroad or disposed of or withdrawn Canadian assets abroad. Thus, while the balancing item of the current account reflects the net movement of capital, its accuracy is limited by the degree of completeness and precision attained in the estimates of the current account items. Furthermore, it is at best only a measure of the net movement of capital and therefore does not disclose the great diversity and large volume of movements of capital revealed by the direct analysis of capital movements in the capital account.

**Capital Movements.**—The capital account delineates the movements of capital between Canada and other countries. The broad distinction between transactions appearing in the current account and those appearing in the capital account lies in the fact that the former group represents payments for current purchases of goods or services, whereas the latter group are on capital account and usually reflect changes in either Canada's external assets or liabilities, although all changes of the latter type, it should be noted, do not give rise to movements of capital. Thus, the capital account performs a dual function. It indicates the general significance of capital movements in the foreign exchange market and accordingly, along with the current account, throws light upon the background of transactions upon which the foreign exchange value of the Canadian dollar is dependent. It also makes it possible to appraise the effects of the movements of capital, during any period, upon the Canadian balance of international indebtedness. The potential effects of capital movements upon the Canadian economy may be appreciated only by studying

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