

Subsection 2.—Balance of Payments in Recent Years.

The outstanding features of the Canadian balance of international payments in the five years 1934 to 1938 have been the credit balances on current account in each year reflecting substantial surpluses of current external income over and above all current disbursements abroad. Large credit balances from exports of merchandise and from the tourist trade and growing credits from the sale of gold were more than sufficient in each year to meet payments to other countries on account of interest and dividends, freight, and miscellaneous services.

The large outflow of capital indicated by the credit balances on current account is analysed in the capital account. In each year there have been large outward movements of capital for the retirement of Canadian securities owned abroad with accompanying reductions in the contractual liabilities abroad of Canadian debtors. Other security transactions arising from the international trade in outstanding securities have in each year, except 1937, resulted in inflows of capital indicating a sustained external demand for Canadian securities. Other capital movements during the period under review have been outward in large volume and have been connected with the activities of banks, insurance companies and other financial institutions, and international direct investments. The movements of capital during the period have had the effect of reducing materially the contractual liabilities abroad of Canadian borrowers, with accompanying declines in the interest payments on externally held Canadian bonds, as well as of increasing somewhat Canadian assets abroad.

Current external income in 1937 and 1938 was large. In both years there were very substantial balances of credits on current account, although these were smaller than in 1936. As total credits on current account were greater in 1937 than in 1936, the contraction in the credit balance is explained by the fact that a greater increase in total external disbursements on current account took place in 1936. While the credit balance on merchandise account was reduced in 1937, there were substantial increases in credits from gold and the tourist trade which offset in part the decline in merchandise credits and the increase in debits for interest and dividends, freight, and miscellaneous services. In 1938 the credit balance on current account was somewhat smaller than in 1937 as total debits declined less than total credits. The principal changes in 1938 are reflected in smaller credit balances from the merchandise and tourist trades and in larger receipts from gold, together with a slightly higher debit balance on account of interest and dividends.

The net outward movement of capital was heavy in both 1937 and 1938, although smaller than in 1936. The extraordinarily large outflows in 1935 and 1936 for the redemption of Canadian securities owned outside of Canada were considerably reduced in 1937 and 1938 as a result of the development of less favourable conditions for refinancing. The net movement of capital from the trade in outstanding securities was outward on balance in 1937, in contrast to inward movement in 1938 and other recent years. Other capital movements continued to be outward on balance and heavier in both 1937 and 1938 than in previous years. A smaller part of the total outflow of capital in 1937 and 1938 was employed for the reduction of Canadian liabilities abroad than in the two preceding years.