PART III.—SUMMARY OF EXTERNAL TRANSACTIONS

Section 1.—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. At pp. 472-473 of the 1941 Year Book definitions of what is included in current account and capital movements are given along with a short treatment of the balance of payments during recent years.

The statements shown in Table 1, p. 513, reveal that the underlying strength of Canada's balance of payments with the rest of the world as a whole was even greater than before the War. Her net surplus on current account transactions with all other countries was $176,000,000 in 1940 compared with $137,000,000 in 1939.

As was to be expected, many of the component items were profoundly influenced by the War. Outstanding, of course, was the enormous increase in Canada's exports to the United Kingdom, and an even greater rise in imports from the United States. The latter was due to requirements for the Dominion's own war program, to the substantial United States content in terms of materials and new capital equipment of British war purchases in Canada, and to the increased domestic demand for consumption goods from the United States caused by sharply rising national income.

Financial developments arising from the War have made it necessary to consider Canada's total balance of payments position in terms of two separate divisions, viz., transactions with the sterling area, and transactions with the rest of the world with which Canada's dealings are on a U.S.-dollar basis. In more normal periods, Canada has had a deficiency in current transactions with the United States, which has been covered by her considerably larger surplus with sterling countries. The War has greatly increased both the sterling surplus and the deficiency of U.S. dollars, while, at the same time, it has interfered with the normal process of offsetting one against the other, since, because of the United Kingdom's exchange position, sterling is no longer freely convertible into U.S. dollars. Consequently, Table 1 shows separate statements for Empire (i.e., sterling area) and non-Empire (i.e., U.S.-dollar area) countries as well as for the United Kingdom and the United States.

Current Account Transactions.—The credit balance in the current account with Empire countries rose from $163,000,000 in 1939 to $423,000,000 in 1940. Balances of credits with both the United Kingdom and "Other Empire countries" increased. The increase was accounted for chiefly by the rise in exports to Empire countries from $436,000,000 in 1939 to $708,000,000 in 1940. Other appreciable changes in the current account with the Empire were in net payments of interest and dividends, which declined because of the repatriation of securities formerly held in the United Kingdom, and in the freight item which shows substantial credits on balance in 1940.

* Revised under the direction of Herbert Marshall, B.A., F.S.S., Chief of the Internal Trade Branch of the Dominion Bureau of Statistics.