

were produced with the sale of munitions on a large scale to the United States Government and further development of the production of raw materials in Canada. The sale in the United States of gold and United States dollars purchased from the United Kingdom has also been a factor in meeting deficits in the United States. Another factor of increasing importance in alleviating Canada's shortage of United States dollars has been the growing volume of imports of capital arising, mainly, from the purchase of outstanding Canadian bonds by United States investors.

**Current Account Transactions.**—Current account transactions between Canada and all countries are given in Table 1. In order to reveal the financial and foreign exchange aspects of the international accounts produced by war-time changes, it is necessary to divide the balance of payments statements into two clearly defined divisions; the balance of payments between Canada and Empire countries, and the balance of payments between Canada and the rest of the world, with which Canada's dealings are on a United States dollar basis. In the period before the introduction of exchange control by the nations of the British Commonwealth in September, 1939, the division into the two areas had less significance from a currency point of view, being only a division between Empire and non-Empire countries.

*Empire Countries.*—The dominant characteristic of the balance of payments between Canada and the Sterling Area—a large excess of Canadian exports and other sources of balance of payments credits over imports and other debits—was even more pronounced in 1942 than in the earlier years of the War (see Table 2). The expansion in British expenditures was mainly due to much heavier payments for munitions. Payments for raw materials and food continued at very high levels also, while expenditures on various war activities, including air training in Canada, increased substantially. Expenditures in Canadian ports in connection with shipping and payments for inland freight on exports were also higher.

The moderate gain in British receipts was due almost entirely to the higher level of Canadian expenditures abroad in connection with the Canadian Armed Forces overseas. Total overseas expenditures of the Canadian Government were \$191 million in 1942 compared with \$97 million in 1941. Imports from both the United Kingdom and the rest of the Sterling Area, amounting to \$116 million and \$110 million, respectively, in 1942, were lower than in 1941 but still higher than in 1939. Net payments of interest and dividends by Canada to the Sterling Area declined from \$75 million in 1939 to \$63 million in 1941 and \$44 million in 1942. This decline was mainly a reflection of the elimination of interest payments on Canadian bonds which have been repatriated since the start of the War.

*Non-Empire Countries.*—Net debits from current account transactions between Canada and non-Empire countries in 1942 amounted to \$168 million, compared with \$314 million in 1941 and \$270 million in 1940. In each year from 1937 to 1942 there have been large deficits with the United States which have been partly offset by credit balances from transactions with other foreign countries. These credit balances, arising from trade with other foreign countries, have been greatly reduced, however, by the elimination of exports to most areas of Continental Europe and Asia.

The rapid and continued rise in the value of imports from the United States during the War has been a primary factor in the growth of the debit balance with the United States dollar area. The demand for imports, is, of course, closely related to the war-production program. Imports of capital equipment have been an important element, especially in the earlier years of the War. As munitions pro-