

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 again pronounced in 1943. Total credits in the account with Empire countries continued to expand in 1943. The principal change in credits occurred in merchandise exports which again increased considerably, but less rapidly than in 1942. While the gains were distributed among most commodities, there was more concentration of the increases in munitions and food than in raw materials or other commodities. It should be noted, however, that these exports did not all give rise to British payments to Canada as the figures include not only cash purchases, but substantial amounts of munitions, food and other commodities supplied as Mutual Aid to the United Kingdom and Australia in 1943. For purposes of accounting, goods and services provided as Mutual Aid are included as credits in the current account of the balance of payments, and offset as debits in the special item representing expenditures by the Canadian Mutual Aid Board. Credits on account of freight and shipping also increased in 1943, a general reflection of a larger movement of commodities which resulted in larger payments for inland freight on exports and heavier shipping expenditures in Canadian ports. Other expenditures on war services in Canada were slightly less than in 1942. Reduced cash contributions for air training were partly offset by larger payments on account of internment operations and various other services.

Current payments to Empire countries increased more sharply in 1943 than in any earlier year, being \$850 million compared with \$557 million in 1942 and \$326 million in 1939. The increase was almost entirely due to the expansion in the expenditures overseas on account of the Canadian Forces abroad which more than doubled in 1943, being \$499 million compared with \$191 million in 1942. A large element in the increase arose from the assumption by Canada in 1943 of the capital cost and maintenance of 35 additional overseas squadrons of the Royal Canadian Air Force. Other expenditures also were higher as the number of men overseas increased. Imports from Empire countries which had formerly been the principal source of debits declined to \$200 million in 1943 and were evenly divided between the United Kingdom and other Empire countries. Payments to Empire countries on account of freight and shipping were at about the same level in 1943 as in 1942 but higher than before the War, reflecting increased costs of ocean transportation. Interest and dividend payments of \$52 million in 1943 were likewise at about the same level as in 1942. This marks a sharp decline from the pre-war level, however, when interest and dividends paid on British investments in Canada ranged from \$87 million in 1937 to \$80 million in 1939. The decline is principally