

The drawings of \$540,000,000 on the new loan to the United Kingdom were the principal means of financing the Sterling Area deficiency of Canadian dollars. There were also net interim advances to cover exports of \$112,000,000 which were mainly cancelled under the terms of the Agreement on the Settlement of War Claims in March when the United Kingdom paid Canada \$150,000,000 clearing away all outstanding war claims except the advances for air training of \$425,000,000 which were cancelled under the terms of the Financial Agreement. Among the other financial transactions between the two Governments were repayments by the United Kingdom on the 1942 loan aggregating \$89,400,000, leaving \$471,900,000 of that loan outstanding at the end of 1946. The principal private capital transactions were redemptions of about \$76,000,000 of Canadian securities owned in the United Kingdom, and net re-purchases of about \$54,000,000 of Canadian securities held there.

**Current Transactions with the United States.**—The disequilibrium in the current account with the United States in 1946 was larger than in any other year in Canadian history as post-war demands for goods and services in the United States first became effective. The current deficit of \$603,000,000 is much larger than the wartime peak of \$318,000,000 in 1941, and \$437,000,000 in 1929, the peak in the pre-depression period of prosperity. In the years immediately before the War, the deficit was much smaller, being \$149,000,000 in 1938. The size of the deficit took on added significance since the normal pre-war sources of convertible exchange from trade with overseas countries have been temporarily reduced because of the general dollar shortage, and limited productivity overseas during the transitional period. The sudden re-emergence of the large deficit with the United States resulted from divergent trends in receipts and expenditures. While total current receipts of \$1,575,000,000 contracted \$165,000,000, current expenditures expanded sharply by \$468,000,000 to the record level of \$2,178,000,000. The principal decline in receipts was from the sale of munitions and grain, which declined more than other exports increased. But the sharp gain in expenditures was widely distributed, the large growth in the import total being accompanied by substantial increases in most of the other types of expenditures as well. The increases in imports were widely distributed as to commodities and a new peak was reached in the latter part of the year when there were better transportation conditions and when supplies of many commodities in the United States were increasing. Rising prices there also contributed to the growth in Canadian expenditures as well as the high level of incomes in Canada. There were also the effects of large accumulations of demands during the wartime period and the absence of overseas sources of supply which formerly were important to Canada.

The balance of payments of \$66,000,000 on freight account with the United States was higher than in 1945 but less than wartime peaks when ocean transportation costs were higher. Payments of interest and dividends to the United States of \$250,000,000 were the highest yet reached, net payments of \$204,000,000 comparing with \$150,000,000 in 1945. Dividend payments were at a new peak principally because of abnormally large payments by Canadian subsidiaries to parent companies in the United States. Miscellaneous current payments by Canada to the United States almost doubled in 1946 while miscellaneous current receipts were slightly lower. Expenditures on travel between Canada and the United States reached new peaks in 1946 but the rise in United States expenditures in Canada to \$214,000,000 was offset by a rise of corresponding size in Canadian expenditures in the United States to \$131,000,000 with the result that estimated net receipts of