

such as mining and smelting, merchandising and financial institutions during these years and a large volume of bonds of Canadian governments and municipalities were floated or sold in United States markets. During the 1930's some reduction occurred in the amount of external capital invested in Canada through redemptions of Canadian bonds held abroad as well as in the value of direct investments.

A further growth in United States investments in Canada took place during the Second World War and by the end of 1945 these investments had reached a new peak, while British investments in Canada were sharply reduced by repatriations of securities during the War. The relative importance in this more recent period of the United States capital inflow in relation to domestic capital formation was less than in earlier periods of capital inflow. Much the larger portion of Canadian developments and activities during the recent war were financed from Canadian sources. The growth in the funded debt of the Federal Government during the Second World War which rose from \$3,300,000,000 in 1939 to \$16,800,000,000 at the end of March, 1946, resulted from sales of bonds to residents of Canada. Non-resident holdings of direct issues of the Canadian Government declined in the aggregate during this period although United States holdings rose. In addition, privately financed developments during the War relied on Canadian capital to a large extent. During the comparable period the value of United States investments of all kinds in Canada rose from \$4,200,000,000 in 1939 to close to \$5,000,000,000 at the end of 1945. There was also a small increase in other foreign investments in Canada but British investments declined sharply from \$2,475,900,000 to \$1,766,000,000. As a result of these divergent changes total non-resident investments increased from \$6,913,300,000 at the end of 1939 to \$7,095,000,000 at the end of 1945.

The balance of Canadian indebtedness to other countries was materially reduced during the recent War, because of the sharp rise in Canadian assets abroad which rose from about \$1,865,000,000 at the end of 1939 to around \$3,715,000,000 in 1945. When gross liabilities are taken into account the balance of Canadian indebtedness to other countries at the end of 1945 was around \$3,750,000,000 compared with over \$5,000,000,000 at the end of 1939 and over \$6,000,000,000 in 1930. The sharp rise in external assets was the result of the increase in official liquid reserves of gold and United States dollars and the extension of loans and export credits to the United Kingdom and other countries by the Canadian Government. Private investments abroad owned by Canadians declined slightly during the same period.

Changes which occurred in the balance of Canadian indebtedness in 1946 were not very great although the composition of assets and liabilities changed materially. The value of United States investments in Canada increased but there was a further decline in British investments. At the same time the value of Canada's official liquid reserves was less as a result of the loss of reserves in 1946 and the removal of the premium on United States dollars during the year following the restoration of the Canadian dollar to par. But more than offsetting this decline in reserves was the increase in loans and export credits extended by the Canadian Government, the net amount of credits having increased to \$1,362,000,000 at the end of the year.

Similarly, in 1947 important changes occurred in the composition of Canada's external assets and liabilities, although the change in net indebtedness was relatively less. Liquid reserves of gold and United States dollars declined \$743,000,000