

One important feature of Canada's current account in the post-war period was the lack of balance in transactions with the United States and with overseas countries. This condition of heavy current account deficits with the United States and large surpluses in overseas transactions was sharply modified in 1950. Revival of United States demand after the business readjustments of 1949, and the defence activity in that country after the outbreak of the Korean conflict, combined with a curtailment in dollar expenditure by overseas countries led to a marked shift in Canadian exports from overseas countries to the United States which, along with a rise in Canadian imports from overseas, resulted in a large decrease from \$776,000,000 in 1949 to \$74,000,000 in 1950 in the surplus with overseas countries. The deficit with the United States, which was \$589,000,000 in 1949, fell to \$403,000,000 in 1950. In 1951, however, the more usual current account pattern reappeared; the current account surplus with overseas countries rose to \$431,000,000, while the deficit of \$955,000,000 with the United States was higher than in any year except 1947.

**Capital Movements.**—Despite the deficits on current account, the official reserves of gold and United States dollars rose in 1950 and in 1951. These increases were owing to heavy net capital inflows, amounting to \$1,023,000,000 and \$563,000,000 in 1950 and 1951, respectively, most of which were from the United States. In 1950 the reserves rose by \$694,000,000. The larger deficit and smaller capital inflow in 1951 led to a smaller increase in reserves of \$39,000,000.

The large inward movement of capital in 1950 was heavily concentrated in August and September, just before the announcement of the withdrawal of a fixed exchange rate by the Government at the beginning of October. Much of the movement in these months into Canadian dollar assets was owing to widespread speculation in the United States on the future value of Canadian currency. The largest and most characteristic inflow in the period of heaviest movements was United States demand for Canadian securities, particularly outstanding Government of Canada domestic issues. The large increase in non-resident balances in Canada and changes in short-term capital movements associated with the financing of trade, were also, in part, connected with the speculative inflow. On the other hand, some of the capital inflow was a continuation of the post-war interest, especially by United States investors, in building up long-term investments in Canada. New issues of Canadian securities in the United States amounted to \$210,000,000, and covered a large part of redemptions in 1950. The direct investment inflow from the United States and other countries was \$221,000,000.

In contrast to 1950, the most characteristic capital inflows in 1951 were long-term movements connected with the financing of Canadian development. New issues of Canadian securities sold to non-residents amounted to \$411,000,000. About three-quarters of these sales were provincial and municipal bond issues, payable in United States dollars. Net new issues after retirements were \$227,000,000, in contrast to net redemptions of \$73,000,000 in 1950. Inflows for direct investment in branches and subsidiaries of foreign concerns were higher in 1951 than in 1950. The development of industrial plants, which was the major element in the growth of direct investments in Canada in the earlier post-war years, continued to be important, but in 1950 and 1951 the movement of funds was accelerated particularly by the large scale development of petroleum and other mineral resources.

Despite these large capital inflows, non-resident financing of total capital investment in 1950 and 1951 was much smaller than in earlier periods of high investment activity. There are difficult statistical and conceptual problems in such a