net inflow of capital in long-term forms. These inflows declined to $410,000,000 in 1955, less than 60 p.c. of the current account deficit, whereas in preceding years long-term inflows of capital were more than sufficient to finance current deficits. But again in 1956 long-term types of inflow rose sharply to some $1,350,000,000 and financed almost all of the record-size deficit. Underlying influences affecting these changes included the greater inducements to borrow in the United States through the sale of new Canadian issues in capital markets there, as monetary pressures tightened towards the end of 1955 and intensified in 1956. Consequently, a great increase occurred in inflows to Canada from new issues of Canadian securities sold abroad along with reduced outflows for the repatriation of outstanding Canadian bonds held in the United States which had been prominent in 1955. But, at the same time, inflows of capital into equities in Canadian industry continued to grow in both years for direct investment in non-resident-controlled firms in Canada and for investment in outstanding Canadian stocks.

As a result of these developments, Canada obtained in 1955 additional physical resources from abroad to carry out an expanding investment program by falling back on an excess of long-term inflows over the postwar years. Short-term inflows of capital therefore played a more important part in financing the deficit in 1955 than in earlier years, or in the following year. A major part of the increase in short-term inflows in 1955 originated in the account with the United States. Of net inflows of $425,000,000 from that country more than one-half were in short-term forms. The latter inflows included a rise in the holdings of Canadian dollars by non-residents, a reduction in official holdings of gold and foreign exchange, and changes in international commercial receivables and payables. Inflows from the United Kingdom reached a postwar peak at $199,000,000 and the increase in inflows from that country in the year was largely the result of a drawing down of sterling balances previously acquired by Canadians.

In contrast, inflows of long-term capital in 1956 financed almost all of the current account deficit as the extraordinary rate of growth in the Canadian economy resulted in mounting pressures of demand for capital as well as goods and services. An unprecedented volume of capital investment, coupled with an already generally high level of economic activity, subjected the Canadian economy to special strains in 1956, and these had important effects on international capital movements. It has already been noted that the physical impact of these pressures was felt in the substantial deficits incurred on current account as the Canadian economy supplemented its own output with large net drafts on the goods and services of other countries. Strong pressures were also created on Canada's capital market, and there were sharp increases in interest rates. Higher interest rates were also characteristic of foreign capital markets but the differential between rates in Canada and the United States widened somewhat. This development contributed to a very large volume of financing abroad by provincial governments, municipalities and corporations. These inflows were superimposed on the persistent inflows in recent years for direct investment in foreign-controlled enterprises in Canada and for portfolio investment in Canadian equities, both of which reached new heights in 1956. For the year as a whole, the inflow for direct investment was placed at $595,000,000. Transactions in Canadian securities led to a further inflow of $748,000,000, which included $265,000,000 of equities. These two groups of transactions alone added $1,343,000,000 to Canadian external liabilities in long-term forms. In addition to other smaller long-term inflows such as foreign security sales and loan repayments, there was a $110,000,000 outflow for direct investment abroad. This brought the total inflows of a long-term type to $1,350,000,000, as compared with $410,000,000 a year earlier.

Canadian direct investment abroad established a record at $110,000,000. About 70 p.c. of the net movement was to the United States, and involved the acquisition of control over existing enterprises abroad, particularly in merchandising. In addition there was a disposition of Canadian interests in utilities in Latin America.

The United States continued to be the major source of long-term external capital for Canada in 1956. Indeed, the net movements in long-term forms were somewhat more than two-thirds from the United States in 1956 in contrast to just under one-half in 1955 when