

The deficit on non-merchandise transactions has continued to grow with a persistence and significance characteristic of this type of transaction for some years. The 1959 deficit of \$1,049,000,000 was nine times as great as that in 1949 and more than twice as great as that for as recent a year as 1955. This rise is largely attributable to the continued rapid growth in Canada's indebtedness to other countries and to the high level of incomes spent by an enlarged population. More than one-half of this deficit in 1959 is directly related to Canada's indebtedness abroad and subject to the effects of continued growth. Total interest and dividend payments by Canadians to other countries reached \$656,000,000 in 1959. Other forms of transfer of investment income added over \$100,000,000 of related payments, and there were also large payments by Canadian subsidiaries to parent companies for services. Net payments of interest and dividends totalled \$473,000,000 while the net payments on account of all the above groups of transactions which are related to foreign investment amounted to well over \$600,000,000 in 1959, apart from some hundreds of millions of dollars accruing to non-residents which were retained in Canada for further investment and are not included in the current account.

The travel account involves substantial net outlays and reflects high levels of income in Canada. In 1959 net expenditures amounted to \$200,000,000. To these payments were added net deficits of \$90,000,000 from freight and shipping transactions, \$45,000,000 from inheritances and transfers by migrants, and very large net payments of \$389,000,000 covering business services, miscellaneous income, government transactions, and remittances. Against these expenditures there was \$148,000,000 available from new gold production.

The outstanding development in the bilateral pattern of Canada's current account in 1959 was the large deficit of \$214,000,000 that occurred with overseas countries. This replaced a surplus of \$45,000,000 in 1958 and reflected a contraction in the surplus with the United Kingdom and an enlarged deficit with other overseas countries. At the same time the deficit with the United States widened to \$1,215,000,000, although this was smaller than in some earlier years. The current deficit with overseas countries in 1959 contrasts with the former surplus which characteristically played a part in settling Canada's chronic current deficit with the United States.

Capital Movements.—In 1959, Canada again drew substantially on the resources, real and financial, of the remainder of the world. The inflow of capital for direct investment in foreign-controlled establishments during 1959 was placed at \$500,000,000. Transactions in Canadian securities led to a further inflow of \$661,000,000. These two groups of transactions added \$1,161,000,000 to Canadian external liabilities in long-term forms. On the long-term assets side, there were outflows of \$70,000,000 for direct investment abroad and \$36,000,000 for the acquisition of foreign stocks and bonds, but inflows of \$33,000,000 from net repayments on inter-governmental loans. Transactions in these long-term forms led to a net capital import of \$1,088,000,000 which was sufficient to finance about 76 p.c. of the current account deficit; the corresponding inflows of \$1,012,000,000 in 1958 were equivalent to 89 p.c. of the smaller deficit in that year. Including inflows from a reduction in official holdings of gold and foreign exchange offset in part by Canada's increased quota in the International Monetary Fund, and from increased holdings of Canadian dollars by non-residents, all other capital movements led to a net capital inflow of \$341,000,000 in 1959. In both 1958 and 1959 about 80 p.c. of the movement of capital in long-term forms was from the United States.

Inflows of capital for direct investment in foreign-controlled enterprises dominated the capital account of the Canadian balance of payments in most of the postwar years until 1956. These persistent and substantial receipts were directed particularly to resource development and associated industries and by far the largest part of the new capital went into the petroleum and natural gas industry, which has been one of the dynamic developments in the Canadian economy. Substantial amounts also went into other mining industries, particularly for the development of iron ore, and to various branches of manufacturing.

Since 1956 the inflow for direct investment has been dwarfed by the inflow of portfolio capital. This arose in part from substantial sales of outstanding Canadian stocks