

was distributed about equally between Britain and the European Economic Community. The flow of direct investment abroad of Canadian capital was estimated at \$110,000,000 in 1963, hardly changed from the total in 1962 but considerably higher than the outflow for each of the preceding five years. Nearly two thirds of the movement was destined for Britain and the EEC countries.

Capital inflows arising from transactions in Canadian and foreign securities amounted to \$526,000,000 in 1963, an increase of roughly 80 p.c. over the levels of 1961 and 1962. New issues of provincial bonds sold to investors in the United States accounted for the largest part of the expanded inflow, a substantial portion of the proceeds of the new issues being received before the proposal in July in the United States of the interest equalization tax.

A turn-around from a fairly large outflow in 1962 to a more moderate inflow of capital in 1963 from transactions in outstanding foreign securities was offset by outflows from retirements and trade in outstanding Canadian securities and purchases of new foreign issues. As in the two preceding years, the over-all movement into Canada in 1963 of portfolio security capital originated entirely in the United States, net inflows from that country being \$632,000,000. There were outflows of \$87,000,000 to Britain and \$19,000,000 to other countries.

In 1963, the Government of Canada made loans aggregating \$10,000,000 to India in connection with aircraft purchases. Repayments by foreign borrowers dropped sharply to \$25,000,000 from \$129,000,000 in 1962. Included in the latter total were prepayments of principal amounting to \$91,000,000, which contributed to easing temporary difficulties in Canada's international financial position in 1962. The remaining capital movements in long-term forms led in 1963 to an outflow of \$58,000,000, considerably below that of \$131,000,000 in the previous year. Large repayments of bank loans, which were financed from the sale to non-residents of a new corporate bond issue, constituted an important element in the 1962 outflow.

Following large inflows of capital through reductions in 1961 and 1962, bank balances and other short-term funds held abroad by Canadian residents reverted to the trend characteristic of the 1950's with a net capital outflow in 1963 of over \$250,000,000. This reversal accounted for more than the entire drop of \$271,000,000 in the short-term inflow between 1962 and 1963. Changes in non-resident holdings of Canadian funds, loans and accounts receivable and payable contributed to increased inflows, which were offset in part by a reduced inflow from transactions in Canadian commercial and finance paper.

Canada's external reserves rose by a smaller amount in 1963 than in either of the two preceding years. The official holdings of gold and foreign exchange increased by \$60,000,000 and Canada's net International Monetary Fund position by \$86,000,000.

Since the shift upward at the beginning of the 1950's, direct investment inflows have been a significant ingredient in the capital account. Continuing and substantial for nearly the entire period, these receipts contributed in particular to resource development and the growth of associated industries. By far the largest part of the new capital went into the petroleum and natural gas industry, a dynamic element in the expansion of the Canadian economy since about the mid-1950's. Large amounts were also invested in other mining industries, particularly for the development of iron ore, and in various branches of manufacturing. From 1956 to 1959, the inflow for direct investment, substantial though it was, was less than the inflow of portfolio capital, as some of the sharply increased demands for new capital were channelled to foreign capital markets through the sale to non-residents of new issues of Canadian bonds and debentures. Corporations, provincial governments and municipalities were all important borrowers in this period.