

1965. This deficit has risen about 150 p.c. in the past decade. A total of \$761,000,000 or more than 60 p.c. of the 1965 deficit was directly related to Canada's indebtedness abroad. Interest and dividend payments by Canadians to non-resident investors reached \$1,071,000,000, transfers in other forms of investment income amounted to well over \$200,000,000, and there were also growing payments abroad for a variety of business services. Furthermore, some hundreds of millions of dollars of earnings, which accrued to foreigners but which were retained in Canada for reinvestment, are excluded from the current account.

The contribution by travel transactions of nearly one fifth of the deficit in 1960 contracted sharply in the following years, in particular after the lowering of the Canadian dollar in May 1962 to a new fixed par value of 92½ cents (U.S.). From a small deficit in 1962, the balance on travel changed to a small surplus in 1963 and then returned to a deficit position of \$50,000,000 and \$32,000,000 in 1964 and 1965, respectively. Net payments of migrants' funds and inheritances, which represented about 6.5 p.c. of the "invisible" deficit in 1961, narrowed gradually to a position of balance in 1965. The deficit on freight and shipping services fluctuated between about 3 p.c. and 8.5 p.c. of the total in the period 1961-65, and the value of gold production available for export served to reduce the non-merchandise deficit by between 11.5 p.c. and 15 p.c. The substantial remaining portion of the deficit, fluctuating between 36 p.c. and 44 p.c., originated from other transactions, including miscellaneous investment income, referred to previously, and official contributions; these stood at a record level of \$92,000,000 in 1965.

The characteristic bilateral distribution of the Canadian current account balances was maintained in 1965; a surplus from transactions with overseas countries partially covered a deficit with the United States. However, a rise of nearly 17 p.c. in this deficit from \$1,635,000,000 in 1964 to \$1,912,000,000, combined with a decline of about 32 p.c. in the surplus with overseas countries from \$1,211,000,000 to \$829,000,000, contributed to the increase in the over-all deficit from \$424,000,000 to \$1,083,000,000. In current dollars, the 1965 deficit with the United States exceeded the previous record level of \$1,650,000,000 reached in 1956; the surplus on current transactions with Britain declined from the recent high level of \$605,000,000 in 1964 to \$510,000,000; and the surplus with other countries was nearly halved from \$606,000,000 in 1964 to \$319,000,000 in 1965.

Capital Movements.—In 1965, Canada continued to draw substantially on the resources, both real and financial, of the other countries of the world, as the net capital inflow of \$1,240,000,000 (excluding the change in official monetary assets) moved up again to the \$1,000,000,000-to-\$1,500,000,000 range that prevailed from 1956 to 1962. It was more than 50 p.c. above the net inflow in 1964 and at about the same level as in 1961. Capital movements in long-term forms, covering direct investment, portfolio security transactions, official loans and other long-term investments, amounted to \$713,000,000 in 1965, down 13 p.c. from the total of \$820,000,000 in the previous year. The long-term capital inflow covered only about two thirds of the current account deficit following the years 1963 and 1964 which were the first since 1956 in which the long-term inflows exceeded the deficit on transactions in current goods and services. Capital movements in short-term forms, which were on balance outwards in 1964, were reversed into sizable inflows totalling \$527,000,000. Contributions to the inflows were increases in foreign currency banking loans to Canadian residents together with a reduction of their bank balances and other short-term funds abroad. An offsetting influence was the decline in the inflow attributable to the total transactions in the short-term paper and obligations of Canadian finance companies.

The net inflow in 1965 of \$405,000,000 of capital for direct investment in foreign-controlled enterprises in Canada was up 50 p.c. from the low levels of 1963 and 1964.