

Long-term interest rate differentials between Canada and other countries, which had narrowed during 1970 from 1969 levels, continued to offer little incentive to Canadian borrowers to increase offerings abroad. Consequently, although total issues of Canadian funded debt and equities increased slightly during 1971, sales to non-residents at \$1,162 million were moderately lower than during 1970. This reduction, which is more noticeable in terms of offerings during 1971, was in line with the general policy of the Government of Canada to discourage increases in long-term borrowing abroad, and the mix of sales suggests that increased use of foreign markets occurred mainly to retain credit lines and in situations where the Canadian market could not readily absorb the issue. Corporate borrowings abroad declined \$177 million during 1971 to \$363 million. Sales of new provincial direct and guaranteed issues to non-residents increased by \$197 million to \$724 million, while new issues of municipal bonds placed abroad were \$38 million lower, at \$26 million, than during 1970 when there were large issues sold to non-residents during the first and second quarters. Retirements of Canadian securities held abroad at \$804 million were \$252 million higher than during 1970. The high retirement rate can be attributed to a heavy maturity schedule for provincial bonds held by non-residents during the second quarter and to a relatively high rate of early retirements during the second and fourth quarters. An additional outflow was incurred during the fourth quarter as a result of the settlement of Atlantic Acceptance Corporation long-term notes.

Other capital flows in long-term forms. Assistance abroad by the Canadian government consists largely of payments of regular assessments by the international organizations of which Canada is a member, official contributions, intergovernmental loans, subscriptions to the capital of investment agencies and the extension of export credits. Both assessments and contributions form a part of Canada's payments on current account, while other transactions, to the extent that they give rise to claims on non-residents, are reflected mainly in capital movements in long-term forms.

Disbursements on intergovernmental loans extended by Canada increased markedly by \$27 million to a total of \$139 million for the year. Commonwealth countries accounted for over 80% of the total.

Loans and subscriptions to international agencies in 1971 amounted to \$53 million, an increase of \$21 million over the previous year. The International Development Association accounted for \$50 million of the total which was paid in the form of non-negotiable non-interest-bearing Canadian dollar demand notes. Changes in such Canadian obligations to the IDA and to the Caribbean Development Bank are reflected in the capital account covering Government of Canada demand liabilities.

During the year Canada received repayments of \$36 million in principal on intergovernmental loans extended earlier. Receipts of \$20 million, \$9 million, \$5 million and \$2 million came from the United Kingdom, France, the Netherlands and Belgium, respectively. In addition to the payments of principal, there were receipts of \$24 million during 1971 on account of interest. These receipts form part of the current account item comprising Canada's receipts of interest and dividends.

Receipts from the United States associated with the Columbia River Treaty amounted to \$24 million representing the last maturity of the medium-term non-marketable US government securities acquired in connection with the Treaty arrangements.

Capital movements in short-term forms (apart from changes in net official monetary assets) led to a net capital outflow of \$18 million, a change of \$276 million from a 1970 outflow.

Canadian dollar deposits of non-residents rose by \$92 million over the year. Residents of the United States, the United Kingdom and other countries increased their holdings by \$22 million, \$9 million and \$61 million, respectively.

Changes in Canadian holdings of foreign currency bank balances and other short-term funds abroad led to a net capital inflow of \$874 million compared with an outflow of \$424 million in the preceding year. A very large net inflow from the United States of \$1,686 million was somewhat offset by net outflows to the United Kingdom and other countries of \$232 million and \$585 million, respectively. These movements are consistent with changes in hedged interest rate differentials between Canada and the United States and Europe. Canadian holdings of swapped deposits dropped considerably by \$951 million to an end-of-the-year level of \$732 million. Net inflows through the chartered banks were partially offset by net outflows to build up balances held directly abroad by Canadians in foreign banks.