In general the large sales of Canadian money market paper abroad which occurred during the latter part of 1970 did not continue into the first quarter of 1971 and substantial net outflows during the first half of 1971 resulted. The total volume of trading with non-residents was somewhat lower than during 1970. This may have reflected generally lower covered interest rate differentials between Canada and the United States (substantially the largest market for these instruments) as well as the extension in the second quarter of withholding tax to discounted notes redeemed prior to maturity.

21.4.3 International monetary assets and liabilities

Canada's net official monetary assets totalled US$5,570 million at December 31, 1971, an increase of US$891 million over the year. The increase in reserves of US$578 million in the fourth quarter was the largest since the second quarter of 1970 when the Minister of Finance announced that the Canadian dollar would no longer be pegged to within 1% of its par value of 92½ US cents. The increase in Canada's official holdings of US dollars resulted on balance from purchases of foreign exchange in the last quarter of the year when an unusual degree of uncertainty existed in the exchange markets.

Holdings of US dollars increased by a near record amount of US$1,039 million in the year. Over three quarters of the increase occurred in the last five months of the year following the introduction of new economic policy measures by the United States on August 15. Holdings of other convertible currencies declined by US$1 million to US$13 million at the end of the year. There were, however, relatively large variations in holdings during the year with a peak in May equivalent to US$18 million.

Canada's holdings of Special Drawing Rights (SDRs) totalled US$372 million at year-end, an increase of US$190 million in the year. Of this increase, US$118 million was due to Canada's acceptance of its second allocation of SDRs on January 1, 1971. An increase of slightly over US$1 million was recorded for monetary gold during the year to yield a total of US$792 million at the end of the year.

The total of the above transactions led to an over-all increase in Canada's net official monetary assets during the year expressed in Canadian dollars of $896 million. The Canadian dollar in relation to the US dollar experienced very small fluctuations during the first part of the year until June when it fell sharply by over 1% to a low for the year of 102.53 cents for US$1.00. Subsequently, the Canadian dollar rose steadily to a high of 99.31 cents in late December.

21.4.4 Analysis of 1972 flows

As Table 21.32 shows, Canada recorded a current account deficit of $579 million in 1972, a swing of almost $1,000 million from the 1971 surplus of about $400 million. Almost all of the change resulted from a decline of $900 million in the merchandise trade surplus to $1,497 million. The largest quarterly current account deficits in the year, on a seasonally adjusted basis, were recorded in the first and third quarters when the merchandise trade surpluses were at their lowest.

Buoyant economic activity in Canada, particularly in the latter part of the year, encouraged the growth of imports which, over the year as a whole, rose about 60% faster than exports. A relatively low rate of growth in exports to overseas countries probably reflected a slower pick-up in economic growth in many of these countries than in Canada, especially in the early part of the year.

Total current receipts and payments each surpassed the $25,000 million mark, registering gains of 10% and 14%, respectively. The difference in rates of growth of exports and imports was probably influenced by strikes in Canada and overseas. In Canada there were dock strikes in the St. Lawrence ports and on the west coast in the second and third quarters, respectively. A seamen's strike in Japan in the second quarter and a dock strike in the United Kingdom in the third quarter also interrupted trade flows.

During 1972 Canada's balance on current transactions weakened with each of the five main areas. With merchandise imports registering marked increases and exports growing at a lower rate or decreasing to some overseas markets the trade balances with all regions declined.

Capital movements led to a net inflow of $795 million in 1972, more than double the previous year's total. Inflows of capital in long-term forms rose sharply to $1,773 million from $394 million in 1971. The main features of this increase were a greater reliance on foreign financing for their bond issues by the provinces and municipalities and a swing to net sales of outstanding Canadian pay bonds, particularly government issues. Lower interest rates,