

especially for German mark and Swiss franc issues, encouraged the placement of new issues abroad. Factors accounting for the net sales of outstanding Canadian issues to non-residents were the attractive yields in Canada and their exemption from withholding tax. Augmenting the net inflow were a reduction in outflows resulting from the retirement of Canadian securities held by non-residents and an increase in their miscellaneous long-term investment in Canada.

Short-term capital movements in 1972 led to a net capital outflow of \$978 million, up by \$960 million from the 1971 level. Changes in these accounts were undoubtedly influenced by interest rate differentials on a hedged and unhedged basis between Canada and the United States and Canada and Europe. The international currency markets at the beginning of 1972 did not react very positively to the Smithsonian exchange rate realignments of December 1971. Waves of speculative activity in the foreign exchange markets of the world were common during the year although conditions in Canada were relatively stable. In June the pound sterling was floated while in other countries capital controls were increased to try to insulate currencies from speculative attacks. The demand for Eurodollars, which could be exchanged into a currency which might be revalued upward, raised Eurodollar interest rates to levels which were often attractive to Canadian investors. In Canada, action was taken which reduced the attractiveness of some Canadian money market instruments to foreign investors through an agreement in early June between the chartered banks, concurred in by the Minister of Finance, by which the banks lowered their interest rates on various types of deposits, including deposit notes.

Canada's net official monetary assets totalled US\$6,050 million at December 31, 1972, an increase of US\$480 million in the year. Of this change, US\$134 million occurred as a result of the revaluation of the stock of Canada's gold-based assets in May. These assets include gold, Special Drawing Rights and Canada's reserve position in the International Monetary Fund. Reserves therefore rose by US\$346 million (\$333 million expressed in Canadian dollars) apart from the revaluation of existing holdings.

21.5 International investment

Canada has been among the world's largest importers of capital. Up to 1970 the demand for real resources from abroad, associated with the high rate of growth of the Canadian economy, to a great degree encouraged investments of non-resident capital. The current account deficit produced by the importation of real resources and the rapidly expanding financial needs of the corporate and government sectors of the economy was paralleled by the inflow of capital from abroad. While actual capital inflows have been the principal component of Canada's increasing foreign indebtedness, the unrepatriated earnings of foreign owned branches and subsidiaries are also a significant factor. The very substantial capital formation, which was a feature particularly since the 1950s, was therefore associated with an unprecedented growth in the country's external liabilities. These investments contributed to a rapid rate of growth in the Canadian economy, particularly in the exploitation of natural resources, and added significantly to Canadian production, employment and income. At the same time they added substantially to the continuing burden of Canada's external debt and to the proportion of Canadian industry controlled by non-residents.

21.5.1 Balance of international indebtedness

The balance of international indebtedness is a phrase generally accepted in balance of payments terminology to include equity investments as well as contractual borrowings (Table 21.33). By the end of 1970 Canada's balance of international indebtedness had reached a book value of over \$28,900 million. Canada's total external liabilities in that year were about \$50,000 million of which some \$46,500 million was in the form of long-term claims. On the asset side, the total outflow of domestic long-term capital together with the increase in earnings accrued to Canadians abroad caused the total book value of Canadian long-term investment abroad to rise to about \$11,200 million. Due mainly to a significant increase in official holdings of foreign exchange, total Canadian assets abroad rose by about \$2,400 million to more than \$21,000 million at the end of 1970.

21.5.2 External liabilities

The latest year for which complete data are available is 1969. At the end of that year, Canada's gross external liabilities amounted to \$47,200 million with non-resident owned long-term investments in Canada reaching a book value of \$41,700 million (Table 21.34). Of