

tor rose in real and nominal terms by 12% and 18%, respectively. A large increase in internally generated funds was available to finance business capital formation as the recovery in profits accelerated into 1973. Total borrowing by the private non-financial business sector, however, was well in excess of its net financial requirements and the sector exhibited a large increase in financial assets, particularly in the form of short-term claims and instruments.

The government sector as a whole assumed reduced importance as a major borrower of funds as revenues grew faster than expenditures in 1973. The falling off in government borrowing activity occurred primarily at the federal level. Cash requirements of the federal government were met by a reduction in Canadian dollar cash balances, ordinary foreign exchange transactions and temporary foreign exchange swap transactions between the Bank of Canada and the Exchange Fund Account. There was a slight decline in the amount of federal issues outstanding. The provincial government sector also placed less demand pressure on Canadian capital markets in 1973 compared to the situation a year earlier. Net borrowing by this sector amounted to \$302 million in 1973, down from \$726 million in 1972. Borrowing by provincial governments, down sharply from 1972, was highly concentrated in bonds. Relatively less importance was placed on foreign capital markets as a source of bond financing. Local governments, in contrast to the federal and provincial governments, exhibited increased borrowing requirements in 1973. A tendency to substitute bank financing for bond financing occurred at the municipal government level in 1973.

Net lending by non-residents to Canada amounted to \$425 million in 1973, down from \$655 million a year earlier. On a net basis (credits offset against debits), the rest of the world accumulated long-term financial claims on Canada and incurred short-term liabilities, as the pattern of international interest rate differentials favoured a long-term capital inflow to Canada and a short-term capital outflow. Net capital movements (excluding official reserves) led to an increase of \$42 million in Canada's claims on the rest of the world. Net capital movements typically result in a capital inflow to Canada and the net outflow that occurred in 1973 is the first net outflow on an annual basis since 1952. On an official settlements basis, the surplus of the rest of the world with Canada was \$467 million and this was met by an equivalent reduction in Canada's official international reserves.

A summary matrix of the financial flow system is presented in Table 21.35. More detailed data for individual sectors and summary matrices are available in the quarterly publication *Financial flow accounts* (Catalogue No. 13-002).

### Sources

- 21.1 Gross National Product Division, System of National Accounts (Current) Branch, Statistics Canada.
- 21.2.1 - 21.2.2 Industry Product Division, System of National Accounts (Current) Branch, Statistics Canada.
- 21.2.3 Input-Output Division, System of National Accounts (Structural) Branch, Statistics Canada.
- 21.3 Prices Division, General Statistics Branch, Statistics Canada.
- 21.4 - 21.5 Balance of Payments Division, System of National Accounts (Current) Branch, Statistics Canada.
- 21.6 Financial Flows and Multinational Enterprise Division, System of National Accounts (Current) Branch, Statistics Canada.