

There were net inflows of \$79 million from trading in Government of Canada treasury bills, \$9 million from commercial paper, and \$63 million from finance company paper. Trading in other short-term paper resulted in a net outflow of \$72 million.

Transactions in other finance company obligations, which are made up of borrowings from non-resident banks and non-resident parent companies, resulted in a net inflow of \$170 million in 1974; this represented an increase of \$153 million over 1973.

All other short-term capital transactions (including the balancing item, representing unidentified transactions in both the current and capital accounts) led to a net capital outflow of \$140 million for the year as a whole. The balancing item as currently indicated, amounted to a debit entry of over \$350 million for the year as a whole.

21.4.3 Official international monetary assets and liabilities

Canada's international reserves increased by US\$57 million during 1974 to reach US\$5,825 million at the end of the year. This change represented, in addition to an increase of US\$31 million due to the appreciation in the United States dollar value of the Special Drawing Right (SDR), a net increase of US\$26 million from transactions passing through the reserve accounts.

The increase in Canada's reserve position in the IMF was mainly due to drawings on the IMF's new oil facility which was established in August 1974. These arrangements enable the IMF to borrow, in the period up to December 31, 1975, resources from a small number of member countries, including Canada. The funds are used to assist members with balance of payments needs in meeting the impact of increases in the import costs of petroleum and petroleum products. Canada has agreed to lend the SDR equivalent of up to \$300 million in Canadian dollars under this facility. During 1974 Canada lent SDR 140.7 million, equivalent to Canadian \$166 million.

The provision of these funds does not necessarily give rise immediately to a balance of payments entry as Canada's assets and liabilities both rise by equal amounts. The drawing of the funds by International Monetary Fund member countries does, however, increase Canada's reserve position in the Fund as Canada's liabilities to it fall.

Since July 1, 1974, the SDR has been valued by the IMF in terms of a basket of currencies of 16 countries, including Canada. Relative weights for each currency are broadly proportionate to the country's exports, but are modified to recognize that the share in trade does not necessarily give an adequate measure of a currency's weight in the world economy. The Canadian dollar accounts for 6% of the total weight.

The Canadian dollar value of an SDR can be determined by valuing each of the currency components of the SDR at its market value against the Canadian dollar. The sum of the Canadian dollar equivalent of each component would then yield the rate for the SDR in terms of the Canadian dollar. In practice this is done by calculating the value of the SDR in terms of the United States dollar and subsequently deriving a rate for the SDR in terms of the Canadian dollar by using the United States dollar/Canadian dollar cross exchange rate. Changes in the value of the Canadian dollar vis-à-vis the SDR can be used as a proxy for its effective change vis-à-vis all other currencies.

21.5 Canada's international investment position

Canada has been among the world's largest importers of capital as the demand for real resources from abroad has been associated with a pattern of consistent current account deficits and net inflows of capital. This pattern was interrupted by sizable current account surpluses in 1970 and 1971 and then a much smaller one in 1973. In addition to capital inflows, which are a counterpart to net deficits on the current account, undistributed earnings of foreign-owned branches and subsidiaries have also been a significant factor. These two sources of funds have helped capital formation in Canada and have contributed to the rapid growth in production, earnings and employment.

Canada's balance of international indebtedness rose by \$0.6 billion to \$29.1 billion in 1971 (Table 21.34), the last year for which complete data are available. The net indebtedness of Canada to investors in other countries has shown an almost uninterrupted growth from its postwar low of \$4.0 billion in 1949. Gross assets grew by 10% to \$25.8 billion during 1971 while gross liabilities increased more moderately at 5% to \$54.9 billion. The term balance of international indebtedness is used here, in a balance of payments context, to include equity