

slipped to 31.3% in the fourth quarter. The chartered banks and public financial institutions on the other hand increased their shares of the supply of new mortgage funds in 1974; the banks provided 19.4% and public financial institutions 12.2% of the total mortgage lending in 1974, compared to 16.7% and 6.1%, respectively in 1973. The new supply of mortgage funds by public financial institutions became increasingly important in the latter part of the year as the residential construction sector weakened.

Total consumer credit flow in the economy in 1974 amounted to \$2,783 million, slightly lower than the total flow of \$2,840 million recorded in 1973. The decline reflected the moderation in consumer spending, mainly in durable goods, in the last two quarters of 1974. Among financial lending institutions, only the chartered banks had a higher flow of consumer credit. Indeed, the net flow of consumer credit in 1974 was lower by about \$80 million in the case of near-banks (\$103 million for the caisses populaires and credit unions, the main near-bank lenders) and by about \$200 million in the case of the sales finance and consumer loan companies (classified in other lending institutions).

The net inflow of deposits at near-banks decelerated in 1974 to \$4.0 billion compared to \$4.2 billion in 1973. This deceleration continued steadily through the year and the flow decreased from \$1.4 billion in the first quarter of 1974 to \$0.7 billion in the last quarter of the year. Only mortgage loan companies had higher deposit inflows in 1974 (\$724 million in 1974, against \$667 million in 1973). While the substitution by households of term deposits for Canada Savings Bonds in the second quarter appeared to have partly increased the deposits at near-banks, the large net sales of Canada Savings Bonds in the fourth quarter unfavourably affected them.

Led by an unusually large merchandise trade balance deficit, Canada's current account balance deficit increased from \$425 million in 1973 to \$1,877 million in 1974. This deficit was more than offset by a net capital inflow of \$1,901 million in 1974 (excluding official reserves) resulting from transactions in financial claims between Canadians and non-residents.

Financial transactions between Canada and the rest of the world were dominated by the large acquisitions of Canadian bonds by non-residents, particularly provincial bonds. Net acquisitions of Canadian bonds by non-residents increased sharply from \$683 million in 1973 to \$1,982 million in 1974. This increase in net purchases occurred in all categories of bonds, except Government of Canada bonds, and principally reflected net acquisitions of \$1.6 billion provincial government bonds; this amount exceeded by almost \$1 billion the net purchases in 1973. Borrowing by provincial governments in 1974 included large scale sales of bonds to the Middle East countries. Long-term interest rates in Canada during the year increased more sharply than in the United States and Europe and contributed to some extent to the high level of bond borrowing by Canadians abroad.

Claims by non-residents on associated enterprises in Canada in 1974 declined to the lowest level in a decade with a net inflow of \$494 million, down from \$722 million in 1973. Direct investments from non-residents in petroleum and natural gas industries, unfavourably affected by the uncertainty surrounding the future Canadian energy policy, contributed substantially to the lower inflow. Direct investments abroad by Canadians reached a record level in 1974 with net outflow of \$645 million.

Foreign currency deposits of non-residents in Canadian branches of chartered banks increased by only \$90 million in 1974, down from a flow of \$3.4 billion registered in 1973. However, an inflow of \$517 million was recorded in the fourth quarter of the year, compared to an outflow of \$220 million in the third quarter. In the same manner, Canadian residents reduced their holdings of foreign currency and deposits in 1974 by more than \$0.7 billion, which was a striking change from an increase of \$3.7 billion in 1973. Non-residents also invested to the extent of \$179 million in Canadian finance and other short-term paper in 1974. The reliance of non-residents on bank and other loans accounted for a large flow of almost \$1.5 billion in 1974, up from the flow of \$0.7 billion in 1973.

The government sector as a whole continued to be in a net lending position in 1974. The federal government net lending position rose from \$274 million in 1973 to \$630 million in 1974. The central government financial activity was dominated by the large issues of Canada Savings Bonds in the fourth quarter, which, added to the other issues of marketable bonds and treasury bills, increased the government's liabilities by \$4,379 million in 1974, compared to a net reduction of \$106 million in 1973. The CSB campaign boosted the cash balances of the