

of Canada undertook to maintain the Canadian exchange rate within a margin of 1% on either side of the established par value.

On May 31, 1970, the Government of Canada announced a decision not to maintain the exchange rate of the Canadian dollar within the 1% parity band prescribed by the IMF for the time being. The movements of the US dollar in Canadian funds from January 1968 to December 1975 are shown in Table 21.35. Details of Canada's official international reserves and of undelivered contracts in US dollars are presented in Table 21.36.

## 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 sizeable current account surpluses in 1970 and 1971 and then a much smaller one in 1973. In 1974 a current account deficit of \$1.5 billion was registered followed by a record deficit of \$5.0 billion in 1975. In addition to capital inflows, which are a counterpart to net deficits on the current account, undistributed earnings accruing to non-residents have also been a significant factor. These two sources of funds have helped capital formation in Canada and thereby stimulated production, earnings and employment.

Preliminary estimates produced on the basis of available data indicate that Canada's balance of international indebtedness reached a book value of about \$43 billion by the end of 1975. Long-term foreign investment at \$68 billion had increased by over \$7.5 billion reflecting predominantly an inflow of long-term portfolio capital and an increase in earnings accruing to non-residents. Other long-term liabilities including non-resident equity in Canada's assets abroad brought the total of long-term liabilities to about \$72 billion. Various short-term claims on Canadians increased the total of Canada's external liabilities to over \$81 billion.

Canadian long-term investment abroad increased by some \$2.5 billion to about \$21 billion at the end of 1975. The major elements in this increase were outflows of long-term direct investment capital, reinvested earnings accruing to Canadians from their investments abroad, export credits, and loans and subscriptions of the Government of Canada to foreign countries and international financial agencies. Short-term claims on non-residents including resident holdings of foreign currencies and net official monetary assets brought the total of Canada's external assets to about \$38 billion.

Canada's balance of international indebtedness rose by \$2.3 billion to \$32.3 billion in 1973 (Table 21.32), 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. In 1973 not only net indebtedness but also gross assets and liabilities registered record absolute annual increases. There was a growth of \$5.9 billion in gross liabilities, well above the previous highest increase of \$4.4 billion recorded in 1969, while gross assets rose by an unprecedented \$3.6 billion, compared with the previous record increase of \$2.9 billion, which occurred in 1970.

The term balance of international indebtedness is used here, in a balance of payments context, to include equity investment and contractual borrowing. It is determined by offsetting Canada's outstanding claims against other countries with the outstanding obligations of Canadians to other countries. The totals of international claims and obligations which have been acquired over the years, arising from capital transactions and other factors, constitute the international assets and liabilities determining a country's international investment position.

During the period for which regular official estimates have been published, from 1926 to 1973, Canada's gross external liabilities rose on average at an annual compound rate of 5% compared with a corresponding growth rate of over 7% in gross external assets. The overall increase in net international indebtedness from \$5.1 billion to \$32.3 billion is equivalent to an average annual rate of 4%.