

included the Canadian chartered bank's foreign currency operations with non-residents, which produced a net inflow of nearly \$1.4 billion. Canadian dollar deposits by non-residents also increased, giving rise to a net inflow of \$225 million. In addition, there were inflows of funds through the Canadian money market, amounting to \$422 million.

These inflows were more than offset, however, by changes in Canadian non-bank holdings of short-term funds abroad and by other short-term capital transactions. Canadian non-bank holdings of short-term funds abroad, mainly in the form of foreign bank deposits, gave rise to a net outflow of almost \$500 million during the year, while other short-term capital transactions resulted in an outflow of nearly \$3.2 billion. Other short-term capital transactions, the residual category of capital movements, contains the balancing item representing unidentified transactions in the balance of payments. The balancing item characteristically increases during periods of currency speculation, such as occurred during 1977 when the Canadian dollar came under consistent downward pressure. It was the largest component among other short-term capital transactions, consisting of estimated debit entries of approximately \$2.3 billion in the year.

### Official international monetary assets and liabilities

#### 21.4.3

Excluding valuation adjustments, Canada's net official monetary assets declined by \$1.4 billion in 1977. By the end of the year the level of Canada's official international reserves stood at \$5 billion, equivalent to US\$4.6 billion, the lowest level since 1970. Valuation adjustments raised the value of the reserves by \$567 million. These adjustments represent the effect on the Canadian dollar value of the reserves of the depreciation of the Canadian dollar against other currencies and the Special Drawing Right (SDR), and the revaluation to market prices of gold transferred between the mint and the exchange fund account.

During the year there were decreases of \$1.2 billion in holdings of foreign currencies (mainly US dollars), of \$143 million in the Canadian position at the International Monetary Fund and of \$80 million in holdings of SDRs, and an increase of \$9 million in holdings of gold.

During the year, the Canadian dollar came under downward pressure in foreign exchange markets. It depreciated by US 7.72 cents during the year, closing at US 91.4 cents. The decline in the Canadian dollar started in the fourth quarter of 1976. It drifted downward throughout the year, interspersed by periods of stability and some slight appreciation, which in December more than offset the decline of the previous month. The Canadian dollar reached a low for the year of US 89.63 cents in October, the lowest level since September 1939, when it was US 89.29 cents. On a trade-weighted basis the Canadian dollar declined 9.4% during the year compared with 7.8% against the US dollar, reflecting the general depreciation of that currency against most other currencies. In response to pressure on the Canadian dollar, the government announced in October the establishment of a standby credit facility with the Canadian chartered banks under which the government could borrow up to US\$1.5 billion. This facility was arranged to permit the exchange fund account to replenish its holdings of US dollars if and when circumstances required and was in addition to existing lines of credit, such as a swap facility for US\$2 billion with the Federal Reserve System of the United States. By the end of the year no drawings had been made.

### Foreign exchange

#### 21.4.4

The dollar was established as the official currency of the united provinces of Canada on January 1, 1858, and extended to cover the new dominion by the Uniform Currency Act of 1870. The gold sovereign remained the standard for the Canadian dollar until 1910 when the currency was defined in terms of fine gold, making it the exact gold equivalent of the United States dollar. Both British and US gold coins, however, were legal tender in Canada during this period.

The 1870 act defined the Canadian dollar as 15/73 of the British gold sovereign, that is, the par rate of exchange between the dollar and the pound sterling was fixed at \$4.866, making the Canadian currency the equivalent of the US dollar at parity. With only minor variations the value of the pound sterling in Canada remained at this level until 1914.