

For a complete description of the fluctuations between Canadian and US dollars up to 1950 see the *Canada Year Book 1972* pp 1252-1254.

In September 1950, the finance minister announced that official fixed foreign exchange rates which had been in effect at varying levels since 1939 would be withdrawn in October and that the rate would henceforth be determined in the market for foreign exchange. This policy was carried out within the framework of exchange control until December 1951, when the foreign exchange control regulations were revoked by the Governor-in-Council, terminating the period of exchange control that had prevailed in Canada since 1939. The Foreign Exchange Control Act was repealed in 1952. In May 1962 the finance minister announced that the Canadian dollar was being stabilized at a fixed par value of 92.5 cents in terms of United States currency. This action was taken with the concurrence of the International Monetary Fund (IMF) and, in accordance with the articles of agreement of that organization, the Government of Canada undertook to maintain the Canadian exchange rate within a margin of 1% on either side of the established par value.

In May 1970, the federal government 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 1970 to December 1977 are shown in Table 21.35 while Table 21.36 gives the value of the Canadian dollar in US funds and major overseas currencies. Details of Canada's official international reserves in US dollars are presented in Table 21.30.

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 1975 a current account deficit of \$4.8 billion was registered followed by deficits of \$4.2 billion in 1976 and 1977. 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 stimulated production, earnings and employment.

Preliminary estimates produced on the basis of available data indicate that Canada's net indebtedness to other countries reached a book value of over \$53.5 billion at the end of 1977. Canadian long-term investment abroad increased by some \$3 to \$27 billion. The major elements in this increase were outflows of long-term direct investment capital, reinvested earnings accruing to Canadians from their investments abroad and export credits. With the inclusion of short-term claims on non-residents, the total of Canada's external assets amounted to over \$52.5 billion. Decreases in Canada's net official monetary assets and other short-term holdings of foreign exchange were more than offset by an increase in other short-term receivables.

Long-term foreign investment in Canada at \$89 billion had increased by some \$9 billion, reflecting predominantly an inflow of long-term portfolio capital and an increase in earnings accruing to non-residents. Net sales of government bonds were sizable though not as large as the record level registered in 1976. Other long-term liabilities including non-resident equity in Canada's assets abroad brought the total of long-term liabilities to about \$94 billion. With the addition of various short-term claims Canada's external liabilities to non-residents exceeded \$100 billion for the first time — some \$106 billion at year-end 1977.

Canada's balance of international indebtedness rose by \$7 billion to \$42.3 billion at the end of 1975, the last year for which full estimates are available, almost double the growth of \$3.6 billion in 1974. The balance of international indebtedness represents the amount by which Canada's outstanding liabilities or obligations to other countries exceed Canada's assets or claims against other countries. Following increases of 11% and 7% in 1974 and 1973 respectively, net indebtedness expanded sharply by 20%. At year-end 1975 Canada's gross liabilities, the amount owing to other countries in long-term and short-term forms, stood at \$82.8 billion, an increase of 14% over 1974. This