

exchange of oil between Canada and the United States. Exports under these arrangements were up by 44% from 1978. In 1979, the volume of conventionally licensed exports declined by 11%, reflecting further reductions in export allocations for light crude oil and condensate exports. Natural gas exports increased by \$857 million as both prices and volumes rose in 1979. The total increase in exports of energy materials amounted to \$3.4 billion, equivalent to more than a quarter of the total increase in merchandise exports. Other significant increases were recorded for exports of wood pulp, wheat and other grains, lumber, iron ore, chemicals and aircraft engines and parts.

Exports of automotive products fell by \$578 million while imports rose by \$1.8 billion causing Canada's automotive trade deficit to expand to \$3.0 billion. Crude petroleum imports increased by \$1.1 billion to a level of \$4.6 billion. Imports of crude petroleum from the United States under exchange agreements more than doubled in value to \$1.2 billion. The deficit on trade in crude petroleum remained practically unchanged at \$2.0 billion. Other important increases were recorded for imports of precious metals, iron and steel, aircraft engines and parts, telecommunications and related equipment, and tractors.

The deficit on non-merchandise transactions rose by a moderate 4% to \$9.0 billion. Net service payments, however, expanded by 10% to \$9.6 billion while net inflows of unilateral transfers jumped to \$620 million from only \$43 million in 1978. Net interest and dividend payments advanced by almost a fifth to \$5.2 billion. Interest receipts which came mainly from earnings on Canadian official monetary reserves, were up only slightly in 1979 to \$230 million. Interest payments rose by \$529 million to \$3.9 billion due mainly to the servicing of the large foreign debt incurred by the provinces and their agencies. Dividend payments were up by 12% to \$2.3 billion despite unusually high payments in 1978 due to a number of companies availing themselves of the opportunity to distribute to shareholders tax-paid surplus accumulated prior to 1972, before tax regulations pertaining to such distributions were changed effective from the end of 1978. Increased outflows of miscellaneous income transactions (covering income on short-term and miscellaneous long-term investments and all services associated with international banking and insurance operations) caused the deficit on "other service" transactions to expand by more than a quarter to \$2.7 billion.

A deficit of \$1.1 billion was recorded on international travel transactions compared to a \$1.7 billion deficit in 1978. Travel receipts rose by a fifth to \$2.9 billion while payments fell slightly to \$4.0 billion. In volume terms the number of Canadian travellers fell by almost 8% to 36.1 million compared to virtually no change in the number of overseas travellers at 33.2 million. The large increase in the surplus recorded on unilateral transfer transactions was almost entirely due to a sharp drop in the amount of Canada's official contributions which were unusually high in 1978 due to the forgiveness of loans to a number of developing countries.

#### 23.4.2 Capital account

Capital movements during 1979 resulted in a net inflow of \$11.1 billion comprising a long-term net inflow of \$3.2 billion on a short-term net inflow of \$7.9 billion. The first allocation of Special Drawing Rights (SDRs) by the International Monetary Fund since 1972 produced \$219 million while the balancing item was equivalent to a net outflow of \$4,402 million. The overall surplus led to an increase in net reserve assets of \$1,919 million.

Following the relative stability of the Canadian dollar during 1979, the Government of Canada was able to repay \$1.2 billion of its borrowing in foreign currencies. This represents a substantial shift from 1978 when \$5.6 billion was borrowed. The flows of funds associated with these borrowings are reflected in several accounts of the balance of payments.

Foreign direct investment in Canada produced a net inflow of \$735 million, a substantial turnaround from the net outflow of \$125 million in 1978 and represented the highest annual net inflow since 1974. The 1979 net inflow was composed of a net inflow of \$818 million related to capital formation and working capital requirements and a net outflow of \$83 million attributable to repatriations and other special transactions. The latter figure conceals the spurt of takeover activity which continued to prevail, with