

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 US 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.

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In October 1950 official fixed foreign exchange rates which had been in effect at varying levels since 1939 were withdrawn and the rate was then determined within the framework of exchange control. In December 1951 the foreign exchange control regulations were revoked by the Governor-in-Council, ending 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 The Foreign Exchange Control Act was repealed in 1952.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 Canadian dollar was stabilized at a fixed par value of 92.5 cents in terms of US 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 1973 to December 1979 are shown in Table 23.39 while Table 23.40 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 23.34.

During 1979, the value of the Canadian dollar stabilized somewhat against the US dollar. The declining trend prevailing since the end of 1976 bottomed out in February with the Canadian dollar reaching 83.20 US cents, its lowest level since April 1933. It rallied dramatically in March reaching a high of 87.78 US cents and drifted downward, thereafter, closing the year 1.39 US cents higher than at the end of 1978. On a trade-weighted average, similarly, the Canadian dollar depreciated in the first two months of 1979, recovered temporarily in March and April, then continued to depreciate to close the year at virtually the same level as that prevailing at the end of 1978.

23.6 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. Sizable current account deficits have been registered in recent years with deficits of over \$5 billion being registered in 1978 and 1979. 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 \$69 billion at the end of 1979, up from \$61 billion in the preceding year. Canadian long-term investment abroad increased to \$37 billion with direct portfolio investment abroad accounting for almost 70% of the growth. 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 \$66 billion. The accumulated balance of net errors and omissions, which was in a debit position, contributed significantly to the growth in short-