

The remaining capital movements in long-term forms, which include bank and other long-term loans, mortgage investments and movements of insurance funds led to a net inflow of \$171 million, down from a 1972 net inflow of \$198 million.

Transactions of the Canadian chartered banks in foreign currency assets and liabilities with non-residents (including foreign branches) resulted in a net outflow of \$343 million, a swing of \$980 million from a net inflow of \$637 million during 1972. Changes in non-bank holdings of foreign currencies led to a net outflow for the year of \$214 million, an increase of \$43 million from a net outflow of \$171 million during 1972.

Transactions in non-resident holdings of Canadian dollar deposits led to a net inflow of \$159 million, up \$23 million from 1972. An increase in holdings by international agencies of government demand liabilities in the form of non-interest bearing, non-negotiable notes, led to a net inflow of \$63 million during 1973, up from \$27 million during the previous year. These notes are issued as part of Government of Canada loans and subscriptions.

In 1973 trading in money market instruments, including treasury bills, led to a net capital inflow of \$115 million, a \$278 million change from a 1972 net outflow of \$163 million. Gross transactions during the year were almost double those of 1972. Transactions in Canadian money market paper are almost exclusively with the United States. A major factor in increased non-resident holdings and activity in Canadian short-term paper was the very substantial covered interest rate differential between Canada and the United States in favour of net sales of Canadian instruments which prevailed during the year, particularly during the last three quarters. The net flows are also influenced by domestic monetary considerations and during certain periods when there is a large amount of overnight banking of paper inventories and buy-back selling, the recorded movements can be quite erratic.

Transactions in other finance company obligations led to a net inflow of \$17 million, a swing of \$44 million from a 1972 net outflow of \$27 million.

All other short-term capital transactions resulted in a net capital outflow of \$498 million. This account includes the balancing item representing the difference between recorded measures of current, capital and reserve movements.

21.4.3 Official international monetary assets and liabilities

Canada's net official monetary assets totalled US\$5,768 million at December 31, 1973, a decrease of US\$282 million in the year. Balance of payments transactions led to a fall in reserves of US\$467 million which was partly offset by a US\$185 million revaluation of the stock of Canada's gold-based assets in October. (The increase in the price of monetary gold from US\$38 million to US\$42.22 per ounce although announced and made effective in February was not officially implemented until October.) These assets include gold, Special Drawing Rights and Canada's reserve position in the International Monetary Fund. Expressed in Canadian dollars, the net flow of funds to augment Canada's official reserves was \$467 million.

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, however, interrupted in 1970 and 1971 by current account surpluses. In addition to capital inflows, which are a counterpart to net deficits on the current account, undistributed earnings of foreign owned branches and subsidiaries have also been a significant factor. These two sources of funds have helped finance capital formation in Canada and contributed to the rapid growth in production, earnings and employment.

In 1970, the latest year for which complete data are available, Canada's balance of international indebtedness rose by \$400 million to a total of \$28.5 billion (Table 21.32), the smallest absolute increase recorded for any year since 1946. The balance of international indebtedness is a phrase generally accepted in balance of payments terminology to include equity investments as well as contractual borrowings. In 1970 this figure was made up of Canada's total external liabilities of about \$52.1 billion, of which some \$46.9 billion was in the form of long-term claims, and total Canadian assets abroad of about \$23.6 billion, of which slightly less than half was in long-term form.

21.5.1 External liabilities

At the end of 1970, Canada's gross external liabilities amounted to \$52.1 billion with non-resident-owned long-term investments in Canada reaching a book value of \$44 billion (Table