# Bank of Canada



Annual report of the Governor
to the Minister of Finance
and statement of accounts for the year

**1982**

CN ISSN 0067-3587

Banque du Canada
245, rue Sparks
Ottawa, Ontario
K1A 0G9

Imprimé au Canada

Bank of Canada · Banque du Canada Ottawa K1A 0G9

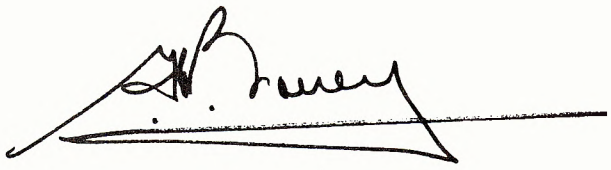
February 28, 1983

The Hon. Marc Lalonde, P.C.,
Minister of Finance,
O t t a w a .

Dear Mr. Lalonde,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1982 and a statement of the Bank's accounts for this period, signed and certified in the manner prescribed in the by-laws of the Bank.

Yours sincerely,



Governor

# BANK OF CANADA

## REPORT OF THE GOVERNOR – 1982

## General Observations

I regard my Annual Reports as opportunities to describe those current developments in the economic and financial life of the nation that we in the Bank consider to be of greatest consequence, what we believe to be the principal forces that are shaping events, how we have responded to the situation in our conduct of monetary policy and why we have judged that that response was in the national interest. In this Report I shall try to respond to the unusually lively discussion of these matters that is going on at the present time.

Canadians are well aware of the unwelcome features of the current economic scene. These features have been fully described by the news media and by a wide range of commentators; both employment and output in Canada are well below their earlier peaks, there is an extremely large amount of unemployment, many businesses have been forced into bankruptcy and the ability to survive of many others is threatened, and rates of both interest and inflation, while declining, are still high. The international economic environment has also been unfavourable in that the world is experiencing the deepest recession in the postwar period. Further details on these matters are included later in this Report. It is abundantly clear that the pain and distress felt by many Canadians is substantial and continuing. The disappointment and frustration with the current reality is the greater by virtue of the high expectations of increasing prosperity that many Canadians had come to count on. 1982 was certainly an unhappy year.

The problem is not ignorance of nor indifference to the sad facts of our economic condition. If descriptions of the situation, or expressions of dismay about it, would fix it up all would be well. But of course they won't. The problem of what to do about it remains.

Everyone interested must be impressed, and perhaps also distressed, by the wide range and contradictory character of the proposals advanced for resolving our economic problems. It is true that many proposals that sound like programs for action are really only statements of goals, not methods for attaining them. But among the proposals for specific actions there is no shortage of diversity. Some people advocate more monetary expansion and others warn against it; some want more fiscal stimulus and others are opposed; some want more direct regulations of one kind or another and others want more reliance on market processes; some want more power given to particular groups and some want less; some think that Canada should move in step with other nations and others think that we should act alone. And so on.

One healthy feature of the current debate is the general realization that Canada's economic problems did not arise overnight and cannot be resolved quickly. In matters of economic policy, viewing events within a fairly long time spectrum is the beginning of wisdom. Current economic difficulties can rarely be understood except within a historical context.

For much of the world the period from the end of the Second World War until

a few years ago was a golden era in economic matters. Probably never before in human history had the living conditions of so many people improved so rapidly. One of the contributing factors was the success of public policy in the major industrial countries in maintaining an environment favourable to economic growth. That policy arose from a strong commitment of governments to high levels of employment and output and involved a great readiness of governments and central banks to move quickly to stimulative fiscal and monetary policies whenever there were signs of economic recession.

That policy prescription worked well enough for long enough that it became the conventional wisdom in public economic management in many countries. Financial stimulation became the standard response whenever any economic clouds appeared. It was seen as the touchstone for sustained high levels of employment and output in market-oriented economies.

The events of the last dozen years or so have exposed some problems with this policy prescription. The principal difficulty with financial stimulation is that it is hard to get it right, and a persistent tendency towards overdoses has increasingly yielded cost and price inflation rather than an increase in employment and output. This was the principal cause of the worldwide surge of inflation in the early 1970s. Fears of recessionary influences of one kind or another led the authorities in many countries to follow financial policies that proved in the event to overstrain the effective capacity of their economic systems to generate additional employment and output. As a result their economies overheated badly, that is, they generated a lot of inflation. The process was strongly reinforced by the so-called first oil shock and by some other lesser shocks, and a massive worldwide inflationary surge erupted.

Since then another limitation on financial stimulation as an instrument of economic policy has become more and more evident. This is that its beneficial effects cannot be counted on in a society that lacks confidence in the future value of its national money. When people have expectations or fears of high or rising inflation they tend to see in stimulative financial policy evidence that their expectations or fears are warranted. The actions that they then take to protect themselves push up costs and prices (including interest rates) and reduce the benefits to employment and output that the financial stimulation was undertaken to achieve.

This is the quandary in which public financial policy now finds itself to a greater or lesser extent in all market-oriented societies. The more inflation a country has experienced in the recent past, the more fragile will public confidence likely be in the future value of that country's currency and the less effective will financial stimulation likely be in increasing employment and output rather than inflation. This limits the room for manoeuvre and is the reason why financial policy in most countries has been much more cautious in moving towards substantial economic stimulation in this recession than it was in earlier recessions.

One possible reaction to this argument is, of course, to say – so what? If some financial stimulation is dissipated in inflation some will not be, and the policy reaction ought to be to increase the dosage, not to back off. This is, of course, the argument that more inflation is a price worth paying for more employment. The trouble with that argument is that it is based on a false premise, namely, that societies have the option of buying employment with inflation. They do not, not more than very temporarily, not any longer. It was plausible that they did have that option when confidence in the future value of money was high but those days are past. When confidence in the future value of money is weak, what more inflation buys is yet more inflation. Any benefits to employment are of short duration.

This is little more than repeating what I have frequently said, that willingness to accept inflation is no solution to poor

economic performance. I am, of course, pleased that this view is widely shared, and for a time there seemed to be virtually no expression of the contrary opinion. But it has re-emerged to some extent in variants of the argument that "the cure is worse than the disease"; that fighting inflation is worse than having it. To argue this way is to misunderstand the disease. It is true that inflation seems benign in its early stages; as long as it is seen as accidental and temporary it induces a mood of prosperity and contributes to economic expansion. That happens as long as people do not act in anticipation of continuing inflation. But after inflation continues for a while its character changes. It becomes seen as endemic, people act in the expectation that it will continue, and it becomes self-reinforcing. That is when the real trouble starts. If inflation is not resisted, if it is accommodated, it will accelerate. If the process is allowed to continue the final phase is hyperinflation, or worthless money. To avoid that phase inflation must sooner or later be fought. Some "cure" cannot be avoided.

What I am saying in these remarks is that while the world's economic problems are more serious than they have been since the 1930s they cannot be resolved by the vigorous use of financial stimulation. The reason is that the earlier successes of financial stimulation led to an excessive use of it and generated the Great Inflation of the 1970s. Many of our current problems are the distortions generated by that inflation. We shall not be able to cure them by the policies that caused them. To make our market economies work well again and to foster international trade what we need is a strengthening of confidence in national currencies. Things will not go very well until we get it. Confidence in money was slow to ebb and should not be expected to recover quickly. This is not of course to deny any room for manoeuvre to either fiscal policy or monetary policy in any country in the period ahead. What it does mean is that overall financial policy must be, and must be seen by a skeptical public to be, consistent with a continuing movement towards cost and price stability. If it is not so seen, if it arouses increased fears of inflation, its economic effects will be perverse.

* * *

Since there is then no real alternative to resisting inflation it is constructive to accept that fact and go on from there. What one goes on to is the much more profitable question of the best means of resisting it.

The surest thing that can be said on how best to resist inflation is that an essential element is control of monetary expansion – of money creation. That is too incontrovertible to be worth debating. In the current debate it is not so much challenged as ignored. The institution charged with responsibility for the control of money creation in Canada is the Bank of Canada. We are frequently pressed by people to do things that would involve giving up control over money creation without any apparent recognition on their part that that is what they are really asking. We have, of course, to refuse.

I believe that the principal misunderstanding about central banking in Canada is that the Bank of Canada could achieve more or less immediately a low level of interest rates if it wanted to. This confusion seems to arise from the fact that the Bank is able to have an important influence on short-term interest rates within a limited range. It exerts this influence by varying the supply of reserves to the financial system, thereby affecting the borrowing and lending decisions of financial institutions. But this means of influencing interest rates, while powerful within a limited range, has perverse effects if the limits to its use are not respected. If the Bank were to try to force on to financial markets an interest rate structure that was seen by observers in Canada and abroad as likely to lead to an acceleration of inflation in Canada, there would be a rush to sell financial assets denominated in Canadian dollars. Even very high rates of monetary expansion could not

prevent market interest rates from shooting up. The Bank's initiative would have been wholly counterproductive.

The fact of the matter is that the conduct of monetary policy in Canada is a market exercise, and the Bank of Canada has far less power to reduce interest rates quickly than is frequently attributed to it. The principal power of the Bank to lower interest rates lies in its ability to contribute to a lower rate of inflation, and that takes time.

What is open for debate is the use made by the Bank of Canada of such room as is in fact available to it. The room for lower interest rates is, as I have said, always severely constrained by the current environment. Choices within this range are normally too limited to allow them to have major economic effects in the short run but they are of great consequence over the longer term. It is the cumulative effect of monetary policy over time that is most important. If over time the rate of monetary expansion is too low it will impede economic growth; if over time it is too high it will perpetuate inflation. That is the true nature of monetary policy.

The goal of the Bank for many years now has been to put moderate but continuous downward pressure on the rate of inflation in Canada. That is, of course, an intermediate goal; the ultimate goal is to encourage sustained economic prosperity.

The pursuit of that goal has required a slowing of the rate of monetary expansion in Canada from the excessive rate reached in the early 1970s. A number of difficulties have been encountered along the way. Monetary expansion is an analytic concept which, to be useful for policy, has to be applied to particular situations. A later section in this Report reviews the Bank's experience with the monetary aggregate known as M1 as a guide. What I want to say here is that the withdrawal by the Bank last November of its target range for M1 growth did not reflect any basic change in its approach to monetary policy. What it reflected was that M1 had become an unsuitable aggregate to use in expressing targets because its relationship to interest rates and total spending was no longer sufficiently reliable for that purpose. We have not yet succeeded in finding another aggregate that is suitable for target-setting. This affects the way of describing our policy but not the policy itself. We continue to believe that monetary policy must move towards a trend of monetary expansion that will permit economic growth without inflation. With careful interpretation the aggregates that are available provide a basis for judging the trend.

Another difficulty that the Bank of Canada has had in the implementation of its policy of putting anti-inflationary pressure on the Canadian economy has had to do with the degree and the stability of that pressure. In order to minimize the economic strain involved in moving towards monetary stability the Bank wanted to offer no more restraint than was necessary to do the job over a period of years. How much restraint would be necessary could not be foretold with assurance because of the limited knowledge of how the Canadian economy would react. It is now clear that the Canadian economy has shown strong resistance to becoming less inflationary. I shall return to this matter later in these remarks.

The degree of anti-inflationary pressure on the Canadian economy has been quite uneven over the past several years, having been rather mild in the later 1970s and having become very strong so far in the 1980s. This sequence was due to a considerable extent to the sharp tightening in monetary policy in the United States in the autumn of 1979 and the associated sharp increase in interest rates in that country.

It seems to be a persistent faith of some Canadians that it should be possible to manage economic affairs in this country with little regard to what is happening in the United States. Given the high degree of interconnection and interdependence between the two economies this is not possible. For it to become possible these links would have to be broken by restrictions on trade and payments. The economic cost to

Canada of breaking the links would be so great that it is hard to imagine anyone proposing it seriously. Canada is among the countries in the world that benefit most from economic interdependence.

It is sometimes argued that a country like Canada can enjoy at the same time a high degree of interdependence in trade and a high degree of independence in economic policy simply by letting its exchange rate move around freely in response to exchange market pressures. This argument attracted a lot of support in the 1960s, and high hopes were entertained in many quarters about the advantages that would accrue to trading nations from the flexible exchange rate system that the world moved to in the 1970s. It has not worked out quite that way. There has indeed been a great deal of exchange rate movement of the currencies of the world's major trading nations, but what now attracts most attention is the disruptive effects of this movement on national economic policies and on international trade. There is growing recognition of the need for more harmonization of national economic policies, including the mix of fiscal and monetary policy, in order to stabilize exchange rates.

The economic argument for as much stability of exchange rates as is practical is easy to understand. For countries that are much involved in international trade their exchange rate is, by definition, a very important price. It can quite reasonably be said that for Canada the exchange rate of our currency vis-à-vis the U.S. dollar is the most important single price in the economy. It has a profound effect directly or indirectly on the whole structure of prices throughout Canada. To have such an important price swinging around widely would be about as disruptive an influence on the evolution of Canadian economic affairs as one could imagine.

The case for as much exchange rate stability as is practical is not a case for stability at an inappropriate level. The difficult question here is – how does one know whether an exchange rate is appropriate or inappropriate? Different groups in the economy have different interests in the exchange rate and some of them are conflicting; the clearest example is the conflicting interest of producers of exports and consumers of imports. A balance must be struck between the public interest in having the country's export industries reasonably competitive in foreign markets and the public interest in protecting the domestic cost and price structure from being driven up by exchange rate depreciation. Some people seem to think that this balance has not been properly struck in Canada in recent years, that monetary policy has been too protective of the exchange rate. This is a rather surprising view in the light of the extent and rate at which the Canadian dollar has depreciated in the last half-dozen years. If exchange rate depreciation is of such economic benefit, one might ask, why have things not gone better in Canada? A major reason is that the exchange rate depreciation was accompanied by a high rate of inflation. To that extent the exchange depreciation has been an exercise in frustration; nobody got what he wanted.

* * *

The events of 1982 have thrown into stark relief the world's heritage of problems from the inflationary surge of the 1970s. Most countries have many difficult situations that must be adjusted or somehow digested as the world recovers from inflation. The transition is proving to be painful everywhere but nowhere is it more so than in the so-called third world, the developing countries.

Their situations have been highlighted by the attention that has recently been drawn to their problems in managing the vast international debt that they have accumulated, much of it quite recently. A brief description of the origins and nature of that problem appears later in this Report. It notes the participation of the Bank of Canada for Canada in a number of international financial initiatives taken recently to

help to deal with this problem. Many further international initiatives of one kind or another may be required in the years ahead because the problem is serious and is far from resolved. What I want to say about it here is that the nature of the problem is well understood and that I am confident that those involved will face up to doing what may be required.

Another part of this Report describes the process of economic adjustment in Canada during our recovery from inflation. I have already referred to the fact that our economic system has exhibited stubborn resistance to a reduction in the rate of cost and price inflation. Why has the resistance been so stubborn?

Let me say first of all that I doubt that anybody is able to give a definitive answer to this question. It involves an aspect of the functioning of Canadian society that has received far too little consideration. I would welcome such attention as the newly appointed Royal Commission on the Economic Union and Development Prospects for Canada may find it possible to give to it. I think it likely that a thorough examination of the question would point to policy initiatives of one kind and another that would improve appreciably the prospects for employment and output in Canada.

What has been underway in Canada for some years is an effort to reduce inflation by financial restraint working through market forces. There is nothing novel in this. We are a market-oriented society; we get inflation through market forces when financial conditions are too lax; we have reduced inflation before by financial restraint working through market processes; we have enjoyed on occasion quite long periods of prosperity without significant inflation through the use of market forces to keep the situation in suitable balance.

The cost involved in reducing inflation through market forces depends upon how flexibly costs and prices respond to market pressure. If the response is very flexible, weaker markets will lead to a rapid moderation of the trend of labour costs, of other costs and of profits and thus to a rapid moderation in the trend of prices. In that case the process will involve little disruption of production and little change in income shares unless developments in external markets complicate the adjustment.

To the extent, however, that participants in the economic process do not respond in this way the process becomes more disruptive. Market pressure gets translated into lower employment and production rather than lower inflation.

In Canada the response has been distressingly slow. Profits have declined very sharply but salary and wage costs were slow to show a significant moderation in trend. The explanation of this must lie at least in part in the existence of arrangements which have offset the market pressures. This in turn has increased the degree of market pressure needed to reduce inflation and has increased the loss of employment and output involved in the process.

There are a wide variety of arrangements, both private and public, that appear to have contributed to this result. What they have in common is that they reduce the competition in labour or product markets. The point in looking carefully at them would be to see whether they are compatible with the national interest. If they are, then their cost in terms of lower employment and output should be accepted without complaint. If they are not, better arrangements should be devised. We should rid ourselves of the comfortable illusion that there is some use of monetary and fiscal policy that can coax high employment and efficient production from the economy no matter what policies or practices are followed in other respects. We should look more searchingly at the consequences of those other policies and practices to see if we want to accept them.

The Government of Canada's program of "6 and 5" and the comparable provincial programs are initiatives to speed up the response of costs and prices to the present anti-inflationary climate. They work by overriding temporarily other

arrangements that exist for determining certain costs and prices. I believe that these initiatives are helping in the transition to a less inflationary economy.

* * *

These remarks, like most of what one reads these days on economic matters, are full of references to problems. There is no shortage of problems to talk about. But a balanced view of the economic scene at home and abroad would take note of some positive aspects. The main ones are that the world economy is recovering from inflation, that the economic recession involved in the process does not seem likely to be more severe than it now is, that the economic dynamics of the situation are increasingly favourable to economic recovery, and that some early and tentative signs of recovery are beginning to appear.

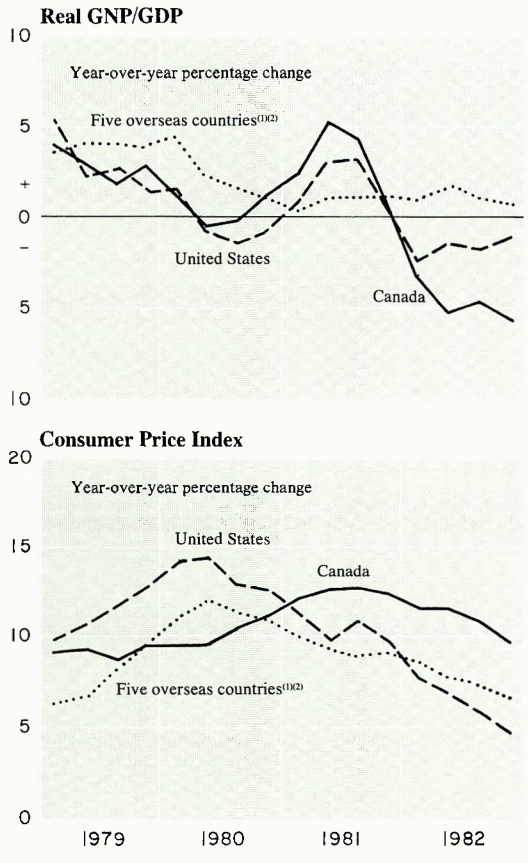
What to me is clearest and most reassuring about the current economic scene is that Canada and a number of other countries are working off the inflation-induced excesses of the 1970s. That had to happen and it was bound to be painful; the good news is that we are getting through that transition. Our progress shows up clearly in the trend of costs and prices; the rate of inflation has slowed markedly and is continuing to decline. Our progress also shows up in interest rates; they are declining as the rate of inflation declines. But the transition we are accomplishing is more fundamental than that; it is a change in attitude to the economic process. Dispositions to believe in the easy availability of rapidly growing incomes are being shattered by the hard facts of economics, namely, that rising incomes have to be earned by efficient production. There is much more realism in economic decision-making in Canada today than there has been for quite a while. That is the foundation for our improving economic prospects. That is the surest basis for confidence in our economic future.

# Economic Activity and Inflation

The Canadian economy suffered a steep decline in output and sharply rising unemployment in 1982. Inflation continued to decelerate. Similar circumstances were faced by other major industrialized countries, though output declines elsewhere were smaller on average than in Canada and the downturn in inflation came earlier.

Underlying the pattern of world economic developments in the past year has been the continuing process of adjustment to lower levels of inflation which began in 1979 with the adoption in most major industrial countries of policies of greater financial restraint. The earlier persistent upward ratcheting of cost and price pressures, in a climate where the determination of financial policies to resist inflation often appeared uncertain, had greatly increased inflationary expectations. By 1979 there were mounting signs that expectations of accelerating inflation were becoming self-fulfilling. In response to such pressures, interest rates rose appreciably in most industrial countries in 1979 while fiscal policies also were tightened. The resulting process of adjustment to less inflationary conditions has been unfolding since, though in various ways and at various speeds in different countries.

**International Comparisons**




(1)Japan, Germany, France, United Kingdom, Italy
(2)1981 GNP/GDP weights

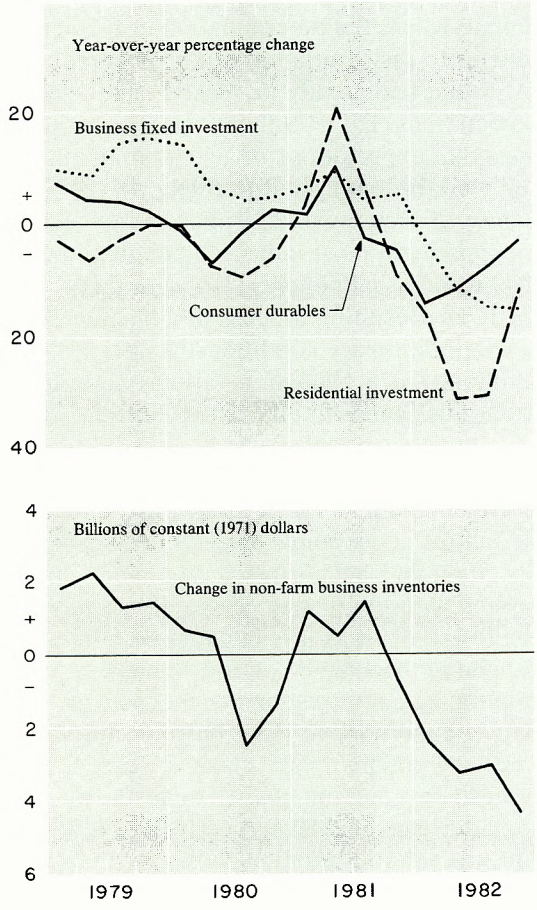
In Canada there was a surge of demand and inflationary pressures between mid-1980 and mid-1981. Partly in reaction, the fall-off in economic activity in Canada since then has been sharp, certainly in comparison with the United States where economic activity was less buoyant than in Canada in the 1980-81 period. Canadian inflation began to respond to the weaker market conditions in 1981, but the shift was relatively gradual, particularly in respect of domestic production costs. However, by the latter part of 1982 and early 1983 inflation was running appreciably below the pace of a year earlier.

## Economic Activity

As inflation accelerated and interest rates rose through the second half of 1979, economic activity in Canada began to slacken. However, in mid-1980 real outlays began to rise again and by the second quarter of 1981 Gross National Expenditure in volume terms was some 5½ per cent above the level seen a year earlier. The remarkable

feature of this surge in spending – GNE in current dollars rose by more than 15 per cent over the period from mid-1980 to mid-1981 – was that it persisted strongly well into 1981 in the face of sharp increases in interest rates. Underlying such behaviour seems to have been a belief that very high rates of inflation would continue on for some time.

**Selected Real Expenditure Components**

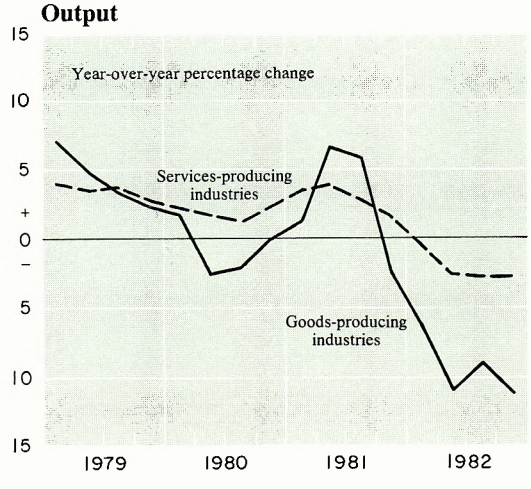



The severe recession in Canada, a decline in economic activity of about 7 per cent from the peak in mid-1981, has been in part a direct consequence of depressed economic conditions elsewhere. There was a substantial drop in the demand for many Canadian exports, in particular metals, forest products, and manufactured goods other than autos. At the same time, however, the volume of spending within Canada has been still weaker than in export markets. The discretionary outlays of consumers on such items as automobiles and household furnishings have been particularly low, as has spending on new housing. Housing starts declined steeply until the latter part of 1982. More recently they have been rising again in response to an easing of mortgage costs reflecting both lower interest rates and reductions in house prices, as well as government programs.

The reaction of business has broadly paralleled that of consumers. In the face of weak markets, declining profits and deteriorating balance sheets producers and distributors have become more cautious. As a consequence business inventories have fallen steadily for over a year. Spending on plant and equipment also declined sharply over virtually the whole period. Besides the impact of general economic conditions a special element was the suspension of a number of large-scale investment projects whose viability depended on a continuation of high and rising energy prices.

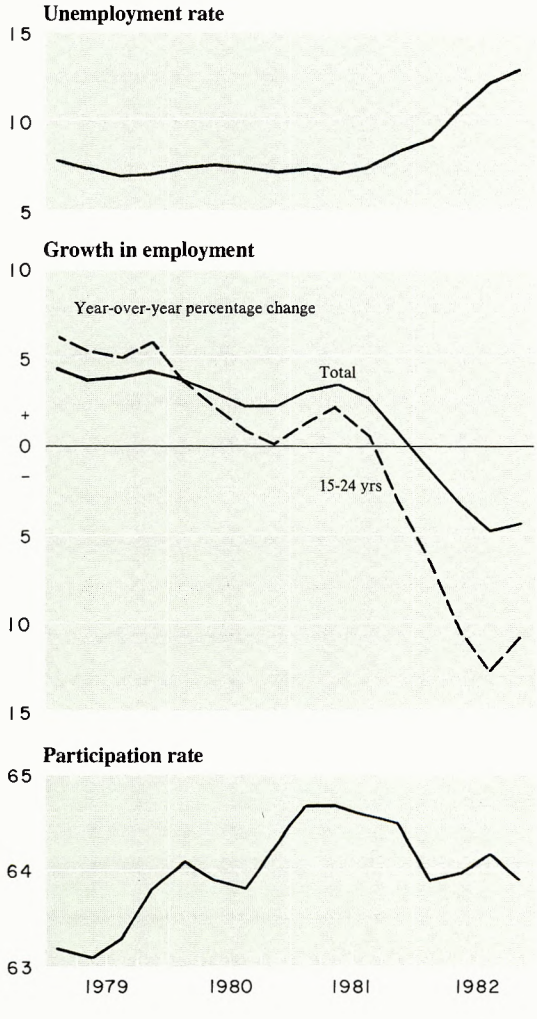
The slowing in demand after mid-1981 was soon reflected in output. As is usual goods-producing industries were most sharply affected but activity in the service sector also weakened as time went on. The fall in employment in the six quarters to the end of 1982 amounted to 5 per cent and, be-

**Output**



cause of the particular weakness of goods-producing industries, adult male workers were affected much more than females. Youth employment was affected more than either of the other two categories. As is typical in most economic downturns the initial reaction of employers was to cut back

**Selected Labour Market Indicators**

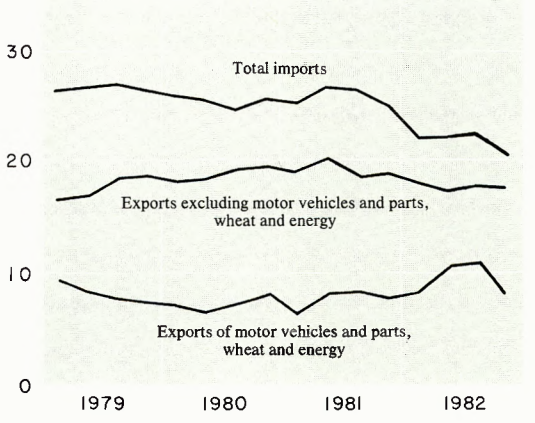



new hirings. As is also to be anticipated in a recession, the participation rate, the proportion of the working age population working or seeking work, has fallen since the downturn began. Nevertheless the unemployment rate has risen sharply, from 7 per cent in August 1981 to over 12 per cent more recently. All regions have been affected. In broad terms the difficulties of the central provinces have been more closely linked to the weakness in manufacturing, whereas the East and West are suffering more from declines in the external demand for resource-based goods that have shown up in both reduced volumes and lower prices.

An element of considerable resilience in Canada's economic performance has been its external trade. The surplus on merchandise trade reached a new record level and the current account moved in 1982 from a deficit to a sizeable surplus approaching

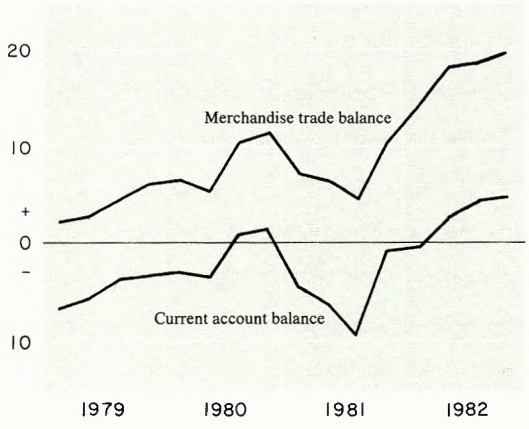
**Volume of Trade Flows**

Seasonally adjusted at annual rates – Billions of constant (1971) dollars




**Current Account of the Balance of Payments**

Seasonally adjusted at annual rates – Billions of dollars



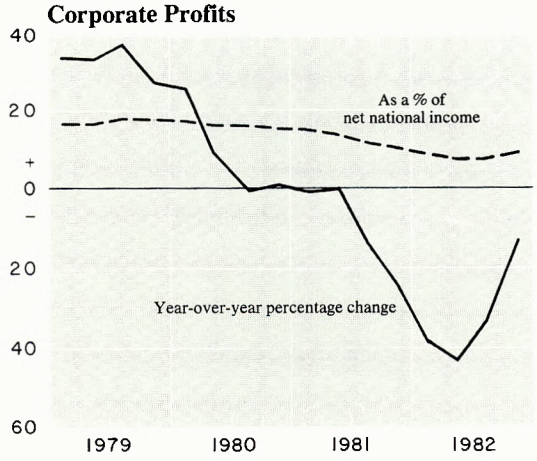
one per cent of GNE. However, it is evident upon examination that much of the shift reflected the weakness in demand and activity. Imports fell sharply under the impetus of the slide in domestic demand. As already noted markets were poor for a wide range of Canadian export products. However, for total merchandise exports, which held up quite well, the declines in these areas were largely offset by increases in exports of automobile products, energy and wheat.

## Cost and Price Inflation

The inflationary momentum that had built up in Canada persisted strongly well into 1981. The rise in total wage costs per worker accelerated by about 2 percentage points to around 11 per cent by mid-1981. Furthermore, energy prices, responding to the earlier increases in OPEC prices, rose 30 per cent in the four quarters ended in mid-1981. The rate of increase of consumer prices rose from around 10 per cent in late 1979 to over 12½ per cent by mid-1981.

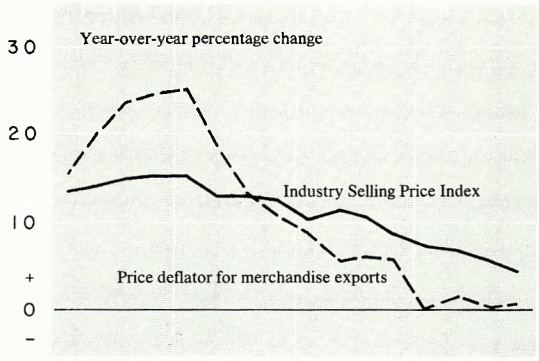
As the recession both deepened and lengthened domestic inflationary pressures began to moderate. Initially, the moderation showed mainly in prices, with an attendant strong downward impact on business profits, but more recently it has been apparent in domestic costs as well. The level of commodity prices, which had weakened earlier in response to world market

**Corporate Profits**

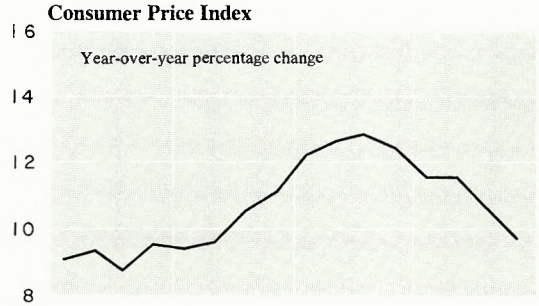



**Indicators of Prices and Costs**

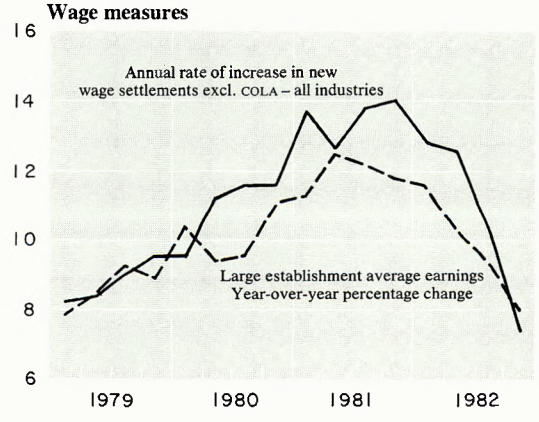
**Industry selling prices and price deflator for merchandise exports**




**Consumer Price Index**




**Wage measures**




conditions, continued to decline into the fall of 1982 while the rise in industry selling prices also continued to slow steadily. A similar pattern of deceleration has become increasingly apparent in recent quarters in consumer prices. Elements in the CPI that are more directly responsive to market forces have in fact been decelerating steadily since the first quarter of the recession, and this moderation has recently been

showing up in other areas of the CPI; in particular, the rise in energy prices has slowed considerably from the very rapid pace that characterized 1981 and the first part of 1982. Finally, as the year progressed there was also increased evidence of a marked slackening in the advance of domestic production costs. The rise in average earnings decelerated sharply through the year, and increases under newly negotiated wage settlements without cost-of-living adjustment (COLA) clauses fell to single-digit levels – well below those typical one year earlier. In the second half of 1982 there began to emerge indications of an improved productivity (output per worker) performance. Together with the moderation in money wages this improvement meant that the rise towards the end of 1982 in labour costs of production was less than it had been for many years.

* * *

There are strong crosscurrents at work in the Canadian economy at the present time. The momentum of domestic and external cyclical forces in train for a year and a half has brought about very low levels of economic activity and employment. The impact of these forces is still strongly felt across the Canadian economy, but there are also increasing indications of strengthening trends on the other side. In the United States the balance has tilted towards recovery, a development that is beginning to show up in some Canadian exports such as lumber. Within Canada signs of the adjustment necessary to lay the foundations for an improvement in economic activity are clearest in the shrinkage of business inventories to much lower, and trimmer, levels and the improved financial positions of households. Furthermore, Canadian inflation has moved down appreciably over the past several quarters, generating a much improved climate for the functioning of the economy over that which existed a year and a half ago at the peak of the last inflationary surge.

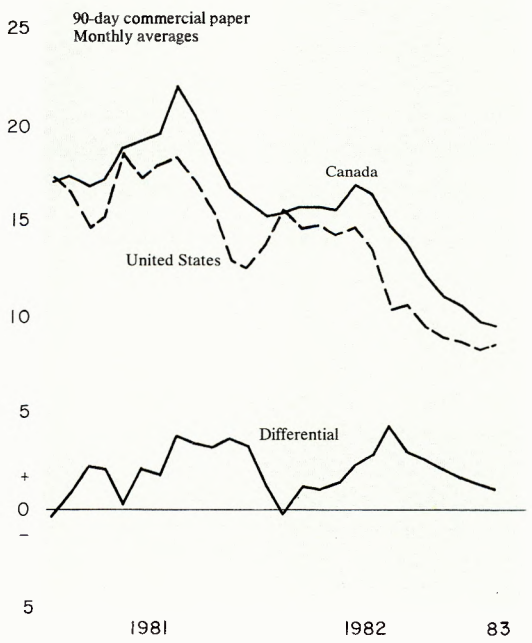
## Interest Rates in 1982

After having fallen sharply from their peaks in the summer of 1981 to very early in 1982, short-term interest rates in Canada increased on balance during the first half of 1982 but then declined sharply once again to the end of the year. At the beginning of 1983 these interest rates were around 10 per cent, less than half of what they had been at their peaks.

In Canada, as in the United States, the main reason for the fall in interest rates after mid-1981 was the change in the economic situation. The rate of growth of total spending in Canada declined sharply, first reflecting mainly a decline in economic activity and later also reflecting a considerable lessening of the rate of inflation of costs and prices. There was a related weakening in the demand for money and credit. The growth in demand for credit by the private sector of the Canadian economy fell much more sharply than the growth of total spending, partly because of the ebbing of the wave of business takeovers that had marked 1981.

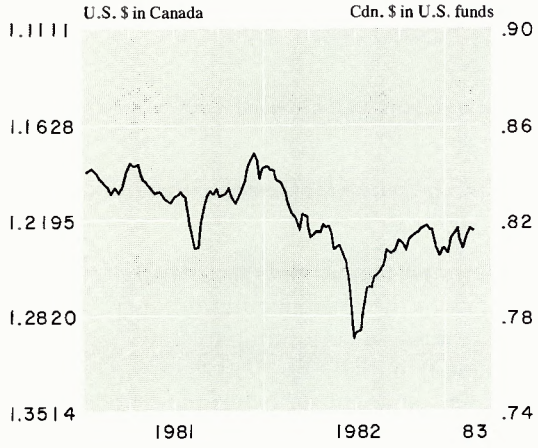
The temporary reversal of the downward movement of interest rates in Canada during the first half of 1982 followed a considerable increase in short-term interest rates in the United States early in the year. In view of the evidence that total spending in Canada was continuing to slow, the Bank of Canada initially resisted the upward pressure on Canadian short-term rates coming

**Canada-U.S. Short-Term Interest Rates**



from the United States in the expectation that the pressure would be short-lived, and the difference in the levels of such rates between the two countries temporarily disappeared. However U.S. interest rates did not decline much for some months, the rate of inflation in Canada was well above that in the United States and there was much less evidence of progress in reducing inflation in Canada than in the United States.

**Exchange Rate**



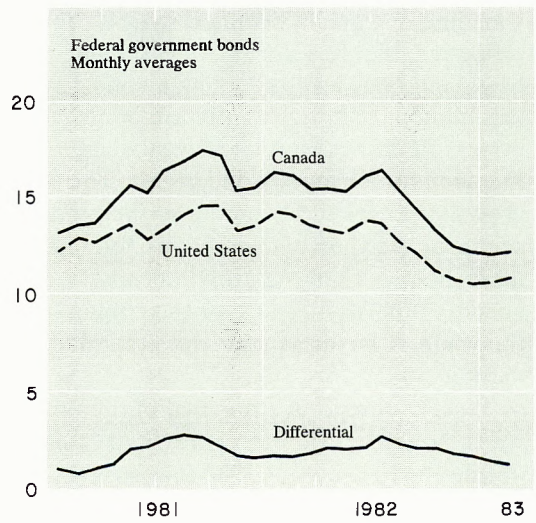

These circumstances, reinforced by uneasiness in some quarters about the degree of commitment of governments in Canada to anti-inflationary policies and by the cancellation of a number of large energy projects in Canada, led to an increasing erosion of confidence in the foreign exchange value of the Canadian dollar which finally pushed the value of our dollar to a record low of 76.8 U.S. cents at the close of the exchange market on June 22.

In order to prevent the increasing weakness of the Canadian dollar in the foreign exchange market from turning into a speculative rout, the Bank of Canada let the pressures for higher interest rates being generated by exchange market developments feed back on to the domestic money market. Increases in short-term market interest rates approaching 2 percentage points occurred before confidence in the Canadian dollar was restored in the exchange market. Prime lending rates at the chartered banks increased by 1¼ percentage points to 18¼ per cent during this period.

The rapid fall in U.S. short-term interest rates after mid-year helped to widen the difference between Canadian and U.S. rates and to restore confidence in the Canadian dollar. The anti-inflationary initiative taken by the Government in the June Budget worked in the same direction. The consequent recovery of the Canadian dollar gave rise to a strong downward movement in domestic short-term interest rates. The Bank of Canada moderated the speed of the decline because it believed that the trend to lower short-term interest rates would last longer and go farther if it did not give rise to renewed weakness of the Canadian dollar in foreign exchange markets or to concerns that the decline could not be justified in terms of improved inflation performance.

The decline in short-term rates in Canada over the second half of 1982 was somewhat smoother than in the United States, and the total decline over the second half of 1982 was somewhat larger. The differential with U.S. short-term rates narrowed from over 4 percentage points to about 1½ percentage points. Once again this differential became less than the difference between the inflation rates of the two

**Canada-U.S. Long-Term Interest Rates**



countries, but Canada's balance of payments situation had strengthened and the rate of inflation of costs and prices had been declining quite rapidly. From late August 1982 to early 1983 the exchange rate remained relatively stable in a range around 81 U.S. cents.

Over 1982 as a whole short-term market interest rates in Canada declined by about 5 percentage points to around 10 per cent. The prime lending rate at banks fell from 17¼ per cent near the end of 1981 to a range of 11½ – 11¼ per cent early in 1983. Over the same period mortgage rates fell from around 17½ per cent for a one-year term to 12 per cent or less.

In the case of long-term market interest rates the decline in 1982 was around 3½ percentage points; these rates, like short-term interest rates, had risen somewhat in the first half of the year and all of the decline took place in the second half. Again as with short-term rates, the differential between long-term market rates in Canada and the United States widened until July but narrowed thereafter.

## International Financial Problems

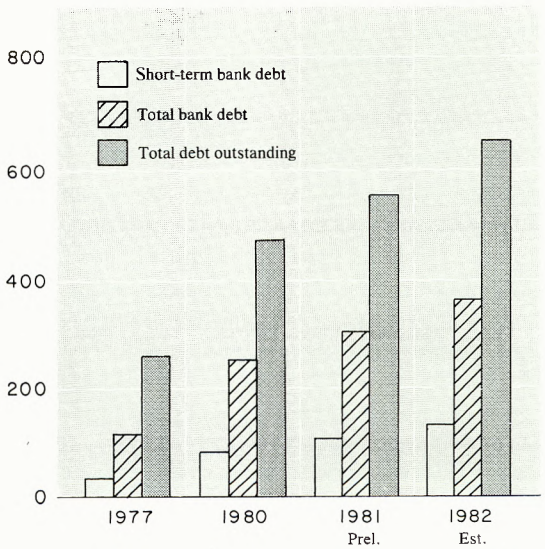
1982 was a year of dramatic developments on the international financial scene. External debt problems which had been building up over a number of years became immediate issues attracting worldwide attention and concern. This section reviews the background to these events and the efforts underway to deal with them.

The surge of indebtedness in the 1970s reflects two main factors: the immediate impact of the two oil price shocks of 1973 and 1979 and a climate of inflation and expectations of inflation. The direct aftermath of the oil shocks was sharp increases in the borrowing of many oil-importing countries. Furthermore, these shocks encouraged some nations with newly discovered oil resources to undertake ambitious development and spending plans that depended for their viability on a sustained rise in the price of oil. But underlying the surge of indebtedness was the broad inflationary experience, reinforced by interest rates that for an extended period were low in comparison with the rate of inflation.

In these circumstances borrowers had strong incentives to increase their use of international credit. At the same time many commercial banks, particularly those able to tap international capital markets, began to expand rapidly their international lending activities. With encouragement from the need to recycle the financial surpluses of OPEC countries, banks competed actively for the profitable business of supplying funds to debtor countries. One consequence was that the margins between the interest rates charged to borrowers by banks and the rates banks paid to depositors to attract sufficient funds stayed extremely narrow. These margins made little allowance for risk, in part reflecting the fact that the loans were often made to governments or guaranteed by them. With an increasing proportion of the credits being extended on floating-rate terms, debtors became increasingly exposed to shifts in credit conditions.

**Non-OPEC Developing Countries: Outstanding External Debt**

Billions of U.S. dollars, end of year




Source: Organization for Economic Cooperation and Development

So long as world inflation continued at a rapid pace most countries had little

difficulty both servicing and increasing their international indebtedness. However, following the further surge in inflation towards the end of the 1970s and the adoption by the industrial countries of policies of greater financial restraint the world environment changed. By 1982 debt loads had become very burdensome. Interest rates were above the general rate of inflation and for many commodities that are sold on international markets, including oil, both export prices and volumes had declined. Banks became increasingly concerned about their exposure levels in a number of developing countries whose debts had been rising particularly sharply. When, during the summer, lenders began to curtail the flow of new funds and became reluctant to roll over maturing short-term debt the effect was to expose in short order a series of country debt problems. These problems are not limited to any single geographical area, but they have been particularly pronounced in Latin America.

The international financial system has responded to these problems. The management of each new situation has generally included steps to ensure a program of economic adjustment so as to limit further increases in debt, a stretching out of payments for those private and public debts now falling due, and the provision of additional financing of a temporary or medium-term character to support the transition program. The typical response has involved multilateral arrangements although these have been supplemented in some instances with bilateral agreements.

The International Monetary Fund has played a central role. Net disbursements and commitments to developing countries had increased significantly in the preceding two years and they expanded further during 1982. But the importance of IMF operations goes beyond the amounts of IMF resources supplied. Much of the funding provided by the Fund is conditional on a country adopting and implementing an adjustment program, and in many instances agreement on a program with the IMF has been the key to additional resources from private and official lenders.

The timetable for increasing the Fund's resources has been speeded up. An increase of almost 50 per cent in the overall quotas of member countries has recently been negotiated and is awaiting individual country ratification. In addition, Canada and other leading industrial countries have negotiated a major restructuring of the General Arrangements to Borrow (GAB), tripling its size to approximately U.S.$19 billion and making GAB funds potentially available to all IMF members in the event of a financial need too large to be handled using the Fund's normal resources.

A number of official credits have been organized through the Bank for International Settlements. These could be marshalled more promptly than the financing available from the Fund and have had the character of short-term bridging finance to allow the borrowers to meet their financial obligations until a satisfactory package of medium-term financing could be put in place. These bridging loans have been provided mainly by the BIS but are backed by the participating central banks. The total value of the central bank bridging facilities arranged to date through or in parallel with the BIS has amounted to U.S.$4.3 billion. During 1982 the Bank of Canada, acting for Canada, participated in BIS credits to Mexico and Brazil. Its participation for these two countries combined amounted to U.S.$230 million.

The commercial banks have been actively engaged in international refinancing operations. These activities have included arrangements, in concert with the international financial agencies, for the rescheduling of maturing debt and arrears and for providing a steady flow, even if reduced, of new borrowing to the countries concerned. The larger Canadian banks, which traditionally have been active in international lending, have been important participants in this exercise.

## The Experience in Using Monetary Aggregates

The announcement by the Bank of Canada last November that it no longer has a specific target for the growth of the monetary aggregate M1 was interpreted in some quarters as indicating a fundamental change in the Bank's approach to monetary policy and in the current thrust of that policy. Neither is true. The decision was a purely practical one arising from the impact on M1 of recent major changes in the forms in which money balances are being held in Canada. This section provides a description of the Bank's experience with monetary aggregates as indicators of the rate of monetary expansion in the economy and as means for expressing targets for monetary policy.

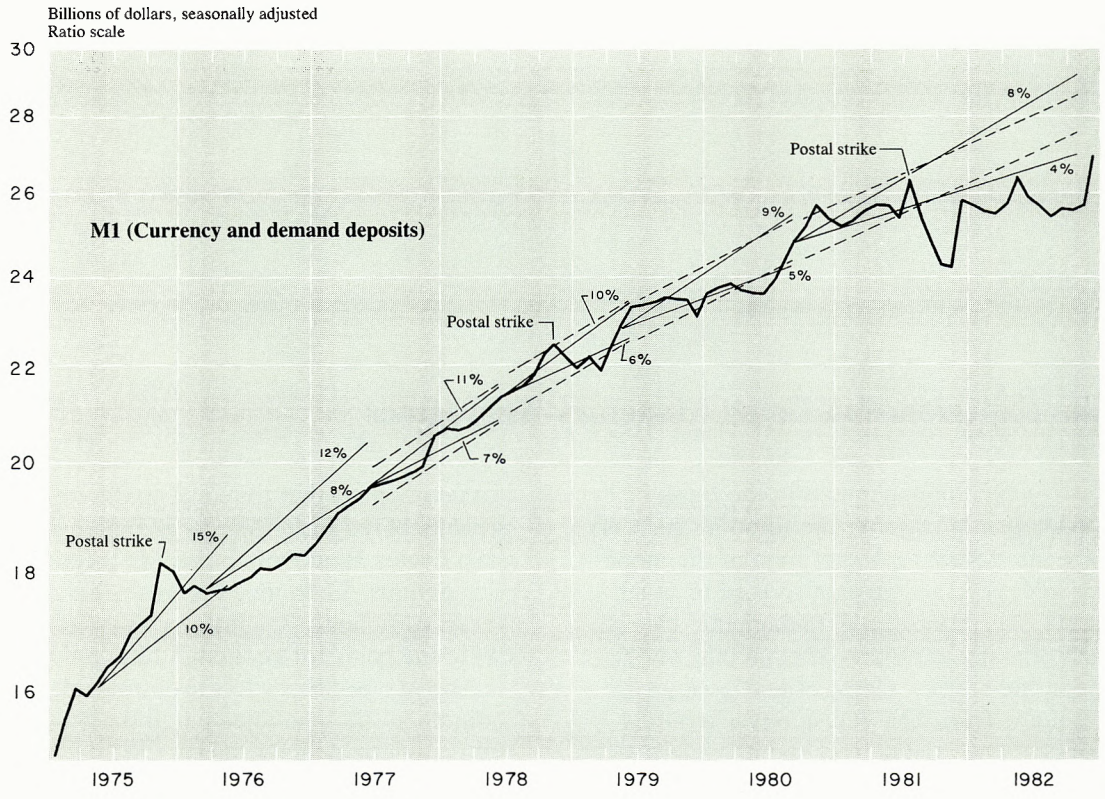
The Bank has long had an interest in making use of movements over time in the various definitions of the quantity of money held by Canadians as a source of guidance for monetary policy. Research work at the Bank on the practical usefulness of these alternative definitions of money holdings by the public increased at the time of the outbreak of inflation in 1973-74. Aided by an expanding body of economic analysis relating to the role of money in the economy, this research revealed a relationship between movements in a narrow measure of money and the behaviour of the economy that could be used to improve monetary policy.

A second aspect of the policy reassessment at that time had to do with the results of earlier efforts to eliminate short-run cycles in economic activity through policy actions. Economic forecasts had not been sufficiently accurate or reliable to provide the basis for economic fine-tuning. Because of a tendency to err on the side of stimulus, there had been an inflationary bias in economic policies during the late 1960s and early 1970s. The conclusion was that monetary policy would be better if it used a longer term horizon.

These changes in policy approach led the Bank of Canada in late 1975 to announce a specific target range for the growth of M1, that is, the total of currency and chartered bank demand deposits held by the public. The Bank said that it intended to lower that range gradually over time. Thereafter the targets were lowered on a more or less annual basis. The Bank hoped that this quantitative information about the orientation of monetary policy would influence economic decisions throughout the economy in a way that would minimize the disruption involved in reducing the rate of inflation. The target ranges also established a standard for gauging the performance of the Bank in carrying out monetary policy.

This emphasis on the achievement of targets for M1 did not require any change in the process used by the Bank to implement monetary policy on a day-to-day basis. That process involves the provision by the

**Target Growth Ranges for M1**




Bank of the cash reserves underlying the financial system, and adjustments to the supply of these reserves have an influence on short-term market interest rates. The daily operating decisions of the Bank have thus been seen as involving the question of what influence to exert on the path of such interest rates. Because of the sensitivity of M1 to short-term interest rates, its trend relative to the target became a source of guidance for the Bank in making these decisions.

From the outset the Bank was careful to check the signals for monetary policy coming from this indicator of monetary expansion with those coming from the analysis of other economic and financial information. There were many reasons for this. One was that the usefulness of M1 as a target depended upon the stability of its relationship to the trend of spending and interest rates in the economy, and it was not hard to imagine developments which could upset that stability. Changes in banking arrangements did in fact cause some slippage in the relationship during 1976-77 and again in 1980, and it became necessary to take these into account in setting subsequent M1 target ranges.

Another reason for checking M1 movements against other information was that M1 was not a good guide to the appropriate initial response of monetary policy to the inflationary shocks that the Canadian economy encountered from time to time. These typically resulted from downward pressures on the foreign exchange rate for the Canadian dollar. A sharp depreciation of the exchange rate would in due course generate a signal from M1 for higher interest rates, but only after the inflationary effects of the exchange rate change had worked through the economy. A more rapid response of interest rates was more consis-

tent with a monetary policy aimed at reducing inflation.

The Bank thus never regarded its M1 target system as some sort of automatic pilot for monetary policy. In the short run it was something to be taken into account along with other considerations. Over the longer term the target system served as a constant reminder of the need for a deceleration in the rate of monetary expansion over time if inflation was going to be brought down and as a check against cumulative error.

Over the past two years the relationship between M1 and economic developments has become so distorted that M1 can no longer be taken at its face value; it requires so much interpretation that it is, for the time being at any rate, no longer suitable for use as a monetary target. The combination of inflation, high interest rates, computer-based technology and competition among financial institutions has resulted in innovations in financial services that have permitted Canadians both to reduce appreciably the average size of balances they hold for making payments and to hold more of those balances in interest-earning forms not included in M1. Some examples will illustrate what has happened. Banks are now offering to an increasing number of business corporations the facilities for consolidating daily all the current account balances that a business may have throughout a city or across the country thereby enabling it to work with a lower average balance. In some cases, any surplus in the consolidated balance at the end of the day is automatically transferred on an overnight basis to an interest-earning account or to pay down the corporation's operating loan with the bank. Some businesses thus no longer hold any balance that would be recorded in M1. Under other arrangements the funds remain as a current account balance, and thus in M1, but earn a negotiated rate of return either in interest or in an offset against bank service charges.

Comparable changes have taken place in the facilities available to individuals. The introduction by banks in late 1979 of savings accounts that pay interest calculated on daily balances rather than on the minimum monthly balance has provided an increased incentive for individuals to transfer to these accounts any surpluses which arise, however briefly, in their non-interest-earning personal chequing accounts. As a result the average balances kept in the personal chequing account component of M1 have been reduced. Another important development has been the introduction of new accounts which offer both chequing privileges and a market rate of interest when the balance in the account is above some specified level. These accounts encourage individuals to give up separate chequing and savings deposits, and the termination of the chequing accounts reduces M1.

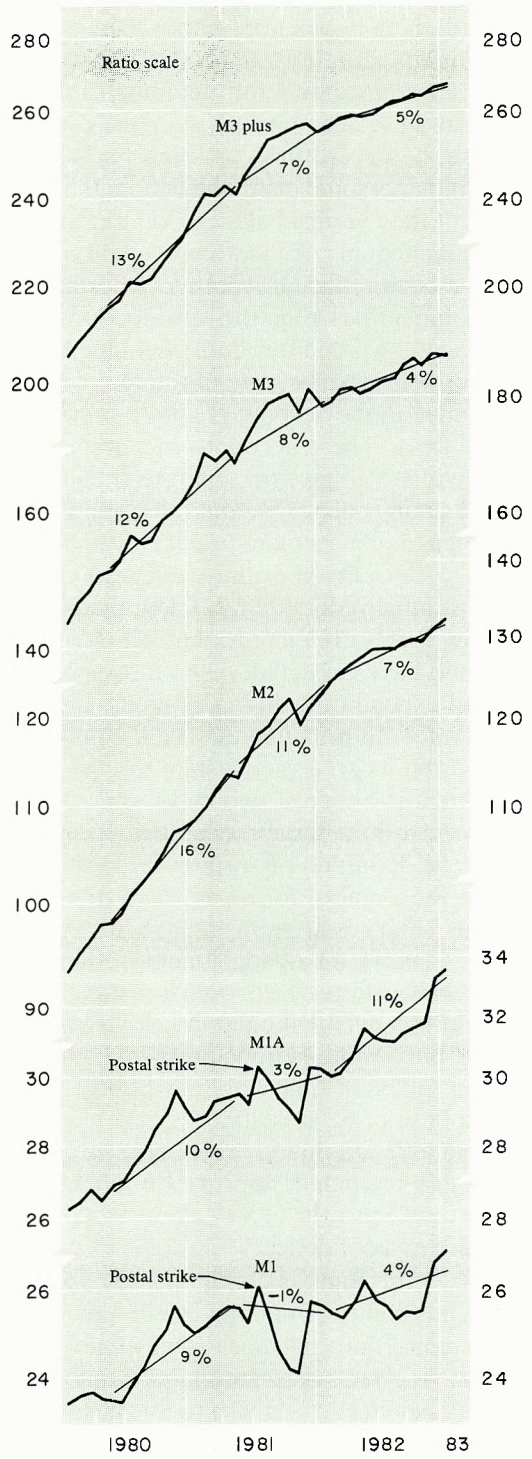
As a result of these innovations, a substantial reduction has taken place in the growth of M1 relative to that which one would have expected, given movements in total expenditures in the economy and interest rates. In principle the Bank could have adjusted its M1 target system to this development in either of two ways: by revising downward the target range or by broadening the definition of M1 in order to incorporate the changed forms in which transactions balances are now being held.

Work on an adjustment of the target levels was impeded by the statistical reporting problems mentioned in last year's Report but a more serious problem is that both the process of financial innovation and the response of bank customers have been rapid and continuing. Since neither can be reliably predicted, appropriate ranges for the future growth of M1 cannot be chosen with any confidence.

The Bank is continuing to explore the possibility of making use of a definition of transactions balances somewhat broader than M1. One aggregate that is being examined includes in addition to M1 those interest-bearing personal and business deposits to which most of the balances previously included in M1 appear to have shifted. A version of such an aggregate, tentatively

## Selected Monetary Aggregates

Billions of dollars, seasonally adjusted




**M3 plus deposits and notes at trust and mortgage loan companies and deposits and share capital at credit unions and caisses populaires**

**M2 plus non-personal fixed-term deposits plus foreign currency deposits of residents booked in Canada**

**M1A plus other notice deposits and personal term deposits**

**M1 plus daily interest chequable deposits plus non-personal notice deposits**

**Currency and demand deposits**

Growth rates are calculated for 2Q1980 – 2Q1981, 2Q1981 – 1Q1982 and 1Q1982 – three months ending January 1983.

Prior to November 1981 M2 and M3 incorporate estimated deposits at chartered bank mortgage loan subsidiaries, and M3 incorporates estimated deposits of Canadian financial institutions affiliated with foreign banks.

labelled M1A, is plotted along with other monetary aggregates on the opposite chart. With its broader coverage M1A has some advantages over M1 as an indicator of the trend of monetary expansion. Nevertheless, M1A has some deficiencies. One is that it does not, and no monetary aggregate can, take account of the effect of a reduction, rather than a shift, in the money balances held for transactions purposes consequent upon financial innovation. Another is that it has not been possible to find a way of including within it all transactions balances that have shifted out of M1 to other financial instruments. Yet another is that in order to take account of the significant quantity of transactions balances that have been moved from M1 to dual-purpose accounts, it has been necessary to include as well the appreciable savings balances held in these accounts.

Because of these shortcomings there is a considerable amount of variability in M1A which cannot be explained in terms of movements in total spending and interest rates. With financial innovations continuing to affect holdings of transactions balances, movements in M1A will likely continue to require a good deal of interpretation, and thus it would be premature to use it for target purposes at present. Such use of an aggregate like M1A depends on a return to more stability in the deposit arrangements used by holders of transactions balances.

The lack of a monetary aggregate that has a sufficiently stable relationship to the behaviour of the economy to be useful for setting targets does not mean that the Bank is without any indications about the rate of monetary expansion in the economy. Information about the underlying trend of monetary expansion can be drawn from the currently available monetary aggregates, despite their deficiencies, by interpreting their movements in the light of their particular characteristics, any relevant institutional changes and the broad economic and financial influences acting on them.

In the case of the broader aggregates the most prominent feature of their recent performance has been the pronounced deceleration from very high rates of expansion. During part of 1980 and 1981 their growth was inflated by the boom in the housing market and the large number of corporate takeovers because so much of this unusual activity was financed through the banks. The slowing that has taken place partly reflects the fall-off in that activity, but more fundamentally it reflects the slower advance in total spending in the economy. The broader aggregates are not sensitive in the short run to interest rates.

The paths traced by the narrower aggregates, M1 and M1A, reflect the movements of short-term interest rates as well as the slower rise of spending in the economy. In the second half of 1981 and into early 1982 the narrow aggregates understate the rate of monetary growth because of the innovations described earlier affecting transactions balances, with M1A being affected to a lesser extent than M1. More recently the large interest rate declines have lowered the costs of holding non-interest-earning transactions deposits. This has resulted in a substantial rebuilding of those deposits even though the shifts associated with the financial innovations have continued.

# Debt Management and Foreign Exchange Operations

## Debt Management

In 1982 the Bank of Canada, in its capacity as fiscal agent for the Government of Canada, was involved in borrowing activities which increased the Government's domestic debt outstanding by almost $18 billion. This amount was marginally less than the Government's net Canadian dollar financing requirements for the year.

The Government's cash balances were high at the beginning of the year as a consequence of the very large sales of Canada Savings Bonds in the fall of 1981, and there were substantial inflows in the first half of the year from sales of U.S. dollars in the foreign exchange market, especially towards the end of that period. Consequently the borrowing program was concentrated in the second half. During that period the Government's financing requirements rose rapidly. Most of this rise reflected the impact of fiscal operations, but it was boosted by the use of Canadian dollars to purchase foreign exchange reserves as the Canadian dollar strengthened.

A feature of the marketable bond operations in 1982 was the shorter average term to maturity than in 1981 of instruments offered to the public. The use of mid-term bonds that include an option to the investor to extend the initial terms of the instrument was less frequent than in the preceding year. This "extendible" feature was used only in January and on three occasions during the summer – periods when conditions in financial markets were especially uncertain. Gross issues of "extendibles" amounted to $2.3 billion in 1982 (25 per cent of total gross issues) compared to their use on eight occasions in 1981 amounting to $4 billion (or 44 per cent of gross issues). The bond program placed less reliance on very long-term issues and more on issues in the 10-year term to maturity area. Gross issues of 10-year bonds amounted to $2.2 billion (about 25 per cent of total gross issues). Until the spring of 1982 10-year bonds had not been offered since early 1980. Only $650 million of bonds with a term to maturity of more than 10 years were issued during the year compared with $1.6 billion in 1981.

For the 1982-83 Canada Savings Bond campaign the interest rate was established at 12 per cent for the first year beginning November 1, 1982 and at a minimum of 8½ per cent for each of the remaining six years to maturity. It was also announced that the 12 per cent rate would apply to all outstanding series for the year beginning in November. These terms were announced on October 7 – some four weeks later than the typical announcement date of recent campaigns. This change was achieved by administrative streamlining and by delaying the dates of the payroll sales campaign. Interest rates fell somewhat between the October 7 announcement date and the beginning of cash sales on October 25, thereby increasing the attractiveness of the savings bonds. Gross sales were almost $11½ billion – second only to the record volume of one year earlier. The bonds were withdrawn from sale on November 8.

A summary of the changes in the distribution of outstanding debt of the Government of Canada in the following table shows that holdings by the general public accounted for virtually all the net increase – of which

**Summary of the Changes in Canadian Dollar Financing for the Government of Canada**

**Billions of dollars (par value)**

| | 1982 | |
|---|---|---|
| | Jan.-June | July-Dec. |
| Treasury bills | −0.6 | + 5.6 |
| Marketable bonds | +0.9 | + 3.7 |
| Sub-total | +0.3 | + 9.3 |
| Canada Savings Bonds | −1.0 | + 9.0 |
| Total | −0.7 | +18.3 |

almost half was accounted for by Canada Savings Bonds. The recorded reduction in the Bank of Canada's holdings of government securities, which tend to grow over time, reflected temporary fluctuations within the Bank of Canada's balance sheet.

At the end of 1982 Canada Savings Bonds represented 31.5 per cent of total domestic debt compared to 28.7 per cent one year earlier. Marketable bonds declined from 48.1 per cent to 44.4 per cent of the total in 1982 and treasury bills represented 24 per cent of the debt outstanding, slightly higher than at the end of the previous year. The average term to maturity of the general public's holdings of marketable debt fell to 6.6 years in December 1982 from 8.0 years and 8.7 years at the end of 1981 and 1980 respectively.

**Summary of Changes in Government of Canada Securities Outstanding During 1982**

**Billions of dollars (par value)**

| | |
|---|---|
| Treasury bills | + 5.0 |
| Marketable bonds | + 4.6 |
| Canada Savings Bonds | + 8.0 |
| Total | +17.6 |
| **Held by:** | |
| Bank of Canada | |
| Treasury bills | − 3.0 |
| Marketable bonds | + 1.3 |
| Total | − 1.7 |
| Chartered Banks | |
| Treasury bills* | + 1.6 |
| Marketable bonds* | + 0.1 |
| Total | + 1.7 |
| Government Accounts | |
| Treasury bills | + 0.1 |
| Marketable bonds | + 0.2 |
| Total | + 0.3 |
| General Public | |
| Treasury bills* | + 6.3 |
| Marketable bonds* | + 3.0 |
| Canada Savings Bonds | + 8.0 |
| Total | +17.3 |

*Estimated

The Bank of Canada assisted the Government in arranging three bond issues in foreign financial markets during the year. They raised the foreign currency equivalent of about 1.3 billion Canadian dollars. These borrowings were undertaken during the first half of the year. The first, in March, involved a private placement of 400 million Swiss franc (SFr.) 5-year notes, the proceeds of which were applied to the redemption of a maturing SFr. 700 million fixed-term note that had been arranged by the Government in 1979. The second borrowing, in April, in the German capital market, was a public offering of 200 million Deutsche mark (DM) 7-year notes. The proceeds of this operation were applied to a maturing DM 400 million fixed-rate loan that had been arranged in 1978. The third financing, in the Eurobond market in June, raised U.S.$750 million in the form of 5-year notes. The details of these issues are shown in Appendix Table IV.

The existing agreement for a U.S. dollar standby credit between the Government of Canada and a group of U.S. and other foreign banks was increased in September from U.S.$3 billion to U.S.$4 billion. Until June 23, 1985 Canada retains the right to borrow up to U.S.$1.5 billion at either the U.S. prime rate or at the London Interbank Offered Rate (LIBOR) plus ¼ of one percentage point, at its option. On advances in excess of U.S.$1.5 billion, Canada would pay either the U.S. prime rate plus ⅛ of one percentage point or LIBOR plus ⅜ of one percentage point, at its option. In each year after June 23, 1985, the U.S.$1.5 billion available at the lower rate will automatically be reduced in steps, reaching 75 per cent of that amount in the year before the maturity of the facility on June 23, 1988.

## Foreign Exchange Operations

Official foreign exchange market operations of the Bank of Canada, as agent for the Exchange Fund Account of the Minister

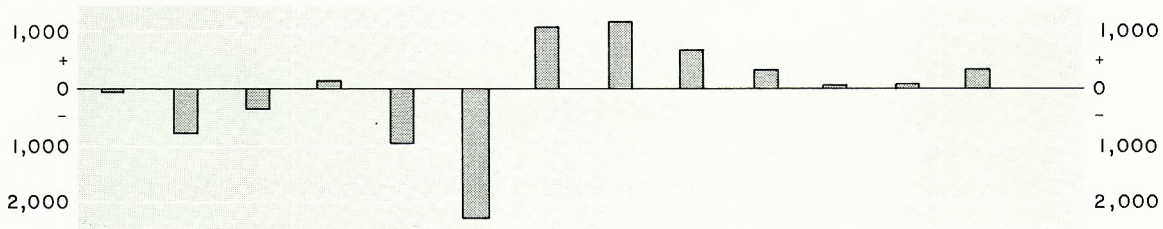
## Exchange Rate

Spot closing rates, daily


## Changes in Official Reserves

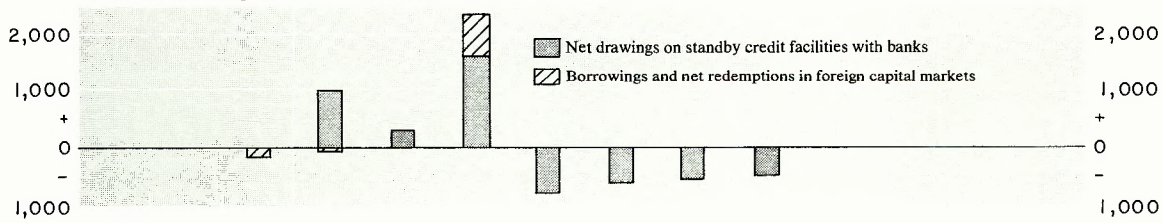
Millions of U.S. dollars, monthly

**Excluding official external financing, gold sales and revaluation effects(1)**

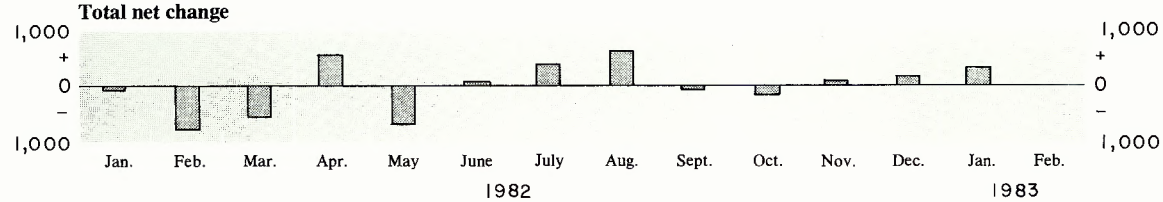



(1)The U.S. dollar value of SDR-denominated assets (gold, the IMF position and SDRs) rises when the exchange rate of the U.S. dollar declines in terms of SDRs, and decreases when the opposite occurs.

**Government foreign currency financing**




**Total net change**




Last date plotted: exchange rate February 25, 1983
official reserves January, 1983

of Finance, continued to be directed towards dampening excessive fluctuations in the exchange rate. There were periods of pressure on the rate in both directions during the year, involving both large purchases and sales of foreign exchange. Canada's official holdings of foreign exchange were supplemented as required by drawings on the Government of Canada's standby credit facilities with both Canadian and foreign banks. In June outstanding drawings reached U.S.$2.4 billion but by year-end all outstanding drawings had been repaid. Changes in the outstanding foreign debt of the Government also had an impact on the level of reserves. During the year there were some further small sales of gold and SDRs for U.S. dollars.

Canada's official international reserve holdings were the equivalent of U.S.$4,371.1 million at the end of 1981, U.S.$3,793.2 million at the end of 1982 and U.S.$4,109.5 million at the end of January, 1983.

# Appendix Tables

# APPENDIX TABLE I

## Bank of Canada Assets and Liabilities

### Monthly changes, millions of dollars

| | Government of Canada securities at book value | Net foreign currency assets | All other assets (net) | Note circulation | Canadian dollar deposit liabilities | | |
|---|---|---|---|---|---|---|---|
| | | | | | Chartered banks | Government of Canada | Other |
| **1982** | | | | | | | |
| **January** | − 904 | + 3 | +210 | −1,075 | +796 | − 336 | −76 |
| **February** | − 305 | + 65 | − 68 | − 80 | −233 | − 19 | +24 |
| **March** | +1,004 | − 62 | −362 | + 172 | −586 | +1,018 | −24 |
| **April** | − 941 | + 11 | +124 | + 74 | − 84 | − 783 | −13 |
| **May** | + 246 | − 6 | −482 | + 374 | −447 | − 199 | +30 |
| **June** | + 408 | + 7 | − 10 | + 439 | −173 | + 151 | −12 |
| **July** | −1,030 | + 780 | +915 | + 51 | +784 | − 186 | +16 |
| **August** | + 143 | + 283 | −825 | − 80 | −296 | − 14 | − 9 |
| **September** | − 831 | − 90 | +251 | − 79 | −571 | − 9 | −11 |
| **October** | + 4 | − 114 | +433 | + 14 | +206 | + 67 | +36 |
| **November** | +1,285 | − 852 | −544 | + 222 | −246 | − 41 | −46 |
| **December** | − 622 | +1,276 | +914 | +1,052 | +411 | + 48 | +57 |
| | −1,543 | +1,301 | +556 | +1,084 | −439 | − 303 | −28 |
| **1983** | | | | | | | |
| **January** | + 654 | −1,163 | −987 | −1,289 | −106 | − 71 | −30 |

# APPENDIX TABLE II

## Chartered Bank Cash Reserves

### Millions of dollars unless otherwise indicated

| | | Total minimum cash requirements | Average holdings of statutory coin and Bank of Canada notes | Required minimum Bank of Canada deposits | Average holdings of Bank of Canada deposits | Number of juridical days in period |
|---|---|---|---|---|---|---|
| **1982** | | | | | | |
| **January** | **1–15** | 7,816 | 1,852 | 5,964 | 6,035 | 10 |
| | **16–31** | | | | 6,000 | 10 |
| **February** | **1–15** | 7,667 | 2,084 | 5,583 | 5,661 | 11 |
| | **16–28** | | | | 5,603 | 9 |
| **March** | **1–15** | 7,124 | 1,883 | 5,240 | 5,289 | 11 |
| | **16–31** | | | | 5,319 | 12 |
| **April** | **1–15** | 6,949 | 1,829 | 5,119 | 5,197 | 10 |
| | **16–30** | | | | 5,168 | 11 |
| **May** | **1–15** | 6,469 | 1,848 | 4,621 | 4,654 | 10 |
| | **16–31** | | | | 4,667 | 10 |
| **June** | **1–15** | 6,425 | 1,914 | 4,511 | 4,599 | 11 |
| | **16–30** | | | | 4,603 | 11 |
| **July** | **1–15** | 6,726 | 1,965 | 4,761 | 4,799 | 10 |
| | **16–31** | | | | 4,825 | 11 |
| **August** | **1–15** | 6,866 | 1,932 | 4,933 | 4,978 | 10 |
| | **16–31** | | | | 4,997 | 12 |
| **September** | **1–15** | 6,383 | 2,004 | 4,379 | 4,435 | 10 |
| | **16–30** | | | | 4,416 | 11 |
| **October** | **1–15** | 6,358 | 1,985 | 4,373 | 4,413 | 10 |
| | **16–31** | | | | 4,493 | 10 |
| **November** | **1–15** | 6,350 | 1,991 | 4,359 | 4,429 | 10 |
| | **16–30** | | | | 4,436 | 11 |
| **December** | **1–15** | 6,430 | 1,985 | 4,445 | 4,481 | 11 |
| | **16–31** | | | | 4,513 | 10 |
| **1983** | | | | | | |
| **January** | **1–15** | 6,742 | 2,001 | 4,741 | 4,795 | 9 |
| | **16–31** | | | | 4,827 | 11 |
| **February** | **1–15** | 6,883 | 2,356 | 4,526 | 4,575 | 11 |

(1) Advances to banks and Purchase and Resale Agreements with money market dealers summed and divided by number of juridical days.

| Excess cash reserves | | Advances to chartered banks and PRA outstanding | | | |
|---|---|---|---|---|---|
| Cumulative excess reserves at end of period | Average excess reserve ratios | Number of days outstanding | | Average outstanding[1] | |
| | | Advances | PRA | Advances | PRA |
| 705 | .045 | – | 5 | – | 83.5 |
| 358 | .023 | 2 | 6 | 6.1 | 58.6 |
| 853 | .050 | 1 | 9 | 1.3 | 122.2 |
| 177 | .013 | 1 | 4 | 7.7 | 71.2 |
| 532 | .032 | 2 | 11 | 21.8 | 243.3 |
| 940 | .051 | – | 9 | – | 173.9 |
| 776 | .051 | 1 | 4 | 0.3 | 45.1 |
| 530 | .031 | 1 | 4 | 0.7 | 47.3 |
| 331 | .023 | 2 | 10 | 12.9 | 169.0 |
| 464 | .033 | 1 | 10 | 0.1 | 191.3 |
| 965 | .061 | 2 | 9 | 0.2 | 146.4 |
| 1,010 | .064 | 2 | 6 | 3.9 | 35.6 |
| 380 | .025 | 3 | 5 | 29.4 | 50.8 |
| 713 | .043 | 2 | 10 | 25.5 | 182.9 |
| 444 | .029 | 4 | 9 | 4.9 | 201.3 |
| 761 | .042 | 3 | 11 | 4.3 | 251.5 |
| 563 | .038 | – | 7 | – | 144.1 |
| 412 | .025 | 1 | 10 | 5.5 | 209.5 |
| 398 | .026 | 2 | 10 | 22.7 | 217.0 |
| 1,197 | .080 | – | 10 | – | 265.4 |
| 695 | .046 | 1 | 9 | 23.5 | 204.6 |
| 847 | .051 | 2 | 10 | 3.1 | 224.8 |
| 400 | .024 | 2 | 9 | 8.1 | 190.1 |
| 676 | .045 | 3 | 8 | 22.6 | 211.4 |
| 485 | .036 | 3 | 9 | 45.6 | 267.0 |
| 939 | .057 | 3 | 10 | 2.9 | 255.1 |
| 535 | .033 | 1 | 4 | 7.7 | 89.7 |

# APPENDIX TABLE III

## Bank of Canada Net Transactions in Government of Canada Securities and Bankers' Acceptances

### Delivered basis, par value in millions of dollars

| | Net purchases from (+) or net sales to (−) investment dealers and banks | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Treasury bills | Bonds[1] 3 years and under | 3–5 years | 5–10 years | Over 10 years | Bankers' acceptances[2] | Total of bills, bonds and bankers' acceptances | Securities under PRA |
| **1982** | | | | | | | | |
| **January** | − 105.0 | − | − | − | − | − | − 105.0 | + 0.0 |
| **February** | + 30.0 | − | − | − | − | − | + 30.0 | + 0.0 |
| **March** | + 270.0 | − | − | − | − | − | + 270.0 | +196.5 |
| **April** | − 229.0 | − | − | − | − | − | − 229.0 | −196.5 |
| **May** | + 44.0 | − | − | − | − | − | + 44.0 | +162.6 |
| **June** | + 367.0 | − | − | − | − | − | + 367.0 | −162.6 |
| **July** | −1,102.0 | + 29.3 | +57.5 | − | − | − | −1,015.2 | + 32.6 |
| **August** | + 172.0 | − | − | − | − | − | + 172.0 | +239.2 |
| **September** | − 591.5 | + 13.4 | −13.4 | − | − | − | − 591.5 | − 19.1 |
| **October** | − 356.5 | +204.8 | −84.0 | − 70.8 | −50.0 | − | − 356.5 | −234.7 |
| **November** | + 454.5 | − | − | − | − | − | + 454.5 | +285.8 |
| **December** | − 706.0 | +186.1 | −27.9 | −158.2 | − | − | − 706.0 | −303.8 |
| **Total** | −1,752.5 | +433.6 | −67.8 | −229.0 | −50.0 | − | −1,665.7 | + 0.0 |
| **1983** | | | | | | | | |
| **January** | + 236.6 | + 21.6 | − 3.5 | − 18.1 | − | − | + 236.6 | +288.0 |

[1] Classified by years to maturity at time of transactions.
[2] Includes maturing bankers' acceptances.

**Net transactions with Government and other client accounts**

| Purchases (+) of new issues less matured holdings | | Net purchases from (+) or net sales to (−) government accounts and client accounts | | Net change in holdings of Government of Canada securities and bankers' acceptances | | | |
|---|---|---|---|---|---|---|---|
| Bills | Bonds | Bills | Bonds | Bills | Bonds | Bankers' acceptances | Total |
| − 674.7 | − | − 144.6 | + 1.8 | − 924.3 | + 1.8 | − | − 922.5 |
| − 31.9 | − 129.9 | − 191.8 | + 2.7 | − 193.7 | − 127.2 | − | − 320.9 |
| + 461.3 | + 325.0 | − 232.5 | + 0.4 | + 671.3 | + 349.4 | − | +1,020.7 |
| + 181.3 | − 331.8 | − 384.8 | + 0.5 | − 605.0 | − 355.3 | − | − 960.3 |
| + 115.7 | + 150.0 | − 233.1 | −10.6 | + 89.2 | + 139.4 | − | + 228.6 |
| + 445.7 | + 150.0 | − 389.4 | + 9.1 | + 260.7 | + 159.1 | − | + 419.8 |
| + 236.3 | + 72.3 | − 379.4 | + 0.9 | −1,212.5 | + 160.0 | − | −1,052.5 |
| − 286.8 | + 200.0 | − 195.4 | − 0.1 | − 81.0 | + 209.9 | − | + 128.9 |
| − 168.8 | + 200.0 | − 277.4 | − 1.2 | −1,047.9 | + 189.9 | − | − 858.0 |
| + 699.6 | + 122.9 | − 242.6 | + 0.8 | − 133.1 | + 122.6 | − | − 10.5 |
| + 506.1 | + 400.0 | − 352.9 | + 0.6 | + 893.5 | + 400.6 | − | +1,294.1 |
| + 714.4 | + 71.9 | − 369.6 | −50.4 | − 665.0 | + 21.5 | − | − 643.5 |
| +2,198.2 | +1,230.4 | −3,393.5 | −45.5 | −2,947.8 | +1,271.7 | − | −1,676.1 |
| + 533.0 | − | − 397.2 | + 0.9 | + 649.4 | + 11.9 | − | + 661.3 |

# APPENDIX TABLE IV

## Government of Canada Direct and Guaranteed Marketable Securities*: New Issues and Retirements

| Date in 1982 | Issues offered/ retired | Term to maturity | Yield to maturity | Millions of dollars par value | |
|---|---|---|---|---|---|
| | | | | Amount delivered | Amount retired |
| **Issues payable in Canadian dollars – direct and guaranteed** | | | | | |
| Feb. 1 | 9¼% Feb. 1, 1982 | | | | 593[1] |
| | 9¾% Feb. 1, 1982 | | | | 475[2] |
| | 16% Aug. 1, 1984 | 2 yrs. 6 mos. | 16.00 | 150 | |
| | 15½% Feb. 1, 1987 | 5 yrs. | 15.50 | 650[3] | |
| | | | | 800 | |
| Mar. 31 | 15% Aug. 1, 1984 | 2 yrs. 4 mos. | 15.10 | 225 | |
| | 15% Mar. 15, 1987 | 4 yrs. 11½ mos. | 15.14 | 400 | |
| | 15½% Mar. 15, 2002 | 19 yrs. 11½ mos. | 15.54 | 200 | |
| | | | | 825 | |
| Apr. 1 | 7¾% Apr. 1, 1982 | | | | 675[4] |
| | | | | | 162[5] |
| May 1 | 15% Aug. 1, 1984 | 2 yrs. 3 mos. | 14.91 | 100[6] | |
| | 15% Mar. 15, 1987 | 4 yrs. 10½ mos. | 14.84 | 400[7] | |
| | 15½% Mar. 15, 2002 | 19 yrs. 10½ mos. | 15.41 | 150[8] | |
| | | | | 650 | |
| June 1 | 14¾% Dec. 15, 1984 | 2 yrs. 6½ mos. | 14.94 | 100 | |
| | 14¾% June 1, 1987 | 5 yrs. | 15.04 | 250 | |
| | 15% June 1, 1992 | 10 yrs. | 15.15 | 200 | |
| | | | | 550 | |
| July 1 | 7½% July 1, 1982 | | | | 1[9] |
| | 8% July 1, 1982 | | | | 900[10] |
| | 15½% July 1, 1985 | 3 yrs. | 16.00 | 350 | |
| | 15% July 1, 1987 | 5 yrs. | 15.37 | 400[11] | |
| | | | | 750 | |
| Aug. 1 | 16% Aug. 1, 1984 | 2 yrs. | 16.00 | 150[12] | |
| | 15½% Feb. 1, 1987 | 4 yrs. 6 mos. | 15.58 | 600[13] | |
| | | | | 750 | |
| Sept. 1 | 14½% Sept. 1, 1985 | 3 yrs. | 14.67 | 200 | |
| | 14¼% Sept. 1, 1987 | 5 yrs. | 14.47 | 650[14] | |
| | | | | 850 | |
| Oct. 15 | 8% Oct. 15, 1982 | | | | 475[15] |
| | 10¾% Oct. 15, 1982 | | | | 200[16] |
| | 12¼% Oct. 15, 1982 | | | | 150[17] |
| | 12¾% Oct. 1, 1985 | 2 yrs. 11½ mos. | 12.85 | 150 | |
| | 13% Oct. 15, 1987 | 5 yrs. | 13.00 | 450 | |

| Date in 1982 | Issues offered/ retired | Term to maturity | Yield to maturity | Millions of dollars par value | |
|---|---|---|---|---|---|
| | | | | Amount delivered | Amount retired |
| Oct. 15 | 13½% Oct. 15, 1992 | 10 yrs. | 13.69 | 400 | |
| | 13¾% Mar. 15, 2000 | 17 yrs. 5 mos. | 13.90 | 300[18] | |
| | | | | 1,300 | |
| Nov. 1 | 12% Nov. 15, 1987 | 5 yrs. ½ mo. | 12.00 | 200 | |
| | 12¾% Nov. 15, 1992 | 10 yrs. ½ mo. | 12.75 | 500 | |
| | | | | 700 | |
| Nov. 22 | 10¾% Oct. 1, 1985 | 2 yrs. 10½ mos. | 10.75 | 175[19] | |
| | 11¾% Dec. 15, 1992 | 10 yrs. 1 mo. | 11.75 | 525 | |
| | | | | 700 | |
| Dec. 1 | | | | | 6[20] |
| Dec. 15 | 11¾% Dec. 15, 1982 | | | | 875[21] |
| | 10¾% Oct. 1, 1985 | 2 yrs. 9½ mos. | 10.82 | 350[22] | |
| | 11% Dec. 15, 1987 | 5 yrs. | 11.33 | 325 | |
| | 11¾% Dec. 15, 1992 | 10 yrs. | 12.01 | 575[23] | |
| | | | | 1,250 | |
| | Total bonds | | | 9,125 | 4,512 |
| | Total treasury bills* | | | 63,000 | 57,975 |
| **Issues payable in foreign currencies – direct** | | | | | |
| Mar. 8 | SFr. 400 million 7¼% notes due Mar. 8, 1987 | 5 yrs. | | 264[24] | |
| Apr. 15 | | | | | 1[25] |
| Apr. 29 | DM 200 million 8½% notes due Apr. 30, 1989 | 7 yrs. | | 105[26] | |
| June 16 | U.S.$750 million 14⅜% notes due June 16, 1987 | 5 yrs. | | 962[27] | |
| Oct. 15 | | | | | 1[25] |
| | Total notes and bonds | | | 1,331 | 2 |

**(Continued)**

**(Continued)**

* Includes three-month, six-month and one-year treasury bills.

(1) Maturity of 9¼% bonds issued June 15, 1974.

(2) Maturity of 9¾% bonds issued December 15, 1978, February 1, 1979, March 15, 1979, June 1, 1979 and July 15, 1979.

(3) Exchangeable at the option of the holder, on or before October 31, 1986, into an equal par value of 15½% bonds due February 1, 1992 yielding about 15.50% from February 1, 1982 to maturity in 1992.

(4) Maturity of 7¾% bonds issued February 1, 1977 and April 1, 1977.

(5) Cancellation of $29.3 million 9½% June 15, 1994 bonds, $25.5 million 10% October 1, 1995 bonds, $24.0 million 9¼% May 15, 1997 bonds, $14.5 million 9% October 15, 1999 bonds, $12.5 million 9¾% December 15, 2000 bonds, $32.5 million 9½% October 1, 2001 bonds, $6.0 million 8¾% February 1, 2002 bonds and $18.0 million 9½% October 1, 2003 bonds, by Purchase Fund.

(6) In addition to $225 million 15% August 1, 1984 already outstanding.

(7) In addition to $400 million 15% March 15, 1987 already outstanding.

(8) In addition to $200 million 15½% March 15, 2002 already outstanding.

(9) Maturity of 7½% bonds issued July 1, 1977.

(10) Maturity of 8% bonds issued May 15, 1977, July 1, 1977 and September 1, 1977.

(11) Exchangeable at the option of the holder, on or before April 1, 1987, into an equal par value of 15% bonds due July 1, 1992 yielding about 15.25% from July 1, 1982 to maturity in 1992.

(12) In addition to $150 million 16% August 1, 1984 already outstanding.

(13) In addition to $650 million 15½% February 1, 1987 already outstanding. Exchangeable at the option of the holder, on or before October 31, 1986, into an equal par value of 15½% bonds due February 1, 1992 yielding about 15.55% from August 1, 1982 to maturity in 1992.

(14) Exchangeable at the option of the holder, on or before June 1, 1987, into an equal par value of 14¼% bonds due September 1, 1992 yielding about 14.39% from September 1, 1982 to maturity in 1992.

(15) Maturity of 8% bonds issued October 15, 1977 and December 15, 1977.

(16) Maturity of 10¾% bonds issued October 1, 1979.

(17) Maturity of 12¼% bonds issued October 1, 1980.

(18) In addition to $750 million 13¾% March 15, 2000 already outstanding.

(19) In addition to $325 million 10¾% October 1, 1985 already outstanding.

(20) Cancellation of guaranteed debt by Purchase Funds.

(21) Maturity of 11¼% bonds issued December 15, 1979 and February 1, 1980.

(22) In addition to $500 million 10¾% October 1, 1985 already outstanding.

(23) In addition to $525 million 11¼% December 15, 1992 already outstanding.

(24) Proceeds of the issue applied towards redemption of a SFr. 700 million 2⅞% loan issued March 8, 1979 and maturing March 8, 1982.

(25) Partial redemption at par of U.S. pay 5% October 15, 1987 bonds for Sinking Fund.

(26) Proceeds of the issue applied towards redemption of a DM 400 million 5% loan issued May 2, 1978 and maturing April 30, 1982.

(27) Issued in the Euro-U.S. market.

# BANK OF CANADA Statement of Revenue and Expense

## Year Ended December 31, 1982
## (with comparative figures for 1981)

| | 1982 | 1981 |
|---|---|---|
| | (thousands of dollars) | |
| **REVENUE** | | |
| Revenue from investments and other sources after deducting interest of $5,129 ($6,399 in 1981) paid on deposits | $1,986,072 | $1,945,575 |
| **EXPENSE** | | |
| Salaries[1] | $ 42,857 | $ 35,837 |
| Contributions to pension and insurance funds[1] | 5,329 | 5,208 |
| Other staff expenses[2] | 1,680 | 1,402 |
| Directors' fees | 98 | 83 |
| Auditors' fees and expenses | 297 | 259 |
| Taxes – municipal and business | 6,100 | 5,618 |
| Bank note costs | 25,372 | 21,318 |
| Data processing and computer costs | 4,669 | 4,315 |
| Maintenance of premises and equipment – net[3] | 8,378 | 7,431 |
| Printing of publications | 591 | 542 |
| Other printing and stationery | 1,387 | 1,238 |
| Postage and express | 1,400 | 849 |
| Telecommunications | 1,348 | 1,144 |
| Travel and staff transfers | 1,405 | 1,464 |
| Other expenses | 970 | 668 |
| | 101,881 | 87,376 |
| Depreciation on buildings and equipment | 5,717 | 5,020 |
| | 107,598 | 92,396 |
| NET REVENUE PAID TO RECEIVER GENERAL FOR CANADA | $1,878,474 | $1,853,179 |

(1) Salaries, including overtime, and related contributions to pension and insurance funds for bank staff other than those engaged in building maintenance. The number of employee years worked by such staff (including temporary, part-time and overtime work) was 2,015 in 1982 compared with 1,960 in 1981 but there was a significant shift over the period in the mix of employees towards higher skilled categories.
(2) Includes cafeteria expenses, retirement allowances, educational training costs and medical expenses.
(3) Includes all building maintenance costs (including staff costs) but net of rental income.

(See accompanying notes to the financial statements)

# BANK OF CANADA Statement of Assets and Liabilities

## as at December 31, 1982
## (with comparative figures for 1981)

| ASSETS | 1982 | 1981 |
|---|---|---|
| | (thousands of dollars) | |
| **Deposits payable in foreign currencies:** | | |
| U.S.A. dollars | $ 259,438 | $ 165,605 |
| Other currencies | 4,427 | 6,562 |
| | 263,865 | 172,167 |
| **Advances to members of the Canadian Payments Association** | 143,000 | 38,000 |
| **Investments** — at amortized values: | | |
| Treasury bills of Canada | 2,426,499 | 5,245,872 |
| Other securities issued or guaranteed by Canada maturing within three years | 4,696,898 | 4,185,217 |
| Other securities issued or guaranteed by Canada not maturing within three years | 8,247,778 | 7,483,569 |
| Other investments | 1,240,867 | 2,633 |
| | 16,612,042 | 16,917,291 |
| **Bank premises:** | | |
| Land, buildings and equipment, at cost less accumulated depreciation | 82,210 | 78,993 |
| **Cheques drawn on other banks** | 1,635,404 | 1,627,744 |
| **Accrued interest on investments** | 387,644 | 315,285 |
| **Collections and payments in process of settlement** | | |
| Government of Canada (net) | 283,778 | – |
| **Other assets** | 14,964 | 4,457 |
| | $19,422,907 | $19,153,937 |

| LIABILITIES | 1982 | 1981 |
|---|---|---|
| | (thousands of dollars) | |
| **Capital paid up** | $ 5,000 | $ 5,000 |
| **Rest fund** | 25,000 | 25,000 |
| **Notes in circulation** | 12,718,781 | 11,635,604 |
| **Deposits:** | | |
| Government of Canada | 81,016 | 384,194 |
| Chartered banks | 4,838,438 | 5,278,349 |
| Other deposits | 162,585 | 189,861 |
| | 5,082,039 | 5,852,404 |
| **Liabilities payable in foreign currencies:** | | |
| Government of Canada | 80,608 | 51,700 |
| Other | 147 | 236 |
| | 80,755 | 51,936 |
| **Bank of Canada cheques outstanding** | 1,506,187 | 1,061,312 |
| **Collections and payments in process of settlement:** | | |
| Government of Canada (net) | – | 516,579 |
| Other | – | 915 |
| | – | 517,494 |
| **Other liabilities** | 5,145 | 5,187 |
| | $19,422,907 | $19,153,937 |

Governor, **G. K. BOUEY** Chief Accountant, **A. C. LAMB**

**Auditors' Report** We have examined the statement of assets and liabilities of the Bank of Canada as at December 31, 1982 and the statement of revenue and expense for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Bank as at December 31, 1982 and the results of its operations for the year then ended in accordance with the accompanying summary of significant accounting policies, applied on a basis consistent with that of the preceding year.

**RAYMOND, CHABOT, MARTIN, PARÉ & ASSOCIÉS** **CLARKSON GORDON**

Ottawa, Canada, January 12, 1983

(See accompanying notes to the financial statements)

# BANK OF CANADA Notes to the Financial Statements December 31, 1982

## 1. Significant Accounting Policies

The financial statements have been prepared within the framework of the accounting policies summarized below.

### a. Form of Presentation

The form of the statement of assets and liabilities meets the requirements of the Bank of Canada Act.

### b. Revenues and Expenses

Revenues and expenses have been accounted for on the accrual basis.

### c. Investments

In accordance with the requirements of the Bank of Canada Act, these assets have been recorded at their cost adjusted for amortization of purchase discounts and premiums. The amortization as well as gains and losses on disposition have been included in income.

### d. Translation of Foreign Currencies

Assets and liabilities in foreign currencies have been translated to Canadian dollars at the rates of exchange prevailing at the year-end.

### e. Depreciation

Depreciation has been recorded at the following annual rates applied on the declining balance method:

| | |
|---|---|
| Buildings | 5% |
| Equipment | 20% |

## 2. Contingent Liability

During 1982, the Bank agreed with the Bank for International Settlements to participate in an international initiative to provide short-term credit facilities to the Banco de Mexico and the Banco Central do Brasil. The Bank's potential liability under these agreements is limited to U.S.$230,000,000 (Cdn $282,624,000 at December 31, 1982 exchange rate) and would only be incurred if repayments due under these credit facilities were not met.

## Board of Directors

| | |
|---|---|
| G. K. BOUEY | OTTAWA<br>Governor<br>*Member of the Executive Committee* |
| R. W. LAWSON | OTTAWA<br>Senior Deputy Governor<br>*Member of the Executive Committee* |
| J. CLARRY | TORONTO, ONT. |
| E. H. FINN | OTTAWA, ONT. |
| J. H. FRASER | CHARLOTTETOWN, P.E.I. |
| S. KANEE | WINNIPEG, MAN.<br>*Member of the Executive Committee* |
| A. A. LEBOUTHILLIER | CARAQUET, N.B. |
| J. R. LONGSTAFFE | VANCOUVER, B.C. |
| J. S. PALMER | CALGARY, ALTA. |
| MME Y. LEFEBVRE-RICHARD | MONTREAL, QUE.<br>*Member of the Executive Committee* |
| J. A. STACK | SASKATOON, SASK.<br>*Member of the Executive Committee* |
| M. WOODWARD | GOOSE BAY, NFLD. |

**Ex-officio**

| | |
|---|---|
| M. A. COHEN | OTTAWA<br>Deputy Minister of Finance<br>*Member of the Executive Committee* |

# Principal Officers

G. K. BOUEY, *Governor*
R. W. LAWSON, *Senior Deputy Governor*

*A. JUBINVILLE, *Deputy Governor*
J. W. CROW, *Deputy Governor*
J. BUSSIÈRES, *Adviser*
G. G. THIESSEN, *Adviser*
**J. S. ROBERTS, *Associate Adviser*
J. CLÉMENT, *Associate Adviser*
D. J. R. HUMPHREYS, *Deputy Governor*
J. N. R. WILSON, *Adviser*
W. A. MCKAY, *Adviser*
S. VACHON, *Adviser*
W. CHEVELDAYOFF, *Associate Adviser*
T. E. NOËL, *Secretary*

*On leave of absence with the Bank of Zaire under an IMF Technical Assistance Program
**On leave of absence as Interim General Manager of the Canadian Payments Association

## Securities Department

F. FAURE, *Chief*

V. O'REGAN, *Deputy Chief*
S. L. HARRIS, *Securities Adviser*
I. D. CLUNIE, *Securities Adviser*
N. CLOSE, *Securities Adviser*

## Research Department

W. R. WHITE, *Chief*
J.-P. AUBRY, *Deputy Chief*

## Department of Monetary and Financial Analysis

C. FREEDMAN, *Chief*
P. R. MASSON, *Deputy Chief*

## International Department

W. E. ALEXANDER, *Chief*
R. F. S. JARRETT, *Chief, Foreign Exchange Operations*
K. J. CLINTON, *Research Adviser*

## Department of Banking Operations

D. G. M. BENNETT, *Chief*
C. A. ST. LOUIS, *Deputy Chief*
G. B. MAY, *Banking Operations Adviser*
W. R. MELBOURN, *Deputy Chief*
E. W. CHINN, *Banking Operations Adviser*

## Public Debt Department

J. M. ANDREWS, *Chief*

## Secretary's Department

T. E. NOËL, *Secretary*
R. L. FLETT, *Associate Secretary*
J. M. MCCORMACK, *Coordinator, Systems Planning*
H. A. D. SCOTT, *Special Adviser*

## Computer Services Department

G. M. PIKE, *Chief*
D. W. MACDONALD, *Deputy Chief*

## Personnel Department

J. E. H. CONDER, *Chief*

## Department of Premises Management

R. H. OSBORNE, *Chief*
K. W. KAINE, *Deputy Chief*

## Comptroller's Department

A. C. LAMB, *Comptroller and Chief Accountant*
C. J. STEPHENSON, *Deputy Comptroller*

## Audit Department

J. M. E. MORIN, *Auditor*
M. MUZYKA, *Deputy Auditor*

# Regional Representatives and Agencies

### Securities Department

| | |
|---|---|
| TORONTO | D. R. CAMERON, *Chief, Toronto Division* |
| MONTREAL | J. CLÉMENT, *Chief, Montreal Division* |
| VANCOUVER | E. F. TIMM, *Representative* |
| EDMONTON | A. G. KEITH, *Representative* |

### International Department

| | |
|---|---|
| TORONTO | D. R. STEPHENSON, *Foreign Exchange Adviser* |
| MONTREAL | G. HOOJA, *Foreign Exchange Representative* |

### Department of Banking Operations

| | |
|---|---|
| HALIFAX | R. E. BURGESS, *Agent* |
| SAINT JOHN, N.B. | J. HUGHES, *Agent* |
| MONTREAL | R. MARCOTTE, *Agent* |
| | K. D. MCDONALD, *Assistant Agent* |
| OTTAWA | G. H. SMITH, *Agent* |
| TORONTO | C. R. TOUSAW, *Agent* |
| | K. T. MCGILL, *Deputy Agent* |
| | C. P. DESAUTELS, *Assistant Agent* |
| WINNIPEG | A. H. POTTER, *Agent* |
| REGINA | G. L. PAGE, *Agent* |
| CALGARY | R. E. A. ROBERTSON, *Agent* |
| VANCOUVER | D. G. WARNER, *Agent* |