Bank of Canada

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

1983

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February 29, 1984

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 1983 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 – 1983

General Observations

Over the past year the economic situation in Canada has improved more than most observers would have dared to forecast. The level of total output appears to have recovered the substantial losses in the preceding recession and is moving into new high ground, although not all sectors of the economy have yet experienced this improvement. Employment has grown strongly and the rate of unemployment, though still high, has come down. The underlying rate of inflation by any reasonable measure has declined sharply, and at the end of 1983 was lower than we have had in Canada for more than a decade.

Most of this Report will be devoted to dealing in more detail with these and related developments in Canada during 1983 but first I want to look ahead. I think that everybody in Canada agrees that our country's economic objective is sustained prosperity. Agreeing on the objective is not the problem. The problem is how best to manage our affairs to achieve it; it is a problem of means, not of ends. What policies will maximize the chances that Canada's economic situation will continue to improve? In this section of my Annual Report I am going to talk about some of the important issues that relate to this question.

We all know that we live in an interdependent economic world and that the Canadian economy is very sensitive to its external environment, especially to economic developments in the United States. In many important respects developments in the world economy over the past year have been favourable, and the present situation and prospects are much better than they were a year ago. Output in the industrial countries is rising, particularly in the United States but increasingly in Europe and Japan. The rate of inflation in most of the industrialized world is now relatively low and in many countries is still declining. These developments have been helpful to us in pursuing our economic objectives, and there seems a good chance that they will continue to be. But there are some economic problems in the outside world that we should bear in mind in considering our own future.

One problem is the international debt difficulties of many countries in the developing world. This problem and the world's response to it are described in a later section of this Report. The problem remains severe and will not be quickly resolved, but the co-operative and realistic way in which it is being grappled with provides a firm basis for optimism that it can in time be resolved. That resolution will require the cooperation of all participants, both borrowers and lenders, and Canada's vital interest in a healthy international system of trade and payments means that our country must continue to play its part. Canadian banks are involved in this process and are playing a responsible and essential role.

Another matter that must somehow be resolved if we are to see sustained and dynamic progress in the world economy is the unbalanced state of government finances in many of the major industrial countries. Because of the dominant role of the United States in the world economy the U.S. fiscal deficit is of particular importance and has attracted widespread concern. That the fiscal deficit of the U.S. government is currently much too large to be sustainable is widely agreed both within and outside the United States, but effective U.S. action has been prevented so far by the absence of sufficient internal agreement on how to deal with it, that is, to what extent to reduce expenditures and to what extent to raise taxes. Concerns about whether and when the U.S. fiscal deficit will be dealt with has for some time put upward pressure on market interest rates both in the United States and around the world. Levels of interest rates in the United States that are high relative to the rate of inflation have not prevented a strong recovery of output and employment in that country but there is a lot of concern about what will happen as economic growth in the United States continues. How will the rising financing requirements of the expanding private sector be accommodated on top of continuing large financing requirements of the government? Will the competition for financing push U.S. interest rates even higher relative to the rate of inflation? I am confident that the United States will not make the mistake of trying to deal with the impact on its economy of an excessively large fiscal deficit by excessive monetary expansion but it is not at all clear what other consequences that deficit may have. Some of them may pose problems for Canada in the period ahead.

While the Canadian economy is unavoidably exposed to what happens abroad, that circumstance should not lead us to underestimate the importance to our economic welfare of our own policies and practices. Whether over time our economy performs better or worse than that of the United States or of our other trading partners depends largely upon Canada's internal economic management, both public and private. The longer the time period that one has in mind the more is that the case. Whether the external environment is helpful or not we shall do much better in our pursuit of sustained economic prosperity if we keep our own house in order.

What are the questions about our own house that should be concerning us? A full answer to that question would be rather long. Good performance of the economy, like good health in the human body, depends upon a lot of systems working well both separately and together. But let me deal rather briefly with some aspects of the question.

I shall start with Canada's financial system. That system includes a large number of financial institutions of many different types providing a wide range of financial services. It is a good system, well developed, flexible and competitive, and quite capable of meeting Canada's requirements for financial services. There are some interesting and important questions currently under discussion but they are mainly questions about the suitability of the ground rules provided by legislation for the various classes of institutions in the system and I shall not go into those questions at this time. I want rather to concentrate on the role of monetary policy in the system because that is the direct responsibility of the Bank of Canada.

Monetary policy has to do with the regulation of the rate of creation of money and money-like claims in the financial system or, more simply, with the rate of monetary expansion. The proper goal of monetary policy is to achieve that rate of monetary expansion which best serves the needs of the economy, and that is a rate which does not give rise over time to tendencies towards either a decline in prices generally (deflation) or a rise in prices generally (inflation). The proper goal of monetary policy is thus monetary stability – stability in prices generally and therefore in the value of money.

In the light of recent experience it should hardly be necessary to argue the case that monetary stability will contribute more over time to good economic performance than any other monetary outcome. Does the heritage of problems left in the world by the widespread loss of monetary stability in the 1970s not provide sufficiently convincing support of that proposition? The idea, once rather popular, that high employment and output could be more readily achieved and sustained by being relaxed about inflation has surely now been demonstrated to be clearly wrong. Inflation and unemployment are not alternatives between which we can choose. Inflationary policies lead to poor economic performance, including high unemployment. The road to good economic performance is via monetary stability. That is why the proper goal of monetary policy is monetary stability.

In policy matters it is almost always much easier to describe the proper goal than it is to describe how that goal can best be pursued. That is certainly true of monetary policy. There has been and continues to be debate about the part that quantitative monetary targets should play as guides to monetary policy. This seems to me to be less a theoretical question than a practical one. Monetary targets that work well are useful, those that don't aren't. The fact that quantitative monetary targets may work well or badly in one country does not throw much light on how they will work in another country because each national financial system throws up different monetary aggregates. The difficult thing is to judge in advance in any country how well any particular target will work.

We in the Bank of Canada have had experience with quantitative monetary targets. We were and still are well disposed towards them because of their potential help in guarding against cumulative errors in monetary policy. We gave up announcing targets for M1 (currency and chartered bank demand deposits) because we found that that aggregate ceased being a good guide to the rate of monetary expansion in Canada. The principal reason was that rapid innovation in the services provided by the banking system was leading businesses and persons to hold an increasing proportion of their transactions balances in forms other than demand deposits.

We continue to explore other monetary aggregates and to study their performance, but we have not yet found one that seems to us to be a sufficiently reliable indicator of monetary expansion in Canada to warrant its use as a formal target. We do however find that our study of the monetary aggregates throws light on their interrelationship with economic developments and supplements our other analytic work in helping us to achieve a rate of monetary growth in Canada that is compatible with a movement over time towards price stability.

Changes in the rate of monetary expansion are brought about by the Bank of Canada through its management of the reserves of the banking system. A greater or lesser readiness to provide reserves induces responses in the banking system that have the initial effect of putting downward or upward pressure on interest rates in the short-term money market. It is by influencing the path of short-term interest rates that monetary policy affects the economy. Whatever the policy framework of the central bank this is the system of linkages with which it operates.

The operations of the Bank of Canada during 1983 were directed towards achieving short-term interest rate levels as low as were consistent with continued progress on inflation. The developments in the economy were such that progress on inflation was compatible with substantial stability in short-term market interest rates after a sharp decline that ended early in the year. This stability occurred while the economy itself was in major transition in various respects; it was in transition to the recovery phase of the business cycle following a sharp cyclical contraction in employment and output and it was in a longer-term transition from high rates of price and cost inflation towards price and cost stability. The stability occurred with a mixture of very substantial public sector financing and unusual weakness in the demand for credit by the private sector. These matters are discussed further in later sections of this Report.

Since broadly similar transitions were underway in the U.S. economy it is not surprising that the paths of market interest rates in the two economies were broadly similar. Despite the fact that the rate of inflation continued to be higher in Canada than the United States, market interest rates in Canada were not as high relative to those in the United States as they normally are, and this was due mainly to two interrelated reasons. The cyclical decline in economic activity had been greater here than in the United States, and, partly as a direct consequence, Canada's balance in international trade was much stronger than it had earlier been. Our relatively strong trade balance was a positive factor in the foreign exchange market for the Canadian dollar and allowed the Canadian-U.S. exchange rate to remain stable despite the relatively low level of interest rates in Canada compared to those in the United States.

In this context I would like to say something about the Bank of Canada's interest in the foreign exchange rate. The Bank has not adopted the exchange rate for the U.S. dollar as some kind of a monetary target. Its interest in that exchange rate is rather a by-product of its goal of following a policy that is compatible with a continuing decline in the rate of inflation in Canada. Our concern is that exchange rate movements not prevent the reduction of price and cost inflation in Canada.

It is not possible to know in advance what paths for the Canadian exchange rate would be compatible with a return over time to price stability in Canada because the paths will depend in part on what happens outside Canada. One does however know that sharp downward movements of the exchange rate are inflationary. They are followed almost at once by increases in the Canadian prices of internationally traded goods, and these price increases fan out through the economy, their spread being accelerated by increased expectations of inflation and increased efforts of people to protect themselves. Policy ought therefore to provide resistance against sharp downward movements. This means that Canadian policy should not be diverted even temporarily from the longer-term goal of price stability to some shorter-term objective of, say, trying to stimulate exports or restrain imports by exchange depreciation in order to ease the immediate problems of one group or another in the economy. We have had a good deal of experience with exchange rate depreciation in recent years. The record indicates that the relief available to particular groups would be of limited duration and the problems of the economy generally would be considerably increased.

If it happens that sharp downward movements of the Canadian exchange rate are generated by events abroad, the successful pursuit in Canada of increasing price stability requires that Canadian policy try to moderate the exchange rate movements and to offset their inflationary effects. That is the most constructive reaction possible. In its operations that is what the Bank of Canada has done.

An inflationary impulse in Canada coming from any source, including a decline in the exchange rate, inevitably puts upward pressure on Canadian interest rates. If the Bank of Canada were to try to neutralize that pressure by monetary policy, that is, by accelerating the rate of monetary expansion, our action would quickly be recognized by financial markets as reinforcing rather than offsetting the initial impulse and the upward pressure on interest rates would be intensified. The responses of the Bank of Canada to moderate but not to suppress the natural interactions of the exchange rate and interest rates are part of its effort to encourage the Canadian economy to move towards price stability with as low a level of interest rates as the circumstances permit.

* * *

While a climate of monetary stability is the most effective contribution that monetary policy can make to nurturing the sustained expansion of employment and output in a market economy, how well the economy performs in that environment is largely determined by the policies followed outside the monetary field. Good monetary policy does not ensure good economic performance. What a country should do is look to its central bank to act in a way that creates and maintains over time a climate of monetary stability and then look to policies and practices followed elsewhere in its economy to ensure that they are of the character that encourages employment and output in that climate.

Many of these other policies and practices are important in determining the economic outcome. One of them is of course fiscal policy. Fiscal policy has to do with the structure and character of taxing and spending by governments and with the balance between their revenues and expenditures. Virtually every aspect of fiscal policy has effects on the nature of employment and output in Canada, the effects varying enormously with the economic circumstances, the nature of government expenditures and the way of financing them. We have in Canada at present a federal fiscal deficit that poses some of the same problems as that in the United States, and here as there it will be necessary to deal effectively with that situation over time if we are to achieve sustained economic prosperity. We in Canada also have the same problem as the United States does of deciding on the relative sizes of the public and the private sectors in the economy.

Most of the employment and output in Canada is generated in the private sector of the economy. There will be little chance of sustaining economic prosperity in Canada unless the private sector is healthy and dynamic. That in turn depends more than anything else on the incentives for private sector activity being strong enough and of the right character to call forth constructive responses. Businessmen must see not only the prospect of a reasonable level of demand in the market but they must also see the possibility of being able to organize production in a way that will supply the market with a product that is of sufficiently high quality and sufficiently low cost to be competitive. The ability of national suppliers to be efficient enough to be competitive in both national and international markets is the key to sustained high employment and rising real incomes. Unless competitiveness in cost and quality is achieved and maintained the economy will not work well.

Achieving and maintaining such competitiveness takes a lot of doing by a lot of people. The role of the governmental authorities in this regard is mainly to achieve and maintain a climate in which competitiveness can flourish, and it is to the private sector that one looks, to business and labour, for the imagination and the energy to achieve efficient production of the right things at competitive costs. Keeping production efficient and competitive is a continual challenge because the economy is always in a state of flux; the demand is always changing, technology is always changing, the competition from other suppliers is always changing. This puts a high premium on economic flexibility, on the ability and willingness to change production practices and production costs quickly as circumstances require. While efficiency and flexibility in production are primarily challenges for the private sector, both business and labour, they are so difficult to achieve that governments should take great care to do as much as they can to encourage them and as little as possible to discourage them.

* * *

As I have already indicated, the main contribution that monetary policy can make to good private sector performance is confidence in the future value of money. In our sophisticated market economies the role of money is very important. To the extent that there is uncertainty about its future value it cannot play its role as effectively. The effect in real terms of financial contracts, including wage contracts, becomes to that extent uncertain, and the ability of markets to contribute to the efficient allocation of resources and to efficient production is eroded. Many people have spent a lot of time and effort trying to devise index-related systems that will work as well as stable money but they have not succeeded. Nothing works better than stable money.

The Canadian economy is still convalescing from the fever of inflation that gripped it in the 1970s. For most people it was a painful and even frightening experience. The strong monetary medicine that it took to beat the fever was certainly unpleasant and not many people would want to go through that experience again. Various debilitating after-effects are still with us. Both individuals and businesses are still in the process of repairing financial positions weakened because of inflation. Interest rates are as high as they are largely because those who save seek insurance against a possible resurgence of inflation. Businesses remain cautious about new investments in plant and equipment because of the uncertainties in projecting costs and prices. The wage settlement process is bedevilled by the fear that a resurgence of inflation will shrink real incomes.

We have now entered a year that may be critical in the struggle in Canada and abroad to return to stable money. To guard against another bout of inflation we should make sure that we recover fully from the last one. Our recovery from it has gone very well for more than a year but this is not the moment to risk a relapse. Complacency about our progress would risk actions that our improving, but still fragile, confidence in the value of money cannot stand. The idea that it is good enough to have an inflation rate of 5 per cent and that we can now relax could easily have us worrying rather soon about an inflation rate much higher. Surely we have learned that if inflation is not resisted it inevitably worsens.

A tendency in the past for financial policy to run risks on the side of expansion is what generated the inflation of the 1970s, and those risks were taken in well-intentioned attempts to achieve more rapid rates of growth in economic activity. It took rather a long time for the policy misjudgements to show because confidence in the future value of money died hard. People generally simply did not believe that inflation would go as far as it did. But that confidence was badly eroded and has not been by any means fully restored. The result is that our societies are much less resistant to accelerating inflation than they were.

Appreciation of this vulnerability will help to save us from it. Central banks now know that financial markets will be very sensitive to evidences of a renewed outbreak of inflation and that market interest rates will react strongly and quickly upwards. The honeymoon would be short between any acceleration of the rate of monetary expansion in an effort to cause interest rates to fall and the strong reaction of financial markets towards higher interest rates as soon as they sensed what was happening. The room for exploiting confidence in the value of money to stimulate economic growth by inflationary financial policy has largely disappeared.

I believe that we have learned from our difficult experience and I observe a much more realistic approach in the country to economic issues. We have made substantial progress in the last year and we now have a better economic base from which to move forward than we have had for a long time.

* * *

I wish to record the retirement on February 29, 1984 of Mr. R. William Lawson as Senior Deputy Governor of the Bank and the appointment of Mr. John W. Crow to succeed him.

The responsibility of the Senior Deputy Governor was described in a submission to the Royal Commission on Management and Accountability in the following terms:

> *The degree of responsibility which rests on the Senior Deputy Governor is not very different from that of the Governor. The Senior Deputy Governor has all the powers of the Governor in the absence of the latter. Moreover, he is the only director who has ready access to the same information available inside the Bank as the Governor and who participates in the day-to-day decisions regarding the operations of the Bank. This means that the Senior Deputy Governor can be supposed to feel virtually as much responsibility for the conduct of the Bank as the Governor, and he is well placed to act as a check on the Governor if he thinks it necessary. The efficient management of the Bank thus requires a very close partnership between the two.*

Mr. Lawson has made an outstanding contribution to the affairs of the Bank over a career that stretches back to August 1940. In the period since March 1, 1973, the date he was appointed Senior Deputy Governor, we have worked together very closely and I would like to take this opportunity to express my personal appreciation for his support and cooperation.

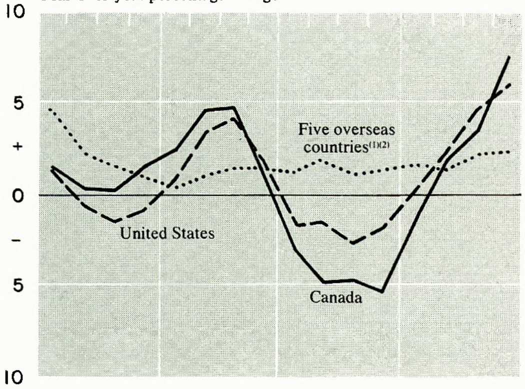
R. William Lawson

Economic Activity and Inflation

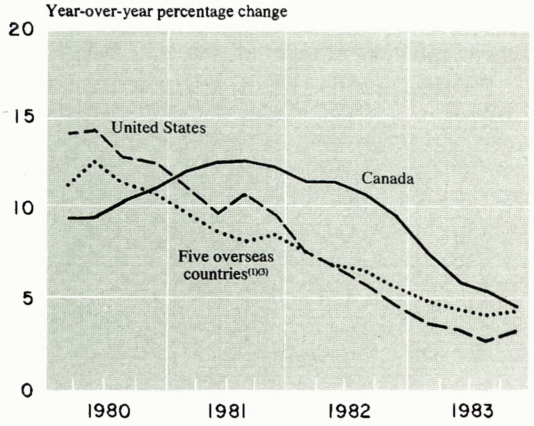
In an environment of rapidly decelerating inflation there was a significant recovery of spending and associated increases in output and employment in Canada during 1983. Nevertheless, at year-end the unemployment rate remained high, not all regions and industries had experienced a strong recovery, and the domestic rate of inflation was still greater than that in many of Canada's principal trading partners.

International Comparisons

Real GNP/GDP
Year-over-year percentage change



Consumer Price Index
Year-over-year percentage change



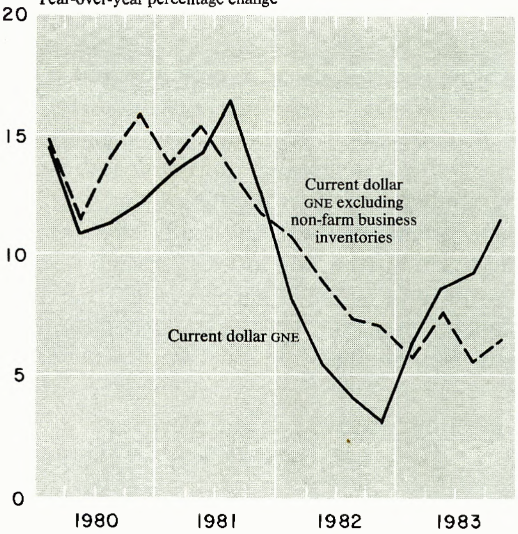
[1]Japan, Germany, France, United Kingdom, Italy
[2]1982 GNP/GDP weights
[3]1982 trade with Canada weights

Inflation and Recession

As the 1970s ended, inflation was accelerating rapidly in many industrial countries in the context of very high rates of growth in spending and sharp increases in world oil prices. Economic policies in almost every country became focused on reducing price and cost increases, and in most cases there were indications of improving inflationary trends from late 1980 onwards. In Canada, however, this reaction was slower than elsewhere. With expectations of continuing inflation still strong, there was a surge in borrowing as businesses and individuals sought to purchase real assets. The rise in total spending accelerated to over a 15 per cent annual rate of growth between mid-1980 and mid-1981. Cost and price inflation rose significantly in this speculative environment, reinforcing for a time the view that the trend of inflation would continue to rise in spite of policies designed to reduce it.

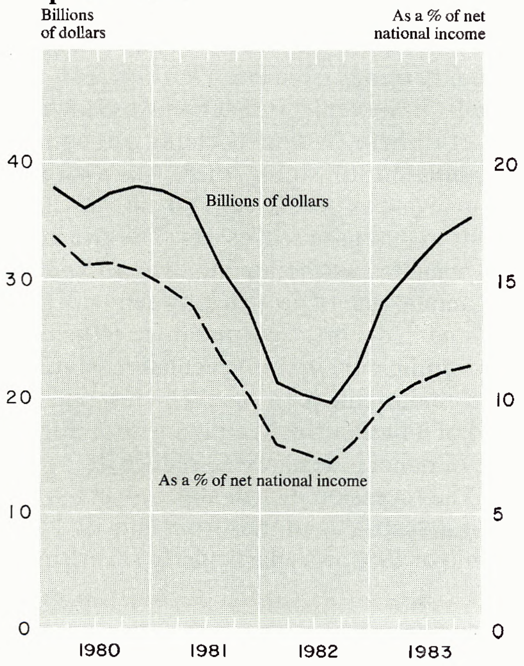
The recession, which affected all the major industrial countries from mid-1981 to the end of 1982, was particularly severe in

Rate of Increase of Spending in Canada
Year-over-year percentage change



Canada. As export sales declined and production levels fell, consumers became much more uncertain about both their personal economic prospects and the outlook for inflation. This shift in mood, allied with the eventual recognition that personal balance sheets had been over-extended, led to an unprecedented reduction in consumer spending and an associated fall in business revenues. Businesses in turn, faced with major

Corporate Profits



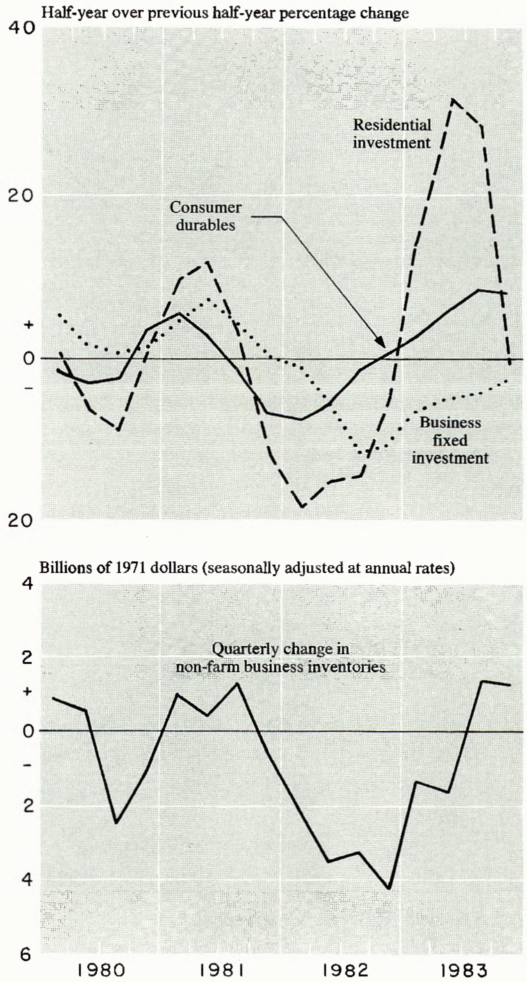
cost increases arising from earlier contractual agreements and strong resistance to wage concessions, cut back both output and employment in an effort to reduce inventories and minimize corporate losses. As a consequence of these efforts, price increases did begin to slow late in 1981, though it was not until the second quarter of 1982 that a similar trend was clearly established for new wage settlements.

Economic Activity in the Recovery

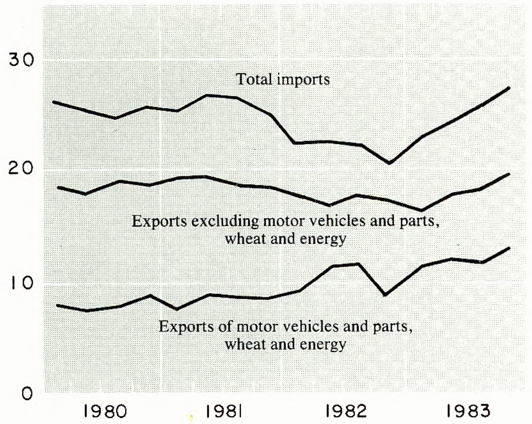
As inflation decelerated and interest rates began to fall, spending began to revive in both Canada and the United States. The six-quarter decline in economic activity in Canada finally ended during the last quarter of 1982 and since then output has risen steadily back to about the level prevailing prior to the recession. In this environment the unemployment rate also fell substantially, although the year-end level of around 11 per cent remained well above the 7¼ per cent rate that prevailed just before the economic downturn.

The expenditure patterns so far during the upturn have been broadly typical of earlier cycles in Canada. The recovery was initiated late in 1982 by increased spending on consumer durables and housing, and this was followed in turn by a trend towards

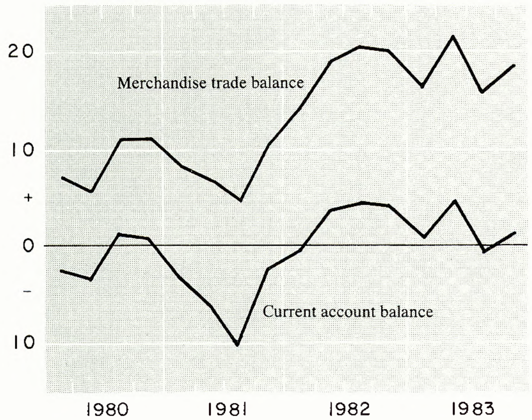
Selected Real Expenditure Components



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

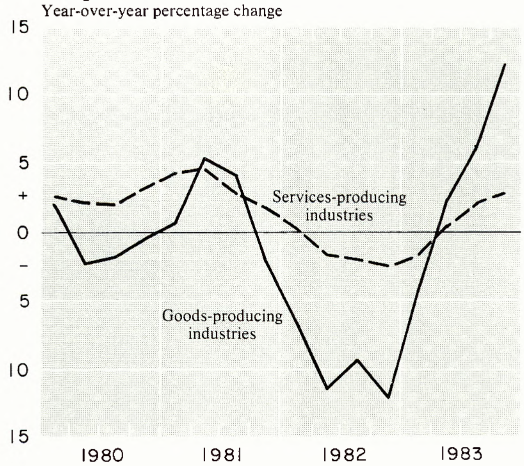


inventory accumulation as the upturn in sales began to look more lasting. Increases in the volume of exports to the expanding U.S. economy also provided an important source of strength throughout 1983. Import volumes also recovered quickly in response to the rise in domestic spending.

The pace of the recovery in economic activity to date has also been typical of earlier cyclical upturns, with particularly rapid growth in the early quarters being followed by slower growth more recently. Although the recent recession was much deeper than earlier ones, the recovery of consumer and business spending appears to have been restrained both by continued uncertainty about the future and the legacy of debt incurred during the last period of inflation. Business fixed investment has continued to decline through the recovery to date although that part of investment directed to machinery and equipment has increased substantially and somewhat earlier than would normally be expected.

The recovery in economic activity has not been uniform across industries or provinces. Goods-producing industries in

Output
Year-over-year percentage change

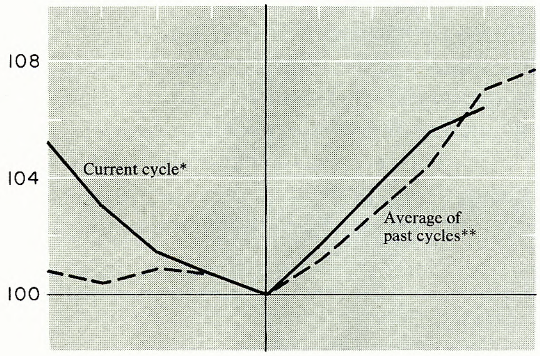


central Canada have benefited particularly from the expanding demand, after an especially pronounced contraction during the recession. Among those industries, the most favoured sectors have been those affected by the strong upturn in North American auto sales and housing starts. Provinces other than Ontario and Quebec have thus far been relatively less affected. The particularly weak performance of Alberta and British Columbia reflects continuing low prices for resource-based products following after a long period of high prices and very strong economic expansion.

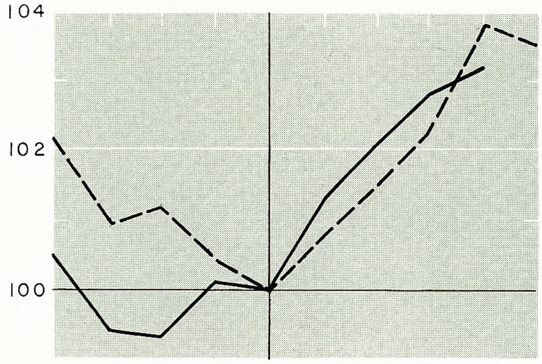
The overall rate of employment growth generated by the upturn in production has been relatively strong by postwar standards, although thus far only about two

Cyclical Comparisons

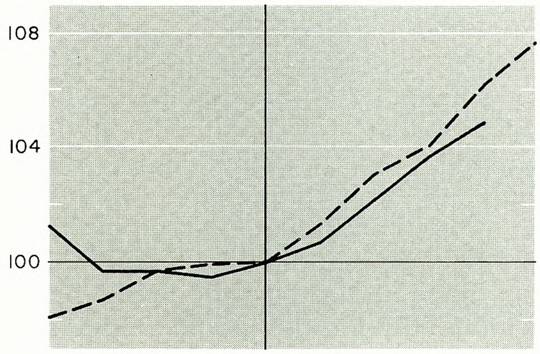
Gross National Expenditure
Constant dollars



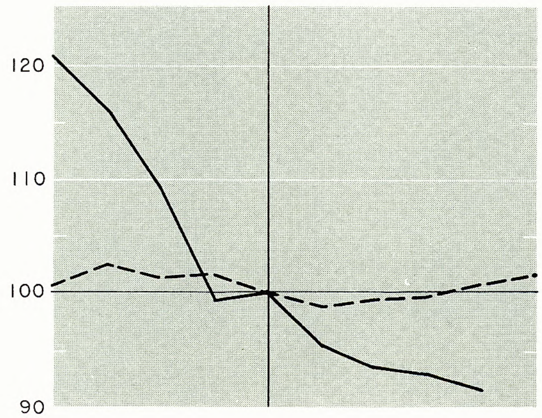
Output per worker



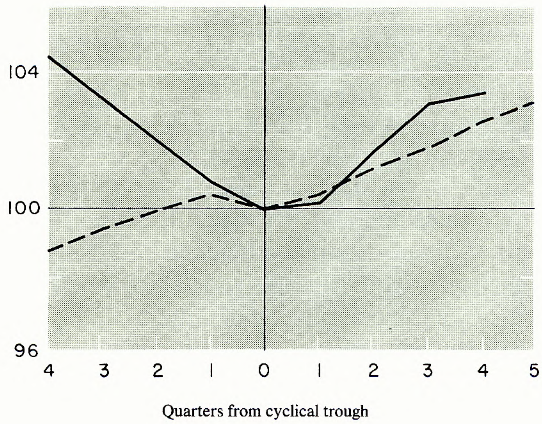
Personal consumer expenditure
Constant dollars



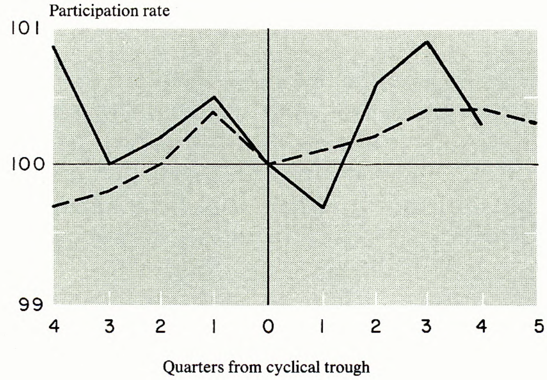
Business fixed investment
Constant dollars



Employment



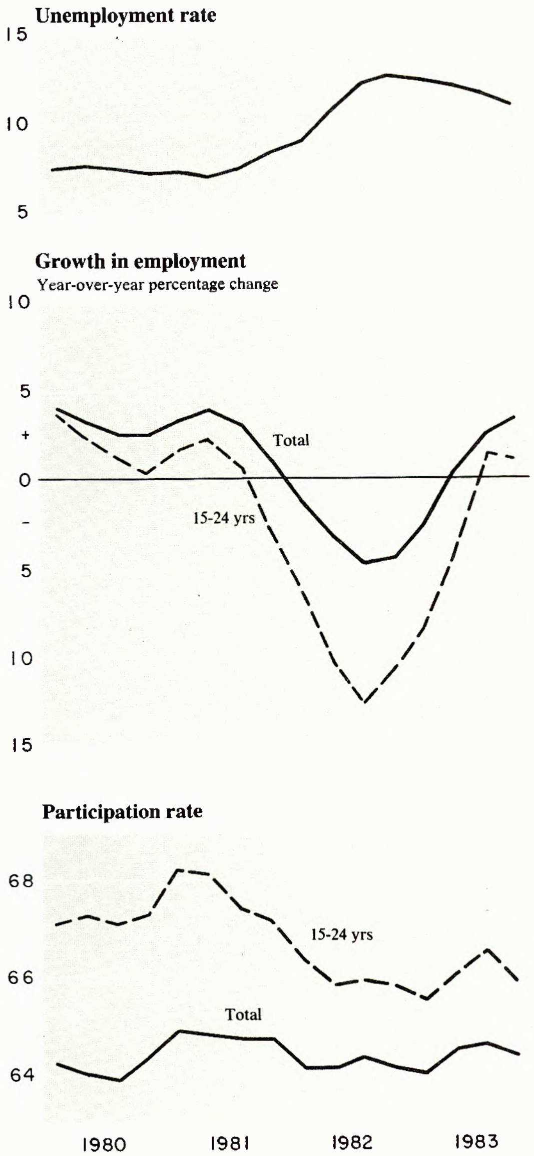
Labour force
Participation rate



*4Q1981 – 4Q1983 (4Q1982 = 100)
**Average of 4 postwar cycles (2Q1954, 4Q1957, 1Q1961 and 1Q1975 = 100)

thirds of the jobs lost earlier have been regained. For the young, this proportion has been very much lower, with the result that youth unemployment still remains above 18½ per cent compared to a rate for the labour force as a whole that is currently around 11 per cent. There has also been an increased reliance of businesses on part-time workers, a development which may have been encouraged by cost factors as well as the uncertainty about future prospects referred to above. The behaviour of the labour force participation rate has also been somewhat unusual recently – first rising as is normal in the upswing as workers were encouraged to enter or reenter the job market, but then falling back over the last few months.

Selected Labour Market Indicators



In concert with the increased demand for labour has come a significant increase in output per employed worker over the last year or so. Indeed, this measure of productivity began to rise before the trough in output was reached, perhaps indicating that major improvements to production procedures were induced by the severity of the recession.

Inflation and Recovery

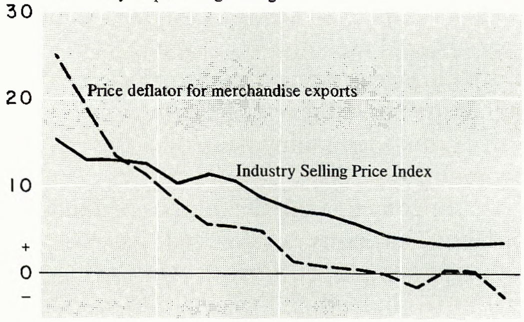
The reduction in inflation which began during the recession became much more noticeable and pervasive during 1983. At the end of the year the Consumer Price Index was 4½ per cent above its level of a year earlier, little more than half the rate of increase during 1982 and the lowest since mid-1972. The Industry Selling Price Index rose by less than 3½ per cent over the same period, while the prices of most industrial raw materials fell back in the second half of 1983 from the peaks reached earlier in the year. Most prices followed this pattern of deceleration, though some differences persisted. In particular, the rate of increase of prices strongly influenced by regulation (or indirect taxes) remained above the rest of the Consumer Price Index, while price increases for goods traded in international markets dropped to very low levels under the influence of improving trends in inflation in the United States and elsewhere.

The most important factor underlying the improvement in Canadian inflation has been a slowing in the rate of increase of domestic production costs. Of particular significance was the deceleration of nominal wage increases in 1983 in response to competitive pressures in labour markets and various

Indicators of Prices and Costs

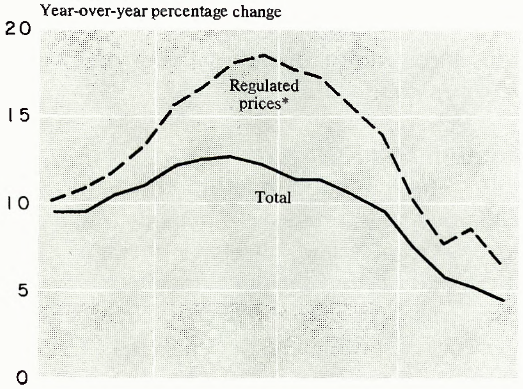
Industry selling prices and price deflator for merchandise exports

Year-over-year percentage change

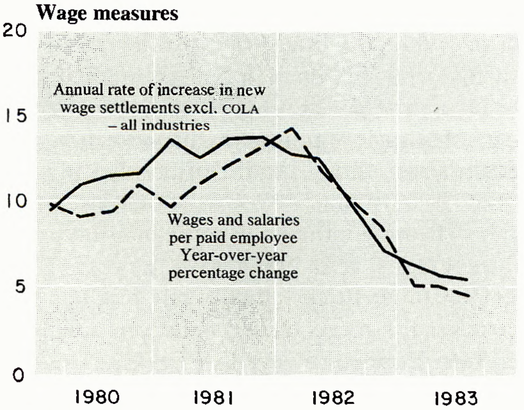


Consumer Price Index

Year-over-year percentage change



Wage measures



*Includes energy, public transportation, communications, vehicle registration fees and drivers' licences, water, property taxes, tobacco and alcohol and agricultural products subject to regulation

government restraint programs. The annual rate of increase of average earnings declined from around 11 per cent during 1982 to about 5 per cent during 1983, while new wage settlements in the unionized sector stabilized around the 5 to 6 per cent level established near the beginning of the year. In conjunction with higher levels of productivity, these developments led to a substantial slowing in the rate of growth of unit labour costs during the year.

These improving circumstances have left Canada at the beginning of 1984 with a much lower rate of inflation than for many years. It is still, however, a rate well above price stability. Furthermore, while Canadian inflation performance has recently improved more than that of our main trading partners, the gap that opened up earlier has not yet been fully closed.

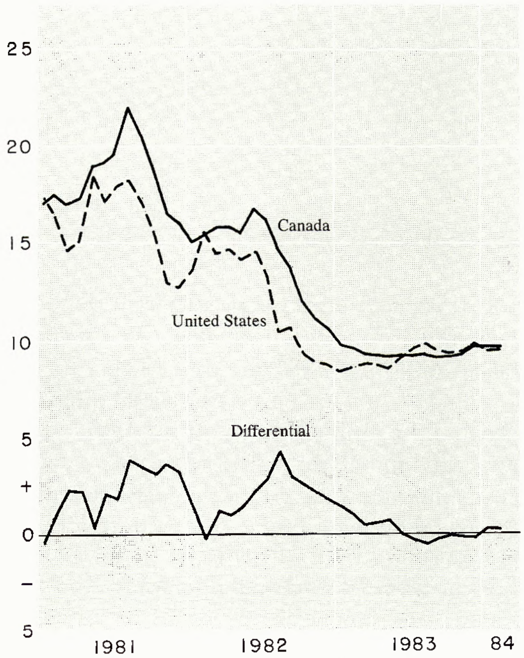
Interest Rates, Credit Demands and the Monetary Aggregates

Interest rates in Canada were significantly lower and much more stable during 1983 than in the previous few years. The various demands for money and credit associated with these interest rates were however of an unusually disparate character. The credit demands of governments continued to grow rapidly whereas those of the household sector increased only moderately after a year or so of no growth and there was no significant recovery from the slightly declining trend of credit demand by the business sector that had begun late in 1982. These credit developments also influenced the movements of the broadly defined monetary aggregates over the past year, contributing to their slow growth, while at the same time the narrowly defined monetary aggregates expanded more quickly.

Interest Rates and the Exchange Rate

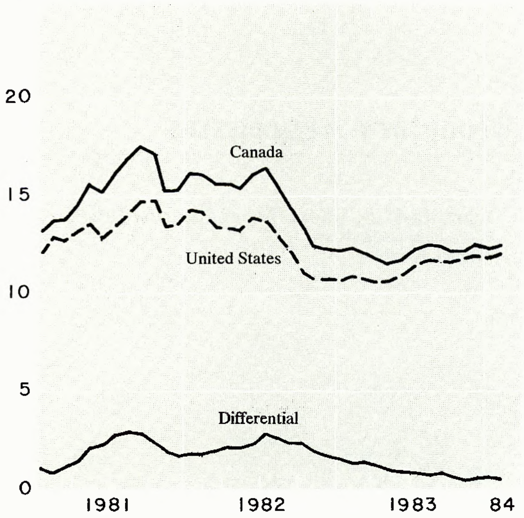
During 1983 the stability of short-term interest rates in both Canada and the United States was in sharp contrast with the extraordinary volatility that they had shown in the three preceding years. While the trend of short-term rates in Canada was virtually flat from early in the year, that in the United States was gently rising. As a result of these slightly divergent trends, the decline in the differential between short-term interest rates in the two countries that had commenced in the summer of 1982 continued until mid-1983. Since that time the differential has been very small, being negative on average in the remainder of the year and slightly positive in the early weeks of 1984.

Canada-U.S. Short-Term Interest Rates
90-day commercial paper
Monthly averages



Long-term market interest rates in Canada were also relatively stable in 1983 at a level below that of the two preceding years. In the United States long-term rates were similarly more stable but with a slightly rising trend. As a consequence the difference in long-term market rates (as measured by government bond yields) between the two countries narrowed from around 1½ percentage points at the beginning of the year to an unusually low level of less than ½ of a percentage point at year-end and into early 1984. For a range of

Canada-U.S. Long-Term Interest Rates
Federal government bonds
Monthly averages

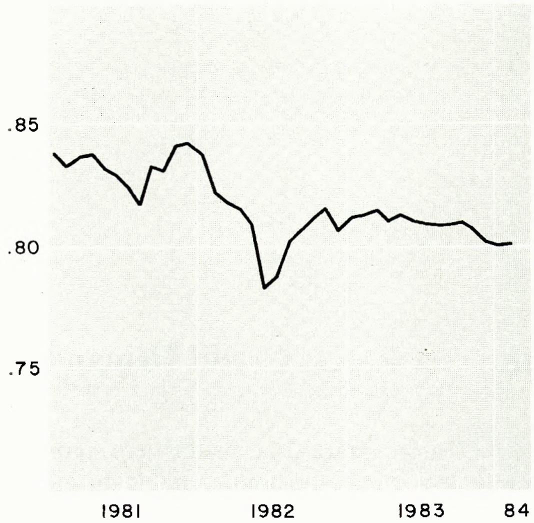


short- to medium-term government bond yields the differential was negative for the latter months of 1983 and into 1984.

The upward trend of market interest rates in the United States during 1983 appeared mainly to reflect recurring concerns in that country that the large size of the fiscal deficit and the momentum of the recovery in economic activity might over time generate continuing upward pressures on interest rates.

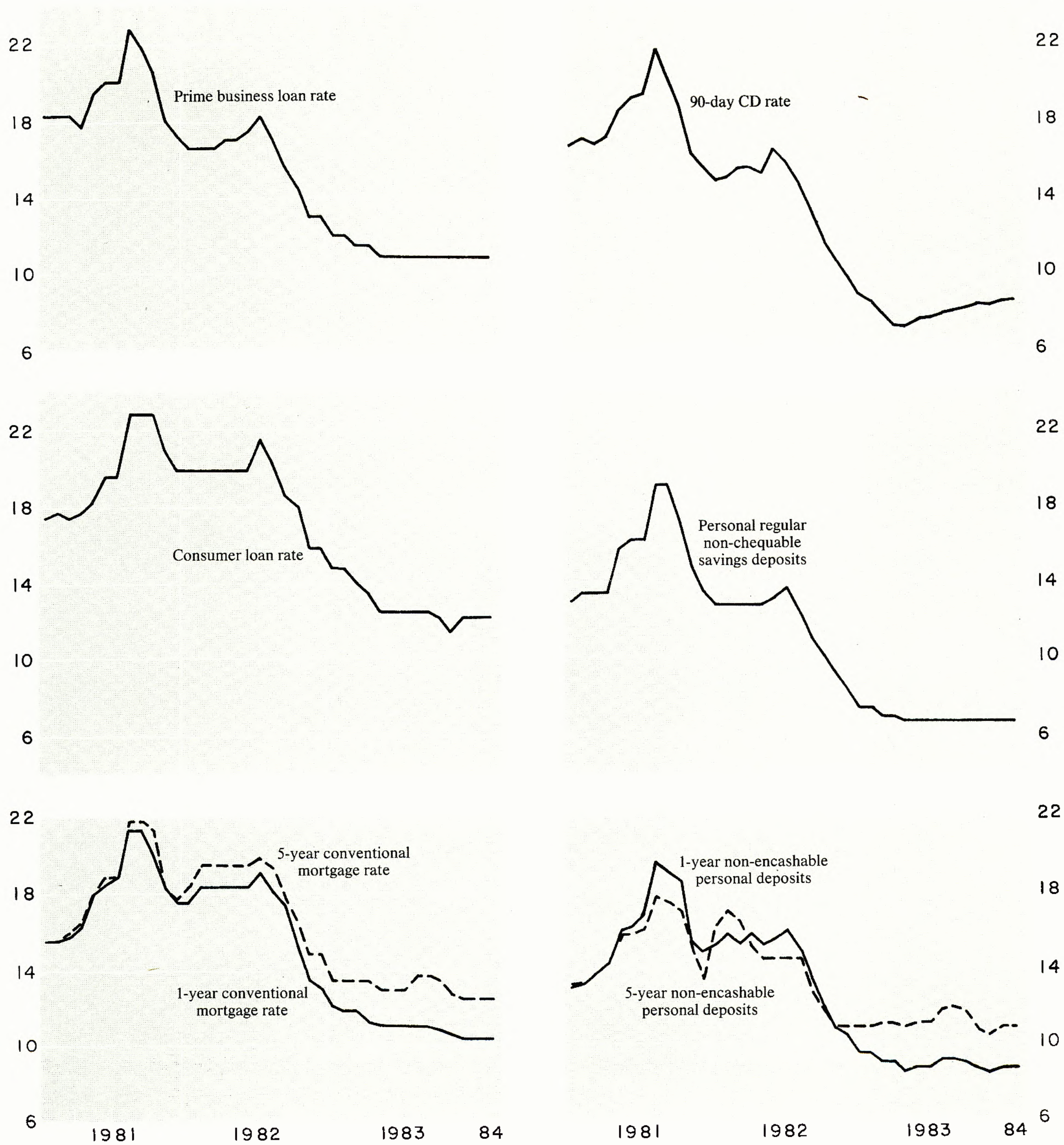
In spite of the rising trend of market interest rates in the United States relative to those in Canada, the foreign exchange value of the Canadian dollar fluctuated in a very narrow range around 81 U.S. cents until late in 1983. Since the U.S. dollar was appreciating strongly against major overseas currencies, the Canadian dollar followed the same trend. The stability of the Canadian dollar in terms of U.S. currency was due in large part to the recession in Canada having been more severe than that in the United States, contributing to a substantially more rapid decline in inflation rates here and to a very large surplus in Canada's merchandise trade position. As the end of the year approached expectations of a narrowing Canadian trade surplus and the possibility that the upward trend of U.S. interest rates would persist led to some downward pressure on the exchange rate.

Exchange Rate
Monthly average
Cdn. $ in U.S. funds



There were declines in most administered borrowing and lending rates in 1983. The prime lending rate at chartered banks fell by 1½ percentage points early in 1983 in response to earlier declines in short-term market rates. With active competition among financial institutions in the consumer loan business, the interest rates charged on such loans fell by 3 percentage points during the year to levels as low as they have been at any time in the last 25 years. Mortgage lending rates were influenced by the strong preferences exhibited by savers for floating rate and short-term deposits because of their uncertainty about future inflation and interest rate movements. The rates on these deposits declined further than those on longer-term personal deposits, and, because of the use of these deposits to fund mortgage loans with similar terms to maturity, rates

Selected Administered Interest Rates at Banks



on shorter-term mortgage loans also fell to levels well below those on 5-year mortgages for the first time in some years.

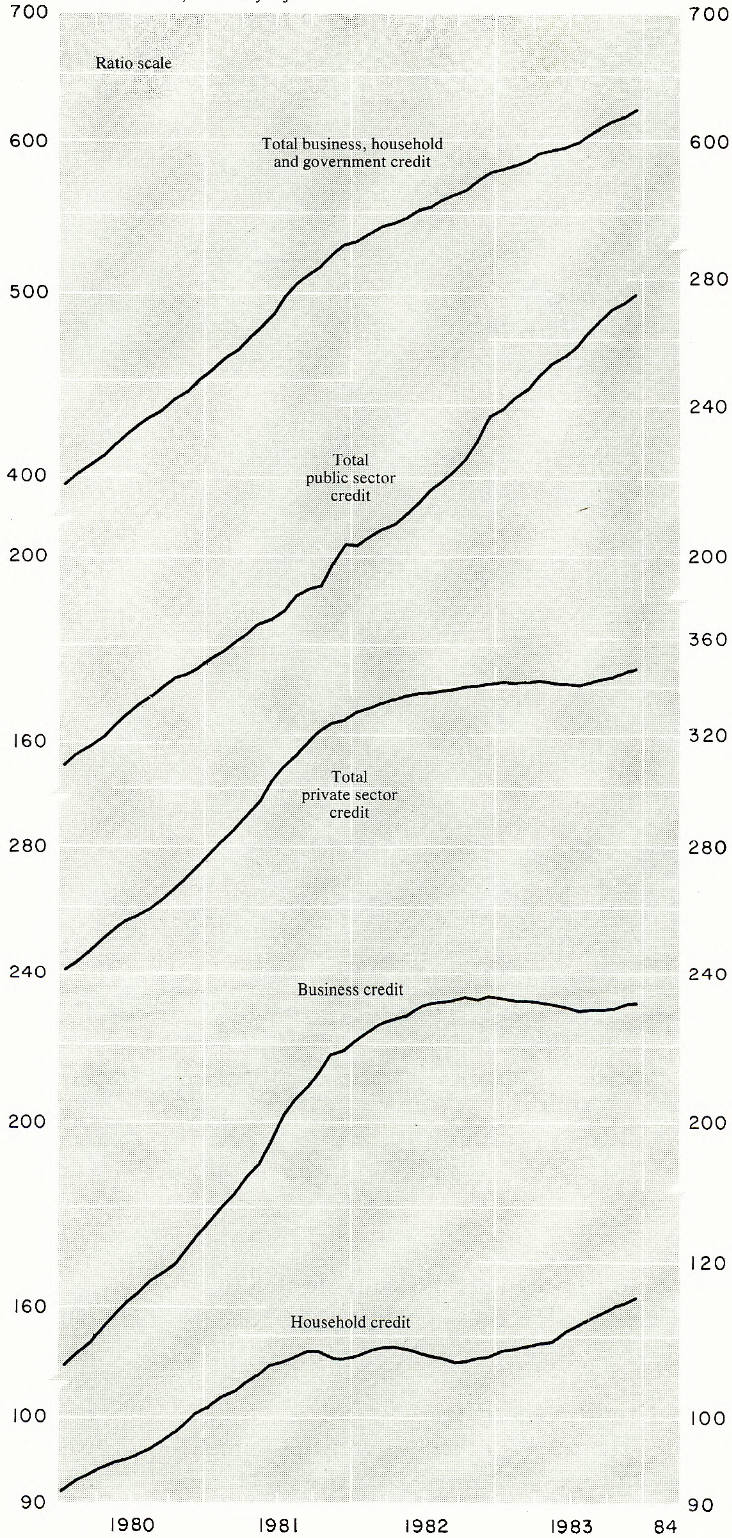
The Credit Aggregates

The series of credit aggregates in the chart on page 22 show strongly disparate movements, both over the last four years and with respect to each other.

During the earlier part of the period, businesses and households borrowed very large amounts to finance activities such as corporate takeovers and real estate acquisitions on the firmly held view that strong upward price movements would certainly continue and could accelerate. With the decline in the rate of inflation these expectations have turned out to be wrong and vigorous

Credit Aggregates: Amounts Outstanding

Billions of dollars, seasonally adjusted



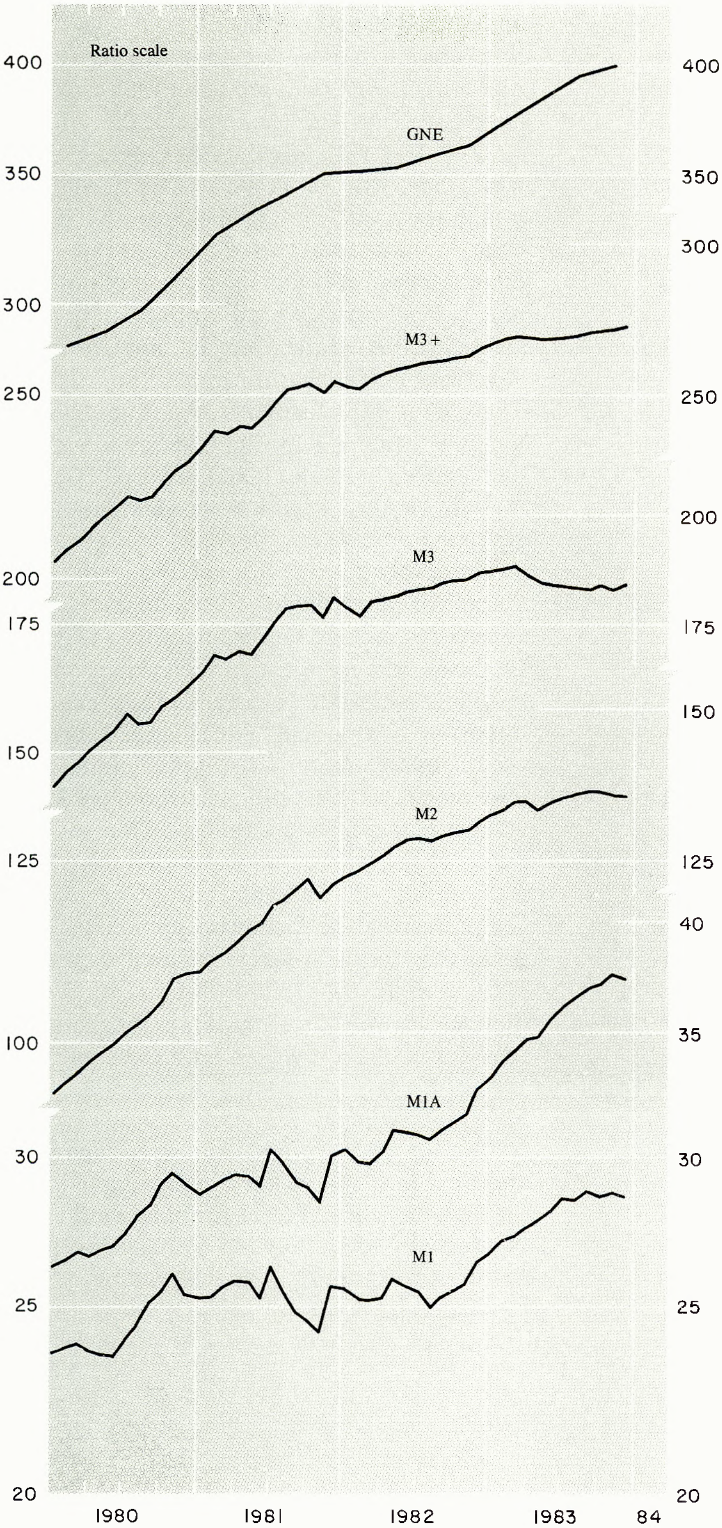
Total public sector credit: Loans extended to, and bonds and bills issued by federal, provincial and municipal governments, and guaranteed bonds issued by provincial and municipal government enterprises

Total private sector credit: Total of business and household credit

Business credit: Loans and financial leases extended to, and acceptances, short-term paper, bonds and equities issued by non-financial businesses

Household credit: Consumer credit and residential mortgage loans extended by selected lenders

Monetary Aggregates and GNE
Billions of dollars, seasonally adjusted



GNE: Total spending on goods and services at current prices

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

M3: M2 plus non-personal fixed-term deposits plus foreign currency deposits of residents booked in Canada

M2: M1A plus other notice deposits and personal term deposits

M1A: M1 plus daily interest chequable savings deposits plus non-personal notice deposits

M1: Currency and demand deposits

efforts have taken place over the past two years to reduce debt burdens. Households have made efforts to pay down existing mortgage indebtedness whenever possible and to minimize new loans by making larger downpayments on purchases of houses and durable consumer goods. These actions were especially noticeable in 1982 but also continued in 1983. Thus household credit demand showed only moderate growth in the past year despite a strong resurgence of consumer spending on houses, cars and other consumer goods. Corporations took advantage of some improvement in profits in 1983 as the economy began to recover to reduce their indebtedness, and also sought to strengthen their balance sheet positions further by using the proceeds of new issues of equity capital and long-term bonds to pay down short-term bank loans. As a result business borrowing from the banks declined appreciably until late in the year, and total credit outstanding to business borrowers did not change much.

The rate of growth in credit demands by the public sector, which had been less than that of the private sector in the first half of the 1980-83 period shown on the chart, has accelerated in the past two years. In 1983 the amount of credit outstanding to the public sector increased at a 17 per cent rate. While there was some decline in the combined total of new borrowing by provinces and municipalities in the past year, that of the federal Government continued to rise.

The Monetary Aggregates

A series of monetary aggregates and, for comparison purposes, total spending in the economy (GNE) are shown in the chart on page 23. Here too there are quite disparate movements of the series over time and relative to each other.

The monetary aggregates that are narrowly defined to include mainly money balances used in making payments (M1 and M1A) are much more sensitive to interest rate movements than are other financial aggregates. As a consequence of the substantial decline in interest rates up to early 1983, there was for a time a sharp acceleration in the growth of these aggregates. However, in the second half of the year this effect tapered off. The movement of both narrow aggregates was also affected by the spread in 1983 of the financial innovations described in last year's Annual Report. There have been further shifts of funds into the new forms of deposits that pay interest on balances held for chequing purposes, and the M1A aggregate, which was defined to encompass these new deposits, has grown more rapidly than M1 through the year.

Although the broader monetary aggregates include the balances that make up the narrow aggregates, the savings and term deposits added are by far the most important component. These latter deposits are the main counterparts of the lending and investing activities of the chartered banks and other financial institutions. The movements of the larger aggregates therefore typically reflect the trend and pattern of private sector borrowing. As has been noted earlier, private sector borrowing from banks grew very strongly in 1980 and 1981 and since then has grown little, and this is the main reason for slow growth in both 1982 and 1983 of the larger monetary aggregates. Much the strongest demand for credit in the last two years has come from governments, and their needs have been largely met through the sales of treasury bills, market bonds and Canada Savings Bonds directly to investors other than deposit-taking institutions.

International Financial Problems

Developments in international financial markets were dominated by the aftermath of the financial difficulties which struck many of the larger developing countries in the summer of 1982. The threat to confidence in the international banking system posed by these difficulties in 1982 was eased in 1983 by progress in grappling with them. Particularly constructive was the gradual evolution towards a consistent, longer-term approach which has been generally accepted by the various participants involved. In addition there was an improvement in the international economic environment, and a significant strengthening of the financial resources of the International Monetary Fund. This section reviews these developments.

In retrospect, it is clear that the prompt international response to the foreign exchange and liquidity crisis in Mexico in the summer of 1982 provided the basis for the present framework of arrangements for dealing with debtor countries. At the time, however, this was not evident. The Mexican situation triggered a reassessment of other countries, particularly in Latin America. These countries were quickly affected as the international commercial banks, which had been keen lenders, began to focus on the total amounts these countries owed and their diminished prospects for servicing the debts. There was an abrupt decline in the availability of bank credits to a large number of countries, and it became temporarily impossible for many of them to keep interest payments current and to roll over existing debt as it matured. There was some risk that the payments problems of the debtor countries would feed back on the lending banks as depositors might reassess the wisdom of holding deposits in those banks.

A large scale and rapid response was required to arrest the spreading crisis. Rescue packages that combined funds raised from the banks, the International Monetary Fund, and (in some cases) governments of the industrial countries were put in place for one country after another. In five instances – Mexico, Brazil, Argentina, Hungary and Yugoslavia – interim bridge financing was arranged by central banks through the Bank for International Settlements. With the concurrence of the Minister of Finance, the Bank of Canada acted for Canada, participating to the extent of U.S.$150 million in the line of credit of U.S.$1,850 million to Mexico, U.S.$80 million in the U.S.$1,450 million facility to Brazil, and U.S.$10 million in each of the U.S.$500 million facilities to Argentina and Yugoslavia. Of the total U.S.$4.6 billion provided through or in parallel with the BIS, Canada's share was U.S.$250 million.

To a large extent the willingness to provide essential funds was due to the decisive actions taken by the International Monetary Fund. Though its own resources were limited the IMF was in a position to negotiate adjustment programs with the debtor countries, and it was able to calm fears in the banking community, to ensure the banks' participation in the rescue efforts, and to provide a basis for official assistance.

By the spring of 1983 the crisis atmosphere had begun to subside. No further bridge loans were arranged through the BIS and by year-end all drawings on the outstanding bridge loans had been repaid. At the same time a calmer approach to the problem has developed as the major participants have come to recognize that their particular interests are best served by coordinated and cooperative actions. As the crisis atmosphere eased, the international community began to realize that the financial problems of the debtor countries were likely to persist for some time and that quick global solutions were unrealistic. There is widespread agreement that the most practical approach is to provide a package of economic adjustment and financing tailored to the particular needs and possibilities of the individual countries, with the burden of financing to be shared by all the creditors. The role of coordinator has fallen naturally to the IMF.

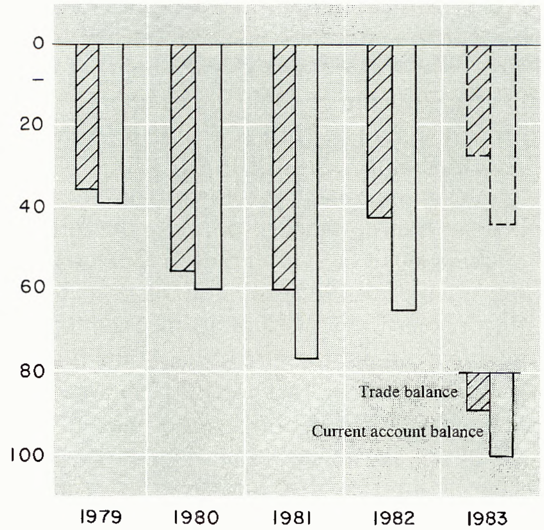
Debtor countries will have to implement a program of economic adjustment that will strengthen their international payments sufficiently to enable them to service their international debt. The adjustments will be much more manageable if they occur within a context of expanding world trade. During the adjustment period a continuing flow of financing will be required. The magnitude of the financing need means that all major creditors – the IMF and other international institutions, the banks and official creditors – will have to remain involved for an extended period of time.

Progress was made in 1983 in a much improved international economic environment. Interest rates remained relatively stable following the large drop in the second half of 1982, oil prices stabilized following a decline early in the year, and there was a moderate increase in other commodity prices from the historically low levels reached in 1982. The recovery in North America continued at a robust pace, and appears now to be spreading to other industrial countries.

Against the improved economic background, the prineipal debtor countries made further progress on the difficult task of adjustment. Their current account deficits, which were in aggregate sharply reduced in 1982, were further reduced in 1983, though largely as a result of constraints on imports. Comprehensive adjustment packages, largely designed and implemented with the support and encouragement of the IMF, are now in place in a wide range of countries. Adherence to these programs will greatly increase the prospects of the debtor countries for a return to sustained growth.

IMF involvement has been a great help to debtor countries in obtaining a continued flow of new financing. In most

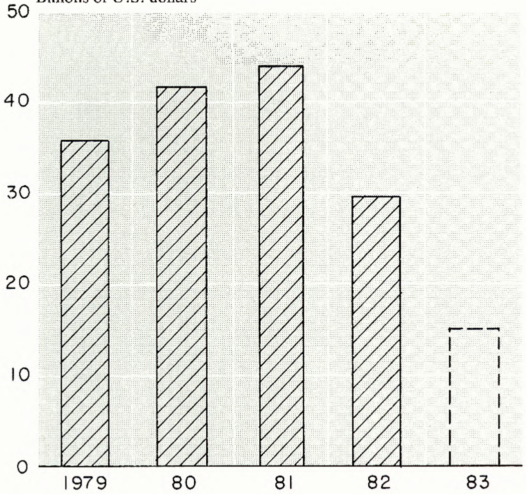
Non-Oil Developing Countries*:
Trade and Current Account Balances
Billions of U.S. dollars



Source: OECD
*Excludes members of OPEC but includes Mexico and other oil-exporting countries

Non-Oil Developing Countries*: Net New Borrowing from Banks

Billions of U.S. dollars



Source: BIS

*Excludes members of OPEC but includes Mexico and other oil-exporting countries

instances the eommercial banks continued to regard the presence of the IMF as the quid pro quo for their continued participation. The largest share of the financing provided in 1983 came from the commercial banks, which responded with a combination of trade eredits, rescheduling of maturing loans, and new medium-term credits. The larger Canadian banks, as major participants in international financial markets, have been actively involved. Aggregate figures for the international banking system for the entire year are not yet available, but they will probably show an increase of $12–$18 billion in bank lending to the non-oil developing countries. While increases in lending of this magnitude are small by comparison with the years immediately preceding the debt crisis, they have been difficult for the banks in the circumstances. Fortunately for all concerned, the international banks, including the Canadian banks, have recognized that the value of their claims on debtor countries is best protected through their continued involvement. Their participation has made and is making a contribution that is essential to the ultimate successful resolution of the international debt problem.

The governments of the industrial countries also continued to play an active role in providing additional financing to the debtor countries during 1983, rescheduling maturing public sector debts, and on a more limited basis providing new credits to the debtor countries, usually in the form of export credits. Canada has participated in various rescheduling arrangements; it guaranteed special export credits for Yugoslavia and Mexico; and it has agreed to participate in a multilateral initiative to provide trade financing for Brazil.

Important measures were taken during 1983 to strengthen the financial resources of the IMF. An increase of 47.5 per cent in the overall quotas of member countries that was negotiated early in the year was ratified by most member countries by December. Fund quotas now amount to SDR90 biilion. An increase in the General Arrangements to Borrow (GAB), under which the major industrial countries agree to provide funds to supplement the IMF's ordinary resources, was also ratified, bringing it and associated arrangements to about SDR19.5 billion. The GAB was also amended to broaden somewhat the circumstances in which drawings on it are available. Finally the IMF has recently negotiated a medium-term standby credit facility for SDR3.0 billion with the BIS and the central banks or governments of most of the major industrial countries. Acting for Canada, the Bank of Canada has agreed to a share of SDR180 million. The SDR3.0 billion facility matches one provided by Saudi Arabia.

Developments in the Canadian Payments System

The Canadian Payments Association was created by an Act of Parliament proclaimed in December 1980. The objects of the Association are "to establish and operate a national clearings and settlement system and to plan the evolution of the payments system". The Act requires the Bank of Canada to appoint an officer of the Bank to be a Director and the Chairman of the Board of the Association and another officer of the Bank to be his alternate as Director and Chairman.

The first task of the Association was to bring non-bank deposit-taking institutions into partnership with the chartered banks in the management of the national system for clearing and settling cheques and other means of payment. Early in 1983, once the necessary by-laws had received Cabinet approval, the Association assumed responsibility for operation of the system. Before that time the Canadian chartered banks exchanged their customers' cheques and other payments items directly among themselves and settled the balances daily through their accounts at the Bank of Canada. Any other institution that accepted chequable deposits was effectively required to use the services of one of the chartered banks as its agent in clearing its customers' cheques through the system.

Membership in the Association has now grown to 127 institutions which together account for most of the payments services offered to the Canadian public. Besides the Bank of Canada, it comprises 12 Canadian-owned chartered banks and 59 recently chartered foreign-owned banks, 25 centrals and federations of cooperative credit institutions and 30 trust and mortgage loan companies and other deposit-taking institutions.

In order to be eligible to represent itself directly in the clearing and settlement process rather than employ an agent, an Association member must account for at least one half of one per cent of the national total of cheques, money orders and other forms of payment exchanged in Canada. Taken together, the eligible institutions, including the Bank of Canada, account for more than 96 per cent of this total which amounts to 1½ billion items a year. During the past year several of the eligible non-bank members have begun to clear and settle on their own behalf: Montreal City and District Savings Bank, Canada Trustco Mortgage Company, La Caisse centrale Desjardins du Québec and the Canadian Co-operative Credit Society Limited. The last two institutions represent their respective regional centrals in the clearings and thus well over

3,000 individual credit unions and caisses populaires. It is expected that during the coming year some of the other eligible non-bank members will complete the necessary preparations to participate directly in the clearing system.

Although the remaining member institutions will continue to clear through other members, their choice of clearing agents has been widened and they share in the management of the clearing system through their membership in the Canadian Payments Association.

For the Bank of Canada, in its role as provider of the final means of settlement between participants in the clearing system, the recent changes have involved the establishment of a direct relationship with an additional number of important deposit-taking institutions. Non-bank institutions participating directly in the clearing and settlement process have opened settlement accounts at the Bank of Canada through which their daily clearing gains and losses vis-à-vis the other participants are settled. Each has been granted, on essentially the same basis as a chartered bank, a line of credit under which an unforeseen overdraft on its settlement account may be met by a temporary advance from the central bank (see Appendix Tables II and III). This direct access to central bank credit, though not frequently used, provides a useful additional source of liquidity to bank and non-bank institutions alike.

The first objective of the Canadian Payments Association Act has now been achieved. The Association is now working on the second phase of its mandate, namely, planning the future development of the national payments system.

Debt Management and Foreign Exchange Operations

Debt Management

1983 was an exceptionally active year for the Government of Canada's debt management operations, an area in which the Bank of Canada is involved as fiscal agent for the Government. The domestic borrowing program of the Government, in addition to refinancing the debt which came due in 1983, raised close to $27 billion over the year. This was approximately 50 per cent higher than the amount raised in 1982 and more than double the amount in 1981. Extensive use was made during the year of each of the main borrowing avenues of Government. Sizeable additions were made to the amount of treasury bills offered at tender, the frequency of new marketable bond issues was accelerated and a very large Canada Savings Bond sales campaign was conducted in the fall. Almost half of the increase during the year in the Government's domestic debt outstanding was accounted for by treasury bills, somewhat more than one quarter by marketable bonds and just under one quarter by Canada Savings Bonds.

Over $13 billion was raised during the year through an increase in the supply of treasury bills. Additions to the amount of bills outstanding were made at the regular weekly tenders throughout most of 1983, the major exception being towards the end of the year when Government cash balances were at relatively high levels in the aftermath of the fall Canada Savings Bond campaign. The increases in the supply of bills were particularly large from March through October, averaging around $1.5 billion per month. During this period both the chartered banks and other institutional investors added significantly to their treasury bill holdings. The major portion of funds raised through the treasury bill issues in 1983 continued to be for 3-month and 6-month terms although 1-year bills accounted for an increasing share, reaching close to 20 per cent. In mid-June the offerings of 1-year bills at tender were rescheduled from every 4 weeks to every 2 weeks. This fostered the enlarged role of the 1-year bill and added more flexibility to the overall treasury bill program. In late October the Government issued \$500 million of 21-day bills to supplement its cash balances over early November when interest payments and outflows for maturing Canada Savings Bonds were expected to exceed temporarily the sales receipts from the new Savings Bond issue.

Offerings of new Government marketable bonds provided for the refunding of about \$5½ billion of bonds that matured during 1983 and, as well, raised close to \$7½ billion over the year. Marketable bond financings were undertaken on 16 occasions, an increase from 12 in 1982 and double the number of 1981. Details of the 1983 program are provided in Appendix Table V. The new issues were spread rather evenly over maturities ranging from 2 years to 22 years, resulting in virtually no change in the average term to maturity of just over 8 years for total Government marketable bonds outstanding. The new issue market for bonds with terms of around 10 years continued to expand in response to regular offerings by the Government and increased investor interest in this maturity. Issues with terms of 9–10 years accounted for 38 per cent of marketable bond financing in 1983 in comparison with about 25 per cent the previous year and only limited new offerings prior to 1982.

A new development which promoted expanded sales of short-term Government bonds was the introduction in May of an auction of 2-year bonds. This was repeated in August and November to establish a quarterly pattern for the operation. At these auctions the investment dealers and banks who are primary distributors of Government marketable bonds bid for bonds for re-offering to investors rather than receiving allotments as they do with conventional new issues of Government marketable bonds. By the end of 1983 \$950 million of 2-year bonds had been issued through the three auctions.

From time to time during the year the Bank of Canada engaged in market transactions involving purchases of Government marketable bonds maturing in 1983 and the first half of 1984 against sales from its portfolio, primarily of 5- and 10-year bonds but also of shorter and longer issues. Totalling around \$700 million, these transactions increased the Bank's holdings of maturing issues and gave it more flexibility in refunding exercises. The transactions included purchases of the issue of \$2 billion maturing on September 1 – the last issue outstanding from the conversion loan exercise of 1958. Appendix Table IV presents the Bank of Canada's bond transactions, on a net basis, and by term category, over the year.

Canada Savings Bond sales generated around \$6¼ billion in 1983 net of redemptions during the course of the year and almost \$2 billion of bonds that matured on November 1. Terms for the 1983-84 Savings Bond series (S38) were announced on October 6. The interest rate of the new issue was set at 9¼ per cent for the first year beginning November 1, 1983 and at a minimum of 7 per cent for the remaining 6 years to maturity. (An increase in the rate for the 1982-83 series to 9¼ per cent from 8½ per cent was also announced for the year beginning November. A higher rate of 10½ per cent was already in effect as a minimum rate for the year for all other outstanding series.) The new issue was well received by the public. From the start of the sales period on October 24 until the issue was removed from sale on November 8, investors purchased over \$11½ billion of the bonds. This was the third successive annual campaign with gross sales in excess of \$11 billion. Unlike the previous two years when downward pressure on the interest rate structure was evident in advance of and during the sales campaign, the 1983 results were obtained in a relatively stable interest rate environment.

As a result of the overall borrowing program in 1983, the portion of outstanding Government domestic debt represented by treasury bills increased to 29 per cent from 24 per cent at the end of 1982, while marketable bonds declined over the year to 41 per cent from 44½ per cent and Canada Savings Bonds to 30 per cent from around 31½ per cent. As indicated in the accompanying table, about three quarters of the increase in

Summary of Changes in Government of Canada Securities Outstanding During 1983

Billions of dollars (par value)

Treasury bills	+13.3
Marketable bonds	+ 7.4
Canada Savings Bonds	+ 6.2
Total	+26.9
Held by:	
Bank of Canada	
Treasury bills	+ 0.3
Marketable bonds	+ 1.3
Total	+ 1.6
Chartered Banks	
Treasury bills*	+ 3.7
Marketable bonds*	+ 1.3
Total	+ 5.0
Government Accounts	
Treasury bills	–
Marketable bonds	+ 0.2
Total	+ 0.2
General Public	
Treasury bills*	+ 9.3
Marketable bonds*	+ 4.6
Canada Savings Bonds	+ 6.2
Total	+20.1

*Estimated

total debt during the year was absorbed by additions to the holdings of the general public.

In addition to its role in domestic financing operations, the Bank also assisted the Government in its foreign financing activities during the year. A net reduction in the Goverment's foreign debt outstanding occurred in 1983 as three borrowings that had been arranged in 1978 came due and only one new financing was undertaken. The maturities included U.S.$250 million in April and U.S.$400 million in October of bonds that had been issued in the U.S. market and in May DM600 million (U.S.$242 million) in notes that had been placed in the German market. The new financing in foreign markets was a U.S.$500 million issue of 10⅞ per cent 5-year notes in the Eurobond market in October. A "shelf registration" statement covering U.S.$500 million of bonds was also filed with the United States Securities and Exchange Commission in October but no borrowings have yet been made under this provision. The shelf registration enables the Government of Canada to react more quickly to financing opportunities in the U.S. market should it wish to borrow there.

In June changes were made to the existing agreement for a U.S.$3.5 billion revolving standby credit facility provided to Government by participating Canadian banks. The term of the facility was extended by two years to June 29, 1991, and the period during which drawings may be made by Government at ¼ of 1 per cent over the London Interbank Offering Rate (LIBOR) rather than ⅜ of 1 per cent was extended by two years to June 29, 1985.

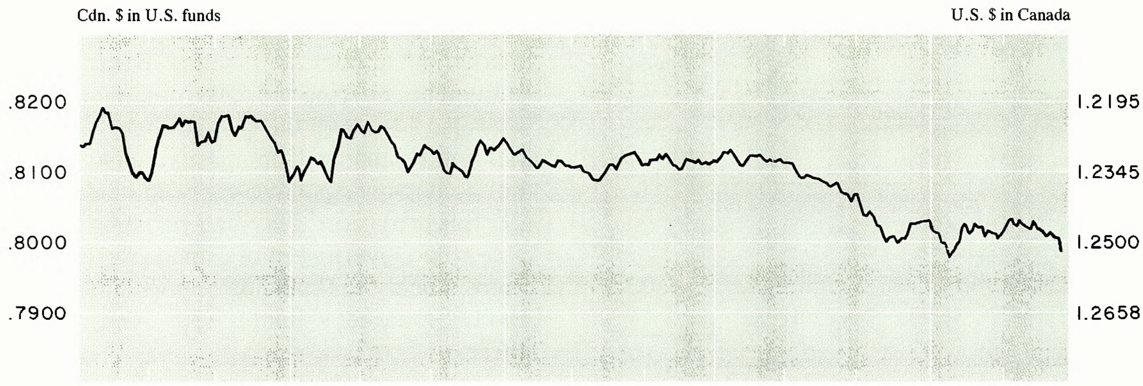
Foreign Exchange Operations

Official foreign exchange market operations by the Bank of Canada, as agent for the Exchange Fund Account of the Minister of Finance, continued to be directed at moderating fluctuations in the exchange rate. Purchases and sales of foreign exchange for this purpose were significantly less than in recent years because of the stability of the exchange rate during much of 1983. Foreign exchange holdings in the Account were reduced by the net repayment of U.S.$392 million in Government of Canada foreign currency debt noted earlier. No drawings were made under the standby credit facilities with Canadian and foreign banks in 1983 and at year-end there were no outstanding drawings under either facility.

During the year there were significant changes in the composition of Canada's international reserves. One of these changes was associated with the SDR905 million increase in Canada's quota in the International

Exchange Rate

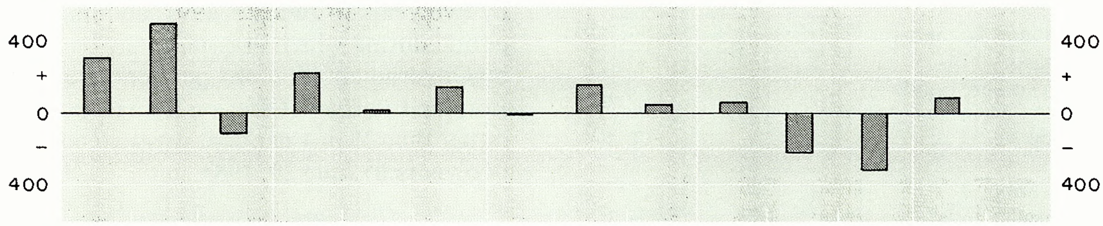
Spot closing rates, daily



Changes in Official Reserves

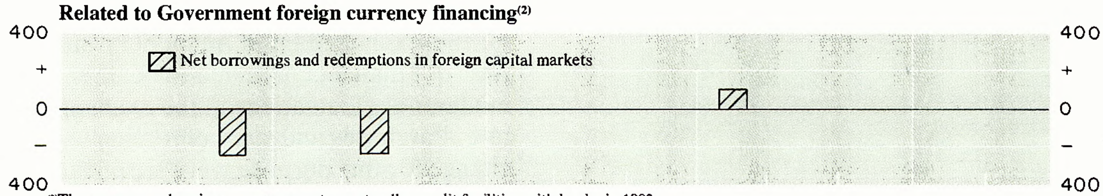
Millions of U.S. dollars, monthly

Excluding official external financing, gold sales and revaluation effects[1]



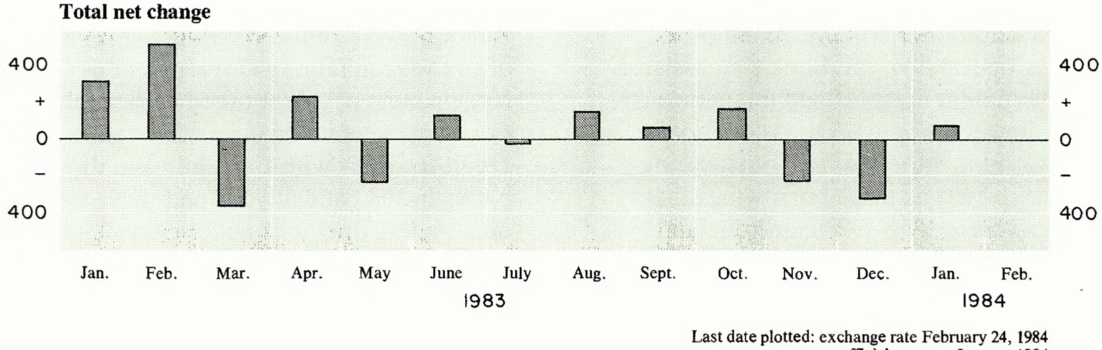
[1]The U.S. dollar value of SDR-denominated assets (gold, the IMF position and SDRs) rises when the exchange rate of the U.S. dollar declines in terms of SDRs, and decreases when the opposite occurs.

Related to Government foreign currency financing[2]



[2]There were no drawings or repayments on standby credit facilities with banks in 1983.

Total net change



Last date plotted: exchange rate February 24, 1984
official reserves January 1984

Monetary Fund agreed in the Fund's Eighth General Review of Quotas. In December, one quarter of this increase was paid in SDRs (equivalent to U.S.$235 million) and the balance in Canadian dollars. This decline in SDR holdings was offset by an equal increase in Canada's reserve position in the IMF. Other changes in the composition of reserves reflected purchases of SDRs with U.S. dollars and further modest sales of gold from the Account for U.S. dollars. In March the Minister of Finance announced an extension in the gold sales program of up to a further 1 million ounces.

Canada's holdings of official international reserves were the equivalent of U.S.$3,793.2 million at the end of 1982, U.S.$4,204.4 million at the end of 1983 and U.S.$4,276.5 million at the end of January 1984.

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	Other CPA members	Government of Canada	Other
1983								
January	+ 654	−1,163	−987	−1,289	− 106	–	− 71	−30
February	− 728	+ 805	+338	− 3	+ 434	+ 3	+ 5	−24
March	− 200	− 897	+828	+ 136	− 649	+ 5	+226	+13
April	+ 319	− 1	−389	+ 5	− 197	− 3	+ 83	+41
May	+ 533	+ 383	−817	+ 546	− 101	− 3	−308	−35
June	+ 44	− 131	+596	+ 384	+ 87	+ 13	+ 57	−32
July	+ 90	− 9	+276	+ 227	+ 89	− 13	+ 43	+11
August	− 62	+ 412	−683	+ 64	− 363	+ 21	−103	+48
September	+ 485	− 605	− 9	− 216	− 135	+ 89	+138	− 5
October	− 10	− 4	+231	+ 144	− 4	− 36	+111	+ 2
November	+ 101	+ 4	−152	+ 228	− 412	+ 33	+ 65	+39
December	+ 427	+ 284	+232	+1,218	− 35	+ 38	−237	−41
	+1,653	− 922	−536	+1,444	−1,392	+147	+ 9	−13
1984								
January	− 297	− 287	− 50	−1,513	+ 255	− 42	+684	−18

APPENDIX TABLE II

Chartered Bank Cash Reserves and Clearing Balances of Other Directly Clearing Members of the Canadian Payments Association

Millions of dollars unless otherwise indicated

		Chartered bank cash reserves			
		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
1983					
January	**1–15**	6,742	2,001	4,741	4,795
	16–31				4,827
February	**1–15**	6,883	2,356	4,526	4,575
	16–28				4,590
March	**1–15**	6,226	2,013	4,214	4,284
	16–31				4,259
April	**1–15**	6,043	1,944	4,099	4,135
	16–30				4,157
May	**1–15**	6,095	1,950	4,144	4,190
	16–31				4,215
June	**1–15**	6,123	2,004	4,119	4,147
	16–30				4,153
July	**1–15**	6,283	2,065	4,218	4,262
	16–31				4,265
August	**1–15**	6,156	2,105	4,052	4,107
	16–31				4,088
September	**1–15**	5,915	2,167	3,748	3,769
	16–30				3,767
October	**1–15**	5,810	2,211	3,599	3,628
	16–31				3,728
November	**1–15**	5,709	2,191	3,518	3,581
	16–30				3,545
December	**1–15**	5,592	2,271	3,321	3,377
	16–31				3,364
1984					
January	**1–15**	6,091	2,328	3,762	3,796
	16–31				3,795
February	**1–15**	6,049	2,765	3,284	3,324

(1) For the period from January 1 through August 31, 1983, the column indicates the number of reservable days in each averaging period. As of September 1983 the method of calculating the average cash reserve holdings of the banks for purposes of meeting the statutory reserve requirements was changed. This change involves using a weighted rather than a simple average of daily reserve holdings. For the period beginning on September 1 the column indicates the sum of the weights applicable to the days in each averaging period. (See "Revision to the reserves regulations: Introducing weighted averaging" Bank of Canada Review, September 1983.)

Chartered bank cash reserves			Clearing balances of other directly clearing members of the Canadian Payments Association	
Sum of reservable day weights in period[1]	Cumulative excess reserves at end of period	Average excess reserve ratios	Average holdings of Bank of Canada deposits	Number of clearing days in month
9	485	.036	4	20
11	939	.057		
11	535	.032	3	20
9	570	.042		
11	770	.048	4	23
12	544	.031		
10	356	.025	3	20
10	577	.040		
10	458	.032	3	21
11	780	.050		
11	307	.020	7	22
11	378	.024		
10	440	.031	5	20
10	462	.033		
11	604	.039	8	23
12	435	.026		
15	321	.015	36	21
15	284	.014		
14	415	.022	49	20
17	2,204	.094		
15	944	.046	73	21
15	402	.020		
15	833	.042	95	20
15	641	.032		
14	469	.025	79	21
18	582	.024		
15	600	.029		

APPENDIX TABLE III

Bank of Canada Advances to Members of the Canadian Payments Association and PRA Outstanding with Investment Dealers

Millions of dollars unless otherwise indicated

		Advances to chartered banks		Purchase and Resale Agreements		Advances to directly clearing non-bank members of the CPA	
		Number of days outstanding	Average amount outstanding[1]	Number of days outstanding	Average amount outstanding[1]	Number of days outstanding	Average amount outstanding[2]
1983							
January	**1–15**	3	45.6	9	267.0	1	0.1
	16–31	3	2.9	10	255.1		
February	**1–15**	1	7.7	4	89.7	–	–
	16–28	1	18.7	9	247.3		
March	**1–15**	9	70.8	9	185.7	2	0.6
	16–31	1	24.5	6	72.3		
April	**1–15**	1	0.4	8	174.6	2	0.3
	16–30	2	0.9	8	210.2		
May	**1–15**	2	8.1	9	215.1	2	0.6
	16–31	3	7.6	8	174.6		
June	**1–15**	3	4.3	7	88.9	3	0.3
	16–30	3	3.1	8	164.8		
July	**1–15**	1	13.5	6	90.6	1	0.1
	16–31	1	6.9	8	203.7		
August	**1–15**	2	4.8	7	93.4	2	0.2
	16–31	1	0.3	8	107.3		
September	**1–15**	1	5.9	5	69.3	3	1.2
	16–30	2	12.8	6	88.4		
October	**1–15**	–	–	6	96.0	2	0.5
	16–31	2	7.4	5	56.8		
November	**1–15**	2	23.3	7	137.4	3	0.6
	16–30	2	3.0	2	25.5		
December	**1–15**	2	0.5	3	26.1	5	5.4
	16–31	3	11.3	1	25.3		
1984							
January	**1–15**	1	7.7	5	48.0	5	2.3
	16–31	1	1.4	8	112.8		
February	**1–15**	2	2.5	2	9.6		

(1) Advances to chartered banks and Purchase and Resale Agreements with investment dealers summed and divided by number of reservable days in the averaging period.

(2) Advances to non-bank members of the Canadian Payments Association summed and divided by number of clearing days in the month.

APPENDIX TABLE IV

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]				Bankers' acceptances[2]	Total of bills, bonds and bankers' acceptances	Securities under PRA
		3 years and under	3–5 years	5–10 years	Over 10 years			
1983								
January	+236.6	+ 21.6	− 3.5	− 18.1	–	–	+236.6	+288.0
February	−394.4	–	–	–	–	–	−394.4	− 24.4
March	− 76.0	–	–	–	–	–	− 76.0	−263.6
April	+ 50.0	–	–	–	–	–	+ 50.0	+ 0.0
May	− 30.0	+ 41.5	–	− 41.5	–	–	− 30.0	+101.5
June	+ 78.3	–	–	–	–	–	+ 78.3	−101.5
July	–	–	–	–	–	–	–	+ 0.0
August	+ 1.0	–	–	–	–	–	+ 1.0	+ 0.0
September	−112.0	–	–	–	–	–	−112.0	+274.0
October	+255.0	+ 25.0	–	− 25.0	–	–	+255.0	−274.0
November	+100.0	+345.7	−102.0	−200.7	−43.0	–	+100.0	+ 58.9
December	−260.0	+119.1	− 17.9	− 84.7	−16.5	–	−260.0	+168.6
Total	−151.5	+552.9	−123.4	−370.0	−59.5	–	−151.5	+227.5
1984								
January	–	+117.0	−100.0	–	−17.0	–	–	−227.5

[1] Classified by years to maturity at time of transactions.

[2] Includes maturing bankers' acceptances.

APPENDIX TABLE IV (Continued)

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

Delivered basis, par value in millions of dollars

Net transactions with government and other client accounts: Purchases (+) of new issues less matured holdings — Bills	Bonds	Net purchases from (+) or net sales to (−) government accounts and client accounts — Bills	Bonds	Net change in holdings of Government of Canada securities and bankers' acceptances: Bills	Bonds	Bankers' acceptances	Total
+ 533.0	–	− 397.2	+ 0.9	+649.4	+ 11.9	–	+ 661.3
+ 208.0	+ 74.5	− 621.0	+15.7	−843.9	+ 102.3	–	− 741.6
+ 881.6	− 173.2	− 582.6	+ 2.5	− 17.5	− 193.8	–	− 211.3
+ 327.1	+ 300.0	− 364.8	+ 1.1	+ 12.3	+ 301.1	–	+ 313.4
+ 825.1	+ 63.8	− 410.5	−10.5	+478.1	+ 61.3	–	+ 539.4
+ 488.2	+ 250.0	− 677.3	+ 1.5	−204.3	+ 243.5	–	+ 39.2
+ 219.0	+ 200.0	− 329.4	+ 0.3	−110.4	+ 200.3	–	+ 89.9
+ 84.2	+ 150.0	− 298.6	− 0.3	−213.4	+ 149.7	–	− 63.7
+ 452.0	+ 201.6	− 323.4	− 0.2	+290.6	+ 201.4	–	+ 492.0
+ 181.6	+ 139.7	− 320.6	+ 0.1	−158.0	+ 139.8	–	− 18.2
+ 42.9	+ 150.0	− 242.9	− 2.0	− 41.1	+ 148.0	–	+ 106.9
+1,055.7	− 50.3	− 472.4	− 7.0	+491.9	− 57.3	–	+ 434.6
+5,298.4	+1,306.1	−5,040.7	+ 2.1	+333.7	+1,308.2	–	+1,641.9
+ 292.4	–	− 377.6	− 2.4	−312.7	− 2.4	–	− 315.1

APPENDIX TABLE V

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

Date in 1983		Issues offered/ retired	Term to maturity	Yield to maturity	Millions of dollars par value: Amount delivered	Millions of dollars par value: Amount retired
Issues payable in Canadian dollars – direct and guaranteed						
Feb.	1	8¼% Feb. 1, 1983				575(1)
		10½% Feb. 1, 1983				250(2)
		9¾% Dec. 15, 1985	2 yrs. 10½ mos.	9.75	200	
		10¼% Feb. 1, 1988	5 yrs.	10.25	350	
		11¼% Feb. 1, 1993	10 yrs.	11.25	500	
		11¾% Feb. 1, 2003	20 yrs.	12.05	250(3)	
					1,300	
Feb.	14					162(4)
Feb.	22	10% Mar. 15, 1986	3 yrs. 21 days	10.19	200	
		10½% Mar. 15, 1988	5 yrs. 21 days	10.63	300	
					500	
Mar.	15	11¼% Mar. 15, 1983				400(5)
		13¾% Mar. 15, 1983				300(6)
		10% Mar. 15, 1986	3 yrs.	10.12	100(7)	
		10½% Mar. 15, 1988	5 yrs.	10.50	150(8)	
		11¼% Feb. 1, 1993	9 yrs. 10½ mos.	11.20	450(9)	
					700	
Apr.	27	10% Mar. 15, 1986	2 yrs. 10½ mos. 4 days	10.00	125(10)	
		10¼% Feb. 1, 1988	4 yrs. 9 mos. 4 days	10.31	150(11)	
		11¼% Feb. 1, 1993	9 yrs. 9 mos. 4 days	11.20	600(12)	
		11¾% Feb. 1, 2003	19 yrs. 9 mos. 4 days	11.88	275(13)	
					1,150	
May	15	8¾% May 15, 1983				950(14)
		9¾% Dec. 15, 1985	2 yrs. 7 mos.	9.75	75(15)	
		10½% Oct. 1, 1989	6 yrs. 4½ mos.	10.44	275(16)	
		10¾% May 1, 1993	9 yrs. 11½ mos.	10.75	650	
		11¼% Dec. 15, 2002	19 yrs. 7 mos.	11.28	400(17)	
					1,400	
June	6	9¼% June 6, 1985	2 yrs.	9.47	300	
June	21	10½% Oct. 1, 1989	6 yrs. 3 mos. 10 days	10.44	150(18)	
		10¾% May 1, 1993	9 yrs. 10 mos. 10 days	10.87	400(19)	
		11¾% Feb. 1, 2003	19 yrs. 7 mos. 10 days	11.68	250(20)	
					800	
July	12	10½% Mar. 15, 1988	4 yrs. 8 mos. 3 days	10.70	175(21)	
		10¾% Sept. 1, 1990	7 yrs. 1 mo. 20 days	11.00	100	
		11¼% Feb. 1, 1993	9 yrs. 6 mos. 20 days	11.42	300(22)	
		11¾% Feb. 1, 2003	19 yrs. 6 mos. 20 days	11.98	225(23)	
					800	
Aug.	1	11% Dec. 15, 1987	4 yrs. 4½ mos.	11.00	100(24)	
		11¾% Dec. 15, 1992	9 yrs. 4½ mos.	11.75	300(25)	
		12¼% Sept. 1, 2005	22 yrs. 1 mo.	12.21	250	
					650	
Sept.	1	4½% Sept. 1, 1983				1,993(26)

(Continued)

APPENDIX TABLE V (Continued)

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

Date in 1983		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						
Sept.	1	11% Dec. 15, 1987	4 yrs. 3½ mos.	11.06	350(27)	
		11¾% Dec. 15, 1992	9 yrs. 3½ mos.	11.79	650(28)	
		12¼% Sept. 1, 2005	22 yrs.	12.28	500(29)	
					1,500	
Sept.	6	10½% Sept. 6, 1985	2 yrs.	10.67	300	
Sept.	27	11¼% Dec. 15, 1989	6 yrs. 2 mos. 18 days	11.41	225(30)	
		11¾% Oct. 15, 1993	10 yrs. 18 days	11.83	225	
		12¼% Sept. 1, 2005	21 yrs. 11 mos. 4 days	12.35	250(31)	
					700	
Oct.	15	16% Oct. 15, 1983				75(32)
		18¾% Oct. 15, 1983				100(33)
		10% Mar. 15, 1986	2 yrs. 5 mos.	10.11	100(34)	
		10¾% Oct. 15, 1988	5 yrs.	10.82	200	
		11¾% Oct. 15, 1993	10 yrs.	11.75	300(35)	
		12% Mar. 1, 2005	21 yrs. 4½ mos.	12.16	250	
					850	
Nov.	8	10% Mar. 15, 1986	2 yrs. 4 mos. 7 days	10.04	100(36)	
		10¾% Oct. 15, 1988	4 yrs. 11 mos. 7 days	10.81	175(37)	
		11½% Dec. 15, 1993	10 yrs. 1 mo. 7 days	11.54	200	
		12% Mar. 1, 2005	21 yrs. 3 mos. 23 days	12.16	225(38)	
					700	
Dec.	6	9¾% Dec. 6, 1985	2 yrs.	9.94	350	
Dec.	15	9% Dec. 15, 1983				350(39)
		12¾% Dec. 15, 1983				275(40)
		13¼% Dec. 15, 1983				200(41)
		10% Dec. 15, 1986	3 yrs.	10.20	100	
		10¾% Oct. 15, 1988	4 yrs. 10 mos.	10.81	250(42)	
		11½% Dec. 15, 1993	10 yrs.	11.63	375(43)	
		12% Mar. 1, 2005	21 yrs. 2½ mos.	12.16	275(44)	
					1,000	
Dec.	16					6(45)
		Total bonds payable in Canadian dollars			13,000	5,636
		Total treasury bills*			98,575	85,275
Issues payable in foreign currencies – direct						
Apr.	1					309(46)
Apr.	15					1(47)
May	20					299(48)
Oct.	15					493(49)
						1(47)
Oct.	27	U.S. $500 million 10⅞% notes due October 27, 1988	5 yrs.		616(50)	
		Total notes and bonds payable in foreign currencies			616	1,103

(Continued)

* Includes 21-day, three-month, six-month and one-year treasury bills.
[1] Maturity of 8¼% bonds issued February 1, 1978 and April 1, 1978.
[2] Maturity of 10½% bonds issued August 1, 1980.
[3] In addition to $1,700 million 11¾% bonds due February 1, 2003 already outstanding.
[4] 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, $18.0 million 9½% October 1, 2003 bonds by Purchase Fund.
[5] Maturity of 11¼% bonds issued June 1, 1980.
[6] Maturity of 13¾% bonds issued March 31, 1980 and May 1, 1980.
[7] In addition to $200 million 10% bonds due March 15, 1986 already outstanding.
[8] In addition to $300 million 10½% bonds due March 15, 1988 already outstanding.
[9] In addition to $500 million 11¼% bonds due February 1, 1993 already outstanding.
[10] In addition to $300 million 10% bonds due March 15, 1986 already outstanding.
[11] In addition to $350 million 10¼% bonds due February 1, 1988 already outstanding.
[12] In addition to $950 million 11¼% bonds due February 1, 1993 already outstanding.
[13] In addition to $1,950 million 11¾% bonds due February 1, 2003 already outstanding.
[14] Maturity of 8¾% bonds issued May 15, 1978, July 1, 1978 and August 15, 1978.
[15] In addition to $200 million 9¾% bonds due December 15, 1985 already outstanding.
[16] In addition to $350 million 10½% bonds due October 1, 1989 already outstanding.
[17] In addition to $1,225 million 11¼% bonds due December 15, 2002 already outstanding.
[18] In addition to $625 million 10½% bonds due October 1, 1989 already outstanding.
[19] In addition to $650 million 10¾% bonds due May 1, 1993 already outstanding.
[20] In addition to $2,225 million 11¾% bonds due February 1, 2003 already outstanding.
[21] In addition to $450 million 10½% bonds due March 15, 1988 already outstanding.
[22] In addition to $1,550 million 11¼% bonds due February 1, 1993 already outstanding.
[23] In addition to $2,475 million 11¾% bonds due February 1, 2003 already outstanding.
[24] In addition to $325 million 11% bonds due December 15, 1987 already outstanding.
[25] In addition to $1,100 million 11¾% bonds due December 15, 1992 already outstanding.
[26] Maturity of 4½% bonds issued September 1, 1958.
[27] In addition to $425 million 11% bonds due December 15, 1987 already outstanding.
[28] In addition to $1,400 million 11¾% bonds due December 15, 1992 already outstanding.
[29] In addition to $250 million 12¼% bonds due September 1, 2005 already outstanding.
[30] In addition to $450 million 11¼% bonds due December 15, 1989 already outstanding.
[31] In addition to $750 million 12¼% bonds due September 1, 2005 already outstanding.
[32] Maturity of 16% bonds issued July 1, 1981.
[33] Maturity of 18¾% bonds issued October 15, 1981.
[34] In addition to $425 million 10% bonds due March 15, 1986 already outstanding.
[35] In addition to $225 million 11¾% bonds due October 15, 1993 already outstanding.
[36] In addition to $525 million 10% bonds due March 15, 1986 already outstanding.
[37] In addition to $200 million 10¾% bonds due October 15, 1988 already outstanding.
[38] In addition to $250 million 12% bonds due March 1, 2005 already outstanding.
[39] Maturity of 9% bonds issued October 1, 1978.
[40] Maturity of 12¾% bonds issued February 1, 1981.
[41] Maturity of 13¼% bonds issued December 1, 1980.
[42] In addition to $375 million 10¾% bonds due October 15, 1988 already outstanding.
[43] In addition to $200 million 11½% bonds due December 15, 1993 already outstanding.
[44] In addition to $475 million 12% bonds due March 1, 2005 already outstanding.
[45] Cancellation of guaranteed debt by Purchase Funds.
[46] Maturity of U.S.$250 million 8% bonds issued April 1, 1978.
[47] Partial redemption at par of U.S. pay 5% bonds due October 15, 1987 for Sinking Fund.
[48] Maturity of DM600 million 4¾% notes issued May 20, 1978.
[49] Maturity of U.S.$400 million 9% bonds issued October 15, 1978.
[50] Issued in the Euro-U.S. market.

BANK OF CANADA Statement of Revenue and Expense

Year Ended December 31, 1983
(with comparative figures for 1982)

	1983	1982
	(thousands of dollars)	
REVENUE		
Revenue from investments and other sources after deducting interest of $2,493 ($5,129 in 1982) paid on deposits	$1,861,559	$1,986,072
EXPENSE		
Salaries[1]	$ 47,588	$ 42,858
Contributions to pension and insurance funds[1]	6,033	5,329
Other staff expenses[2]	1,529	1,682
Directors' fees	87	98
Auditors' fees and expenses	319	297
Taxes – municipal and business	6,535	6,100
Bank note costs	27,086	25,372
Data processing and computer costs	4,687	4,669
Maintenance of premises and equipment – net[3]	8,790	8,372
Printing of publications	563	591
Other printing and stationery	1,532	1,387
Postage and express	1,607	1,400
Telecommunications	1,574	1,353
Travel and staff transfers	1,524	1,405
Other expenses	1,005	968
	110,459	101,881
Depreciation on buildings and equipment	6,899	5,717
	117,358	107,598
NET REVENUE PAID TO RECEIVER GENERAL FOR CANADA	$1,744,201	$1,878,474

(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 2,078 in 1983 compared with 2,015 in 1982.
(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, 1983
(with comparative figures for 1982)

ASSETS	1983	1982
	(thousands of dollars)	
Deposits payable in foreign currencies:		
U.S.A. dollars	$ 305,045	$ 259,438
Other currencies	4,068	4,427
	309,113	263,865
Advances to members of the Canadian Payments Association	25,000	143,000
Investments — at amortized values (Note 2):		
Treasury bills of Canada	2,762,816	2,426,499
Other securities issued or guaranteed by Canada maturing within three years	4,575,975	4,696,898
Other securities issued or guaranteed by Canada not maturing within three years	9,687,675	8,247,778
Other investments	274,070	1,240,867
	17,300,536	16,612,042
Bank premises:		
Land, buildings and equipment, at cost less accumulated depreciation	85,420	82,210
Cheques drawn on other members of the Canadian Payments Association	2,210,625	1,635,404
Accrued interest on investments	431,505	387,644
Collections and payments in process of settlement:		
Government of Canada (net)	312,571	283,778
Other assets	5,742	14,964
	$20,680,512	$19,422,907

(See accompanying notes to the financial statements)

LIABILITIES	1983	1982
	(thousands of dollars)	
Capital paid up	$ 5,000	$ 5,000
Rest fund	25,000	25,000
Notes in circulation	14,163,088	12,718,781
Deposits:		
Government of Canada	90,407	81,016
Chartered banks	3,446,392	4,838,438
Other members of the Canadian Payments Association	146,805	—
Other deposits	149,459	162,585
	3,833,063	5,082,039
Liabilities payable in foreign currencies:		
Government of Canada	82,925	80,608
Other	24	147
	82,949	80,755
Bank of Canada cheques outstanding	2,566,286	1,506,187
Other liabilities	5,126	5,145
	$20,680,512	$19,422,907

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, 1983 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, 1983 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 13, 1984

BANK OF CANADA Notes to the Financial Statements
December 31, 1983

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. Investments

Included in investments are securities of the Government of Canada totalling $220,587,546.00 (nil in 1982) held under Purchase and Resale Agreements.

Board of Directors

G. K. Bouey	OTTAWA Governor *Member of the Executive Committee*
R. W. Lawson	OTTAWA Senior Deputy Governor *Member of the Executive Committee*
J. Clarry	TORONTO, ONT. *Member of the Executive Committee*
J. H. Dickey	HALIFAX, N.S.
E. H. Finn	OTTAWA, ONT.
J. H. Fraser	CHARLOTTETOWN, P.E.I.
S. Kanee	WINNIPEG, MAN. *Member of the Executive Committee*
C. LeBon	QUEBEC, QUE.
A. A. LeBouthillier	CARAQUET, N.B.
J. R. Longstaffe	VANCOUVER, B.C.
J. S. Palmer	CALGARY, ALTA.
Mme Y. Lefebvre-Richard	MONTREAL, QUE. *Member of the Executive Committee*
J. A. Stack	SASKATOON, SASK. *Member of the Executive Committee*
M. Woodward	GOOSE BAY, NFLD.
Ex-officio	
M. A. Cohen	OTTAWA Deputy Minister of Finance *Member of the Executive Committee*

Principal Officers

G. K. Bouey, *Governor*
R. W. Lawson, *Senior Deputy Governor*

A. Jubinville, *Deputy Governor*
J. N. R. Wilson, *Adviser*
W. A. McKay, *Adviser*
S. Vachon, *Adviser*[1]
J. Clément, *Associate Adviser*

J. W. Crow, *Deputy Governor*
J. Bussières, *Adviser*
G. G. Thiessen, *Adviser*
J. S. Roberts, *Associate Adviser*[2]
T. E. Noël, *Secretary*

Securities Department

F. Faure, *Chief*

V. O'Regan, *Deputy Chief*
S. L. Harris, *Securities Adviser*
J. F. Dingle, *Securities Adviser*[3]
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*
W. P. Jenkins, *Deputy Chief*

International Department

W. E. Alexander, *Chief*
R. F. S. Jarrett, *Chief, Foreign Exchange Operations*
K. J. Clinton, *Research Adviser*
D. J. Powell, *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

G. M. Pike, *Chief*

Secretary's Department

T. E. Noël, *Secretary*
R. L. Flett, *Associate Secretary*
H. A. D. Scott, *Special Adviser*

Computer Services Department

J. M. McCormack, *Chief*
D. W. MacDonald, *Associate 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*

(1) Also Chairman of the Board of Directors of the Canadian Payments Association
(2) On leave of absence as Interim General Manager of the Canadian Payments Association
(3) Also Alternate Chairman of the Board of the Canadian Payments Association

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.	K. T. MCGILL, *Agent*
MONTREAL	R. MARCOTTE, *Agent*
	J. G. M. SABOURIN, *Assistant Agent*
OTTAWA	R. DUPONT, *Agent*
TORONTO	C. R. TOUSAW, *Agent and Banking Operations Adviser*
	G. R. STOCKFORD, *Deputy Agent*
	C. P. DESAUTELS, *Assistant Agent*
WINNIPEG	A. H. POTTER, *Agent*
REGINA	G. L. PAGE, *Agent*
CALGARY	R. E. A. ROBERTSON, *Agent*
VANCOUVER	G. H. SMITH, *Agent*