Bank of Canada

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

1984

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February 28, 1985

The Hon. Michael H. Wilson, P.C.,
Minister of Finance,
O t t a w a .

Dear Mr. Wilson,

In accordance with the provisions of the Bank of Canada Act I am transmitting herewith my report for the year 1984 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 – 1984

General Observations

Any one year can generally be adequately understood only when viewed in a longer perspective, and 1984 was no different in this regard. The basic story for the Canadian economy, as for so many other countries, was one of further recovery from the inflationary turmoil of the 1970s and the sharp recession of 1981-82.

The satisfaction that Canadians can take from the achievement of lower inflation and expanding output and employment in 1984 is tempered by widespread recognition that the road to recovery is a long one. The continued expansion in economic activity has carried total national output to new peaks, but the recovery has been very uneven across industries and across regions. In many areas of the country, and particularly among young people, unemployment is still distressingly high. However, recognizing that we are well away from general economic prosperity should not be allowed to conceal the fact that genuine progress has begun to be made. We are not yet at price stability, but the rate of cost and price increases we are experiencing at present is a tremendous improvement over the double digit pace of three years ago. It is increasingly accepted that Canada has indeed shown itself capable of turning the momentum of inflation around and of building the foundation of good performance that is essential for sustained economic advances.

This reversal of inflation was long overdue and absolutely vital. Our inflation problem has not only been the fact of high recorded rates of cost and price increase. Just as disturbing was the widening pessimism over our prospects for ever curbing the escalation of costs and prices. Beliefs that this country was somehow destined to be subject to chronic high inflation gave rise to defensive expectations and attitudes leading to still more inflation. There was no alternative to getting inflation down; otherwise it would only have worsened and the economic damage would have been still greater. But in the face of fears of continued inflation and entrenched behaviour, the reduction in inflation has been achieved with great difficulty. Plans made by individuals and firms on the assumption of continued high inflation, which almost invariably involved running up debts on a larger and riskier scale, were completely upset.

One of the unavoidable by-products of a return to low inflation is that it exposes problems that had been masked by inflationary conditions. The recent decade of serious inflation in Canada and throughout the world, and the way in which inflation had eventually to be fought, left a legacy of major financial and economic distortions. Many individuals, businesses, governments and, indeed, countries still remain heavily burdened by debts accumulated during that period. At the same time, the continuing imbalance of government fiscal positions has nourished lingering concerns about inflation and contributed to high world interest rates. In this environment, financial institutions continue to have to cope with a substantial volume of problem loans; businesses have been anxious to redress their financial positions before undertaking new investment commitments; and individuals have been similarly cautious, restricting spending where possible to pay down debts. While there is no doubt that these financial strains are gradually being corrected, those that remain in Canada are particularly concentrated in those parts of the country where resource-based industries predominate. These severe regional economic difficulties have limited the improvement in our overall situation, but they do not alter the fact that Canada's basic position has been changing for the better.

The fact that so many countries have been confronting similar kinds of problems of transition to economic stability has had a marked impact on the world economic environment. Some of those global imbalances, showing up in extreme movements of exchange rates and interest rates, have weighed rather heavily on the Canadian economy, giving rise to renewed debate about the extent to which Canada can expect to protect itself from less favourable aspects of developments affecting the world economy. I will return to this question later when I discuss the Bank's conduct of monetary policy. However, before doing so I want to comment on the features of the international economic and financial situation that have been particularly significant for us.

Evidently, the crucially important aspect of the world scene has been the fact that the economic expansion that began in 1983 has continued and that more countries are participating in it. Moreover, this recovery has occurred within the framework of continued progress among industrial countries in bringing down inflation, providing greater assurance that the expansion can be long-lasting.

Concerns have nevertheless persisted because of the imbalances in the world economy that complicate economic management and inject special uncertainties into the economic outlook.

The high levels of indebtedness accumulated by a number of developing countries continue to be particularly burdensome. The review of recent developments in the area of international debt that appears later in this Report shows that the strengthening world economic situation together with cooperation and flexibility on the part of borrowers and lenders brought further important improvements in 1984. At the same time, it is clear that in order to make good progress a number of things will have to go well, including the expansion of world trade, the trend of interest rates, the adjustment efforts of borrowers and the cooperative response of lenders.

There are also major imbalances in the economic situations of the major industrial countries. The largest part of the economic expansion has come from one source — a strong growth in spending in the United States spurred in part by a historically large budget deficit. The demands for financing associated with economic expansion have in consequence run well ahead of U.S. sources of funds, pushing up interest rates. High U.S. interest rates and the investment opportunities provided by the rapidly expanding U.S. economy have attracted a huge volume of capital, boosting the international value of the U.S. dollar in the process. The resulting improvement in the competitive position of exporters in other countries has allowed them to increase their sales to the United States by spectacular amounts. In this way exchange rate responses have caused the strong economic expansion in the United States to be a major impulse to export-led recovery elsewhere in the world. The stimulus has not, however, come without a cost. The pressures on world credit markets generated by the extremes of the U.S. situation have meant that other countries have had to contend with the uncomfortable combination of high interest rates and very weak exchange rates for their currencies against the U.S. dollar.

The importance of exchange rate relationships with the U.S. dollar varies considerably across countries, depending on the extent of their economic and financial ties with the

United States. What happens to the exchange rate with the U.S. dollar is a great deal more important for Canada than it is for any other industrial nation because our links with the United States in trade and capital flows are far greater than those of other countries. Therefore, while there is serious worldwide concern about the strength of the U.S. dollar, other countries are able to sustain weakness in their currencies against the U.S. dollar that is far greater than anything tolerable for Canada. For example, over the past two years the drop in value against the U.S. dollar for the currencies of the major industrial countries overseas has been in the range of 25 to 35 per cent, but, taking into account the large proportion of their trade which is outside the United States, the overall exchange rate situations of these countries have changed far less.

One unwelcome result of these extreme exchange rate movements has been that the Canadian dollar has appreciated substantially in relation to these other currencies, adversely affecting the competitive situation of Canadian industries and companies relative to producers in overseas countries. However, with the exchange rate divergences that exist in the world at present there is no way that Canada can have an exchange value for its currency that is reasonable in terms of its overall competitive position, in which the relationship with the U.S. dollar is by far the major element, and that at the same time is consistent with a good competitive position with its major trading partners overseas.

The ability of most industrial countries to moderate the impact on their economies of high world interest rates has been limited because of their own accumulated fiscal deficits. The size of government deficits has been and continues to be a primary concern virtually everywhere. Because of a need to keep the rise of government debt under reasonable control, most industrial countries have been reluctant to contemplate a more expansionary fiscal policy aimed at offsetting some of the impact of high U.S. interest rates on their domestic economic situations. Indeed, they have been anxious to bring about some reduction in their deficits.

Furthermore, because of its dominant position in the world economy, the United States is in a separate category among countries that have substantial fiscal deficits. The United States can expect to get lower interest rates through a reduction in its budget deficit whatever happens to other countries' interest rates. That is not true to the same extent for other countries because even if they curb their deficits they will still be subject to the pervasive effect of U.S. interest rates. There can be no question that a significant reduction in the high international interest rates requires credible deficit reduction action in the United States.

This of course does not mean that what happens to fiscal deficits in Canada and in other countries does not matter. The individual impacts of these deficits on world capital markets and world interest rates may not be large but their domestic effects count for a great deal. A constructive element in increasing understanding of the important issues involved has been the widening realization in Canada and elsewhere that the longer-run effects of deficits, through the cumulation of the debt that has to be carried and serviced in future periods, can be a major obstacle to economic and financial stability. Because of this cumulative effect, timely actions to curb deficits deserve a high priority, for delay makes the future task even more difficult.

With this background, I want to turn now to the most important issue to face Canadian monetary policy in 1984 — the upward pressures on interest rates for a good part of the year. The particular pattern of rates through the year and the factors influencing that pattern are described in a later section of this Report. My purpose here is to explain the approach taken by the Bank of Canada in responding to those pressures.

I will begin by restating what I have said many times in the past. We are not going to realize the goal of sustained economic prosperity, a goal on which we surely all agree, without a relatively stable price level and confidence that such stability can be counted on in the future. The difficulties we have encountered in our transition back to price stability testify to the grip that inflation has had on our system. Whatever the initial short-term conveniences, the cumulative effects of temporizing with inflation have been overwhelmingly negative. And once inflation has been brought down again the only credible way of buttressing confidence in a better future is to maintain a record of actions that are consistently anti-inflationary.

This means that the orientation of monetary policy has to be one that guards against inflation. To recognize this reality is not to deny monetary policy any room to adjust and react to changing economic circumstances. The more other policies or wage- and price-setting arrangements in Canada promote price stability, the less will be the burden on monetary policy. However, since inflation is about confidence in the value of money, the ultimate guiding objective of monetary policy has to be the achievement of long-term price stability.

The instrument which the Bank of Canada has at its disposal in carrying out monetary policy is its role as the provider of ultimate liquidity in the financial system. By varying the supply of liquid reserves to the financial system, the Bank can over time regulate the rate of monetary expansion in the Canadian economy. While the objective of long-term price stability implies a trend of monetary expansion that contributes to neither sustained upward nor downward pressure on the overall level of prices, as long as we have inflation the appropriate trend of monetary expansion is one that will be consistent with a deceleration in the rate at which the price level is rising.

One technical difficulty that arises in implementing monetary policy, as I have explained in previous Reports, is that there are no aggregate measures or indicators of the rate of monetary expansion in Canada that are sufficiently reliable at present to be used as targets for policy, or that are uniquely helpful in the task of explaining the impact of monetary policy. However, in deciding monetary policy the Bank of Canada has always attached great importance to evidence in the economic and financial scene that goes beyond the performance of particular aggregates. In current circumstances it relies on its analysis of a broad range of financial and economic variables, including the trend of total spending in the economy and exchange rate developments, as well as the various monetary and credit aggregates, to come to judgements regarding monetary policy.

The growth of spending in the economy proceeded at a moderate pace over the past year, consistent with the gradual improvement in economic activity and further gains in reducing inflation. In these circumstances, some reduction in the level of interest rates seemed to be consistent with maintaining a moderate trend of monetary expansion. And the operations of the Bank of Canada were oriented during 1984 to bringing about lower interest rates, so long as the progress we were making in bringing down our inflation rate was not threatened.

In the event, encouraging an easing of interest rates proved to be much more difficult than was originally hoped, since severe downward pressures on the exchange rate for the Canadian dollar began to call into question the objectives of Canadian policy with respect to the exchange rate and to inflation. Those pressures stemmed from rising U.S. interest rates in the spring and early summer and the reaction to these increases in Canadian financial markets. Consequently, over a quite extended period, from March into July, the movement of interest rates was in an upward rather than a downward direction. Given the international openness of the Canadian economy, there was of course no question of avoiding the pressures from U.S. rates altogether. The only issue was how we could best adjust to the impact of those external financial strains.

The Bank's typical response to upward fluctuations in U.S. interest rates has been to allow some of the resulting impact to be taken on Canadian interest rates and some of it on our exchange rate. However, it is never possible to be sure how much room will actually exist to moderate the increase in interest rates. There are two basic reasons for this. In the first place, a view can develop that the external interest rate pressures will persist for an indefinitely long period. As this view widens among investors, increasing upward market pressure is put on Canadian interest rates and downward pressure on the exchange rate. Also, confidence in the underlying future exchange stability of the nation's currency can weaken because of a perception that domestic policy actions or attitudes themselves will encourage sustained exchange rate decline. This can make Canadian dollar securities unattractive investments except at higher interest rates that give greater protection against a potential loss in value of the Canadian dollar. In either case it becomes less and less possible to "buy" lower interest rates through exchange rate depreciation.

The developments in financial markets during 1984 provided as clear a demonstration as anyone could wish of how fragile this trade-off can be in the face of a potential loss of confidence in the value of the Canadian dollar. While these events are reviewed in detail later in this Report, they are sufficiently instructive to summarize here.

Throughout most of the period from March to early July interest rates in Canada rose approximately in line with U.S. rates. While the Bank of Canada in general sought to moderate the pressure on Canadian interest rates, the tendency for the Canadian dollar to decline in value against the U.S. dollar made holders of investments denominated in Canadian dollars increasingly concerned to get a competitive return. Furthermore, as time passed the upward movement in market interest rates in reaction to exchange rate weakness became more pronounced rather than less. This interaction between the money market and the exchange market only came to an end in July when money market rates moved up rather sharply. By this time the Canadian dollar had declined by more than 6 per cent to reach a new record low against the U.S. dollar; it had also reached a new low when measured against the currencies of the major industrial countries taken as a group. Moreover, Canadian short-term interest rates had risen substantially more than those in the United States.

With the downward trend of U.S. interest rates from mid-1984 and into the first few weeks of 1985, conditions were much more favourable for a decline in Canadian rates, with the result that by late January 1985 they were back to where they had been a year earlier. But while the differentials over U.S. interest rates remained wider than they were in 1983 and early 1984, the exchange value of the Canadian dollar against the U.S. dollar recovered very little from the low point reached in July, notwithstanding Canada's continued favourable performance in terms of inflation and foreign trade. The relative weakness of the Canadian dollar in this period appeared to reflect in part the general strength of the U.S. dollar against other currencies.

From late January to the end of February, when this Report was completed, there was a dramatic further strengthening of the U.S. dollar against other currencies, including the Canadian dollar. Short-term interest rates in the United States increased somewhat in this period. As before, the downward pressure on the Canadian dollar interacted with the Canadian money market to generate upward pressure on short-term interest rates. The actions of the Bank of Canada were designed to moderate but not to suppress this interaction.

The experience of the past year shows that there are important limits on the room available to the Bank in influencing short-term interest rates. How narrow these limits will be can be expected to vary over time depending on a range of factors. I think most knowledgeable observers would agree that the most important factors include the performance of the Canadian economy on inflation, the state of our balance of payments, the pressures from external financial developments of the kind I have just described, and also the impression the authorities convey to financial markets about the importance they attach to the external value of the currency. What the net effect on the Bank's scope to influence interest rates will be at any moment is obviously something that cannot be established with any certainty. However, what is clear is that a loss of confidence in the prospects for the Canadian dollar in the exchange market does not contribute to lower interest rates. Furthermore, once confidence suffers a jolt it does not recuperate quickly.

A sharply lower dollar exchange rate also carries with it the risk of disrupting the progress we have been making on inflation. Exchange rate depreciation leads to higher prices in Canada not only for imports but also for Canadian production that competes with imports and for Canadian production that can be exported. What happened during 1984, unlike earlier years, was that the effect of the decline in the Canadian dollar on our inflation rate was offset by continued good performance on our domestic costs. However, this kind of offset does not come automatically. The effect of depreciation has been to curb real purchasing power since the direct impact of a decline in the external value of the Canadian dollar is to raise prices but not wages and salaries. How willing are consumers to absorb this erosion of purchasing power without responding with demands for higher incomes? To press hard on that willingness is to risk a resurgence of inflationary pressures.

I believe that the appropriate approach of monetary policy to the exchange rate is to resist sharp exchange rate declines that threaten to undermine our progress on inflation or risk a loss of confidence that would also impede our ability to bring down interest rates.

Over time, our ability to achieve low interest rates in Canada will depend on maintaining a record of low domestic inflation. As I have already observed in this Report, the level of interest rates in international financial markets is something over which Canada has no direct control. However, it is within our power to do better than this international norm if we do better on inflation; the record shows that countries with the best inflation performance over time also have the lowest domestic interest rates. In the short run we can get pushed off course, as we were in 1984 and early 1985, by sharp external pressures that limit our ability to encourage lower interest rates in line with our improved inflation performance. But the fundamental fact remains that nothing will work as surely to bring about the lowest interest rates possible in Canada as will a return to domestic price stability.

* * * *

Over the past two years we have been emerging from the most trying economic conditions that Canadians have encountered in the postwar period. The transition is still not complete; difficult problems still remain in some industries and regions of our country. However, our economy has entered 1985 in better shape than for some time.

We have, moreover, achieved these gains in a year when external developments imposed on us an unfavourable combination of high interest rates and a distorted structure of exchange rates. It was not an easy year for many Canadians, but our basic situation has proved to be sufficiently sound to allow us to weather those problems without a serious economic setback. We will not be able to avoid other difficult moments in the future, given the imbalances that remain in the world. But as our economic situation continues to improve, we should be better placed to withstand the stresses coming from abroad.

International financial conditions will in time become less turbulent. But no matter how much more stable and prosperous the world economic environment becomes, it will always be highly competitive. In order to compete we need to see to it that our economy sustains the drive and flexibility necessary to make the best possible use of the resources and talents we have in abundance. I believe that this is now more widely understood and accepted in Canada than it has been for a long time. The further progress made in 1984 in improving productivity, holding our costs under better control and bringing down inflation helped to keep our economy expanding, and was another important step towards a prosperous and balanced economy.

* * * *

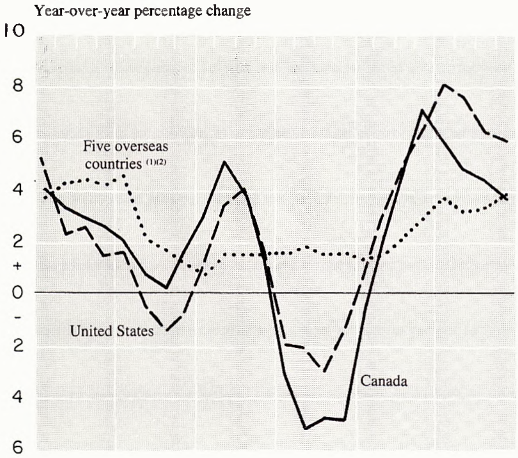
The Bank of Canada opened its doors for business on March 11, 1935. To mark its fiftieth anniversary the Bank has invited Mr. Douglas H. Fullerton to write a biography of Mr. Graham Towers, the first Governor of the Bank, who served in that position from September 8, 1934 to December 31, 1954.

Economic Activity and Inflation

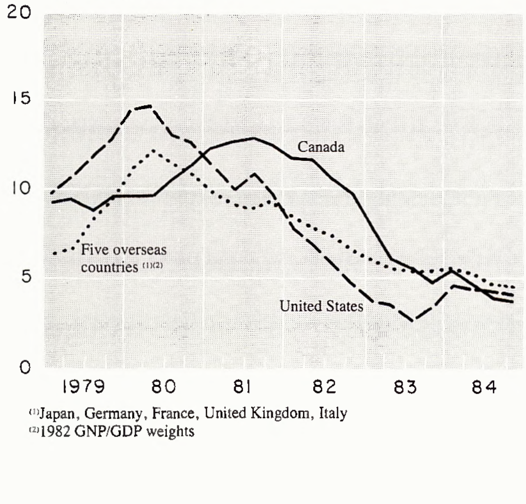
The performance of the Canadian economy continued to improve in 1984. The rate of inflation fell further, inflationary expectations lessened, and output and employment rose above the peaks reached before the recent recession. Economic conditions also improved in many of Canada's major trading partners, with those countries exhibiting the best inflation performance also generally having the largest output gains. Growth in the U.S. economy was particularly marked and this gave a substantial boost to Canadian exports and output.

International Comparisons

Real GNP/GDP
Year-over-year percentage change



Consumer Price Index
Year-over-year percentage change



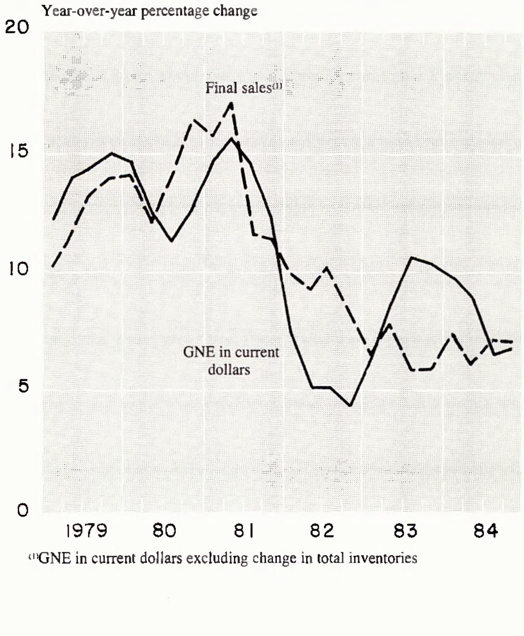
(1) Japan, Germany, France, United Kingdom, Italy
(2) 1982 GNP/GDP weights

But despite these generally favourable developments, the overall rate of unemployment remained high in Canada and very high in some industries and regions. While there were some encouraging indications of renewed growth in the Western and Atlantic provinces towards year-end, the level of economic activity outside central Canada generally remained quite sluggish.

Economic Activity

The rise of total spending in the economy moderated to a rate of about 7 per cent between the fourth quarter of 1983 and the fourth quarter of 1984. This reflected a better inflation performance as well as a deceleration in real growth from the very sharp increase experienced during 1983. Whereas renewed inventory accumulation had provided a substantial boost to economic activity in the first year of the economic recovery, last year there was no such contribution. In contrast, the volume of sales to final purchasers rose much more rapidly in 1984 than the year before with increased exports to the United States being

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

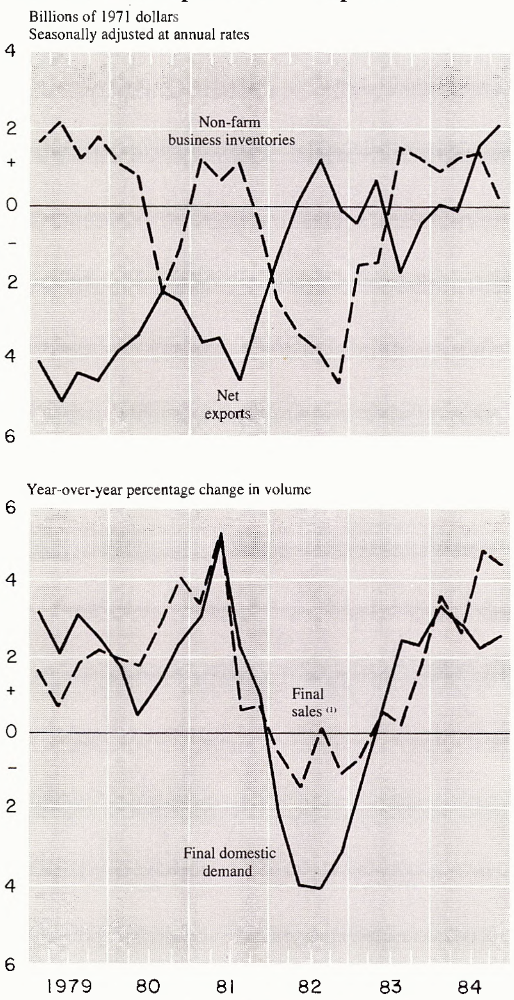


(1) GNE in current dollars excluding change in total inventories

an element of particular stimulus for the Canadian economy. Final domestic demand grew quite steadily in 1984 but at a moderate pace.

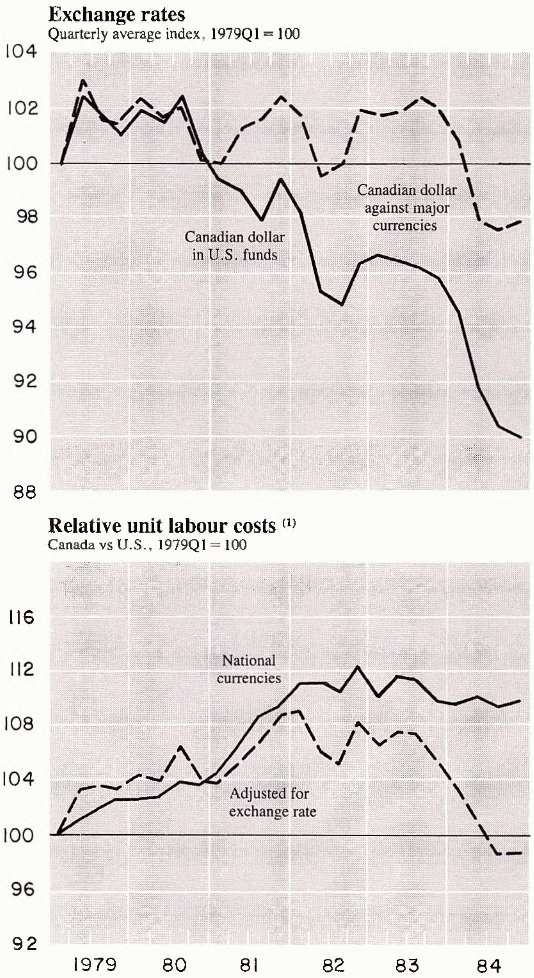
There was some divergence in the spending patterns of the household and business sectors during the year. While the volume of consumer expenditures grew quite strongly on average in 1984, there was evidence of some deceleration during the summer in response to the earlier rise in interest rates. This episode raised concerns about the possible future course of interest rates and provided further encouragement for households to maintain a high level of savings in order to reduce mortgages and other forms of debt. While purchasers of houses responded to similar forces, the weakness of residential construction also reflected the timing of the effects of previous government programs which seem to have increased housing starts early on in the recovery at the expense of starts more recently. The business sector continued to behave quite cautiously overall, although there were some indications that business investment was reviving as the year went on. Gains were evident in certain service-producing sectors and in those

Selected Real Expenditure Components



(1)GNE in constant dollars excluding change in total inventories

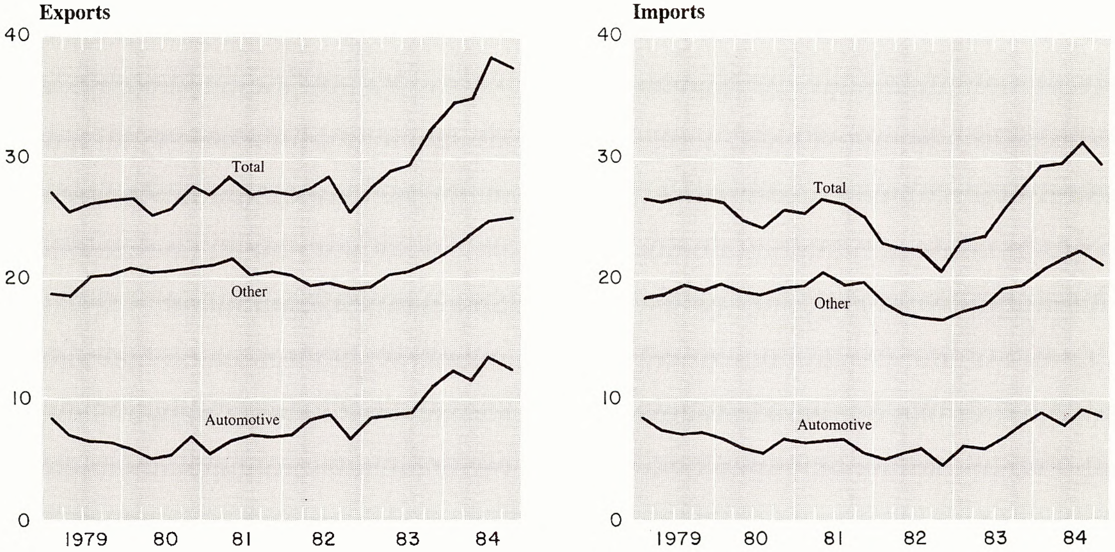
Measures Relating to International Competitiveness



(1)Unit labour costs in each country are defined as wages and salaries and supplementary labour income per unit of real GNP.

Volume of Merchandise Trade Flows

Billions of 1971 dollars
Seasonally adjusted at annual rates

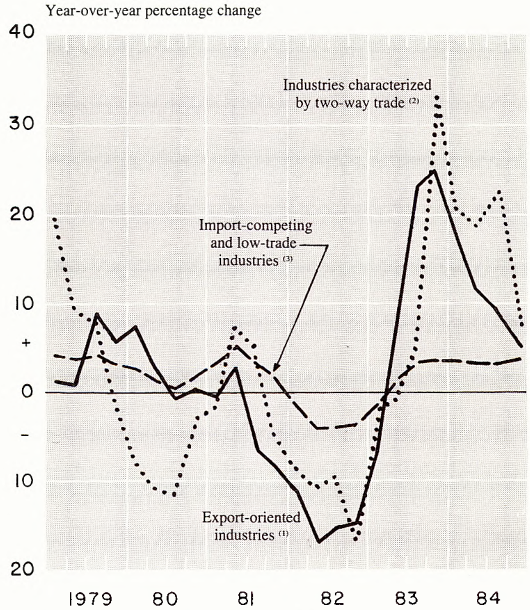


goods-producing industries that have recently experienced significant increases in the level of capacity utilization. The leveling off of inventory investment in 1984 was partly a cyclical development, typical of the second year of an economic expansion, but may also have been a response to the continuing high costs of inventory financing.

The continued rapid growth in the volume of exports and imports and the achievement of a record merchandise trade surplus during 1984 were major features of Canada's improved economic performance. To an important degree these developments were centred in the automotive sector, reflecting the strength of demand for automobiles and the integrated nature of the North American car industry. Yet other exports and imports also rose markedly in response to the overall firming of domestic demand in the United States and Canada. Canada's exports to the United States were particularly favoured, not only because of the stronger cyclical position of the U.S. economy, but also because the depreciation of the Canadian dollar has had the effect so far of improving Canada's competitive position against the United States. In contrast there was a further deterioration in our trade position

Output

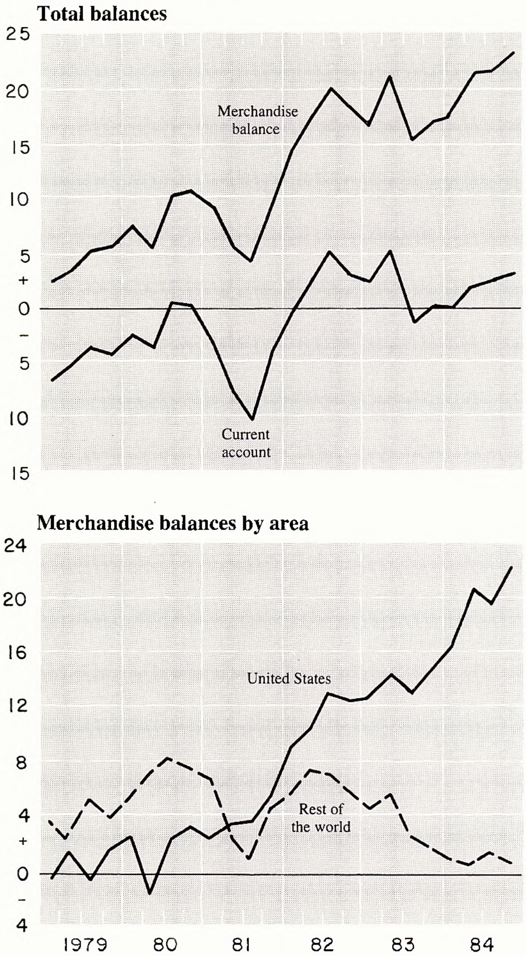
Year-over-year percentage change



(1) Includes mining excluding oil and gas, wood products, paper and allied industries, and primary metals
(2) Includes machinery, transportation equipment and chemical products
(3) Includes other manufacturing, construction and service-producing industries

Current Account of the Balance of Payments: Selected Balances

Billions of dollars
Seasonally adjusted at annual rates

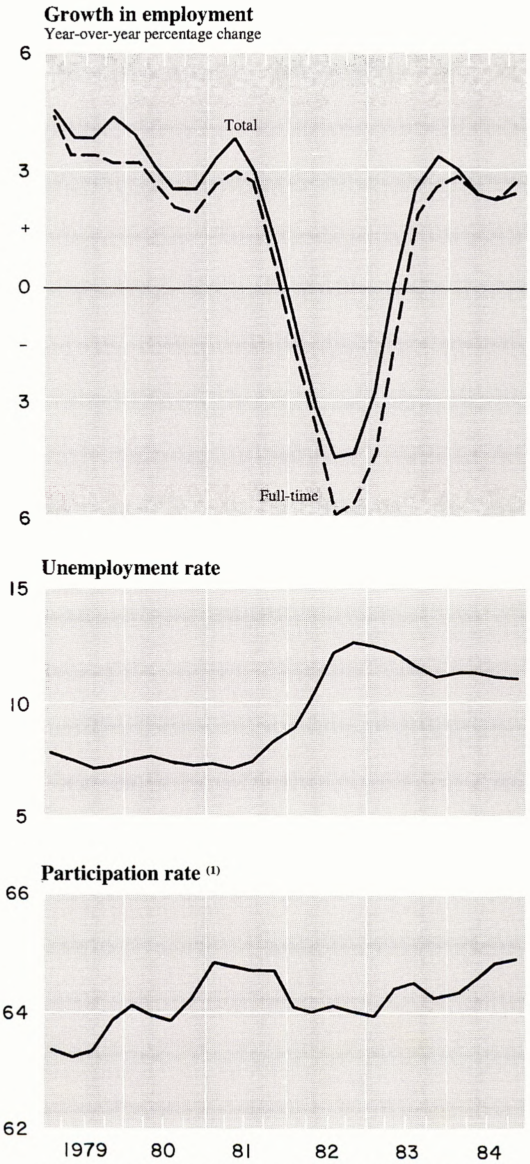


with respect to the rest of the world; cyclical factors and exchange rate movements acted to inhibit Canadian exports and increase domestic imports from overseas.

The major role played by exports and imports in the Canadian economy in 1984 has been reflected in the composition of industrial output and associated levels of capacity utilization. Export-oriented industries, which are primarily resource-based, have continued to expand production strongly, as have the transportation equipment and other industries characterized by relatively high levels of both exports and imports. In a number of instances such industries are now operating at levels of output which, in relation to the capacity of their plants, are above historical averages. By contrast, those industries whose products are primarily directed to Canadian customers grew relatively less rapidly, owing to both vigorous import competition and sluggish demand for many domestically produced goods and services which do not trade internationally.

Further employment gains were also recorded in 1984, with businesses being increas-

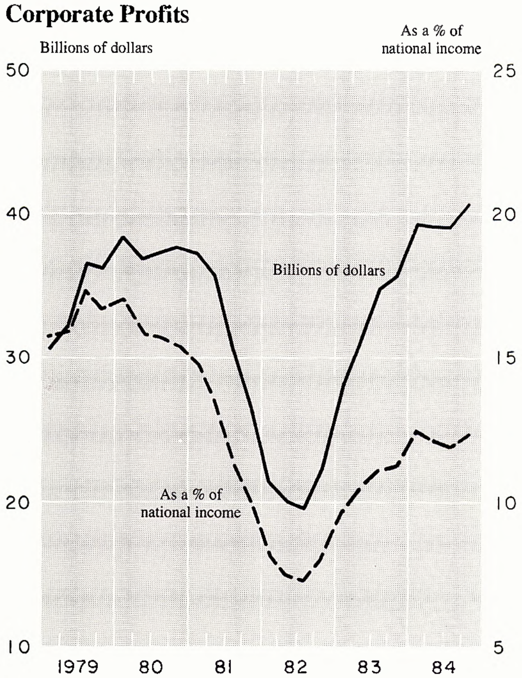
Selected Labour Market Indicators



(1) Proportion of labour force population working or actively seeking work

ingly prepared to hire full-time as opposed to part-time workers. Nevertheless, only a little progress was made in bringing down the rate of unemployment, in part because workers who had earlier left the labour force were encouraged by improved employment prospects to seek work once again. The fact that employment gains have not been even greater appears to be related to business efforts to increase productivity and reduce costs in the face of international competition. Such efforts have been in evidence now for several years, but there was a substantial further

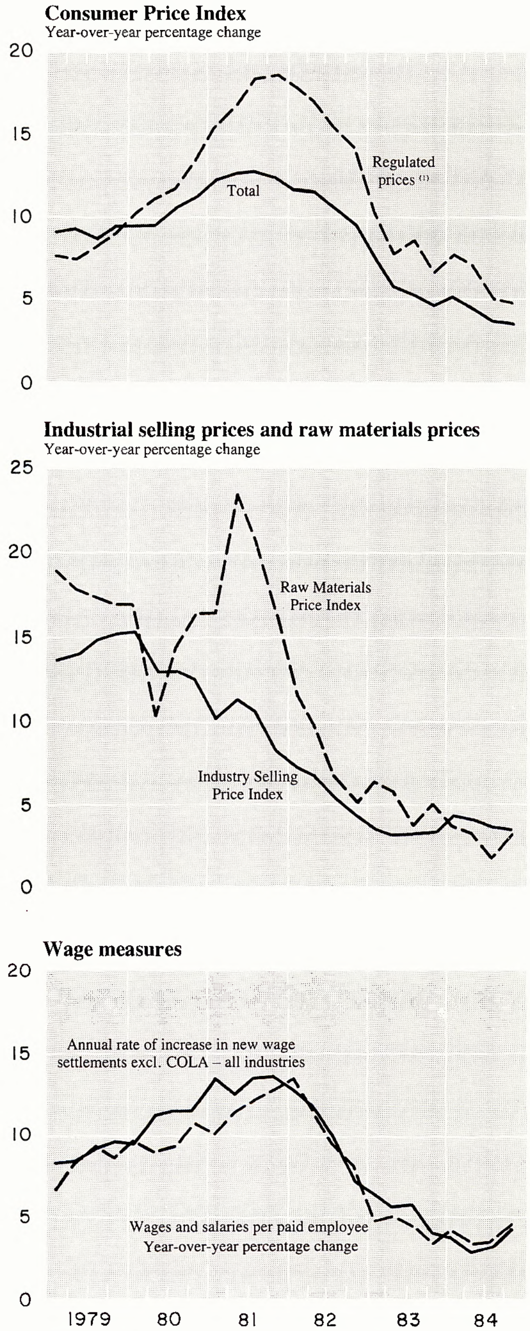
Corporate Profits



increase in output per employed worker during 1984. Large productivity gains have been observed over a wide range of industries. Partly in response to these developments, corporate profits also increased on average in 1984.

Some of the larger productivity improvements were recorded in the resource-based industries, with the result that employment expanded little in these industries during the year despite higher levels of output. Their profit situation improved moderately in 1984 but the overall level of profit still remains well below earlier norms because of the continued low level of

Indicators of Prices and Costs



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

world prices for primary commodities. The Western provinces have been particularly affected by these developments, as well as by drought-related reductions in agricultural output and further declines in construction activity following the period of intense growth around the turn of the decade.

Inflation

Further progress was made in slowing the rise of costs and prices in 1984. At the end of the year the Consumer Price Index was 3¾ per cent higher than a year earlier, a further reduction from the 4½ per cent rate of increase recorded in 1983. Moreover, this progress was achieved despite some factors working in the opposite direction. In particular, the depreciation in the Canadian dollar led to higher Canadian prices than would otherwise have occurred for imports, exports and other potentially tradable goods. Broadly speaking, the prices in Canada of internationally traded goods, especially food and energy, tended to rise more rapidly than the prices of those goods and services sold mainly in domestic markets and therefore primarily influenced by domestic market conditions. The rate of increase of regulated prices also decelerated in 1984 but remained somewhat higher than that of the overall Consumer Price Index.

A high degree of competitiveness in the markets for both labour and products has continued to exert downward pressure on cost and price increases in Canada. The rise in labour costs per unit of production slowed further through 1984 as the rate of increase in the earnings of wage and salary workers averaged around 4 per cent while, as noted above, the level of productivity increased further. The rate of increase obtained in newly negotiated wage settlements in the unionized sector, a more forward-looking indicator of wage developments, also decelerated to an average of about 3½ per cent annually in the second half of the year. The much more moderate rate of inflation during the last two years should reinforce expectations that inflation will remain low in the future, and this may have already begun to encourage lower wage settlements.

Financial Developments

Interest rates in Canada were much less stable during 1984 than they had been in the previous year. Pressure from rising interest rates in the United States, interacting with a substantial weakening of the foreign exchange value of the Canadian dollar, led to sharp increases in domestic interest rates through the spring and early summer. These increases were subsequently reversed, and by the end of the year most interest rates had returned to levels that had prevailed through much of 1983. However, the Canadian dollar exchange rate remained near the lower levels reached during the summer for the rest of the year.

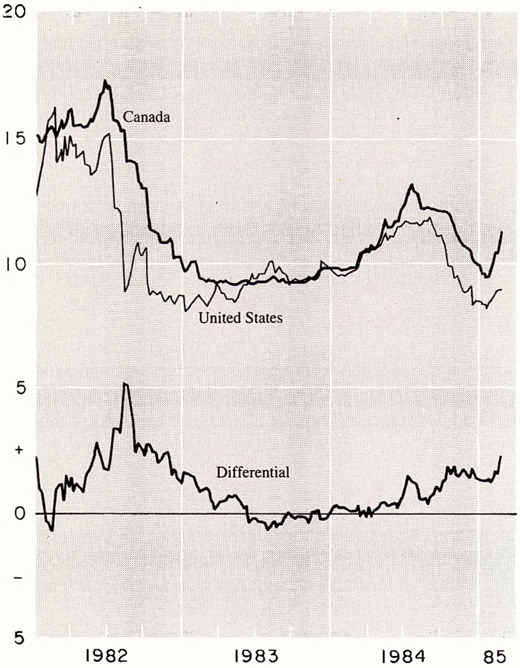
The growth in credit outstanding to Canadian borrowers in 1984 was somewhat stronger than the previous year. However, in neither year were the credit demands of the private sector as large in relation to the amount of total spending in the economy as they had been a few years earlier. The continuing efforts of businesses and households to reduce debt burdens were again in 1984 an important influence on credit demands. Most of the commonly used monetary aggregates also expanded more rapidly last year than in 1983. There were, however, quite wide divergences among the rates of increase in these indicators of money growth. The broadly defined aggregates were influenced by the sluggish growth of private sector credit demands, while innovations in deposit services continued to distort the growth of the more narrowly defined aggregates.

Interest Rates and the Exchange Rate

The upward pressure on interest rates in Canada, which came from rising rates in the United States, began in early March and lasted until just after mid-year. Both short-term and long-term rates were affected by the reaction in

Canada-U.S. Short-Term Interest Rates

90-day commercial paper

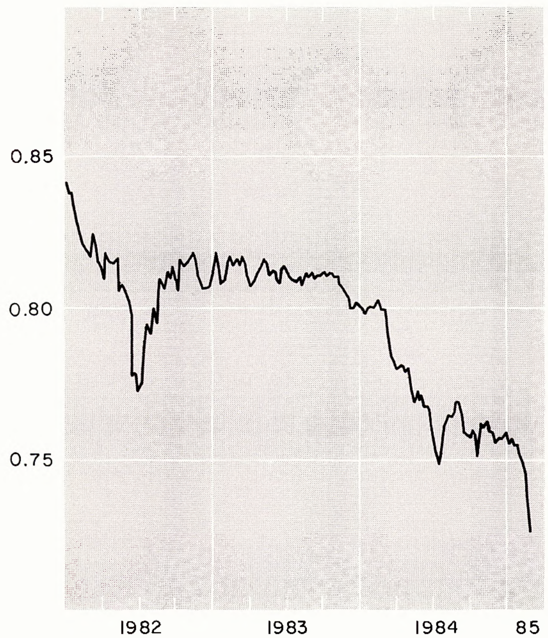


U.S. financial markets to the rapidly expanding U.S. economy, the associated high rates of growth of money and credit and the policy response of the U.S. monetary authorities. It was not until July that the financial market pressures generated by these conditions began to diminish and U.S. interest rates started to decline.

In Canada, fears during the first half of the year that the upward movement in U.S. interest rates might not be soon reversed led to strong downward pressure on the exchange value of the Canadian dollar even though Canadian interest rates moved up broadly in line with those in the United States. The operations of the Bank of Canada in managing the cash reserves provided to the financial system were designed through much of this period to moderate the pressure on domestic interest rates. However, as the exchange rate continued to move downward the Bank encountered stronger market resistance to its reserve management operations as investors in short-term securities sought to obtain a better interest return as protection against further declines in the Canadian dollar. Eventually, an interaction developed between the short-term money market and exchange market in which attempts to moderate interest rate increases led to speculative positions being taken against the Canadian dollar, and the resulting downward pressure on the exchange rate in turn intensified the upward pressure on Canadian interest rates.

Exchange Rate

Cdn $ in U.S. funds



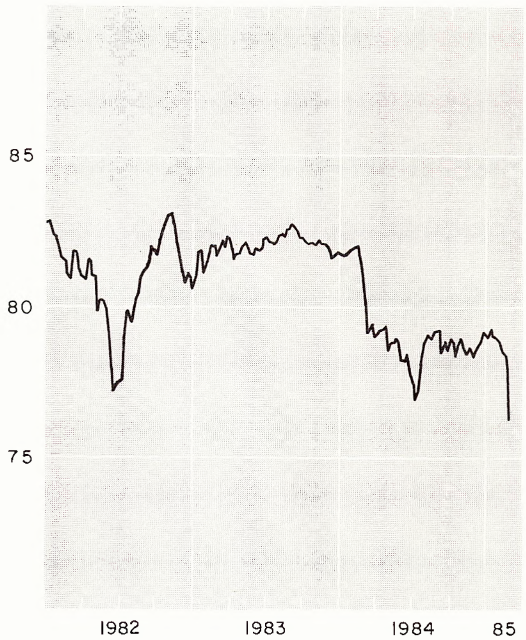
The extent of the market uncertainties underlying these upward pressures on interest rates showed up rather strikingly at the weekly auctions of Government of Canada treasury bills during this period. With in excess of $2 billion of treasury bills to be sold at each auction in order to refinance maturing issues and provide new funds, those bidding at the auctions risked substantial capital losses if they bid at yields which turned out to be too low to attract investors to purchase the increased supply of bills. Although the Bank of Canada generally provided a generous supply of cash reserves to the financial system and frequently supported the treasury bill with market purchases, there were a number of occasions when conditions in exchange and securities markets were of sufficient concern that the only bids for treasury bills were for yields well above prevailing market levels. In view of the size of these auctions, the ability of the Bank to use its own bid to moderate the outcome of an auction was limited.

Early in July, against the background of a falling Canadian dollar, money market interest rates in Canada were permitted to rise sharply, bringing this interaction between the money market and exchange market to an end. At their peak in July short-term interest rates had risen by 3½ percentage points since the beginning of the year and were moreover some 1½ percentage points higher than similar rates in the United States. Over the same period, the exchange value of the Canadian dollar had fallen to a record low level in terms of the U.S. dollar and had declined by almost 5 per cent against a trade-weighted average of all major currencies.

In the second half of the year, encouraged by declining U.S. short-term interest rates, Canadian interest rates also declined. The operations of the Bank of Canada did not resist the trend of rates downward although some effort was made to smooth the rate of descent. The pace of the decline accelerated during the autumn months, but short-term interest rates in Canada nevertheless remained above those in the United States by a significant margin. The Canadian dollar did not recover very far in terms of the U.S. dollar from the low point reached in July despite the support from these differentials, but both currencies had strengthened markedly against overseas currencies by the end of the year.

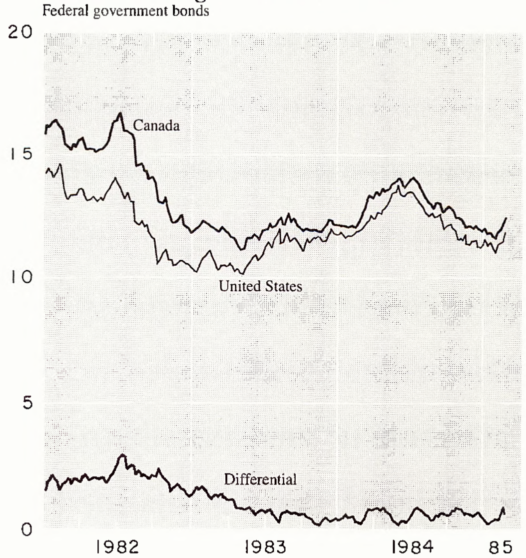
Other interest rates followed a pattern during 1984 similar to that of short-term market interest rates. Long-term rates rose initially under pressure from higher short-term interest rates and from rising long-term interest rates in the United States. Long rates reached a peak around mid-year and after a period of steady decline were by year-end close to their levels of a year earlier. Borrowing and lending rates administered by financial institutions for the most part followed the same up and down pattern. The rate charged by banks on prime business loans was

Canadian Dollar Exchange Rate Against Major Currencies
Index[1] 1971 = 100



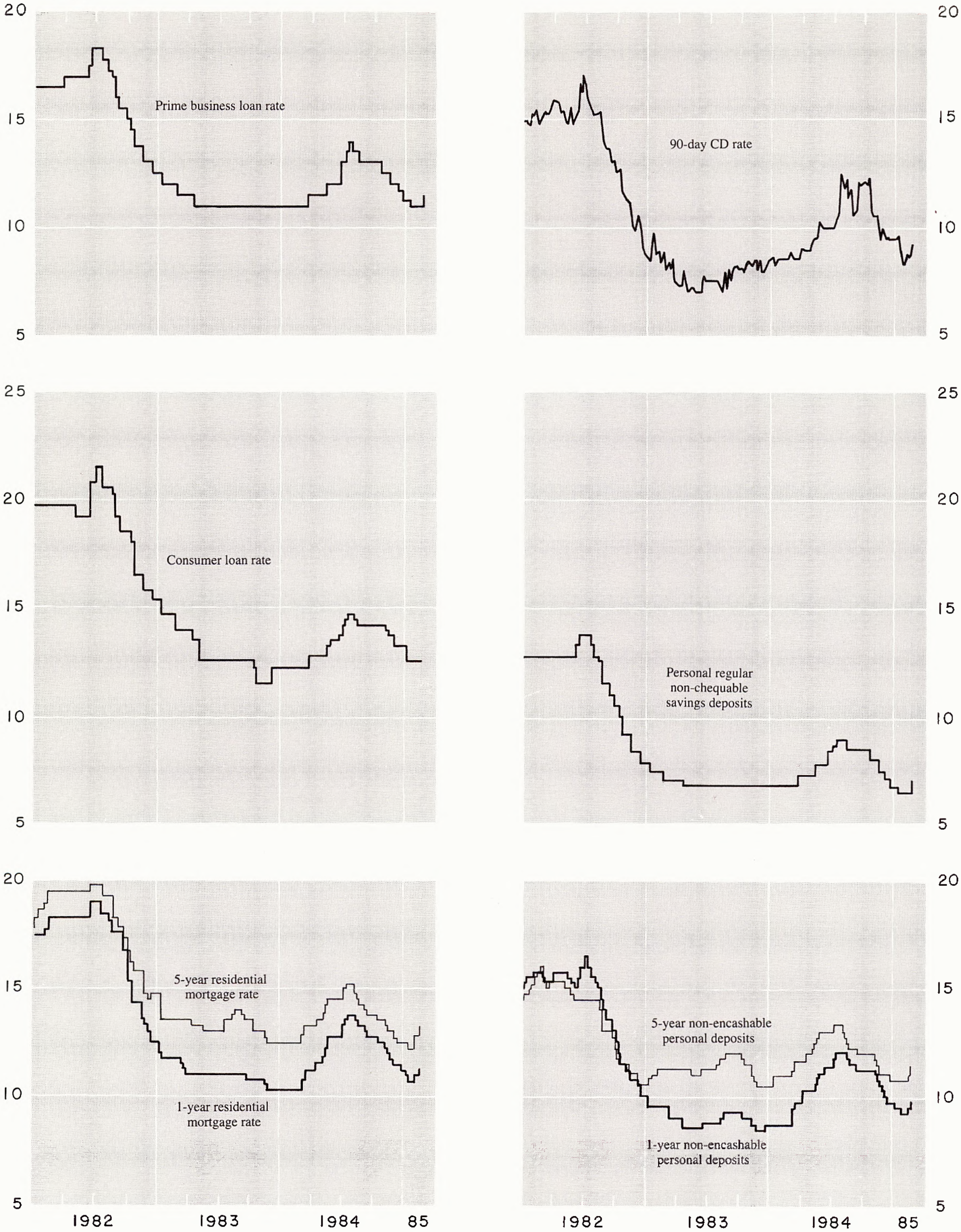
[1] Index is a trade-weighted average of the exchange value for the Canadian dollar against the currencies of G-10 countries (United States, Japan, United Kingdom, Germany, France, Italy, Netherlands, Belgium, Sweden and Switzerland)

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



Selected Administered Interest Rates at Banks

Wednesdays



typical of the pattern. It moved from 11 per cent beginning in March to a peak of 13½ per cent before falling back to 11 per cent by early in 1985. Consumer and mortgage borrowing rates and deposit rates moved in similar fashion.

In the early weeks of 1985, as the U.S. dollar rose strongly against overseas currencies to reach record high levels, the Canadian dollar was subject to intense downward pressure. Just as in the spring and early summer of last year, the decline in the exchange rate was the source of upward pressure on Canadian short-term interest rates.

By late February of this year the exchange value of the Canadian dollar had fallen to levels around 72 U.S. cents and had depreciated by about 4 per cent against a trade-weighted average of all major currencies over the course of a few weeks. During the same period the rise in short-term market interest rates had amounted to 1 to 2 percentage points, and there had been upward adjustments in the banks' prime lending rate and mortgage rates.

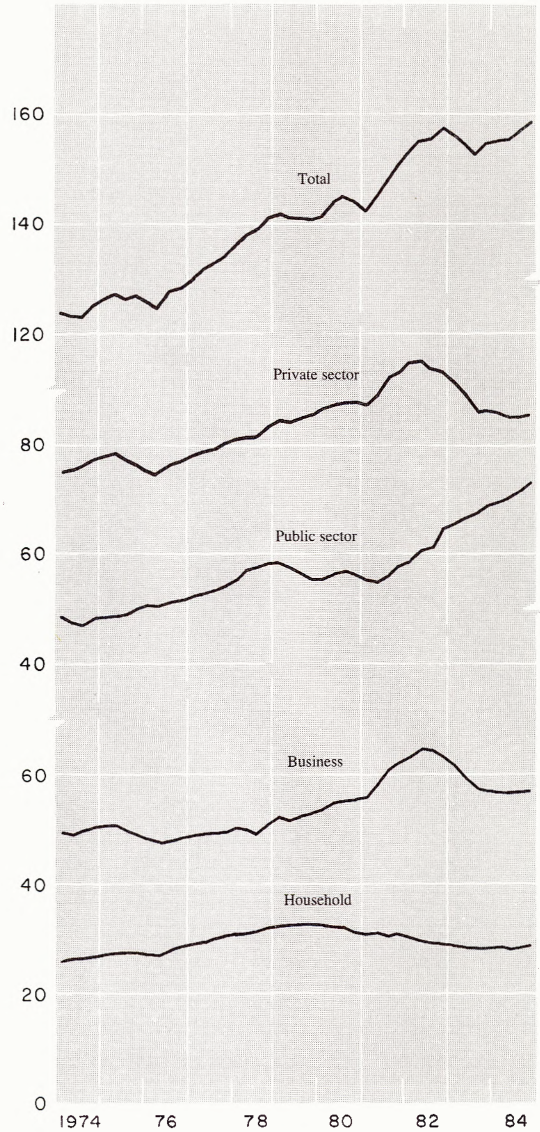
Credit Developments

Over the past several years the business sector has made a concerted effort to reduce outstanding debt, increase equity capital and shift the composition of its debt away from floating-rate bank loans. Households have similarly made considerable efforts to pay down existing mortgage and consumer debts and to minimize new borrowings. The rise in interest rates earlier in 1984 undoubtedly made further progress difficult for those whose debts were at floating interest rates or had to be rolled over during the year. Households and businesses which had not yet managed a significant reduction of the heavy debt burdens accumulated through the 1970s and early 1980s were particularly exposed. Nevertheless, the overall ratio of private sector debt to Gross National Expenditure (GNE) showed a small further decline over the year. Indeed, there are some recent indications that for a significant number of households the debt situation may have improved sufficiently that they are once again prepared to increase their reliance on credit to finance expenditures.

To provide a summary of recent credit developments, a series of broad credit aggregates are plotted on the accompanying chart. There was a slightly more rapid expansion of total credit in 1984 than in the previous two years as the pace of borrowing by the private sector accelerated. Nevertheless, the rate of expansion of government credit demands remained well above that of the private sector, and new government borrowing continued to predominate in credit markets.

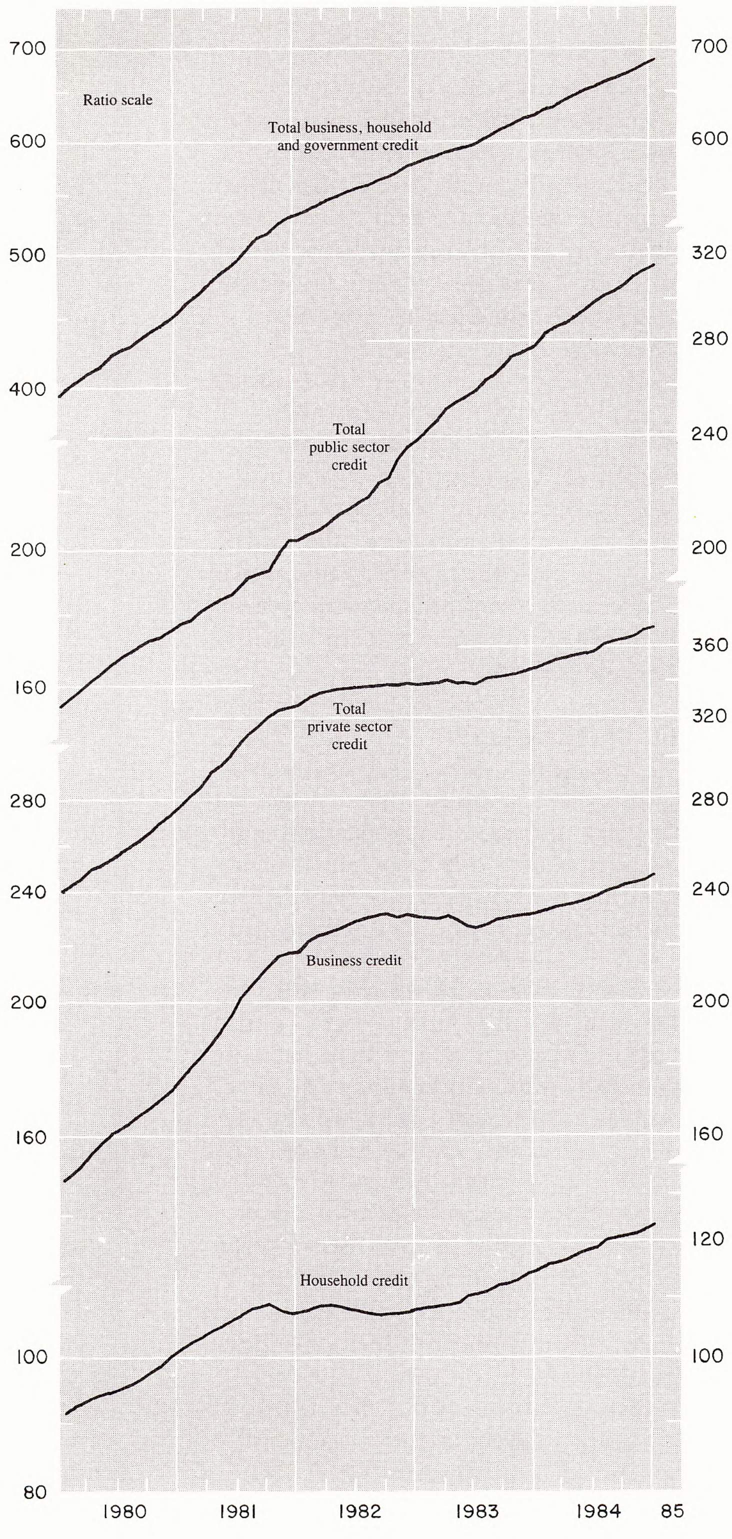
Outstanding Public and Private Sector Credit

As a percentage of GNE



Credit Aggregates: Amounts Outstanding

Billions of dollars, seasonally adjusted



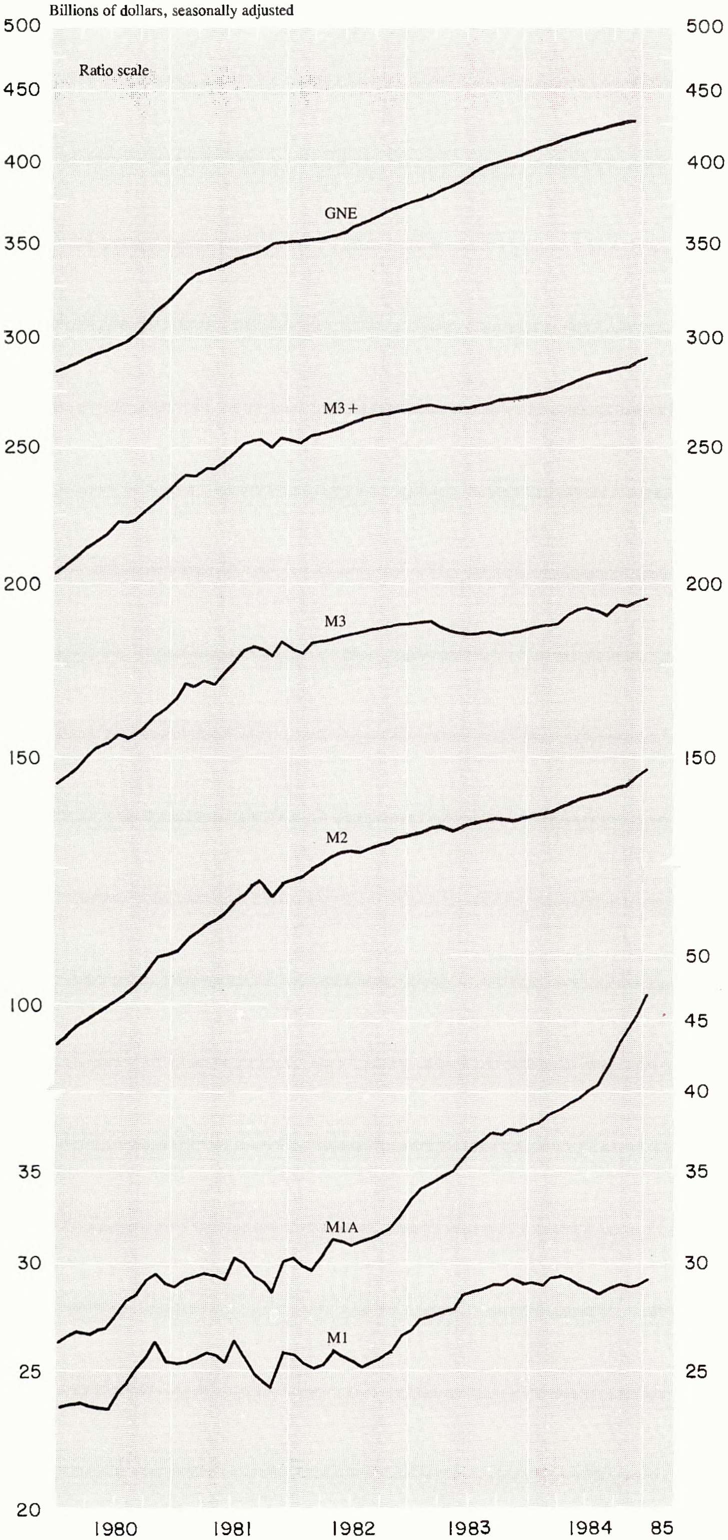
Total public sector credit:
Loans extended to, and bonds and bills issued by federal, provincial and municipal governments, and guaranteed bonds issued by provincial and municipal government enterprises

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



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 plus personal term deposits

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

M1:
Currency and demand deposits

Monetary Aggregates

The growth rates of the different monetary aggregates continue to be distorted to varying extents by innovations in deposit services provided by banks and other financial institutions and by the impact of the credit developments described above. As a result, the monetary aggregates remain difficult to interpret and do not provide a straightforward indication of the recent trend of monetary growth in Canada.

While interest rate movements and the trend of total spending in the economy have influenced the behaviour of the two narrowly defined aggregates, M1 and M1A, these effects have been largely overshadowed during the past year by institutional developments. The divergent trends that one observes in the growth rates of these two aggregates are the result of recent changes in the characteristics of chequable deposits – most notably, the daily interest chequable savings accounts held by households, which now pay interest at two or three different rates depending on the size of the deposit balances. These accounts now provide the transactions services of regular chequing accounts and for balances above the specified minimum amounts offer interest rates as attractive as those available on other short-term savings instruments. As a result, households have been shifting deposit balances into these new accounts from both personal chequing accounts and traditional savings accounts. A similar but less extensive movement has occurred among non-personal deposits, with businesses shifting their current account balances into notice deposits offering more attractive returns. Consequently, M1 showed no increase whatever during 1984 while M1A, which includes daily interest chequable savings accounts and non-personal notice deposits, grew rapidly.

The broader aggregates, M2 and M3, are less affected by these banking innovations since their broad coverage of different types of deposits effectively internalizes much of the shifting of balances, but they have been strongly influenced by the recent developments in credit markets. For several years now their growth has been reduced because of both the slow growth in private sector credit demands and, more importantly, the shift away from bank loans as businesses restructure their balance sheets. With a relatively slack demand for private credit, banks have been generally less aggressive about bidding for personal and corporate term deposits, which make up the largest part of these aggregates.

Some of the shift away from bank credit, and therefore from bank deposits, reflects changing market shares and can be captured by including in the broader aggregates the deposits of the other financial institutions that compete with the banks in the credit market. Such an enlarged aggregate, M3+, does show a somewhat higher rate of growth, reflecting the more rapid expansion of non-bank financial institutions, whose lending activities are less dependent on the demand for business loans. However, this aggregate still does not fully reflect total credit activity given the greater preponderance of government borrowing in recent years. Compared to private sector borrowers, governments typically obtain a much larger portion of their requirements directly from savers and relatively less via deposit-taking financial intermediaries. Nevertheless, the modest acceleration in the growth of private sector credit last year did contribute to increased business for financial institutions and to a somewhat faster rate of growth of the broader monetary aggregates than in 1983.

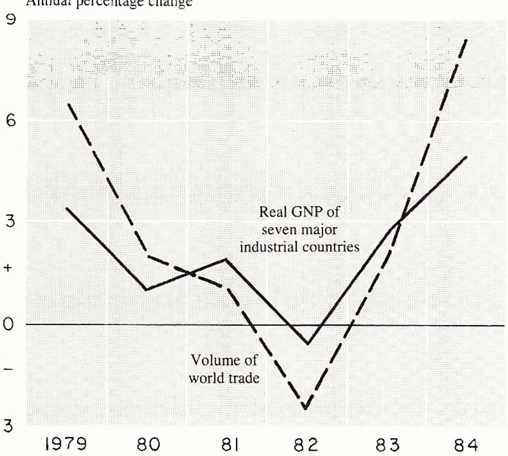
International Financial Developments

Further progress was made in 1984 in dealing with the world debt problem. This was due in part to the beneficial effects of an improved world economy and a robust expansion of world trade. But the adjustment efforts by debtor countries, supported in many cases by comprehensive International Monetary Fund (IMF) adjustment programs, and improvements in the financing provided by private and official creditors also contributed to the progress.

Output in the major industrial countries rose by about 5 per cent in 1984, following a more modest expansion in 1983. This growth once again was led by developments in North America, although less so than in 1983, as the recovery continued to spread to other industrial countries. The upward trend in output was particularly evident in Germany and Japan. Inflation in the industrial countries continued to decline. World interest rates, after a sharp rise earlier in the year, fell back during the second half to the levels prevailing in 1983. The volume of world trade expanded sharply during the year, rising by close to 9 per cent and further extending the recovery which began in 1983 after some years of low or negative growth.

Industrial Country Output and World Trade

Annual percentage change



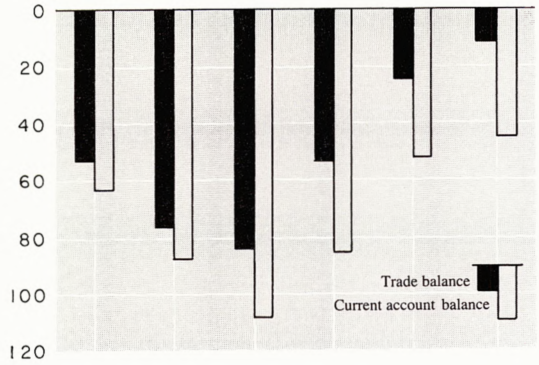
Source: IMF, National Sources

The expansion of world trade had a positive impact on the economic situation of many of the developing countries. This was most apparent among the countries with the largest debts, but substantial gains were registered by the group of developing countries as a whole. As the accompanying charts show, major progress was made in improving the balance of payments. Since 1981 there has been a sharp reduction in the aggregate current account deficit of the non-oil developing countries through reductions in the aggregate merchandise trade deficit that more than offset the rise in interest payments. Moreover, the major borrowers have begun to generate large merchandise trade surpluses. These improvements were due initially to a severe curtailment of imports, but in 1984 they resulted from the more rapid expansion of exports which became possible as increases in demand in the industrial countries accelerated. Imports began to rise again along with the recovery of output in the developing countries. The improved merchandise trade performance has also meant that measures of longer-term debt service capacity, for example the ratio of debt to exports and the ratio of debt to output, have begun to stabilize and in some cases to decline.

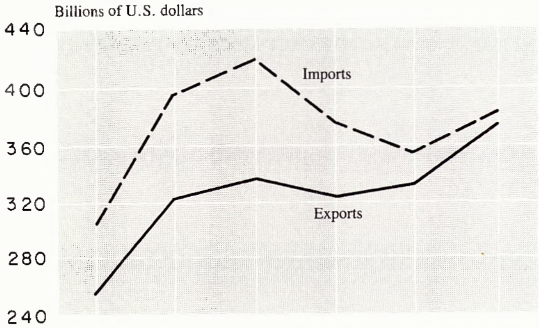
Evidence of progress in dealing with domestic problems was less consistent. Output began to expand again in the major borrowing countries. For the group of developing countries as a whole growth remained below previous averages, and in contrast to the experience in the

Non-oil Developing Countries

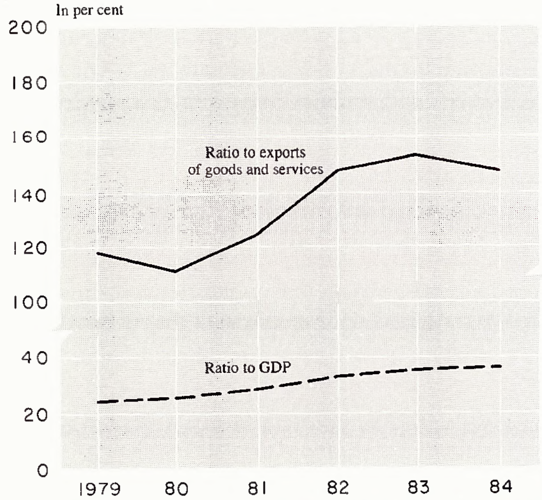
Trade and current account balances
Billions of U.S. dollars



Merchandise trade
Billions of U.S. dollars

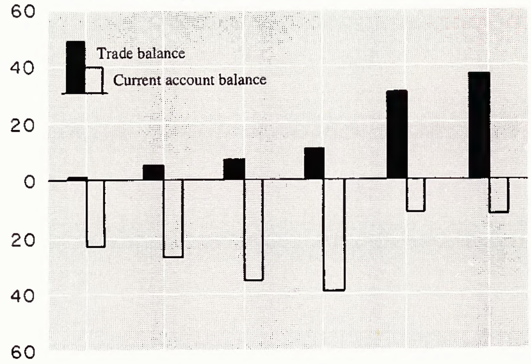


External debt ratios
In per cent

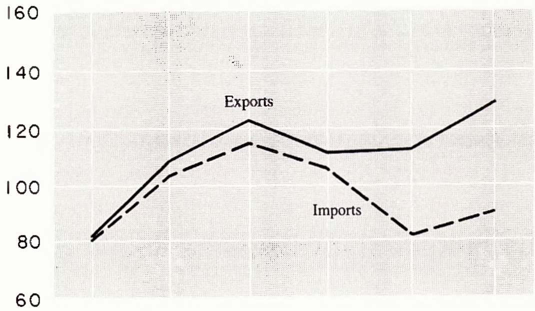


Major Borrowers (1)

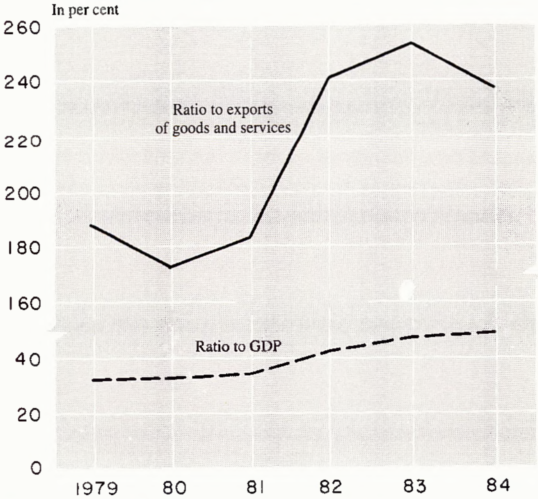
Trade and current account balances
Billions of U.S. dollars



Merchandise trade
Billions of U.S. dollars



External debt ratios
In per cent



(1) Argentina, Brazil, Korea, Mexico and the Philippines, which are included in the IMF definition of non-oil developing countries, plus Indonesia and Venezuela which because of the particular importance of oil exports to their economies are classified by the IMF as "oil exporting countries"

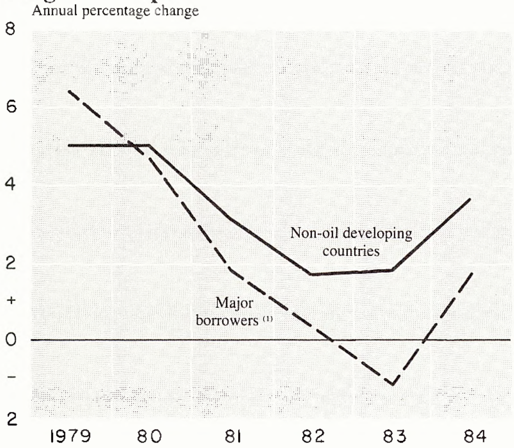
Source: IMF

industrial countries, inflation has stayed very high.

Notwithstanding the boost from the buoyant expansion of world trade, the progress that has been made has required difficult adjustment efforts in a large number of countries. The experiences across countries, both with respect to the speed with which they implemented adjustment policies and the extent to which they have required assistance from their creditors and international organizations, have been quite varied. A few of the major borrower countries were

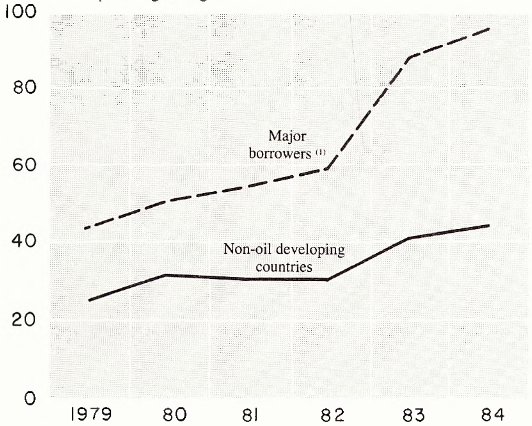
Changes in Output

Annual percentage change



Changes in Consumer Prices

Annual percentage change



(1) For definition of "major borrowers", see preceding chart.

Source: IMF

able to make adjustments and remain creditworthy without requiring assistance from the International Monetary Fund. However, for most countries, the typical approach has been based on IMF assistance and the coordinated support of official and private creditors. The number of countries with comprehensive programs increased through the year.

A development that eased the situation of several debtor countries was the availability of financing packages from banks on terms that were somewhat more favourable than those generally negotiated during 1982 and 1983. The better terms applied both to the restructured existing debts and to loans providing new money. The burden of interest rates, which generally float at a fixed margin or "spread" above a measure of the wholesale cost of funds to banks, declined as banks reduced the spreads charged on these loans. The fees or special charges that apply to these loans were reduced and in some cases eliminated. As well, the amortization periods applicable to rescheduled debts and to new loans were stretched out over longer periods, often with an initial "grace" period during which capital repayments were not required.

The improved terms reflected in part the improved creditworthiness of some of the major debtor countries. This in turn was based on the progress achieved in the initial phases of their adjustment programs. Another contributing factor was the more flexible approach which banks and debtor countries began to adopt as their experience with rescheduling and financing negotiations increased, resulting in the introduction of some innovative financing arrangements during 1984.

The innovations centred on the development of the multi-year rescheduling agreement – a framework designed to facilitate an orderly rescheduling of debts falling due several years into the future as well as those due immediately. Debt servicing therefore becomes more predictable and more manageable. The more orderly debt service performance is expected to enhance the country's creditworthiness and improve its chances of resuming more normal financing arrangements at a future date.

Undoubtedly, the characteristics of

multi-year rescheduling agreements will continue to evolve as they are applied to particular situations. So far multi-year rescheduling has been accepted in negotiations with a limited list of countries and mostly in agreements with private sector creditors. However, it is possible that use of such arrangements will become more widespread.

A particular feature of recent agreements has been the options provided for non-U.S. creditor banks to switch the currency denomination of a part of their lending from the traditional vehicle, U.S. dollars, into their home currency. These currency switching options, which did not originate in the normal operation of market forces, have the drawback that they would lead to an export of savings from the country into whose currency the loan is switched. The Bank of Canada has discussed this matter with those chartered banks chiefly concerned and has pointed out the potentially disruptive effects of currency switching on a large scale on Canadian interest rates and the exchange rate. Since the chartered banks' foreign lending has traditionally been financed by foreign currency borrowing abroad, this external business has operated virtually separately from the banks' domestic business. The Bank expressed the view that chartered banks should endeavour to maintain this separation of business.

Debt Management and Foreign Exchange Operations

Debt Management

The heavy pace of Government of Canada borrowings that was established in 1983 continued throughout 1984. The Government's domestic debt outstanding increased over the year by some $25.6 billion, $1.4 billion less than the record increase in 1983. The Bank of Canada, as fiscal agent for the Government of Canada, was involved in the domestic issue of treasury bills, marketable bonds and Canada Savings Bonds to refinance maturing debt and to raise the new funds required to meet the Government's net Canadian dollar financing requirements for the year. In addition, the Bank assisted the Government in borrowing the equivalent of over U.S.$900 million from external sources. This added more than U.S.$600 million to Canada's foreign exchange reserves after paying off the equivalent of over U.S.$300 million in maturing external debt.

There were 19 new offerings of marketable bonds by the Government over the year. A record amount of $11.1 billion was raised on a net basis after allowing for the refinancing of some $5.5 billion of maturing bonds. The previous year there were 16 borrowings which raised $7.4 billion on a net basis. Of the total amount of new bond financing in 1984, approximately 30 per cent was in issues with terms of 20 years or longer, about 35 per cent for terms of around 10 years and the balance for shorter terms concentrated at two, three and five years. Some of the shorter-term bonds were issued through an expanded use of auctions. The quarterly pattern of two-year bond auctions established in 1983 continued in 1984, raising approximately $1.6 billion. In addition, auctions were held in April for $300 million of bonds maturing in just under three years and in December for $350 million of bonds with a maturity of just under five years. Details of the 1984 marketable bond program are provided in Appendix Table V.

The weekly auction of three- and six-month treasury bills and biweekly auctions of one-year bills contributed $10.6 billion to the Government's financing requirements, somewhat less than the $13.3 billion raised in 1983. Additions were made to the amount of bills outstanding at most of the auctions throughout the year, with the exception of the period in November and December when large Canada Savings Bond receipts temporarily augmented Government balances. The total increase in bills outstanding was almost entirely accounted for by increased holdings of non-bank institutions and individuals. The retail market for treasury bills broadened further in response to the competitiveness of the bill rate over much of the year and the efforts of investment dealers and banks to enlarge this market. In October the Government issued two special cash management tranches of bills to supplement Government balances during the period in early November when outflows of funds related to redemptions of Canada Savings Bonds tend temporarily to exceed the inflows related to sales of the new issue of Canada Savings Bonds. These tranches consisted of $500 million of 28-day bills sold in mid-October and $300 million of 21-day bills sold at the end of October.

At the end of 1984 the average term to maturity of Canada's domestic marketable debt, comprising all outstanding issues of treasury bills and marketable bonds, was five years seven months, up slightly from the end of 1983. Last year was the first year since 1979 during which the term to maturity of the Government's domestic marketable debt did not decline.

During 1984, as in past years, the Bank of Canada was a regular buyer of new issues of Government of Canada marketable bonds and treasury bills to meet the requirements of its own operations. However, the Bank's acquisitions of these assets over the year were more restricted than usual. Growth of the Bank's assets is mainly determined by the growth of its liabilities, primarily notes in circulation and reserve deposits of the chartered banks. In 1984 growth in currency was modest and the reserve base actually declined because of slow credit growth and because of the further reduction in the statutory reserve requirements provided by the 1980 Bank Act. The Bank's purchases of new marketable Government bonds were also constrained because it viewed its existing portfolio of Government securities as being disproportionately high in bonds relative to treasury bills. Given these circumstances, the Bank not only limited the size of its acquisitions of new Government bond issues but also offset these acquisitions by reducing its holdings of outstanding bonds. This reduction was accomplished in two ways. First, the Bank purchased Government of Canada bonds that were maturing during 1984 against sales from its portfolio of longer-term Government bonds and, to a lesser degree, treasury bills. Such purchases amounted to $672 million and allowed the Bank, when these issues came due, to reduce its holdings of bonds by not fully replacing the maturing bonds with purchases of the new issues. Secondly, outright sales of $782 million of bonds were made in the market. The net result was a decrease in the Bank's holdings of Government marketable bonds of $600 million during the year. With treasury bill holdings up $700 million, the increase in the Bank's overall portfolio of Government of Canada securities was only $100 million in 1984, compared to $1.6 billion in 1983. Appendix Table IV presents the Bank of Canada's bond transactions, on a net basis and by term category, over the year.

The amount of Canada Savings Bonds outstanding fluctuated quite sharply during 1984. At the beginning of the year, there was just under $40 billion outstanding following a successful sales campaign in 1983. As the rate of interest paid on other savings instruments gradually rose through the first half of 1984, the rate of 9¼ per cent payable on the 1982-83 and 1983-84 series of Canada Savings Bonds became steadily less competitive. This led to a marked acceleration in the rate of redemptions which, for the period January through May, totalled almost $2.5 billion. In May the Government announced that the rate on the two most recent series would be raised to 10¼ per cent effective June 1. (The rate on all previous series remained at 10½ per cent.) Despite this increased interest rate a further $2.8 billion of Canada Savings Bonds was redeemed through August, by which time competitive interest rate pressures began to subside.

On October 11 the terms for the 1984-85 series of Canada Savings Bonds (S39) were announced. The rate for the first year, starting November 1, was set at 11¼ per cent and a minimum rate of 7 per cent was established for the remaining six years to maturity. At the same time, effective November 1 the rate on all outstanding series was increased to 11¼ per cent for the next 12 months. Against a backdrop of declining interest rates there was strong investor interest in the new series. Cash sales, which were terminated November 7 after an 11-day sales period, together with purchases on the Payroll Savings Plan totalled $12.7 billion, just short of the $12.8 billion Canada Savings Bond sales record set in 1981. However, over the year as a whole Canada Savings Bonds outstanding increased by only $3.8 billion.

The Government's borrowing program during 1984 resulted in very modest changes in the composition of its outstanding domestic debt. Marketable bonds remained at 41 per cent of the Government debt outstanding and treasury bills increased slightly to 31 per cent. The proportion in Canada Savings Bonds declined to 27 per cent. The following table shows changes in Government of Canada Canadian dollar securities outstanding during 1984 in total and by major holding categories.

In the area of external financing by the Government, two previously arranged borrowings came due during the year, two new financings were undertaken and portions of both the U.S.$3.5 billion standby credit with the domestic Canadian banks and the U.S.$4.0 billion standby credit with international banks were used for short periods of time. In March a 30 billion Japanese yen (U.S.$132 million) loan matured and in May a 500 million Deutsche mark (U.S.$179 million) bond issue came due. A new borrowing

Summary of Changes in Government of Canada Securities Outstanding During 1984

Billions of dollars (par value)

Treasury bills	+10.7
Marketable bonds	+11.1
Canada Savings Bonds	+ 3.8
Total	+25.6
Held by:	
Bank of Canada	
Treasury bills	+ 0.7
Marketable bonds	− 0.6
Total	+ 0.1
Chartered Banks	
Treasury bills	− 0.5
Marketable bonds	− 0.8
Total	− 1.4
Government Accounts	
Treasury bills	0.0
Marketable bonds	+ 0.1
Total	+ 0.1
General Public	
Treasury bills	+10.5
Marketable bonds	+12.5
Canada Savings Bonds	+ 3.8
Total	+26.8

was arranged in the Swiss market in April. This was a four part operation totalling 1 billion Swiss francs (U.S.$442 million) consisting of an eight-year 5¼ per cent public bond issue, both a six-year 5⅛ per cent and a three-and-one-half year 4⅞ per cent private placement of notes and a five-year 5⅝ per cent bank loan. Proceeds were delivered and added to official foreign exchange reserves in May. The other foreign financing was a 120 billion Japanese yen (U.S.$486 million) eight-year 7.9 per cent fixed-rate loan from a syndicate of Japanese banks and other Japanese financial institutions. Proceeds of this loan were received at the end of July.

At the beginning of 1984 there were no borrowings outstanding on either of the Government's two revolving standby credit lines. The Government borrowed against the credit line with Canadian banks in March and there were balances outstanding at each month-end until November. The maximum month-end balance was U.S.$400 million. The credit line with U.S. and other foreign banks was used less frequently but the drawings were larger. Drawings of U.S.$500 million were outstanding at the end of May and June and U.S.$1 billion was outstanding at the end of July. By the end of August the outstanding drawings had been repaid and there were no further drawings against the line in 1984.

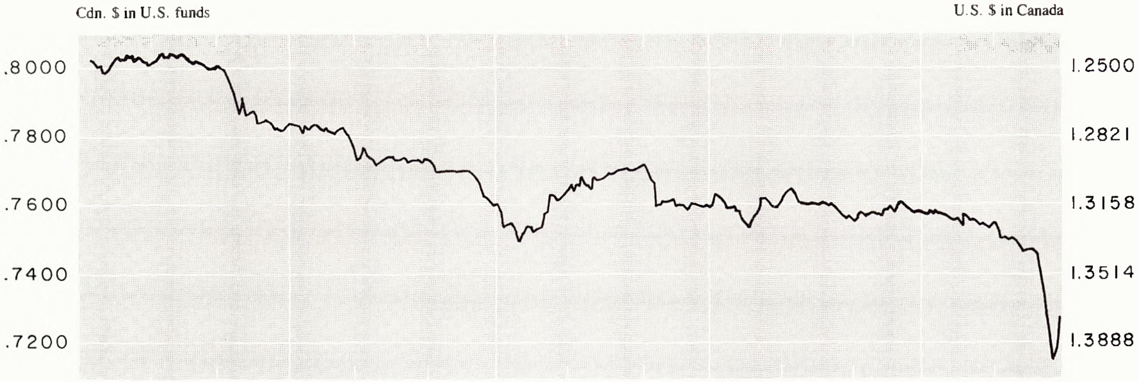
Late in 1984 the standby credit facility with international banks was renegotiated, and the amended agreement became effective January 10, 1985. The revised agreement continues to be for an amount of U.S.$4 billion but the term has been extended to 1992 and a number of changes have been made to reduce costs and at the same time enhance the flexibility of the facility for Canada. The most significant changes were a 50 per cent reduction in the commitment fee that Canada pays on the unused portion of the credit line and the addition of an option for the Government to call for competitive advances whereby members of the syndicate bid for participation in a planned borrowing. Competitive advances are expected to cost less than conventional advances, on which the interest rate is calculated on the basis of a fixed margin over a base rate. Negotiations to amend the U.S.$3.5 billion standby credit agreement with domestic Canadian banks commenced in early 1985.

Both standby credit facilities were used in the last week of February 1985. Two drawings, totalling $1 billion, were made against the facility with international banks while $400 million was drawn on the facility with Canadian banks. A second $400 million drawing on the credit line with Canadian banks was announced for March 1, 1985.

Foreign Exchange Operations

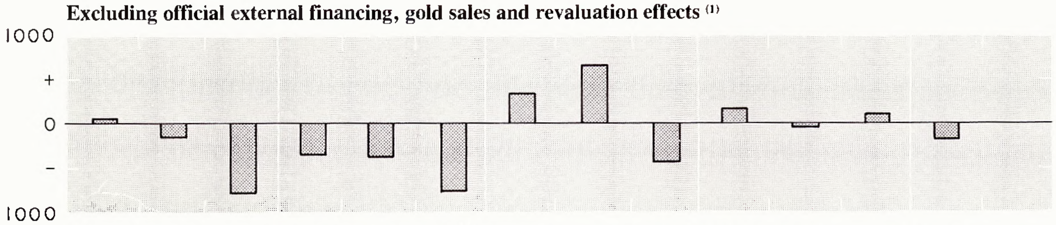
The Canadian dollar was subject to periods of considerable volatility during 1984, especially during the spring and summer months and came under severe downward pressure in February 1985. Over the period as a whole the dollar declined by about 11 per cent against the

Exchange Rate
Spot closing rates, daily



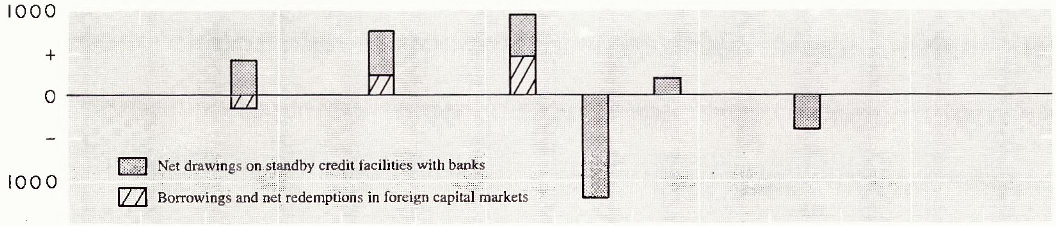
Changes in Official Reserves
Millions of U.S. dollars, monthly

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

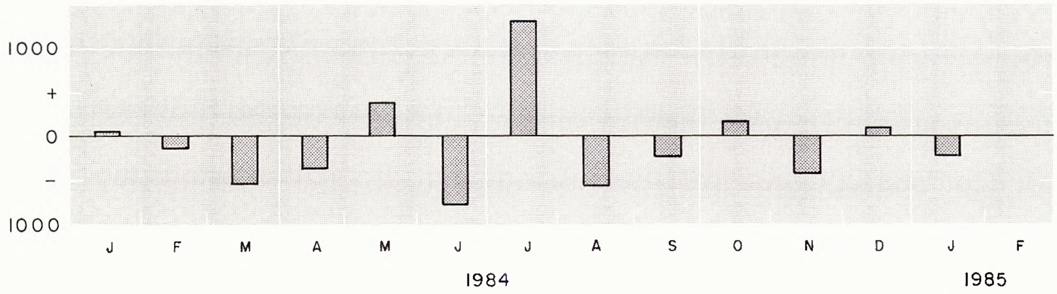


[1] The U.S. dollar value of SDR-denominated assets (gold, the IMF position and SDRs) rises when the exchange rate of the U.S. dollar declines in terms of SDRs, and decreases when the opposite occurs.

Related to Government foreign currency financing



Total net change



Last date plotted: exchange rate February 27, 1985
official reserves January 1985

U.S. dollar. 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 promoting orderly conditions in the Canadian exchange market by dampening excessive movements in the exchange rate. In the circumstances, there were both sizeable purchases and sales of foreign exchange for stabilization purposes. However, given the overall decline in the Canadian dollar, there were substantial official net sales in 1984 and early 1985, with consequent effects on Canada's holdings of official foreign exchange reserves.

Foreign exchange holdings in the Account were also importantly influenced by foreign currency borrowings and repayments of the Government of Canada. As noted above substantial use was made of the Government's standby credit facilities with Canadian and foreign banks to bolster foreign exchange reserve holdings. There was a net increase in longer-term borrowings of the equivalent of U.S.$616 million in 1984. Other changes in the composition of reserves reflected transactions in SDRs with the IMF and other IMF members and further modest sales of gold from the Account for U.S. dollars.

Canada's holdings of official international reserves were the equivalent of U.S.$4,204.4 million at the end of 1983, U.S.$3,182.1 million at the end of 1984 and U.S.$2,977.7 million at the end of January 1985.

Debt Service, Banking and Currency Operations

Debt Service and Banking Operations

Among the Bank's responsibilities as fiscal agent are the processing of new issues and redemptions of Government of Canada securities and the administration of the stock of debt. The growth in Government debt in recent years has greatly increased the volume of work associated with carrying out these responsibilities.

During 1984 the Government's issue of treasury bills and marketable bonds involved an increase of close to 30 per cent in the number of securities to be printed and delivered. The dollar sales of Canada Savings Bonds were also higher than in 1983, but since the public increased its demand for higher denomination bonds there was a reduction in the number of new pieces that had to be processed. Consequently, the total volume of all new Government securities issued was actually slightly less than in 1983. There was, however, an increase of some 30 per cent in the number of Government securities redeemed and cancelled during the year. This increase was concentrated in Canada Savings Bonds and treasury bills as the number of marketable bonds maturing during the year fell from the high 1983 level.

The volume of work associated with servicing the holders of outstanding Government securities continued to rise during the past year. The Bank maintains the records of registered owners of Government securities and provides facilities at each of its Agencies for holders to transfer or exchange their securities; the number of such transfer and exchange transactions increased by 13 per cent during the past year. The number of interest payments processed in 1984 rose by 4 per cent from 1983 while the updating of addresses and the assistance to individuals whose securities have been lost also rose with the increase in the amount of outstanding debt.

The Bank acts as banker to the Government of Canada and operates deposit accounts for members of the Canadian Payments Association, foreign central banks and international institutions. The Bank is also the custodian of unclaimed balances, that is, balances originally deposited with chartered banks but which, by law, must be transferred to the Bank of Canada when the accounts have been inactive for a period of ten years. To facilitate the recovery of the unclaimed balances by their owners, copies of the central records have now been placed in all Bank of Canada Agencies to be directly accessible to the public. The increased public access to the records appears to have contributed to a 30 per cent rise in inquiries during 1984.

Note Issue

The Bank is also responsible for the issue of banknotes. New banknotes are purchased from two Canadian security printing companies and held in the Bank's Agencies in order to replace unfit notes deposited with the Bank for destruction and to meet the demand for additional notes in circulation. The Agencies also receive notes in deposit from institutions with surplus holdings and recirculate them to institutions whose stocks of notes are being run down.

In 1984 the volume of notes handled by the Bank rose much more sharply than usual. This rapid increase was mainly attributable to two new factors. Following the creation of the Canadian Payments Association, more financial institutions have been dealing directly with the Bank of Canada to handle their note requirements. The result was a substantial rise in the number of note withdrawals and deposits that had to be processed by the Bank. The other factor affecting these note flows is the increased use of automatic banking machines. The total volume of new and used notes processed in 1984 rose by more than 15 per cent compared to an increase of about 5 per cent in 1983.

In addition to processing notes the Bank has an extensive research program to develop additional anti-counterfeiting features to be integrated into the design of notes, features to help the visually impaired and the blind to differentiate among the various denominations and techniques to increase the durability of notes. New features developed through these programs are typically incorporated into the design at the time a new series of notes is introduced.

Financial Accounts

The impact of the Bank's operations on its financial position is summarized in the financial statements which accompany this Report. Net revenue of almost $1.9 billion was paid to the Government during the year, an increase of 6.2 per cent over 1983. Revenue from investments rose 6.4 per cent reflecting a higher average level of interest rates during the year and to a lesser extent a small increase in total investments. Operating expenditures increased by 6.7 per cent. Details are shown on page 49. Depreciation of buildings and equipment rose very sharply in 1984 but more than half the increase resulted from a change in the rate of depreciation applied to computer equipment. In view of the relatively short life of this equipment, its rate of depreciation has been increased to 35 per cent from the 20 per cent rate applied in the past. Consequently, the depreciation reported for 1984 includes the impact of both the higher rate now applied to computer equipment and a further adjustment of $1.8 million to the net value of this equipment to correct the underestimation of depreciation in previous years.

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
1984								
January	− 297	−287	− 50	−1,513	+255	− 42	+684	− 18
February	− 336	+ 3	−119	+ 4	−357	+ 1	−152	+ 52
March	+ 508	+ 7	−379	− 126	+113	− 13	+ 52	+110
April	− 128	− 1	+272	+ 484	− 76	− 15	−146	−104
May	− 318	+ 3	+121	+ 225	− 68	− 25	−324	− 2
June	+ 858	+ 1	+102	+ 517	+ 72	+109	+258	+ 5
July	− 621	− 2	+310	+ 117	− 88	+ 14	−323	− 33
August	− 319	+191	−158	− 73	−164	− 28	− 12	− 9
September	+ 238	−198	+ 64	− 170	+ 99	− 16	+133	+ 58
October	− 249	−	−573	+ 221	−844	− 86	− 84	− 29
November	+1,028	− 40	−270	+ 1	+677	− 6	− 1	+ 47
December	− 239	+473	+738	+1,385	−295	− 5	−119	+ 6
	+ 125	+150	+ 58	+1,072	−676	−112	− 34	+ 83
1985								
January	− 169	−491	+ 14	−1,583	+268	+ 19	+707	− 57

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
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
	16–29				3,329
March	1–15	5,500	2,292	3,209	3,269
	16–31				3,242
April	1–15	5,512	2,214	3,299	3,323
	16–30				3,376
May	1–15	5,472	2,215	3,257	3,324
	16–31				3,276
June	1–15	5,288	2,345	2,944	2,989
	16–30				3,020
July	1–15	5,280	2,424	2,855	2,932
	16–31				2,940
August	1–15	5,370	2,508	2,862	2,895
	16–31				2,913
September	1–15	5,174	2,522	2,652	2,714
	16–30				2,689
October	1–15	5,097	2,521	2,576	2,679
	16–31				2,633
November	1–15	5,140	2,534	2,607	2,648
	16–30				2,644
December	1–15	5,253	2,566	2,686	2,741
	16–31				2,772
1985					
January	1–15	5,355	2,590	2,766	2,819
	16–31				2,779
February	1–15	5,369	2,936	2,433	2,498

Chartered bank cash reserves			Clearing balances of other directly clearing members of the Canadian Payments Associaton	
Sum of reservable day weights in period	Cumulative excess reserves at end of period	Average excess reserve ratios	Average holdings of Bank of Canada deposits	Number of clearing days in month
14	469	.025	79	21
18	582	.024		
15	600	.029	90	21
14	627	.033		
15	908	.046	81	22
15	496	.025		
14	336	.018	68	20
17	1,319	.059		
15	1,011	.051	75	22
16	307	.015		
15	681	.035	82	21
14	1,073	.059		
14	1,075	.058	86	21
18	1,516	.064		
15	495	.025	68	23
16	812	.038		
14	875	.047	72	19
14	518	.028		
17	1,743	.077	74	22
16	903	.042		
15	619	.031	76	21
15	560	.028		
14	768	.041	79	19
17	1,466	.064		
15	801	.039	79	22
16	212	.010		
15	978	.048		

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]
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	4	2.1
	16–29	1	12.8	4	22.0		
March	**1–15**	–	–	5	56.8	5	5.8
	16–31	1	0.4	2	1.9		
April	**1–15**	1	0.9	3	46.0	7	4.4
	16–30	4	10.5	3	24.6		
May	**1–15**	–	–	2	3.9	6	5.1
	16–31	1	7.0	1	3.5		
June	**1–15**	3	2.9	5	76.8	7	9.7
	16–30	1	0.8	3	41.9		
July	**1–15**	3	3.6	1	22.1	8	7.1
	16–31	3	25.8	2	57.8		
August	**1–15**	2	7.2	8	166.6	9	8.8
	16–31	–	–	7	143.6		
September	**1–15**	1	0.2	4	37.8	6	4.7
	16–30	3	22.7	9	388.3		
October	**1–15**	3	27.4	6	139.6	9	4.9
	16–31	2	4.0	12	432.9		
November	**1–15**	3	26.6	9	319.8	6	6.2
	16–30	4	2.7	11	493.6		
December	**1–15**	–	–	10	395.0	8	12.7
	16–31	3	7.8	7	115.7		
1985							
January	**1–15**	2	16.7	10	348.5	8	6.8
	16–31	1	15.3	12	377.6		
February	**1–15**	2	3.6	5	166.6		

(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				Bankers' acceptances	Total of bills, bonds and bankers' acceptances	Securities under PRA
		3 years and under	3–5 years	5–10 years	Over 10 years			
1984								
January	–	+117.0	−100.0	–	− 17.0	–	+ 0.0	−227.5
February	–	+ 35.0	–	–	− 35.0	–	+ 0.0	+ 64.0
March	+ 381.4	+154.6	− 26.0	− 37.0	− 35.0	–	+ 438.0	− 55.6
April	− 20.0	+ 73.9	–	− 5.5	− 68.4	–	− 20.0	− 8.4
May	− 625.3	–	–	–	–	–	− 625.3	+ 0.0
June	+ 368.9	–	–	–	–	–	+ 368.9	+ 0.0
July	−1,021.0	+254.3	− 18.5	−119.1	−116.7	–	−1,021.0	+ 0.0
August	− 325.3	+ 2.5	–	− 57.5	–	–	− 380.3	+ 0.0
September	− 416.0	− 50.0	− 30.0	− 29.0	–	–	− 525.0	+399.5
October	− 400.0	− 1.0	–	−105.0	−317.0	–	− 823.0	+142.5
November	+ 102.0	+ 50.0	–	− 45.0	−200.0	–	− 93.0	− 39.7
December	+ 281.6	–	–	–	–	–	+ 281.6	−459.6
Total	−1,673.7	+636.3	−174.5	−398.1	−789.1	–	−2,399.1	−184.8
1985								
January	− 110.0	–	−100.8	–	−275.0	–	− 485.8	+511.0

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
+ 292.4	–	− 377.6	− 2.4	− 312.7	− 2.4	–	− 315.1
+ 113.6	+ 6.2	− 532.7	+ 11.5	− 355.1	+ 17.7	–	− 337.4
+ 764.8	+ 85.1	− 696.7	− 10.3	+ 393.9	+ 131.4	–	+ 525.3
+ 504.7	− 78.1	− 536.2	–	− 59.9	− 78.1	–	− 138.0
+ 808.1	+ 85.0	− 590.3	–	− 407.5	+ 85.0	–	− 322.5
+ 1,368.0	− 52.0	− 785.8	− 0.7	+ 951.1	− 52.7	–	+ 898.4
+ 693.1	+ 100.0	− 427.9	− 0.3	− 755.8	+ 99.7	–	− 656.1
+ 561.7	+ 48.4	− 548.0	− 0.5	− 311.6	− 7.1	–	− 318.7
+ 731.7	+ 105.0	− 455.7	− 0.4	+ 259.5	− 4.4	–	+ 255.1
+ 1,081.4	− 149.8	− 497.0	− 0.7	+ 326.9	− 573.5	–	− 246.6
+ 1,421.8	+ 100.0	− 342.1	+ 1.0	+ 1,124.7	− 76.7	–	+ 1,048.0
+ 555.7	− 140.1	− 504.3	+ 0.8	− 115.3	− 150.6	–	− 265.9
+ 8,897.0	+ 109.7	− 6,294.3	− 2.0	+ 738.2	− 611.7	–	+ 126.5
+ 237.8	+ 2.5	− 437.9	–	+ 162.2	− 334.6	–	− 172.4

APPENDIX TABLE V

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

Date in 1984	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	9¾% Feb. 1, 1984				1,000[1]
	10% Dec. 15, 1986	2 yrs. 10½ mos.	10.46	100[2]	
	11¼% Dec. 15, 1989	5 yrs. 10½ mos.	11.25	250[3]	
	11¾% Oct. 15, 1993	9 yrs. 8½ mos.	11.79	500[4]	
	12% Mar. 1, 2005	21 yrs. 1 mo.	12.18	350[5]	
				1,200	
Feb. 21	11% Feb. 15, 1989	4 yrs. 11 mos. 23 days	11.07	200	
	11½% Dec. 15, 1993	9 yrs. 9 mos. 23 days	11.71	275[6]	
	12% Mar. 1, 2005	21 yrs. 9 days	12.13	300[7]	
				775	
Mar. 6	10½% Mar. 6, 1986	2 yrs.	10.69	350	
Mar. 13	11¼% Dec. 15, 1989	5 yrs. 9 mos. 2 days	11.54	150[8]	
	12% Mar. 1, 1994	9 yrs. 11 mos. 19 days	12.24	225	
	12½% Mar. 1, 2006	21 yrs. 11 mos. 19 days	12.67	250	
				625	
Apr. 1	7½% Apr. 1, 1984				70[9]
	8% Apr. 1, 1984				[10]
	9¼% Apr. 1, 1984				322[11]
	16¼% Apr. 1, 1984				575[12]
	12% Nov. 15, 1987	3 yrs. 7½ mos.	12.43	150[13]	
	12½% Mar. 15, 1989	4 yrs. 11½ mos.	12.67	200	
	13% Apr. 1, 1994	10 yrs.	13.28	250	
	13½% June 1, 2004	20 yrs. 2 mos.	13.60	250	
				850	
May 1	12½% Mar. 15, 1989	4 yrs. 10½ mos.	12.50	175[14]	
	13% Apr. 1, 1994	9 yrs. 11 mos.	13.27	300[15]	
	13½% June 1, 2004	20 yrs. 1 mo.	13.61	300[16]	
				775	
May 8	12¼% May 1, 1987	2 yrs. 11 mos. 24 days	12.35	300	
June 1	10% June 1, 1984				1,075[17]
	13% June 1, 1987	3 yrs.	13.17	150	
	13¼% June 1, 1989	5 yrs.	13.39	225	
	13¾% May 15, 1994	9 yrs. 11½ mos.	13.84	450	
	14% Oct. 1, 2006	22 yrs. 4 mos.	14.10	375	
				1,200	
June 6	13% June 6, 1986	2 yrs.	13.16	375	
June 19	13% June 1, 1987	2 yrs. 11 mos. 12 days	12.89	100[18]	
	13¼% June 1, 1989	4 yrs. 11 mos. 12 days	13.14	175[19]	
	13½% July 15, 1994	10 yrs. 26 days	13.59	250	
	13¾% Mar. 1, 2007	22 yrs. 8 mos. 12 days	13.80	325	
				850	

(Continued)

APPENDIX TABLE V (Continued)

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

Date in 1984		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						
July	11	13% June 1, 1987	2 yrs. 10 mos. 21 days	13.07	125[20]	
		13¼% June 1, 1989	4 yrs. 10 mos. 21 days	13.35	125[21]	
		13¾% May 15, 1994	9 yrs. 10 mos. 4 days	13.86	325[22]	
		14% Oct. 1, 2006	22 yrs. 2 mos. 21 days	14.03	275[23]	
					850	
Aug.	1	13¾% Aug. 1, 1984				8[24]
		16% Aug. 1, 1984				300[25]
		15% Aug. 1, 1984				325[26]
		13½% Sept. 1, 1987	3 yrs. 1 mo.	13.59	150	
		13½% July 1, 1989	4 yrs. 11 mos.	13.63	150	
		13¾% May 15, 1994	9 yrs. 9½ mos.	13.83	425[27]	
		14% Oct. 1, 2006	22 yrs. 2 mos.	13.97	375[28]	
					1,100	
Aug.	22	12¼% May 1, 1987	2 yrs. 8 mos. 10 days	12.19	100[29]	
		12½% Mar. 15, 1989	4 yrs. 6 mos. 24 days	12.35	100[30]	
		13% Apr. 1, 1994	9 yrs. 7 mos. 10 days	12.92	475[31]	
		13% Oct. 1, 2007	23 yrs. 1 mo. 10 days	13.19	375	
					1,050	
Sept.	5	12¼% Sept. 5, 1986	2 yrs.	12.44	400	
Sept.	12	12¼% May 1, 1987	2 yrs. 7 mos. 19 days	12.58	100[32]	
		12½% Mar. 15, 1989	4 yrs. 6 mos. 3 days	12.65	100[33]	
		12¾% Oct. 1, 1994	10 yrs. 19 days	13.00	475	
		13% Oct. 1, 2007	23 yrs. 19 days	13.10	325[34]	
					1,000	
Oct.	1	8¾% Oct. 1, 1984				1[35]
		10½% Oct. 1, 1984				300[36]
		12½% Oct. 1, 1984				752[37]
		12¼% May, 1, 1987	2 yrs. 7 mos.	12.19	150[38]	
		12¼% Nov. 1, 1989	5 yrs. 1 mo.	12.31	175	
		12½% Dec. 15, 1994	10 yrs. 2½ mos.	12.62	550	
		12¾% Mar. 1, 2008	23 yrs. 5 mos.	12.78	425	
					1,300	
Oct.	24	12% Nov. 15, 1987	3 yrs. 22 days	12.24	125[39]	
		12¼% Nov. 1, 1989	5 yrs. 8 days	12.45	150[40]	
		12½% Dec. 15, 1994	10 yrs. 1 mo. 22 days	12.76	350[41]	
		12¾% Mar. 1, 2008	23 yrs. 4 mos. 8 days	12.92	325[42]	
					950	
Nov.	14	11¾% Feb. 1, 1988	3 yrs. 2 mos. 17 days	11.83	125	
		12% Feb. 1, 1990	5 yrs. 2 mos. 17 days	12.00	150	
		12¼% Feb. 1, 1995	10 yrs. 2 mos. 17 days	12.37	425	
		12½% Mar. 1, 2006	21 yrs. 3 mos. 17 days	12.50	350[43]	
					1,050	
Dec.	5	10¾% Dec. 5, 1986	2 yrs.	10.75	450	

Date in 1984		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						
Dec.	15	11½% Dec. 15, 1984				700[44]
		14¾% Dec. 15, 1984				100[45]
		11% Dec. 15, 1987	3 yrs.	11.04	125[46]	
		11½% Dec. 15, 1991	7 yrs.	11.61	225	
		11¾% Mar. 1, 1995	10 yrs. 2½ mos.	11.79	475	
		12% Mar. 1, 2005	20 yrs. 2½ mos.	12.09	375[47]	
					1,200	
		Total bonds payable in Canadian dollars			16,650	5,528
		Total treasury bills*			128,525	117,875
Issues payable in foreign currencies – direct						
Mar.	20					7[48]
Mar.	27					161[49]
Apr.	15					1[50]
May	10					247[51]
		SFr. 200 million 5¼% bonds due May 10, 1992	8 yrs.		113	
May	15	SFr. 300 million 4⅞% notes due Nov. 15, 1987	3 yrs. 6 mos.		171	
		SFr. 200 million 5⅛% notes due May 15, 1990	6 yrs.		114	
Oct.	15					1[50]
		Total notes and bonds payable in foreign currencies			398[52]	417

* Includes 21-day, 28-day, three-month, six-month and one-year treasury bills.
(1) Maturity of 9¾% bonds issued December 15, 1978, June 1, 1979 and July 15, 1979.
(2) In addition to $100 million 10% bonds due December 15, 1986 already outstanding.
(3) In addition to $675 million 11¼% bonds due December 15, 1989 already outstanding.
(4) In addition to $525 million 11¾% bonds due October 15, 1993 already outstanding.
(5) In addition to $750 million 12% bonds due March 1, 2005 already outstanding.
(6) In addition to $575 million 11½% bonds due December 15, 1993 already outstanding.
(7) In addition to $1,100 million 12% bonds due March 1, 2005 already outstanding.
(8) In addition to $925 million 11¼% bonds due December 15, 1989 already outstanding.
(9) Maturity of 7½% bonds issued April 1, 1974.
(10) Maturity of $77 thousand 8% bonds issued April 1, 1979.
(11) Maturity of 9¼% bonds issued October 1, 1974.
(12) Maturity of 16¼% bonds issued June 1, 1981 and July 31, 1981.

(Continued)

APPENDIX TABLE V (Continued)

(13) In addition to $200 million 12% bonds due November 15, 1987 already outstanding.
(14) In addition to $200 million 12½% bonds due March 15, 1989 already outstanding.
(15) In addition to $250 million 13% bonds due April 1, 1994 already outstanding.
(16) In addition to $250 million 13½% bonds due June 1, 2004 already outstanding.
(17) Maturity of 10% bonds issued February 1, 1979, March 15, 1979, August 15, 1979 and July 1, 1980.
(18) In addition to $150 million 13% bonds due June 1, 1987 already outstanding.
(19) In addition to $225 million 13¼% bonds due June 1, 1989 already outstanding.
(20) In addition to $250 million 13% bonds due June 1, 1987 already outstanding.
(21) In addition to $400 million 13¼% bonds due June 1, 1989 already outstanding.
(22) In addition to $450 million 13¾% bonds due May 15, 1994 already outstanding.
(23) In addition to $375 million 14% bonds due October 1, 2006 already outstanding.
(24) Maturity of 13¾% bonds issued March 1, 1981.
(25) Maturity of 16% bonds issued February 1, 1982 and August 1, 1982.
(26) Maturity of 15% bonds issued March 31, 1982 and May 1, 1982.
(27) In addition to $775 million 13¾% bonds due May 15, 1994 already outstanding.
(28) In addition to $650 million 14% bonds due October 1, 2006 already outstanding.
(29) In addition to $300 million 12¼% bonds due May 1, 1987 already outstanding.
(30) In addition to $375 million 12½% bonds due March 15, 1989 already outstanding.
(31) In addition to $550 million 13% bonds due April 1, 1994 already outstanding.
(32) In addition to $400 million 12¼% bonds due May 1, 1987 already outstanding.
(33) In addition to $475 million 12½% bonds due March 15, 1989 already outstanding.
(34) In addition to $375 million 13% bonds due October 1, 2007 already outstanding.
(35) Maturity of 8¾% bonds issued October 1, 1979.
(36) Maturity of 10½% bonds issued October 1, 1979.
(37) Maturity of 12½% bonds issued October 1, 1980.
(38) In addition to $500 million 12¼% bonds due May 1, 1987 already outstanding.
(39) In addition to $350 million 12% bonds due November 15, 1987 already outstanding.
(40) In addition to $175 million 12¼% bonds due November 1, 1989 already outstanding.
(41) In addition to $550 million 12½% bonds due December 15, 1994 already outstanding.
(42) In addition to $425 million 12¾% bonds due March 1, 2008 already outstanding.
(43) In addition to $250 million 12½% bonds due March 1, 2006 already outstanding.
(44) Maturity of 11½% bonds issued December 15, 1979 and February 1, 1980.
(45) Maturity of 14¾% bonds issued June 1, 1982.
(46) In addition to $775 million 11% bonds due December 15, 1987 already outstanding.
(47) In addition to $1,400 million 12% bonds due March 1, 2005 already outstanding.
(48) Cancellation of SFr. 12 million 3⅝% bonds due March 20, 1989 by Purchase Fund.
(49) Maturity of Yen 30 billion 6.4% bonds issued March 27, 1979.
(50) Partial redemption at par of U.S. pay 5% bonds due October 15, 1987 for Sinking Fund.
(51) Maturity of DM 500 million 5% notes issued May 10, 1978.
(52) Does not include the SFr. 300 million 5-year 5⅝% loan delivered May 3, 1984 that raised $173 million, nor the Yen 120 billion 8-year 7.9% fixed rate syndicated loan arranged on July 31, 1984 that raised $641 million.

BANK OF CANADA Statement of Revenue and Expense

Year Ended December 31, 1984
(with comparative figures for 1983)

	1984	1983
	(thousands of dollars)	
REVENUE		
Revenue from investments and other sources net of interest paid on deposits of $6,724 ($2,493 in 1983)	$1,981,564	$1,861,559
EXPENSE		
Salaries[1]	$ 51,762	$ 47,588
Contributions to pension and insurance funds[2]	6,516	6,033
Other staff expenses[3]	1,871	1,529
Directors' fees	98	87
Auditors' fees and expenses	338	319
Taxes – municipal and business	7,146	6,535
Banknote costs	26,408	27,086
Data processing and computer costs	3,845	4,687
Premises maintenance – net of rental income[4]	10,827	8,790
Printing of publications	568	563
Other printing and stationery	1,927	1,532
Postage and express	1,785	1,607
Telecommunications	1,668	1,574
Travel and staff transfers	1,871	1,524
Other expenses	1,223	1,005
	117,853	110,459
Depreciation on buildings and equipment	11,526	6,899
	129,379	117,358
NET REVENUE PAID TO RECEIVER GENERAL FOR CANADA (note 5)	$1,852,185	$1,744,201

[1] Salaries include overtime and are for Bank staff other than those engaged in premises maintenance. The number of employee years worked by such staff (including temporary, part-time and overtime work) was 2,129 in 1984 compared with 2,078 in 1983.
[2] Contributions to pension and insurance funds for Bank staff other than those engaged in premises maintenance.
[3] Other staff expenses include cafeteria expenses, retirement allowances, educational training costs and medical expenses.
[4] Premises maintenance comprises building and equipment maintenance expenses including related staff costs.

(See accompanying notes to the financial statements)

BANK OF CANADA Statement of Assets and Liabilities

as at December 31, 1984 (with comparative figures for 1983)

ASSETS	1984	1983
	(thousands of dollars)	
Deposits payable in foreign currencies:		
U.S.A. dollars	$ 183,699	$ 305,045
Other currencies	3,320	4,068
	187,019	309,113
Advances to members of the Canadian Payments Association	50,000	25,000
Investments — at amortized values (note 2):		
Treasury bills of Canada	3,483,072	2,762,816
Other securities issued or guaranteed by Canada maturing within three years	4,654,031	4,575,975
Other securities issued or guaranteed by Canada not maturing within three years	9,015,242	9,687,675
Other investments	476,448	274,070
	17,628,793	17,300,536
Bank premises (note 3)	93,324	85,420
Cheques drawn on members of the Canadian Payments Association	531,524	2,210,625
Accrued interest on investments	401,189	431,505
Collections and payments in process of settlement:		
Government of Canada (net)	36,318	312,571
Other assets	5,470	5,742
	$18,933,637	$20,680,512

(See accompanying notes to the financial statements)

LIABILITIES	1984	1983
	(thousands of dollars)	
Capital paid up (note 4)	$ 5,000	$ 5,000
Rest fund (note 5)	25,000	25,000
Notes in circulation	15,236,012	14,163,088
Deposits:		
Government of Canada	54,950	90,407
Chartered banks	2,772,117	3,446,392
Other members of the Canadian Payments Association	36,585	146,805
Other deposits	230,291	149,459
	3,093,943	3,833,063
Liabilities payable in foreign currencies:		
Government of Canada	12,642	82,925
Other	25	24
	12,667	82,949
Bank of Canada cheques outstanding	552,701	2,566,286
Other liabilities	8,314	5,126
	$18,933,637	$20,680,512

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, 1984 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, 1984 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

THORNE RIDDELL

Ottawa, Canada, January 14, 1985

BANK OF CANADA Notes to the Financial Statements
December 31, 1984

1. Significant Accounting Policies

The financial statements of the Bank conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's by-laws. The significant accounting policies of the Bank are:

a. Revenues and Expenses

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

b. Investments

Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost adjusted for amortization of purchase discounts and premiums. The amortization as well as gains and losses on disposition are included in revenue.

c. 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. Gains and losses from translation of, and transactions in, foreign currencies are included in revenue.

d. Bank Premises

Bank premises, consisting of land, building and equipment, are recorded at cost less accumulated depreciation. Depreciation is charged on the declining balance method using the following annual rates:

Buildings	5%
Computer equipment	35%
Other equipment	20%

2. Investments

Included in investments are securities of the Government of Canada totalling $40,102,870 ($220,587,546 in 1983) held under Purchase and Resale Agreements.

3. Bank Premises

	(in thousands of dollars) 1984			1983
	Cost	Accumulated depreciation	Net	Net
Land and buildings	$112,876	$46,481	$66,395	$66,449
Computer equipment	16,764	8,771	7,993	8,274
Other equipment	22,095	13,760	8,335	6,051
	151,735	69,012	82,723	80,774
Projects in progress	10,601		10,601	4,646
	$162,336	$69,012	$93,324	$85,420

4. Capital

The authorized capital of the Bank is $5,000,000 divided into 100,000 shares of the par value of $50 each. The shares are fully paid and in accordance with the Bank of Canada Act have been issued to the Minister of Finance, who is holding them on behalf of Canada.

5. Rest Fund

The rest fund was established by the Bank of Canada Act and represents the general reserve of the Bank. In accordance with the Act, the rest fund was accumulated out of net revenue until it reached the stipulated maximum amount of $25,000,000 in 1955. Subsequently all net revenues have been paid to the Receiver General for Canada.

6. Contingent Liability

The Bank has agreed with the Bank for International Settlements to participate in an international initiative to provide credit facilities to the International Monetary Fund. The Bank's potential liability under this agreement, which expires in September 1987, is limited to the placing of deposits with the Bank for International Settlements, if required, to finance loans made under the facility. As at December 31, 1984, pursuant to the agreement, the Bank is contingently liable in the amount of $81,216,065; the maximum liability which could be incurred by the Bank under the agreement is SDR 180,000,000 ($233,197,738 at the December 31, 1984 exchange rate).

Board of Directors

G. K. Bouey	OTTAWA Governor *Member of the Executive Committee*
J. W. Crow	OTTAWA Senior Deputy Governor *Member of the Executive Committee*
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J. Clarry	TORONTO, ONT. *Member of the Executive Committee*
J. H. Dickey	HALIFAX, N.S. *Member of the Executive Committee*
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C. LeBon	QUEBEC, QUE.
A. A. LeBouthillier	CARAQUET, N.B.
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J. Morris	VICTORIA, 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

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J. W. Crow, *Senior Deputy Governor*

A. Jubinville, *Deputy Governor*
J. N. R. Wilson, *Deputy Governor*
J. Bussières, *Adviser*
F. Faure, *Adviser*
W. R. White, *Adviser*
J. S. Roberts, *Associate Adviser*[2]

G. G. Thiessen, *Deputy Governor*
W. A. McKay, *Director of Administration*
S. Vachon, *Adviser*[1]
C. Freedman, *Adviser*
T. E. Noël, *Adviser and Secretary*
J. Clément, *Associate Adviser*

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N. Close, *Deputy Chief*
I. D. Clunie, *Chief, Market Analysis and Open Market Operations*
J. F. Dingle, *Securities Adviser*[3]
S. L. Harris, *Securities Adviser*
L. T. Requard, *Securities Adviser*

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P. Duguay, *Deputy Chief*

Department of Monetary and Financial Analysis

D. R. Stephenson, *Chief*
J.-P. Aubry, *Deputy Chief*
J. D. Murray, *Research Adviser*

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

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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. Múzyka, *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 Directors 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	R. C. WHITE, *Representative*

International Department

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MONTREAL	G. HOOJA, *Foreign Exchange Representative*

Department of Banking Operations

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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*
	P. W. CLIFFEN, *Deputy Agent*
	W. H. WATSON, *Assistant Agent*
WINNIPEG	A. H. POTTER, *Agent*
REGINA	G. L. PAGE, *Agent*
CALGARY	A. G. KEITH, *Agent and Regional Financial Representative*
	C. P. DESAUTELS, *Deputy Agent*
VANCOUVER	G. H. SMITH, *Agent*